

BRETTON WOODS AGREEMENTS ACT

HEARINGS BEFORE THE **COMMITTEE ON BANKING AND CURRENCY** **UNITED STATES SENATE** SEVENTY-NINTH CONGRESS FIRST SESSION ON

H. R. 3314

AN ACT TO PROVIDE FOR THE PARTICIPATION OF
THE UNITED STATES IN THE INTERNATIONAL
MONETARY FUND AND THE INTERNA-
TIONAL BANK FOR RECONSTRUC-
TION AND DEVELOPMENT

JUNE 12, 13, 14, 15, 16, 18, 19, 20, 21, 22, 25, AND 28, 1945

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BRETTON WOODS AGREEMENTS ACT

TUESDAY, JUNE 12, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to call, in room 301, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Bankhead, Downey, Murdock, Fulbright, Mitchell, Tobey, Taft, Butler, Capper, Buck, Millikin, and Hickenlooper.

The CHAIRMAN. The committee will come to order. We are considering the Bretton Woods agreements and the bill which passed the House of Representatives June 7, 1945, H. R. 3314, will be made a part of the record.

(The bill, H. R. 3314, is as follows:)

[H. R. 3314, 79th Cong., 1st sess.]

AN ACT To provide for the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SHORT TITLE

SECTION 1. This Act may be cited as the "Bretton Woods Agreements Act."

ACCEPTANCE OF MEMBERSHIP

SEC. 2. The President is hereby authorized to accept membership for the United States in the International Monetary Fund (hereinafter referred to as the "Fund"), and in the International Bank for Reconstruction and Development (hereinafter referred to as the "Bank"), provided for by the Articles of Agreement of the Fund and the Articles of Agreement of the Bank as set forth in the Final Act of the United Nations Monetary and Financial Conference dated July 22, 1944, and deposited in the archives of the Department of State.

APPOINTMENT OF GOVERNORS, EXECUTIVE DIRECTORS, AND ALTERNATES

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund who shall also serve as a governor of the Bank, and an executive director of the Fund and an executive director of the Bank. The executive directors so appointed shall also serve as provisional executive directors of the Fund and the Bank for the purposes of the respective Articles of Agreement. The term of office for the governor of the Fund and of the Bank shall be five years. The term of office for the executive directors shall be two years, but the executive directors shall remain in office until their successors have been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for the governor of the Fund who shall also serve as alter-

nate for the governor of the Bank. The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the executive directors. The alternate for each executive director shall be appointed from among individuals recommended to the President by the executive director. The terms of office for alternates for the governor and the executive directors shall be the same as the terms specified in subsection (a) for the governor and executive directors.

(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.

NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL
PROBLEMS

SEC. 4. (a) In order to coordinate the policies and operations of the representatives of the United States on the Fund and Bank and of all agencies of the Government which make or participate in making foreign loans or which engage in foreign financial, exchange, or monetary transactions, there is hereby established the National Advisory Council on International Monetary and Financial Problems (hereinafter referred to as the "Council"), consisting of the Secretary of the Treasury, as chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank of Washington.

(b) (1) The Council, after consultation with the representatives of the United States on the Fund and the Bank, shall recommend to the President general policy directives for the guidance of the representatives of the United States on the Fund and the Bank.

(2) The Council shall advise and consult with the President and the representatives of the United States on the Fund and the Bank on major problems arising in the administration of the Fund and the Bank.

(3) The Council shall coordinate, by consultation or otherwise, so far as is practicable, the policies and operations of the representatives of the United States on the Fund and the Bank, the Export-Import Bank of Washington, and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engaged in foreign financial, exchange, or monetary transactions.

(4) Whenever, under the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the approval, consent, or agreement of the United States is required before an act may be done by the respective institutions, the decision as to whether such approval, consent, or agreement, shall be given or refused shall (to the extent such decision is not prohibited by section 5 of this act) be made by the Council, under the general direction of the President. No governor, executive director, or alternate representing the United States shall vote in favor of any waiver of condition under article V, section 4, or in favor of any declaration of the United States dollar as a scarce currency under article VII, section 3, of the Articles of Agreement of the Fund, without prior approval of the Council.

(5) The Council from time to time, but not less frequently than every six months, shall transmit to the President and to the Congress a report with respect to the participation of the United States in the Fund and the Bank.

(6) The Council shall also transmit to the President and to the Congress special reports on the operations and policies of the Fund and the Bank, as provided in this paragraph. The first report shall be made not later than two years after the establishment of the Fund and the Bank, and a report shall be made every two years after the making of the first report. Each such report shall cover and include: The extent to which the Fund and the Bank have achieved the purposes for which they were established; the extent to which the operations and policies of the Fund and the Bank have adhered to, or departed from, the general policy directives formulated by the Council, and the Council's recommendations in connection therewith; the extent to which the operations and policies of the Fund and the Bank have been coordinated, and the Council's recommendations in connection therewith; recommendations on whether the resources of the Fund and the Bank should be increased or decreased; recommendations as to how the Fund and the Bank may be made more effective; recommendations on any other necessary or desirable changes in the Articles of Agreement of the Fund and of the Bank or in this Act; and an over-all appraisal

of the extent to which the operations and policies of the Fund and the Bank have served, and in the future may be expected to serve, the interests of the United States and the world in promoting sound international economic cooperation and furthering world security.

(7) The Council shall make such reports and recommendations to the President as he may from time to time request, or as the Council may consider necessary to more effectively or efficiently accomplish the purposes of this Act or the purposes for which the Council is created.

(c) The representatives of the United States on the Fund and the Bank, and the Export-Import Bank of Washington (and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions) shall keep the Council fully informed of their activities and shall provide the Council with such further information or data in their possession as the Council may deem necessary to the appropriate discharge of its responsibilities under this Act.

CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

SEC. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or consent to any change in the quota of the United States under article III, section 2, of the Articles of Agreement of the Fund; (b) propose or agree to any change in the par value of the United States dollar under article IV, section 5, or article XX, section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under article IV, section 7; (c) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (d) accept any amendment under article XVII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (e) make any loan to the Fund or the Bank. Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank.

PAR VALUE OF UNITED STATES DOLLAR

SEC. 6. When the United States is requested by the Fund to communicate the par value of the United States dollar, such par value shall not be communicated as other than 15 $\frac{1}{2}$ grains of gold nine-tenths fine.

DEPOSITORIES

SEC. 7. Any Federal Reserve bank which is requested to do so by the Fund or the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

PAYMENT OF SUBSCRIPTIONS

SEC. 8. (a) Subsection (c) of section 10 of the Gold Reserve Act of 1934, as amended (U. S. C., title 31, sec. 822a), is amended to read as follows:

"(c) The Secretary of the Treasury is directed to use \$1,800,000,000 of the fund established in this section to pay part of the subscription of the United States to the International Monetary Fund; and any repayment thereof shall be covered into the Treasury as a miscellaneous receipt."

(b) The Secretary of the Treasury is authorized to pay the balance of \$950,000,000 of the subscription of the United States to the Fund not provided for in subsection (a) and to pay the subscription of the United States to the Bank from time to time when payments are required to be made to the Bank. For the purpose of making these payments, the Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed \$4,125,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this subsection of the subscription of the United States to the Fund or the Bank and repayments thereof shall be treated as public-debt transactions of the United States.

(c) For the purpose of keeping to a minimum the cost to the United States of participation in the Fund and the Bank, the Secretary of the Treasury, after

paying the subscription of the United States to the Fund, and any part of the subscription of the United States to the Bank required to be made under article II, section 7 (i), of the Articles of Agreement of the Bank, is authorized and directed to issue special notes of the United States from time to time at par and to deliver such notes to the Fund and the Bank in exchange for dollars to the extent permitted by the respective Articles of Agreement. The special notes provided for in this subsection shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the purposes for which special notes are authorized and directed to be issued under this subsection, but such notes shall bear no interest, shall be nonnegotiable, and shall be payable on demand of the Fund or the Bank, as the case may be. The face amount of special notes issued to the Fund under the authority of this subsection and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Fund, and the face amount of such notes issued to the Bank and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Bank under article II, section 7 (i), of the Articles of Agreement of the Bank.

(d) Any payment made to the United States by the Fund or the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

Obtaining and Furnishing Information

SEC. 9. (a) Whenever a request is made by the Fund to the United States as a member to furnish data under article VIII, section 5, of the Articles of Agreement of the Fund, the President may, through any agency he may designate, require any person to furnish such information as the President may determine to be essential to comply with such request. In making such determination the President shall seek to collect the information only in such detail as is necessary to comply with the request of the Fund. No information so acquired shall be furnished to the Fund in such detail that the affairs of any person are disclosed.

(b) In the event any person refuses to furnish such information when requested to do so, the President, through any designated governmental agency, may by subpoena require such person to appear and testify or to appear and produce records and other documents, or both. In case of contumacy by, or refusal to obey a subpoena served upon any such person, the district court for any district in which such person is found or resides or transacts business, upon application by the President or any governmental agency designated by him, shall have jurisdiction to issue an order requiring such person to appear and give testimony or appear and produce records and documents, or both; and any failure to obey such order of the court may be punished by such court as a contempt thereof.

(c) It shall be unlawful for any officer or employees of the Government, or for any adviser or consultant to the Government, to disclose, otherwise than in the course of official duty, any information obtained under this section, or to use any such information for his personal benefit. Whoever violates any of the provisions of this subsection shall, upon conviction, be fined not more than \$5,000, or imprisoned for not more than five years, or both.

(d) The term "person" as used in this section means an individual, partnership, corporation, or association.

FINANCIAL TRANSACTIONS WITH FOREIGN GOVERNMENTS IN DEFAULT

SEC. 10. The Act entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States," approved April 13, 1934 (U. S. C., title 31, sec. 804a), is amended by adding at the end thereof a new section to read as follows:

"Sec. 3. While any foreign government is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development, this Act shall not apply to the sale or purchase of bonds, securities, or other obligations of such government or any political subdivision thereof or of any organization or association acting for or on behalf of such government or political subdivision, or to the making of any loan to such government, political subdivision, organization, or association."

JURISDICTION AND VENUE OF ACTIONS

SEC. 11. For the purpose of any action which may be brought within the United States or its Territories or possessions by or against the Fund or the Bank in accordance with the articles of agreement of the Fund or the articles of agreement of the Bank, the Fund or the Bank, as the case may be, shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such action at law or in equity to which either the Fund or the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such action. When either the Fund or the Bank is a defendant in any such action, it may, at any time before the trial thereof, remove such action from a State court into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

STATUS, IMMUNITIES, AND PRIVILEGES

SEC. 12. The provisions of article IX, sections 2 to 9, both inclusive, and the first sentence of article VIII, section 2 (b), of the Articles of Agreement of the Fund, and the provisions of article VI, section 5 (i), and article VII, sections 2 to 9, both inclusive, of the Articles of Agreement of the Bank, shall have full force and effect in the United States and its Territories and possessions upon acceptance of membership by the United States in, and the establishment of, the Fund and the Bank, respectively.

STABILIZATION LOANS BY THE BANK

SEC. 13. The governor and executive director of the Bank appointed by the United States are hereby directed to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. If the Bank does not interpret its powers to include the making or guaranteeing of such loans, the governor of the Bank representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

STABILIZATION OPERATIONS BY THE FUND

SEC. 14. (a) The governor and executive director of the Fund appointed by the United States are hereby directed to obtain promptly an official interpretation by the Fund as to (i) whether its authority to use its resources extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions, and (ii) whether it has authority to use its resources to provide facilities for relief or reconstruction or to meet a large or sustained outflow of capital on the part of any member.

(b) If the interpretation by the Fund answers in the affirmative either of the questions stated in subsection (a), the governor of the Fund representing the United States is hereby directed to propose promptly and support an amendment to the Articles of Agreement for the purpose of expressly negating such interpretation. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

Passed the House of Representatives June 7, 1945.

SOUTH TRIMBLE,

Clerk.

By H. NEWLIN MEGILL.

The CHAIRMAN. Mr. Secretary, Senator Tobey and I had the honor of having been delegates to the Bretton Woods Conference, and be-

cause you were the head of our delegation we will be delighted to hear from you as our first witness on the legislation now before us. It was introduced jointly by Senator Tobey and myself in the Senate.

**STATEMENT OF HON. HENRY MORGENTHAU, JR., SECRETARY OF
THE TREASURY, WASHINGTON, D. C.**

Mr. MORGENTHAU. Mr. Chairman and members of the committee, when I appeared before the House Committee on Banking and Currency to discuss this legislation, I told the committee that in my opinion, "the Bretton Woods agreements are good for every American citizen" and that "the program we are advocating is definitely good business for the United States."

In that statement I discussed the importance of Bretton Woods to world trade. Before the war we were the largest exporting nation in the world. We needed exports to maintain jobs, to absorb part of the output of American factories and farms. We were also a large importer, the second largest in the world. We needed imported raw materials for our industries and scores of imported products to meet the everyday demands of our consumers.

After the war we will have even more reason for exporting and importing, for expanding trade. To make this possible the producing and trading power of many countries must be restored and developed; the currency restrictions and discrimination that stifle trade must be relaxed and removed. And that, in substance, is what the Bretton Woods proposals are about.

I want to emphasize another aspect of the Bretton Woods agreements no less important to American business—that of establishing a world in which international trade and international investment can be carried on by businessmen on business principles.

You cannot do business in an environment of disorderly currencies. Carl Wynne, president of the Chicago Exporters Club, told the House committee that arbitrary exchange practices make it difficult to import or export without taking risks that are too big for the ordinary businessman.

As you know, during the 1930's a number of countries began to use their currency systems for the purpose of securing unfair advantages in international trade. Germany in particular developed numerous devices for exploiting her creditors and competitors. The use of these tricks by Germany forced other countries to adopt similar measures in self-defense. The result was an era of currency warfare that virtually destroyed international trade and investment and prepared the way for total war.

American businessmen have demonstrated that they are more than willing to take their chances in fair competition with the businessmen of any country. All they ask is an opportunity to sell a better product at a better price. But they cannot trade if the marks or the pesetas they collect for their automobiles and their movies are arbitrarily changed in value, or cannot be sold for dollars.

That is what happened to many American companies when they sold goods to Germany. They could either take blocked marks or some commodity that Germany was willing to offer in payment. The

American commercial attaché in Berlin reported that one company had to take 8,000,000 mouth organs in payment for petroleum, another 200,000 canaries for a large press for making automobile bodies, and a movie company was bamboozled into taking a live hippopotamus for its films.

This was only one of the many currency tricks widely used in the 1930's. Germany had more than 35 different kinds of marks, some selling at discounts up to 50 percent. She had about 40 bilateral clearing agreements under which exports to Germany were paid for only if the country took German imports. This country could not and would not do business on that basis.

I should add that this country was the principal victim of these unfair currency practices. Between 1928 and 1938 the value of our exports fell by nearly one-half while world trade fell by one-third. We know a country cannot always keep the same export markets. But we believe that changes in trade among countries should result from productive efficiency, not from exchange restrictions.

With such currency practices as these, international trade and investment can no longer be conducted along business lines. They become a matter of international politics, and they may become an international racket.

One might suppose that when nazism is destroyed, its strong-arm currency practices will be destroyed, too. But this will not necessarily happen. Many countries had to adopt similar measures in self-defense. They still have them. And now, as these countries look on their shelled, bombed, and pillaged lands, as they contemplate the difficulties of reconstruction, there is real danger that they may be tempted to continue and to extend these practices.

If we do nothing to help establish orderly exchanges, to help these countries get foreign capital for reconstruction, they will feel compelled to revert to barter deals, clearing agreements, competitive exchange depreciation, and multiple currencies. And these devices will be used with greater ingenuity and with greater effectiveness than ever before.

Rebuilding and restoring the devastated countries, as I see it, is primarily a job for their domestic industries. Certain basic essentials, however, will have to be imported. These include transportation equipment and industrial and agricultural machinery. If private investors abroad will not lend the necessary capital on reasonable terms, countries will be forced to seek help in other ways. Foreign loans might then be arranged on a political basis. This could only mean the rule of power politics in international economic relations.

I repeat, the businessmen of this country do not want to do business that way. The extension of these tactics must mean in the end the domination of international trade and investment by governments. This country has the greatest interest in seeing that international trade and investment are determined by economic and not by political considerations.

We in the Treasury have been aware of these dangers. In 1941, we began to work on postwar currency and investment problems. We prepared a tentative proposal for a world fund to set fair currency rules and to help countries abide by these rules. We also prepared a

tentative proposal for a world bank to encourage private investors to make sound and productive foreign loans, the risks to be shared by all countries.

Our discussions showed that other countries were convinced our proposals offered a practical basis for the solution of common monetary and financial problems. That conviction explains the cooperative spirit at the Bretton Woods Conference. All the 44 countries were determined to protect their own interests—the United States no less than others—yet all were aware that their own well-being depends on international cooperation. On some points national differences had to be reconciled; and I may add that Senator Wagner and Senator Tobey, both delegates to the Conference, rendered conspicuous service in this delicate task.

Personally, I take pride in the fact that in spite of all the obstacles and pitfalls, we did get an agreement on the basis of the proposals submitted by this Government. We had to compromise—of course we did—that is the democratic way. But it is one thing to compromise on details, on procedures; and it is quite another to compromise on fundamental principles. That is where we drew the line.

One aspect of the Bretton Woods agreements deserves special emphasis—their relation to peace. Peace is more than a political problem. It is a complicated structure that can be built only upon the solid foundation of economic order and prosperity in all countries. Peace and prosperity are two sides of the same problem. We cannot neglect one without endangering the other.

We all know how horrible war can be, and we are all determined to do everything possible to prevent these horrors from happening again. But you and I know that if peace is to endure there must be jobs, there must be hope of economic betterment. Otherwise, men fall easy victim to the rabble rouser, to the quack with a dangerous nostrum.

It is much the same with nations as with men. In either case scuffling, pushing, and shoving soon lead to blows. And when blows are struck in a crowd, there is likely to be work for the police riot squad.

There was no riot squad on duty to prevent World War II. There were no rules of the game to prevent pushing and shoving; and the economic scuffling of the 1930's developed the gangsters who finally discarded their economic blackjacks and brass knuckles in favor of the tanks and bombs that bathed Europe, and most of the world, in blood.

International monetary and financial problems have been a source of conflict for a generation. We must see that after this war they do not become the basis for new conflicts. That will be possible if international trade and investment are put on a business rather than a political basis. In my opinion, the Bretton Woods proposals give us the opportunity to decide whether international trade and investment will be carried on through private enterprise on the basis of fair currency rules or through governments on the basis of bilateral agreements.

International cooperation is a continuing and difficult task. But we are making progress. The over-all job of building a world security organization is being worked out at San Francisco. Despite

the obstacles to final agreement, the Conference nevertheless moves on. It will succeed because the people of all countries insist that it must succeed.

The fact that at Bretton Woods we were able to get representatives of 44 nations to agree on proposals for a monetary and financial program is evidence that with care, patience, and understanding, we can get agreement on all international problems.

The people of this country have shown that they are eager to have our Government take the leadership in dealing with international economic and political problems. There is no difference of opinion among Americans, no partisan division in Congress on this policy. Action by this committee approving the Bretton Woods agreements will be an inspiration to war-weary and hungry people everywhere, to people who have faith that the United Nations can and will work together to bring about a better world.

The CHAIRMAN. Thank you very much, Mr. Secretary. That was a very fine statement and I am in agreement with every word of it.

Mr. MORGENTHAU. Thank you, sir.

The CHAIRMAN. I say that as one of the members of the delegation.

Mr. MORGENTHAU. Thank you.

Senator HICKENLOOPER. Considering the reference to Senators Wagner and Tobey, I would say it was an especially fine statement.

The CHAIRMAN. Thank you very much, Mr. Secretary. We will now hear Mr. Acheson.

Senator TAFT. Mr. Chairman, may I ask the Secretary a few questions?

The CHAIRMAN. Certainly. I beg your pardon.

Senator TAFT. I do not suppose the Secretary wants to go into details and therefore that he will have others from the Department to do that.

Mr. MORGENTHAU. Yes, sir.

Senator TAFT. But I should like to ask the Secretary a few general questions.

Mr. MORGENTHAU. All right.

Senator TAFT. I should like to know what other American money will come into this picture. Let us suppose the Japanese war would come to an end within 30 days, we will say, what are our commitments on lend-lease, and otherwise, if there are any such commitments outside of the Bretton Woods agreements?

Mr. MORGENTHAU. I am asking Mr. Acheson to sit next to me as he might be helpful in making any answers.

Senator TAFT. That is all right. I have in mind, for instance, the French agreement and the Dutch agreement, and whatever there may be in the way of an agreement with Britain, and so forth; what would we be obligated for? I do not suppose it is an absolute obligation, but, for instance, how much would we be expected to furnish the British under lend-lease if VJ-day should come now?

Mr. MORGENTHAU. May Mr. Acheson answer that question?

Senator TAFT. Yes.

Mr. ACHESON. There are the three agreements to which you referred—the French, the Belgian, and the Dutch. There is also, not an agreement, but a general program with the British. So far as

the British program is concerned, you make it difficult to answer by saying "suppose VJ-day came in 30 days." The British program is one which carries on from VE-day to VJ-day. If VJ-day should come within 30 days then that program will come to an end. But, I take it, it is not at all likely VJ-day will come in 30 days.

Senator TAFT. No; but I was trying to get an idea of the general situation. For instance, there is a civilian population in England as contrasted to the absolute war set-up in the Far East.

Mr. ACHESON. There is nothing in the British program to carry on after VJ-day. I presume it would come during a period when ships are at sea, and until some arrangement could be made to divert the whole flow, which is in considerable volume, that would go on, but that would be a very short time. But so far as lend-lease is concerned, or to more directly answer your question, so far as the British part of lend-lease is concerned, there is no plan looking beyond VJ-day. And inasmuch as you have mentioned the French, Belgian, and Dutch agreements, I will answer that the French agreement looked forward to a program running to the middle of 1946. That will probably be revised so that it will become simply a program for the year 1945, and that will also be true of the Belgian and Dutch programs.

Senator TAFT. As I recall it, originally the French program altogether ran to about 2½ billion dollars.

Mr. ACHESON. Yes. But that would be cut down to slightly more than half if it were to run to the end of this year. Both of these programs are based on the proposition that we have 5,000,000 or more men in those areas, and that they have to be redeployed; that a tremendous burden is placed upon the whole transportation and productive systems of those three countries, and therefore we will allow lend-lease to run along until we get our people out of those areas and take that burden off of them.

Senator TAFT. I take it the first things that are going to the French are machines, equipment, and so forth.

Mr. ACHESON. There is a provision in both agreements that at any time the President determines it is not absolutely essential for our own purposes, these agreements go on a repayment basis, so that we would be repaid at any time the President wishes to put that into effect.

Senator TAFT. Then those would become in the nature of loans.

Mr. ACHESON. Yes.

Senator TAFT. They would probably be turned from lend-lease into loans.

Mr. ACHESON. That is correct.

Senator TAFT. Would something of the same sort be done with the British in case of VJ-day?

Mr. ACHESON. There is no plan that I know of in contemplation or in existence about that.

Senator TAFT. Can you tell us whether Mr. Hopkins promised Russia anything in the way of continued lend-lease?

Mr. ACHESON. I cannot, because I do not know.

Senator TAFT. When did Mr. Hopkins get back?

Mr. ACHESON. I understand from the radio announcement that he is to get back today.

Senator TAFT. Well, Mr. Chairman, if that information is available I think we ought to have it. For instance, as to how much the

loan to Russia is to be, whether made through lend-lease or by means of any other negotiation Mr. Hopkins has had.

Mr. MORGENTHAU. I might add that I am not aware that subject entered into the conversations.

The CHAIRMAN. Do you mean the conversations Mr. Hopkins has had with representatives of Soviet Russia?

Mr. MORGENTHAU. Yes. I have not been advised that any question of loans was a part of the conversations.

Senator TAFT. Is any lend-lease going to Russia today?

Mr. MORGENTHAU. Yes. Is not that so, Mr. Acheson?

Mr. ACHESON. Yes; there is, Senator Taft.

Senator TAFT. Have you any idea of the volume or scope of it?

Mr. ACHESON. You see, there was an announcement a month or so ago, right after VE-day, that—

Senator TAFT. There were two or three announcements and they seemed to contradict each other. I want to know what is actually happening.

Mr. ACHESON. I only know of the two announcements; one put out by the Acting Secretary and one by the Secretary. I do not think they contradicted each other. The idea of it was that such lend-lease as was going forward would be in connection with the prosecution of the war, and that we were reviewing all requests of the Soviet Union for lend-lease to see whether or not they would contribute to the actual prosecution of the war.

Senator TAFT. It was going forward at the rate of \$100,000,000 a month, was it not?

Mr. ACHESON. Well, I should think not, but I could not definitely answer that question offhand. I would have to get the figures for you if they are available.

Senator TAFT. The general purpose of these Bretton Woods agreements is to put up \$6,000,000,000 of our money, along with money from various other nations, to loan to countries that need it. I think it important for the whole picture that we know how much is going to those countries by other methods than the Bretton Woods agreements.

Mr. ACHESON. As I understand the situation at the present time, so far as the Soviet Union is concerned, lend-lease is not being used for the purpose you have in mind.

Senator TAFT. At any rate I think we are entitled to know the kinds of things that are going to Russia to the end that we may properly evaluate the legislation we are considering here. I think, Mr. Chairman, we ought to have a list of the kinds of things that are going to Russia, and approximately in what volume. And I think we ought to have the same information as to the Belgians, the Dutch, and the British, because nearly all of it, as I see the picture, is distinctly post-war reconstruction. I think we ought to have a list of the things that are going forward, so we may judge whether they are really for war or are for postwar reconstruction.

Mr. ACHESON. I think in the last report of the Lend-Lease Administration you have that brought up to the 31st of March.

Senator TAFT. The reports of the Lend-Lease Administration are very much in the nature of propaganda. We do not get information in detail. For instance, they never give the exact kind of things going to France, Britain, and so on. It is all lumped together, accompanied by pictures, and they do not furnish anything in detail. I

think we ought to have a list of the lend-lease, and anything else, going now to European countries where there is no war today, and approximately the volume in which it is going. I think we ought to have that information, and must have it before we can pass intelligently upon how much of the Bretton Woods agreements is needed.

The CHAIRMAN. I am sure the Secretary of the Treasury will give us that information.

Mr. MORGENTHAU. Surely.

(The information referred to appears on p. 450.)

Senator TAFT. Very well. That is an entirely satisfactory response.

Now, there is one other question: What about the recommendations that have been in the offing for the Export-Import Bank of Washington. Can you tell us, Mr. Secretary, what legislation the Government is going to ask for the Export-Import Bank of Washington?

Mr. MORGENTHAU. The most recent information, or I will say conversation was one I had yesterday with Mr. Clayton. I understand from Mr. Clayton that they will shortly introduce a bill in the House pertaining to the Export-Import Bank.

Senator TAFT. The present capital of that bank I believe is \$700,000 000.

Mr. MORGENTHAU. Yes, sir.

Senator TAFT. Will that be increased to \$2,200,000,000 or something of that kind?

Mr. MORGENTHAU. That figure has not yet been settled in the executive branch of the Government. It is under discussion now.

Senator TAFT. But that bill will probably be introduced before this committee passes on this legislation.

Mr. MORGENTHAU. From the conversation I had with Mr. Clayton I think it will be introduced tomorrow.

Senator TAFT. Is the Export-Import Bank going to make loans directly to governments only, or in some cases to others?

Mr. MORGENTHAU. As you probably noticed, I was conferring with Mr. Acheson just to be sure that my information was accurate. They could make loans directly to governments, but the normal process is to underwrite American exporters and importers.

Senator TAFT. I understand you to denounce direct loans in your prepared statement. You say:

International monetary and financial problems have been a source of conflict for a generation. We must see that after this war they do not become the basis for new conflicts. That will be possible if international trade and investment are put on a business rather than a political basis.

Again you say:

The Bretton Woods proposals give us the opportunity to decide whether international trade and investment will be carried on through private enterprise on the basis of fair currency rules or through governments on the basis of bilateral agreements.

Is not that just what the Export-Import Bank is going to do, make bilateral agreements that will carry on this trade?

Mr. MORGENTHAU. But that is with reference to some of the shorter loans, loans for from 3 to 5 years, we will say, that the Export-Import Bank would participate in those. But with loans running from 20 years to 30 years for public utilities, that require a long time to repay, those would be conducted by the world bank.

Senator TOBEY. Is it not a fact when the House Committee on Banking and Currency considered this bill Mr. Wolcott, the ranking mi-

nority member, spoke of the Export-Import Bank and recommended an increase for the prime purpose of a distinction between short-term and long-term loans over there?

Mr. MORGENTHAU. That is quite correct.

Senator TAFT. Do I understand that the Export-Import Bank is to be limited to short-term loans?

Mr. MORGENTHAU. That is my understanding.

Mr. ACHESON. Not altogether.

Mr. MORGENTHAU. Will you let Mr. Acheson answer that question?

Senator TOBEY. Their loans would be short term in comparison with loans for, say, 40 or 50 years?

Mr. ACHESON. Yes, sir; shorter than that.

Senator TOBEY. There is a distinction between the two?

Mr. ACHESON. Yes, sir.

Senator TAFT. Is it not possible that we can use that power for making loans on a political basis, and that that will encourage other nations to make loans on a political basis also?

Mr. ACHESON. The Secretary has asked me to take up there.

Senator TAFT. All right.

Mr. ACHESON. The comparable bilateral arrangements to which I think you refer, Senator Taft, are those by which you channel trade between two countries. In other words, barter arrangements. That is not the purpose of Export-Import Bank loans.

Senator TAFT. You say "foreign loans might then be arranged on a political basis. This could only mean the rule of power politics in international economic relations." I take it with the Export-Import Bank it is all right for us to engage in power politics but it is not all right for other people to do so. Or do you think we are so noble we won't so engage in power politics?

Mr. MORGENTHAU. I do not think that refers to the same thing.

Senator BUTLER. Mr. Chairman, in connection with the request made by Senator Taft for a list of the articles that are being furnished by us under lend-lease to various European countries, I would like especially for the principal items of food and the amounts thereof to be indicated in such a statement.

The CHAIRMAN. All right.

Senator BUTLER. Mr. Secretary, on page 2 of your statement you say:

Between 1928 and 1938 the value of our exports fell by nearly one-half, while world trade fell by one-third.

Did not the Reciprocal Trade Act become effective in 1934?

Mr. MORGENTHAU. If you say it did, I am sure that is right.

Senator BUTLER. I am quite certain it became effective in 1934.

Mr. MORGENTHAU. Yes, sir; I am so informed.

Senator BUTLER. I wonder what kind of explanation you can make on the fact that our export and import business would drop more rapidly than that of other countries of the world at a time when we put into effect the Reciprocal Trade Act.

Mr. MORGENTHAU. In the first place, I was referring to the years prior to the time when the reciprocal trade agreement went into effect; and when it did go into effect we could not negotiate very promptly all trade agreements. I have some facts on that if you care to hear them.

Senator BUTLER. All right.

Mr. MORGENTHAU. During the past 11 years reciprocal trade agreements have been concluded with 28 countries, including 8 out of 10 of our best customers. That is for 65 percent of our trade. Our exports to trade-agreement countries rose by 63 percent, and to non-agreement countries only 32 percent, from 1934 to 1938. Our imports from trade-agreement countries increased by 22 percent, and from nonagreement countries only 13 percent.

Senator BUTLER. But the fact remains that the foreign trade of other countries rose more rapidly.

Mr. MORGENTHAU. That was prior to 1934.

The CHAIRMAN. Any other questions?

Senator FULBRIGHT. With particular respect to the statement on page 3:

This country has the greatest interest in seeing that international trade and investment are determined by economic and not by political considerations.

It occurred to me that before the war we did business with such countries as Japan and Spain without any regard to political considerations. It does not seem to me that in the future we can isolate the economic from the political; and in stating several times that this must be done on an economic basis without regard to politics, that is not quite correct.

Mr. MORGENTHAU. The discussion at Bretton Woods—

Senator FULBRIGHT. Is not this a part of the political international arrangement? In other words, let us assume we are not going to have an international organization, in the political field would you say this particular scheme should go forward?

Mr. MORGENTHAU. Senator Fulbright, the discussion at Bretton Woods was based on the economic needs of a country and not on the political needs. And the thought all through the discussions was, particularly as affecting the small countries, such as Greece, Czechoslovakia—

Senator FULBRIGHT. And the Argentine and Spain.

Mr. MORGENTHAU. I did not put them in.

Senator FULBRIGHT. But you will be faced by that situation, is what I mean.

Mr. MORGENTHAU. I can only report to you—and the two American delegates that are sitting here at this committee table can either affirm or deny what happened—but the thought was—

The CHAIRMAN. I have just checked with Senator Tobey, and neither one of us heard any politics at all at Bretton Woods.

Mr. MORGENTHAU. The thought was that those countries could come to a world bank or a world fund and get their financial needs taken care of without having to sell their political souls. And that was the whole idea. I am sorry, Senator Fulbright, but I would not be honest if I did not stick by my guns on that, and that is my conception of Bretton Woods. These are to be financial institutions run by financial people, financial experts, and the needs in a financial way of a country are to be taken care of wholly independent of the political connection.

Senator FULBRIGHT. Then if this country has no foreign policy and blunders along as it did for the last 20 years, you would go ahead and finance, say, the Argentine, regardless of what you thought it would do, and the same as to any other country.

Mr. MORGENTHAU. You put me in an embarrassing position, but I will have to answer.

Senator FULBRIGHT. I do not mean to embarrass you, but do want to know what the idea is.

Mr. MORGENTHAU. I understand. But I will go through with it: If the Argentine was a member of the bank and the fund, and she needed certain financial help to meet her requirements, being a member her requirements are to be taken care of independent of her political ideology. I choked on it, but I went through with it.

Senator FULBRIGHT. It seems to me that is going pretty far, and I do not quite agree that that is a sound policy.

Mr. MORGENTHAU. That is in the record, too.

Senator FULBRIGHT. It would seem to me that it means the fund will have no relationship to the State Department. But let us assume the State Department does develop some consistent policy in foreign relations, I cannot help but believe that our financial policy should be subservient to the political policy as established in the State Department. It does not seem proper that our various relationships with other countries should be conducted entirely separate from and without any regard to other relations.

Mr. MORGENTHAU. I would rather not answer that on the record.

(Thereupon there was discussion off the record.)

Senator TAFT. I should like to know how you can say their requirements will be taken care of regardless of what may be done by others.

Mr. MORGENTHAU. I do not know about that.

Senator TAFT. We have only 27 percent of the votes in the fund, and 30 percent in the bank. Or it is somewhere between 27 percent and 34 percent. How can you say what will happen? Suppose Russia should violently object to a loan to the Argentine, do you think the board would have the right to go over their head?

Mr. MORGENTHAU. All that I was trying to say, Senator Taft, was the spirit evidenced at Bretton Woods in regard to how the bank and the fund should function. All the discussion was on the economic and financial requirements of those countries. And, as Chairman Wagner has said here, at no time was a question raised as to the political ideology of a country.

Senator TAFT. Do you think when a board is set up, composed of the great nations and the small nations of the world, they are not going to be affected by politics about the making of a loan to a nation?

Mr. MORGENTHAU. I am repeating myself on this, but the institutions will carry out their work as far as it is humanly possible to do it—and it depends on the people running it—on a strictly business basis.

Senator TAFT. We may be as noble as we are pleased to hope we will be, but what justification is there for the theory that the English, the Russians, and other people will take that position? Aren't they going to use any weapon they have for their purposes in Europe?

Mr. MORGENTHAU. Gentlemen, I hope you will believe I am very sincere. I think in these things like Bretton Woods we have to assume the nations of the world have learned something while going through this bloody war we are just emerging from in Europe, and that we have the right to assume as between nations there is going to be a new conception of dealings one with another. If there is not, the world is lost.

Senator TAFT. I certainly would be glad to be able to join you in that hope. But I think it hard to imagine having an international body of this sort free from politics resorted to by people sitting on the board.

Senator FULBRIGHT. I don't see why it should be. I think politics is not such a disreputable thing that it cannot be accepted in this or any other international organization, if by politics is meant some regard for the best interest of one's own country. Take the best example, Japan; I don't see why we should not have taken account of what she was doing in the way of trade before the war. Apparently politics didn't enter into it at all. It was a strictly commercial proposition. If they could afford to pay for scrap metal we would sell it to them. That seems to me to be a very stupid policy.

Mr. MORGENTHAU. I happen to agree with you, but I am only Secretary of the Treasury.

Senator FULBRIGHT. This statement, I assume to be represented by not only your own view, but that of the administration.

Mr. MORGENTHAU. That is correct.

Senator FULBRIGHT. Therefore, I don't think the administration should say we are not going to have any consideration for politics in various countries. It seems to me to be perfectly proper to say, "Yes, we are, but we are going to try to be intelligent about it." That does not mean we are going to try to control Europe's internal politics. That is quite different from saying that all the internal affairs of a country is of no interest to us, which seems to me also rather stupid.

Senator TOBEY. Mr. Secretary of the Treasury, I would like to read here from the agreements, article IV, section 10:

Political activity prohibited. The bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the members concerned. Only economic considerations shall be relevant to their decisions, and their considerations shall be weighed impartially in order to achieve the purposes stated in article I.

Senator TAFT. Mr. Secretary, may I ask one more question?

Mr. MORGENTHAU. Please.

Senator TAFT. You say that foreign loans might be arranged on a political basis. Of course, there is nothing to prevent other countries making any foreign loans they please, I assume. You say:

If private investors abroad will not lend the necessary capital on reasonable terms, countries will be forced to seek help in other ways. Foreign loans might then be arranged on a political basis. This could only mean the rule of power politics in international economic relations. I repeat, the businessmen of this country do not want to do business that way. The extension of these tactics must be in the end the domination of international trade and investment by governments.

I do not quite see why the establishment of the fund and the bank do not mean the domination of international trade and investments by governments.

Mr. MORGENTHAU. Well, what was meant by that statement, Senator, and I can see where it could be misunderstood, is that, lacking the bank and the fund, loans would be negotiated between governments for strictly political considerations. I mean these smaller countries desiring loans would have to go and call on their more powerful neighbors, and the governments would work out their needs as they have in

the past, their financial needs being a small consideration as compared with their political needs.

Senator TAFT. I don't see why a small nation cannot go, anyway, to the bankers and others and other governments and ask for loans, but what seems to me clear is that you set up a bank like this; it is the bank that is going to decide whether Rumania gets a loan that perhaps Russia will want, or whether Spain will get a loan that perhaps England wants. It seems to me that the bank has more power and there is more opportunity for the domination of international trade and investment by governments through the setting up of these organizations than if they were never set up.

Senator TOBEY. Don't you think the distinction is this—

Senator TAFT. Don't you think the Secretary might answer the questions?

Senator TOBEY. Well, I thought maybe I could help him, but there is a difference. We do not propose under this agreement to carry on international trade and investments. We propose to stimulate international trade and investments. There is quite a distinction. It is the difference between being entrepreneurs of international trade and of trying to stimulate an international trade. That is what we seek to accomplish.

Mr. MORGENTHAU. I accept your answer if Senator Taft does.

Senator TAFT. It seems to me that by this bill your bank is going to have the power to decide whether this country is developed or whether that country is developed, whether this country can successfully trade or that country can successfully trade.

After all, the amount of this fund is going to be pretty limited. You are going to have to pick and choose. I think they can just dominate international trade through their control of loans just the way we are charging that the bankers and Wall Street are dominating trade in the United States. That has been the charge that has been made for years. I don't see how this is going to be very different.

Mr. MORGENTHAU. I would have given anything if you had been with us at Bretton Woods. It would have been most helpful.

Senator TAFT. I think you would have regretted it in the end.

Senator TOBEY. I think he would have been a changed Robert Taft.

Mr. MORGENTHAU. I say it would have been helpful because to have gone through that conference there for 3 weeks and seen the approach that the various representatives of governments made to this proposition was almost like a religious revival, and I repeat myself when I say that we have to have a new conception of dealings between governments. I think what happened there at Bretton Woods certainly gave me the impression and belief that we have fought this war for something. If we cannot go on in a new faith and a new confidence as between governments, well, then all that has been happening in the last 5 years is just a tragedy. I think if you had been there you would have felt this spirit which honestly existed. I can only say that Senator Wagner and Senator Tobey, who were there, could probably express it better than I could.

Senator TAFT. I cannot argue the question of religious revival with the Secretary. However, there is one other question I would like to ask. That is, the question of the general purpose of this is to in-

crease international trade. Is the purpose affected by the fact that Japan and Germany are practically out of international trade? Didn't they have a very large volume of international trade before the war?

Mr. MORGENTHAU. No. That is a general misunderstanding, if you don't mind my saying it. I haven't the figures here, but Germany's trade was in a limited number of articles. I would be glad to furnish those statistics, but continental Europe can so easily pick up Germany's export and import trade that the disappearance of it will never be noticed.

Senator TAFT. Well, it seems to me—I don't know—I have no particular view as to what ought to be done with Germany or Japan, but it seems, as far as I can see, from the ideas that are current, that whatever increase we might get in international trade by this and other means is going to be more than balanced by what we lose in international trade figures after completely eliminating Germany and Japan.

In other words, we say we have to make these people prosperous so they can buy our goods, but in Germany we say that we must make them absolutely flat so that they cannot buy our goods. It seems to me the two policies are practically contradictory.

Mr. MORGENTHAU. If Germany is to be deindustrialized, as I hope she will, and made self-sufficient for food, clothing, and the simple requirements needed to maintain the people on a basis of a standard of living not to exceed that of her neighbors, all of the studies which we have made show that her former position in world trade, in the export and import fields, could so readily be absorbed by just continental Europe, not including England, that it never will be missed.

Senator TAFT. I cannot see how you can take 150,000,000 people of the most highly industrialized nations in the world, or among the most highly industrialized nations in the world, and just bar them out from all international trade without substantially contradicting and to a large extent nullifying any good that may come from the other agreements. I cannot understand how you can do more than hope to adjust and make that up.

Mr. MORGENTHAU. If you had the time to spend an afternoon or an evening I would be very glad to come to your office and put all these figures before you.

Germany's trade before the war and the eliminating of those possibilities afterward—eliminating her as an exporter and importer. I would be very glad to come down and go into the thing to just as great a length as Senator Taft desires.

Senator FULBRIGHT. Your views about Germany, with which I agree—isn't that a political consideration that induced you to that position? It seems to me that is an example of a political consideration that is perfectly proper.

Mr. MORGENTHAU. I was trying to give Senator Taft as intelligent an answer as I could.

Senator FULBRIGHT. I thought it was an intelligent answer, and I say I agree with you. It seems to me it is in the nature of a political consideration, or that it is somewhat inspired by political considerations.

Mr. MORGENTHAU. Well, I think it is more inspired by the desire for peace in the world.

Senator FULBRIGHT. Well, that is a political consideration. That is what I mean by a political consideration.

Mr. MORGENTHAU. If that is what you mean I agree with you.

The CHAIRMAN. Are there any further questions of the Secretary? (There was no response.)

The CHAIRMAN. Thank you very much.

Mr. Acheson, how long do you think you will be?

Mr. ACHESON. I think about 20 minutes.

The CHAIRMAN. All right. We will be delighted to hear from you, as we always are.

STATEMENT OF HON. DEAN ACHESON, ASSISTANT SECRETARY OF STATE, WASHINGTON, D. C.

Mr. ACHESON. Senator Wagner, and members of the committee, I would like to talk for a few minutes about the general background which calls for institutions such as those which were put forward at Bretton Woods, and then describe briefly some of the provisions and functions of the two institutions. We have been talking in the last few minutes about these institutions as though they were just ideas which were put forward in a perfectly normal world, and the question was whether they could be changed this way or that way a little bit.

I think it might be well to bring out the actual conditions with which we are faced in the world, and why we have to have institutions such as the organization being created at San Francisco, the ones proposed at Bretton Woods, as well as the trade-agreements program, and other international institutions.

I would like to talk for a moment about Europe, but what I say about Europe is equally true of the Far East. There is a situation in the world, very clearly illustrated in Europe, and also true in the Far East, which threatens the very foundations, the whole fabric of world organization which we have known in our lifetime and which our fathers and grandfathers knew.

There are living in western Europe, in the western European allied countries, more people than live on the North American Continent from the North Pole to the southern border of Mexico. There are 180,000,000 people in the countries which are allied with us in western Europe. That excludes the enemy countries. Those people in the period before World War I and in the period between World War I and World War II were in a very real sense almost the heart of international trade and production. They were the heart in the sense that the operation of their economic life drew into Europe and pushed out of Europe the goods which furnished over half of the foreign trade of the world. That 180,000,000 people imported from overseas—I am now talking about the international movement of goods—they imported from overseas annually before this war over 140,000,000 tons of goods, almost a ton per person, which was a great factor in world trade.

Senator TAFT. Who imported 140,000,000—

Mr. ACHESON. 140,000,000 tons were imported by 180,000,000 people in the western European allied countries.

Senator TART. Yes.

Mr. ACHESON. Which is nearly a ton a person. We in this country imported about one-eighth of a ton per person. So you see the relative importance of the two people so far as world trade is concerned. The whole organization of life before this last war in the European allied countries was based on overseas trade. It was essential for their life and it was essential for the life of a great many other areas of the world: the Far East, the East Indies, the West Indies, Africa, and South America.

The raw materials which went into that area of Europe of which I spoke were turned into manufactured goods and sent out again. What I want to point out to you is that within a few months after Hitler crossed the Polish border the entire system of life of that 180,000,000 people was drastically changed. Not one single solitary ton of goods moved from overseas into that area. It was one of the greatest revolutions that ever occurred in the history of the world.

Not only did that occur, but the Germans organized a system in Europe which turned Europe in on itself and with perfectly amazing skill made that system work and work so effectively that the Germans were able to fight all the rest of the world and support reasonably well the peoples of Europe.

To do that not only was the direction of trade changed, but all of the institutions for financing, ownership of property, direction of industry, direction of transportation systems, all of these were changed to create a new European order which for 5 years occupied the energies of those people. It was existence on a lower scale, but it was effective.

Within a few months after D-day, we in turn destroyed Hitler's system. We destroyed it utterly and completely. The whole European system of production and trade was as completely ruined and as completely set aside as was the earlier system Hitler destroyed.

So, when you come to the day of liberation in Europe you find there 180,000,000 people, excluding former enemy peoples, who are completely flat. You find that the railway systems have ceased to operate; the power systems have ceased to operate; the financial systems are destroyed. Ownership of property is in terrific confusion. Management of property is in confusion. Systems of law have to be changed.

If you want to get an illustration of what happens in the purely physical fields you can get it from taking a period of 7 months as a measuring period. Before this war, to take two countries, France and Belgium, in a period of 7 months imported 29,000,000 tons of goods. That gives you some measure of the activity of those two countries. During the existence of the German system, the German period of occupation, France and Belgium received from the rest of Europe during a period of 7 months 7,000,000 tons. This was much less than before, but still a substantial amount. In the 7 months from D-day to January 1, 1945, France and Belgium received from all sources a little less than 500,000 tons of goods. That gives you a measure of the problem.

The CHAIRMAN. Was that mainly food?

Mr. ACHESON. That is everything; whatever they got; food and railway equipment—whatever else could be brought in. Now, of

course, that was a very unusual period because a war was going on. I cite it to indicate what has happened to the industrial and social life of Europe. It has come to a complete and total standstill. All stocks of goods have been used up. There is no coal. The railroads cannot move. There is no power. The financial systems are in disorder. The ownership of properties and management of properties all are in disorder. To a very large extent the same thing is true of the Far East. That is the kind of a world for which institutions have to be provided.

Senator TAFT. Wouldn't shipping do a lot more good than institutions? Isn't the reason they haven't got money is they haven't got ships? France has a gold balance in this country.

Mr. ACHESON. Yes, they have gold balances.

Senator TAFT. The only reason they haven't any imports is because they haven't any ships?

Mr. ACHESON. No, I think it is more than that. If I may go on, Senator, I would like to finish what I have to say and come back to these questions.

What I want to point out to you is that this is not an easy thing, such as Senator Taft just suggests, but it is something which is striking at the very roots of the production of goods, the transportation of goods, the furnishing of credit, and the consumption of goods.

What is not at all unlikely to occur if drastic steps are not taken has occurred once before in history. When things are very close to us they do not seem to us very important or very significant. When you look at some similar situations long years back, you see what can happen. Once before the world was cut in two as our world has been cut in two. That was at the time of the Moslem conquests in north Africa and the East. Between 632 and 732 the Moslems split the known world completely in two. They conquered all the provinces of the Persian Empire and of the Eastern Empire, all of north Africa, all of Spain. They were finally stopped in France at Poitiers in 732. The Mediterranean, which had been the connecting link in the then known world, the highway of trade, fell into the hands of the Moslems. What immediately happened, and what went on for the next thousand years, was that Europe was turned in on itself. The empire of Charlemagne had to turn north, toward the North Sea and toward Germany. It was cut off from the eastern empire, was cut off from world trade. There being no trade, towns disappeared. There being no towns and no money, the state disappeared as an institution. There were no treasuries. There were no public works. There was no investing. There was no private industry. There were only two things in Europe to which Europe could turn at that time and those were land and labor, and, cut off from the rest of the world, it took Europe a thousand years to get back to where it had come from before.

Now that you may regard as an overdrawn picture. I assure you it is not overdrawn at all, and unless the strongest and most vigorous steps of an institutional character are taken to bring about collective action and collective security in the economic, political, and monetary fields, you may very well have a Europe turned in on itself attempting to organize itself on the basis of the two enduring factors, land and labor. How would they go about even attempting to function in the field of international trade and international finance? They would have to do it without outside help, by resorting to all the methods which

the Secretary of the Treasury has just told you about. They would have to engage in the most narrow forms of bilateral arrangements, clearing arrangements, exchange controls, multiple currencies, and every sort of economic warfare arrangement.

Except for France, the European countries are practically without foreign exchange or foreign funds of any sort. They would have to indulge in every kind of a restrictive practice to force their exports on other people and to get such imports as they vitally needed.

It is in dealing with that situation that the two Bretton Woods institutions are important and essential. The two institutions are the fund and the bank. The fund attempts to set up the environment in which these restrictive practices will be done away with and by which the monetary mechanism is set up which permits those practices to be done away with. The bank sets up an institution by which loans can be made and devastation can be repaired and development can take place.

Now, the fund, as has been said many times, is a series of promises and the means by which those promises can be carried out. What the fund attempts to do is to say to its members, "We ask you to undertake four promises and we will give you help in carrying out those four promises. The first promise is that you will define your currency in terms of gold. In other words, you will define your currencies in such a way that there will be an established and understandable and fixed relation between all the currencies of the world, so that they will not fly, in terms of one another, all over the range of value."

Senator MURDOCK. Would you permit a question there?

Mr. ACHESON. Yes, sir.

Senator MURDOCK. We have recently found, in this country, that notwithstanding the fact that we hold, as I recall the figure, about three-fourths of the monetary gold of the world, that our gold holdings are not sufficient to maintain the 40-percent reserve ratio. We have found it necessary to recently cut that from 40 percent to 25 percent. I am wondering if the entire gold monetary holdings of the world are sufficient to adequately base this international monetary system that is contemplated by the fund.

Mr. ACHESON. Very possibly not, Senator Murdock. If this arrangement contemplated a 40-percent coverage of the currencies of the world, the answer would be clearly, "No." We do not do that.

Senator MURDOCK. I disregard the 40 percent. I am wondering if it is sufficient even to maintain it at 25 percent.

Mr. ACHESON. This plan does not contemplate any percentage basis. What I am talking about is defining their currency in terms of gold, I am talking about defining them in the terms of a common denominator, so that there is some common denominator that will relate to the franc, to the pound, to the peso. If currency is defined in terms of gold then you know what it is in relation to the other currencies. That is the importance of this fund.

Senator MURDOCK. Then you deem it, as I have followed you, absolutely essential that the currencies of the world be tied to a common denominator.

Mr. ACHESON. Yes, sir.

Senator TOBEY. Of course, what Abe really means is if there is not sufficient gold there is plenty of silver to augment it.

Senator MURDOCK. The distinguished Senator has anticipated my next question. I am wondering now why, in the face of the fact historically we have had two methods which have been used as common denominators throughout history, or, at least for a long period, it is rather difficult for me to understand, and especially is it so in view of the present gold situation, which necessitates our reduction of gold reserves, why we do not in this fund set up, that we are about to establish internationally, bring into the picture the other metallic money which has been used down through history and which is in present-day use by hundreds of millions of people.

Of course I have in mind silver and I hope that as the discussion proceeds that someone familiar with the situation and sponsoring this great international organization, or organizations, will tell me why we don't facilitate those institutions by using not only gold, but whatever silver is necessary to supplement the lack of it. I don't ask the present witness to do that, but I hope that someone along in the discussion will do that for me. I am sure that other members of the committee might be interested.

Senator MILLIKIN. I should like the honor of joining you in that request, or that hope.

Senator MURDOCK. I am always honored to have the Senator from Colorado associated with me, and I hope that somebody will tell us that before the discussions are ended.

Mr. ACHESON. I am sure somebody will, Senator Murdock and Senator Millikin. It is clearly not within my field or not within my knowledge so that I cannot do that.

Senator TAFT. Do you think this is a system based on gold or any other metal, Mr. Acheson?

Mr. ACHESON. I was trying to point out to Senators Murdock and Millikin what we are talking about here is defining currencies in terms of gold, not the use of gold as a cover or a basis of currencies.

Senator TAFT. Well, I recall reading a statement somewhere by Mr. Keynes in which he said he was just the opposite of the gold standard, which I took to mean that it was purely a managed paper-money currency that was contemplated under the fund.

Mr. ACHESON. Can we leave that until we get the situation before us a little bit? It seems to me those are just questions of words, questions of how you want to describe something or how you want to stress various important factors of it.

The CHAIRMAN. We will have a witness that will deal with the subject of gold and silver.

Mr. ACHESON. Yes; I am sure you will.

In answer to this matter Senator Taft has brought out, the British like to say that this is a departure from the gold standard. We like to say that this resembles the gold standard. Neither one of us has any differences as to what the plan provides. We differ in the words we like to use about it. I don't think a debate throws much light on the question. It is merely a way of presenting it to people, but the important factors I want to bring out are that the first thing that the fund asks its members to do is to define their currencies in terms of gold. Having done that the funds asks them to do the next thing which is to maintain their currencies within 1 percent, up or down, of that defined value.

The fund then has currencies which are related to one another in the terms of a common denominator, currencies which are held at that relationship. It is clear that in all cases you cannot hold the currencies at that relationship so the fund goes on to its third promise, which is that if a change in the value of currency is contemplated by any country it will consult with the fund.

In other words, a change in the value of currency is a matter of international concern and is not purely a matter of unilateral concern. Members are asked to come and consult if they wish to make a change. When they consult, under an agreement which gives them a right to make a change that is within 10 percent, they must consult first. They must hear the arguments of the other fellow. They must be able to define what they want to do. They must subject it to criticism, but if the change is within 10 percent they have a right to do it without the fund's consent.

Senator TAFT. You mean they can depreciate their currency 10 percent whether the rest of the world agrees to it or not?

Mr. ACHESON. That is right, after they consult, after they hear arguments, and after they have a discussion about it.

Senator BANKHEAD. How many times can they depreciate it?

Mr. ACHESON. Only once; it must be within the 10 percent. Once you go beyond that then the second consideration comes into effect. If the change is more than 10 percent then the fund has to say whether it agrees or disagrees. It may agree. If it agrees, all right. The change can be made. If it disagrees and if the member persists in changing the value of his currency, then either the member may be expelled from the fund or his dealings with the fund may be suspended or curtailed, or the fund may take such action as it wishes.

Senator TAFT. With one important exception, Mr. Acheson, which I think nullifies the whole statement. I read from article IV, section 5 (f):

The fund shall concur in a proposed change which is within the terms of C-II or C-III above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic, social, or political policies of the member proposing the change.

In other words, it can only do so if it is satisfied—

In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic, social, or political policies of the member proposing the change.

So, all a fellow has to do is to say, "We are going to run an unbalanced budget," and immediately you are forbidden to object to a further devaluation of his currency; isn't that correct?

Mr. ACHESON. No; that is not correct, Senator Taft, and I will tell you in a moment why not.

Senator MILLIKIN. Mr. Secretary, may I ask you a question?

Mr. ACHESON. On the same point as Senator Taft's question?

Senator MILLIKIN. No; it is not.

Mr. ACHESON. Perhaps I had better answer Senator Taft's question first, then. I thought you had one on the same point.

The provision you read, Senator Taft, is not in any sense whatever an instruction to the fund that in considering a request for a change it shall agree to the request. If it is necessary to correct a fundamental disequilibrium, in other words, if the value of the currency has

been fixed at a point which cannot be maintained because costs have increased in the country or because they made a wrong guess, or whatever reason it may be, and if therefore it is necessary in order to correct that unbalanced situation that the currency be revalued, then the fund must agree to it. Obviously it must. It would make no sense not to. The agreement goes on to say that, in considering that question, the fund shall not object because of the social or political policies of a country.

The reason for that is very clear. The reason for that is that countries which wish to have a social security system or whatever systems they wish, are entitled to have those systems, but if those systems affect their internal conditions so that costs do increase and the value of their currency is then thrown out of relation with other currencies, that is a disequilibrium which must be corrected.

There are only two ways in the world to deal with that. Suppose Great Britain wishes to have the Beveridge system. Great Britain is not going to subject the Beveridge scheme to the veto of any other country in the world. And neither would we if we wished to push our social security system further. We would insist on the right to do it. There cannot be any international system that says you cannot do that if the nation wishes to do it.

Suppose doing that does increase your costs in your country and you are therefore at a disadvantage in the foreign markets of the world, and a change in the value of your currency is necessary. There are only two ways of dealing with that situation. One of them is to say we will make the change because costs are higher in the country and nobody is injured by the change. It merely puts the country back in the position it was before the change. There is no harm done to any other country in the world. That is one way of dealing with it and that is the way the fund proposes to do it.

The other idea is that held by the extreme advocates of the gold system prior to World War I, who felt that there was something fundamentally wrong and wicked in changing the value of your currency and therefore that nation which wishes to go forward with a social-security system must lose its foreign markets; must have unemployment at home; must have all its business and industrial organizations going through the wringer, finally having a great fall in prices and then regaining its foreign markets. That method is a method which the nations of the world will not tolerate. Maybe they should. Maybe it is wrong, but the facts of life are that they won't stand for it. That is what this provision deals with.

Senator TAFT. May I state, as I understand it, in the first place, one of the purposes of this whole thing is to protect people from competitive devaluation of their money.

Mr. ACHESON. That is correct.

Senator TAFT. When we come to the actual provisions in the first place they can depreciate it 10 percent without anybody objecting?

Mr. ACHESON. Yes.

Senator TAFT. Secondly, they may depreciate it if it doesn't exceed a further 10 percent, but in that case the fund may either concur or object, but shall declare its attitude within 72 hours if the members so request. In the third place—

if the proposed change is not within I or II above, the fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

That is, they may depreciate it 50 percent and the fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

Now, on top of all that, on the question of how effective this is, it says—

The fund shall concur in a proposed change if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic, social, or political policies of the member proposing the change.

Well, we can say that no substantial fundamental disequilibrium has ever occurred in any nation except as a result of its social or political policies. By putting that in there the fund is barred from objecting to any devaluation of the currency. I don't think there is anything that can be pointed to that is not a result of the social or political policy of the member proposing the change. They may put up tariffs. They may refuse to take any imports. They may adopt any policy they want to that throws them out of balance and the fund immediately is barred from objecting to devaluation of their currency.

MR. ACHESON. No; there is a most complete and absolute non sequitur in your statement, Senator Taft, which is that because you cannot object to something on account of social and political considerations, therefore you cannot object to any devaluation. Now, that is a complete and total non sequitur.

Senator TAFT. I say any request for a 50-percent devaluation is bound to be a result of social and political policies that they do not want to change.

MR. ACHESON. If there is a fundamental disequilibrium, in other words, if whatever the nation has done has brought about a situation where it must change its currency to remain in the same position it was before, no one in the world is injured by that change.

Senator TAFT. But it doesn't prevent one of the big purposes of the fund itself here, to prevent devaluation of currencies. It absolutely permits any devaluation of a currency in any nation as a practical matter.

MR. ACHESON. You just keep on saying the same thing. It is not true at all.

Senator TAFT. Well, I can read English. That is what it says.

MR. ACHESON. The purpose of the fund is not to prevent any devaluation. It is to prevent competitive devaluation. It is to prevent countries from getting advantages by devaluating. It is not to prevent countries from readjusting difficulties so that after the readjustment their currency has actually the same value as it had before. That is not the purpose of the fund. We are not setting up some rigid gold system under which nobody can ever change the value of his currency.

Senator TAFT. Yes; but the fund has no discretion. The whole question is whether that country has adopted social and political policies that it wants to retain that have brought about this fundamental disequilibrium. Of course, that is how all fundamental disequilibriums are brought about.

MR. ACHESON. Well, what of it? Suppose they are brought about by it. What business is it of ours?

Senator TAFT. Well, you say the purpose of this thing is to control that situation, but I cannot see where you will have anything that you haven't got now after this act goes into effect.

Mr. ACHESON. Yes; that is exactly what we will have. What we want to prevent and, under this act, what we will prevent, is competitive devaluations by which the devaluer gets an unfair advantage.

Senator TAFT. Let me say—

Mr. ACHESON. Let me finish.

If the devaluer has undertaken social or political policies which increase his costs, then when he adjusts the value of his currency he is just exactly where he was before. That is not an unfair practice. We don't want to prevent it. The fund doesn't prevent it and nobody is injured by it.

Senator TAFT. You spoke of competitive devaluation. Isn't that bound to happen? Suppose France devalues 10 percent. Immediately Belgium devalues 10 percent. That 10 percent devaluation goes on until you get every country actually devaluing 10 percent except our country. Then we come along and under section 7 we change the value of the gold standard so that the whole thing is washed out. Then the thing begins over again with another 10 percent. That is just on the 10 percent provision, without all the rest of it I have been talking about.

Mr. ACHESON. What you continually overlook, Senator Taft, is that we are not permitting and not contemplating arbitrary reductions—

Senator TAFT. You permit a 10 percent arbitrary reduction.

Mr. ACHESON. You have one area—

Senator MURDOCK. I am very much interested in getting your answer to this question, and I hope you are allowed to answer before you are interfered with again.

Mr. ACHESON. You have one area of 10 percent within which a nation has a right to change the value of its currency. Everything has a historical basis and the historical basis for that is the experience of the British in the twenties. In the twenties the British went back to a 4.86 pound. The British believed that the troubles which they got into after that came from the fact that they guessed wrong. They believe that they should have put the pound back at a figure 10 percent lower, and that unemployment and all their troubles followed from adhering to the wrong value of the pound. So the British are absolutely and fundamentally convinced that you cannot look forward and pick out the exact bull's-eye at which your currency should be. They believe that there must be a latitude of 10 percent to correct a bad guess. That is what the fund provision is in there for. It only permits one devaluation of 10 percent, and it is only within that area that a nation has a right to change the value of its currencies.

Now, if everybody was ill-disposed, and if everyone wanted to do just as evil things as he could and did what Senator Taft suggests—that is, devalued 10 percent—the things Senator Taft contemplates would happen. I don't think people will do these things; but, at any rate, that might occur if everyone acted from the lowest possible motives and tried to cause harm.

After the first 10 percent valuation, then further devaluations must be the result of a real change in the position of the nation. You cannot pull a change out of the blue sky and say, "I want to devalue 10 or 15 or 20 percent just because that will give me an advantage over my competitors." You must show that what is happening in your country makes your cost bear such a relation to other people's costs, that to get back where you were you must make a change in your

currency. The fund will agree to those changes if they are necessary. That is the purpose of the fund. You cannot say to them, "Well, you must change your social-security system." The British were in that situation once before and they don't like it. They say, "We are not going to stand for it again." They should not be required to and they won't do it. But that doesn't mean at all what Senator Taft says that those requirements of the agreement mean. It does not mean that anybody may do anything he likes and call it the result of social and political measures. You must show that there is a fundamental disequilibrium and the extent of it.

Senator RADCLIFFE. Show to whom, Mr. Acheson?

Mr. ACHESON. To the fund.

Senator RADCLIFFE. So that the fund has the decision, not the devaluer?

Mr. ACHESON. That is right.

Senator TAFT. If England wants to change and we cannot avoid their change, it is decided by a majority of the board vote, is it?

Mr. ACHESON. By a majority of the total votes; yes.

The CHAIRMAN. The Senators have to be on the floor now.

Mr. Secretary, can you be here at 10:30 tomorrow?

Mr. ACHESON. Yes, sir.

The CHAIRMAN. This hearing will be adjourned until 10:30. The committee will meet at 10:15. We have another matter to consider outside of this.

(Thereupon, at 12:15 p. m., an adjournment was taken until tomorrow, Wednesday, June 13, 1945, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

WEDNESDAY, JUNE 13, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Tuesday, June 12, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Bankhead, Downey, Fulbright, Mitchell, Tobey, Taft, Butler, Buck, and Millikin.

The CHAIRMAN. The committee will come to order, and we will have the pleasure of hearing again from the distinguished Under Secretary of State.

Mr. ACHESON. Assistant Secretary. You promoted me.

The CHAIRMAN. Well, I would like to. Will you continue now?

STATEMENT OF DEAN ACHESON, ASSISTANT SECRETARY OF STATE, WASHINGTON, D. C.—Resumed

Mr. ACHESON. Yesterday we were discussing the principles to which members of the fund were asked to agree before the machinery of the fund went into operation to help them keep these agreements. The first one was the one of defining their currencies in terms of a common denominator, gold. The second principle, is that having defined their currencies, they were to maintain them within 1 percent of the defined value. The third principle was that if they wished to change the defined value of their currency, they were to consult with the fund. They had a right to change once within 10 percent, and thereafter the fund could express its agreement or disagreement. If the fund disagreed to a change, then the member could be asked to withdraw or its operations with the fund could be suspended or curtailed.

I think at the close of the last session we were discussing the reasons for the change as of right within 10 percent. Why does the agreement permit members to change their currency once in all time within 10 percent? The reason for that, I think we were explaining, was that all of these countries who we hope are to become members of the fund have been off a fixed relation with gold for some 15 years, and during that time they have had the great changes brought about by the depression and the great changes brought about by the war. They will now be asked to define their currencies precisely in terms of gold.

It would be quite unlikely they could get that definition exactly right on the first attempt. Therefore, they are given an opportunity and a right to modify the definition within a range of 10 percent up or down, but only once. They can only do that once.

Senator BUCK. In what period of years?

Mr. ACHESON. There is no fixed period of time. They can take as long as they need, Senator Buck.

Senator TAFT. That means you have to regulate every exchange transaction in the United States in order to see it does not vary. In other words, you are fixing the price of all the foreign money permanently; is that correct?

Mr. ACHESON. No; I do not think you have to regulate every transaction. I think the transactions will regulate themselves when the monetary authorities dealing in the currencies define the value.

Senator TAFT. I suggest you have to regulate the thing, and that nobody can ever sell foreign currencies to the United States except under the most complete regimentation and price fixing and control by a national body rather than an international body; isn't that correct?

Mr. ACHESON. I would think that is not correct, Senator Taft. The mechanics, I think Dr. White can explain better than I can, but the principle seems to me perfectly clear that if you have the Government of the United States and the fund itself dealing in these currencies freely at the defined values, then it is impossible for human beings to make any money doing it any other way.

Senator TAFT. Supposing a Chinese trader came over here and offered Chinese dollars, or whatever they are called,—

Mr. ACHESON. Yuan.

Senator TAFT. And offers Chinese yuan—offers 50 percent of the fixed price here in New York City; that is a crime, I take it. He is arrested immediately, and you have a black market in Chinese yuan.

Mr. ACHESON. But the point is: Why would he be doing that when both the fund and the Government would be dealing in Chinese currency at the fixed rate?

Senator TAFT. Because the Chinese would have exhausted all further power to send yuan to the fund very quickly, and they want to sell yuan, and they want to get some dollars. They are willing to do it at 50 percent. The Chinese are experts in that sort of thing. I don't mean to say anything derogatory about the Chinese, but they don't know what a stable currency is.

It seems to me you are imposing here a complete Government control—something we never have had before—on the price and purchase and sale of an important commodity, namely, foreign exchange.

Mr. ACHESON. You see, the illustration which you give is one which is just practically impossible, because if the situation results which you give as the premise, that they have exhausted their quota in dealing with the fund and people are offering exchange at one-half of the defined value, obviously the value of the yuan would have to be redefined.

Senator TAFT. Why would it be? The general tendency of governments is to absolutely fix the price first and say that everybody that violates it goes to jail. The OPA doesn't change their prices just because there is a black market in meat.

Mr. ACHESON. We are not talking about a black market in meat.

Senator TAFT. No; we are talking about a black market in foreign currency, which is a lot easier to conduct than a black market in meat and more difficult to prevent.

Mr. ACHESON. I think as far as I can go with you, Senator Taft, is to say that in my opinion that is an impossible situation, because it would have been corrected by a change in the value of the currency.

Senator TAFT. I don't think that answer is true, Mr. Acheson. It is not the natural thing to do. What are we doing today? We are maintaining the price of the franc in France at twice its value and making our soldiers over there buy at that increased price for every French product they buy—twice as much as they ought to pay.

Mr. ACHESON. That is the very thing that the fund and this whole mechanism is designed to correct. The fund will not undertake to operate in a currency which is so grossly misvalued as the franc is. We just wouldn't do it.

Senator TAFT. Nevertheless, it is a fixing of the price of foreign currency in the United States, and you have to pass a law making it a crime if you deal in foreign currency at any other price.

Mr. ACHESON. That is not true. It just doesn't become true by your repeating it.

Senator TAFT. Why not?

Mr. ACHESON. Because, in the first place, nobody is required to maintain a currency which is as absurd as the one you have suggested. You would not have begun with such a currency. You would not have maintained operations in it. It would be contrary to the whole purpose of the fund.

Senator TAFT. May I suggest China is a member; has a quota; it is in the fund today. You are going to agree on a price. Whatever price you agree on, 6 months after that, that price may well be away off.

Mr. ACHESON. China is not in the fund today. The fund has not been established. Nobody can come into the fund until the fund agrees to the price of the currency. Nobody would agree with the Chinese on a price such as the present official value. You assume that everybody does the most stupid possible thing and then that all these results will follow.

Senator TAFT. This agreement sets up an international body that fixes the price of foreign currency in the United States and places every transaction under the law, necessary compliance with the law, with the penalty of going to jail if you disobey it.

Mr. ACHESON. There is no penalty of going to jail. There is a provision in the agreement which says that contracts in foreign exchange which are contrary to the provisions of the fund shall not be enforceable in any of the member countries. It doesn't say anything about going to jail or anything else. You simply cannot enforce in any of the member countries a contract in foreign exchange which is contrary to the provisions of the fund.

In order for a country to come into the fund it must define its currency in terms of gold, so that you avoid the very situation of fact that you assume. If the definition is wrong, it can be corrected within 10 percent. If greater correction is required, you must do it by agreement with the fund.

Senator TAFT. I want to suggest another situation. That is the provision regarding capital transfers. You will have to determine, won't you, in practically every case, whether it is a capital transfer or a current transfer—whether the exchange transaction is for capital purposes or for current purposes?

Mr. ACHESON. No.

Senator TAFT. Why not?

Mr. ACHESON. Because in most cases it doesn't make any difference. You don't care what they are. The only point which you are driving at, I think, is that the fund says that the members may not come to the fund for assistance in correcting maladjustments which come from flights of capital. If the fund so requests, a member from whose country there is a flight of capital must take steps to prevent it. So, if there is a flight of capital from some country, the fund asks the member to stop that or else they will suspend its dealings with the fund. If the member does not want to stop it, it does not have to, but it cannot continue to come to the fund if it does not stop it.

Senator TAFT. And in order to determine whether there is a flight of capital or whether it is a current transaction, you have to examine, it seems to me, every exchange transaction in that currency and decide whether it is a transfer of capital or a current transaction.

Mr. ACHESON. The country from which the flight of capital is going on will take steps to stop it. You won't have to examine every transaction. It is perfectly simple to catch the main items which constitute a flight of capital. It is not a difficult thing to do.

Senator TAFT. I would like to just read from Lord Keynes' statement on the subject:

Not merely as a feature of the transition but as a permanent arrangement, the plan accords to every member government the explicit right to control all capital movements. What used to be a heresy is now endorsed as orthodox. In my own judgment, countries which avail themselves of this right may find it necessary to scrutinize all transactions, so as to prevent evasion of capital regulations. Provided that the innocent current transactions are let through, there is nothing in the plan to prevent this. In fact, it is encouraged. It follows that our right to control the domestic capital market is secured on firmer foundations than ever before and is formally accepted as a part of agreed international arrangements.

The point I want to make is that it seems to me not only is it permitted to the government but, in order to carry out the functions of the fund, I think they have to control the capital movements and will find it necessary, as Lord Keynes says, to scrutinize the transaction so as to prevent the evasion of capital regulations.

Mr. ACHESON. I think you just happen to be wrong about that, Senator Taft. As Lord Keynes says, it is a right which is given to the country. It is also something they may be called upon to do if there is flight of capital and if they still wish to come to the fund.

Senator BARKLEY. Do you suppose there is a possibility that Lord Keynes objects to this plan because it differs from his own?

Mr. ACHESON. I don't think he objects to it. I think it does differ from his very widely, but I don't think he has any objection to it.

Senator TAFT. Oh, no. He is all for He likes regulation. He wants to regulate every capital transaction. That is his philosophy of government. He wants to regulate every current transaction. He is enthusiastic about the fund, because it gives him the right to do so.

Mr. ACHESON. Going on to the fourth principle, which is that current transactions in currencies shall be free. That is one of the great principles of the fund agreement, that governments shall not put restrictions upon the right of their citizens to deal currently in their currencies; that is, to buy goods and pay for them by services.

Senator TAFT. Provided they do it at the fixed price or within 1 percent of the fixed price.

Mr. ACHESON. That they shall not place restrictions on the right of their citizens to deal in their currencies. That is a provision of the fund agreement, and that is a very important provision of the agreement, because that is the provision which does away with the whole group of exchange controls, clearing arrangements, multiple currencies, and all the methods which have been used between the two wars and during the wars to regiment and control trade and financial movements.

Now, it will be pointed out, I am sure, that this principle does not go into effect immediately upon the going into operation of the fund. There is a transition period. Obviously there must be, because all of these countries at the present time have their currencies under rigid control. They are in considerable difficulties during the war. It will take them some time to reorganize dealings in their currencies.

Senator TAFT. It will go into effect against us immediately, but not against everybody else in the world; isn't that the condition?

Mr. ACHESON. No; that is not the condition at all, Senator Taft.

Senator TAFT. Why not?

Mr. ACHESON. Under the fund agreement there is a period of 3 years during which any nation that wishes to may postpone putting these provisions into operation. It may continue its exchange controls for a period of 3 years. We may, if we wish. Anyone may, if he wishes. At the end of the 3 years a country then has to report to the fund whether it wishes to remove these restrictions or not. If it does not, it is given another 2 years to do it. If it does not do it at the end of that time, dealings with the fund may be greatly suspended, or the country may be asked to withdraw.

Senator TAFT. If I recall, in the first place, it only permits two things. We have them. Therefore, we can impose them. So the fund goes into effect against the United States immediately.

Mr. ACHESON. We have a great many restrictions at the present time.

Senator TAFT. Any that you want to continue?

Mr. ACHESON. No.

Senator TAFT. Because we are not in the position where we are a debtor country and have to continue them, so we open our exchange market completely; is that correct?

Mr. ACHESON. We do as we want to do, as you just said by definition; just as soon as possible after the war is over, we get rid of these restrictions. That is what we want to do, and that is what we will do.

Senator TAFT. These nations may not only maintain them, but in the case of members whose territory has been occupied by the enemy, they may introduce new restrictions immediately.

Mr. ACHESON. That is correct.

Senator TAFT. So that we may have a lot more restrictions after the war than before the war under that provision, because nearly all the countries in Europe have been occupied; isn't that correct?

Mr. ACHESON. Well, nearly all the countries have been occupied. Whether you will have more restriction after the war than during the war I think is probably a question.

Senator TAFT. It says this goes on for 3 years. I cannot see the rush about putting this fund through when none of these things are going to take place until 3 years after it is set up.

Mr. ACHESON. Of course, that again is one of those associations of ideas which distract you from the situation. Because you may have 3 years within which to correct something, it does not mean everybody must take 3 years, and obviously, the existence of the fund and the help which the fund offers the various countries will bring these restrictions to a much earlier end than otherwise would be the case.

Senator TAFT. May I read what Lord Keynes says:

What, then, are these major advantages that I hope from the plan to the advantage of this country? First, it is clearly recognized and agreed that during the postwar transitional period of uncertain duration we are entitled to retain any of those wartime restrictions, and special arrangement with the sterling area and others which are helpful to us, without being open to the charge of acting contrary to any general engagements into which we have entered.

So obviously the British intend to make full use of this escape clause. They are not going to remove any of their relations with the sterling area, or any other restrictions under the provisions of this agreement. Isn't that correct?

Mr. ACHESON. I haven't the faintest idea of whether it is correct.

Senator TAFT. Don't you think Lord Keynes guides the policy of the British Government in the particular field of exchange?

Mr. ACHESON. I would say we don't know what the British Government is going to be until some time next month when they have their election. Lord Keynes, I presume, would have some influence in any British Government. What you have read is a statement of Lord Keynes that the British have a right to do this, and that the right is very important, and that they should have that right. The British, as you know, are in an extremely difficult financial position and will be for some time after the war. They have to exercise the greatest care and caution in order to get themselves out of it. Other nations are going to be in the same fix. If you look at this whole situation realistically I think you will see this is a very great constructive step. Nothing can be done in this world by ordering a group of countries to do something. You cannot possibly get an agreement between these countries that on VJ-day every restriction which has been put into effect before and during the war will be automatically swept aside. That is just impossible, and to insist upon it is to insist that we shall make no progress at all.

What we have been able to do is to work out an arrangement here which meets the absolutely pressing necessities of all of these countries for a certain amount of leeway in getting on their feet after the war, and at the same time set up an institution which points the direction in which we hope that everyone will go and which gives powerful aid in going in that direction. That seems to me to be a constructive

measure, much more so than the suggestion that we throw out the whole thing because perfection has not been achieved.

Senator TAFT. I am not saying that at all, but you are claiming that you are removing these restrictions. I say you are not removing them; that the things claimed for it have been surrendered by these modifications without costing us less money.

Mr. ACHESON. I don't think I said what you said I did at all, Senator Taft. I made it perfectly clear I was pointing out that we were not removing restrictions immediately; that there was a 3-year period, with a 2-year additional period during which it could be accomplished, but the existence of this fund would bring that about much more speedily than without it. It never would be brought about without some such institutions as were proposed at Bretton Woods, and we hoped that the lengths of time mentioned in the agreement would not be altogether necessary. We hoped it could be done sooner than the extreme period provided there. That is all I have ever claimed for it.

Senator TAFT. After this 3 years they report, then they have another 2 years. So they have 5 years after the date on which the fund begins operation. It says any member shall consult the fund as to further restrictions. There is nothing about getting rid of it in 5 years.

I notice Lord Keynes says, "There is a period of uncertain duration." Then the fund may if it deems such action necessary in exceptional circumstances make reports to any member that conditions are favorable for the withdrawal of any particular restriction, but obviously there will be a majority of the Board who have these restrictions, so I think they certainly will treat with great tenderness anybody who wants to continue them. I don't see any assurance in the act you are ever going to get rid of the restrictions.

Mr. ACHESON. Well, you are entitled to take that view of it. There is no contract signed that on any particular day you will get rid of them, but, as I say, in a world in which we want to get rid of them, if anybody can suggest a better way of getting rid of them, that would be fine. This is the best way anybody has been able to think of.

Senator FULBRIGHT. Couldn't you say that that is true of all of these international agreements? What we are doing is to create machinery for doing these things, which, if we have intelligence, we are going to work out. You cannot guarantee any result.

Mr. ACHESON. That is true.

Senator FULBRIGHT. It is merely machinery through which you hope to be able to solve these questions.

Senator TAFT. What I object to doing is putting up \$6,000,000,000 and not getting what we are supposed to get.

Senator FULBRIGHT. Well, the alternative is to do nothing.

Senator TAFT. No; the alternative is not to do nothing. The alternative is to make a reasonable agreement with Britain and try to stabilize the pound. If you did that you would solve half of your whole exchange problem. I am willing to loan England money. I would be glad to have a voluntary and constant permanent commission to consult on exchange problems. I think there ought to be such a commission. The problem is this: Here is an \$8,000,000,000

fund. We are putting up \$2,750,000,000, more than half of the real money in the fund, and as far as I can see, with 30 percent voting power. Isn't that true?

Mr. ACHESON. Isn't what true?

Senator TAFT. We put up more than half of the real money with 30 percent voting power.

Mr. ACHESON. No. We have voting power which is directly proportioned to the money which we put up.

Senator TAFT. Have you prepared a list of the nations under these quotas showing how much gold each one will put up and how much good currency they will put up, and how much paper money will be put up?

Mr. ACHESON. I don't know whether the Treasury has done that.

Mr. WHITE. We will be glad to do that.

Senator TAFT. You say you have prepared such a list?

Mr. WHITE. We have one for our own use. We will be glad to submit it in such form as will be most helpful to you.

Senator TAFT. Well, mine is just a rough guess at the value of currencies. But as far as I can see, the real money in the fund, the gold and paper money that will be of any value to us apart from what we give it, is about \$5,000,000,000. We put up about \$2,750,000,000. The other 3 billion of the eight is just so much—it is not exactly waste paper, it is an obligation on the part of nations to pay who are unable to pay.

Mr. ACHESON. Of course, we can go into that. Your whole attitude seems to me to be wrong, both from an economic point of view and a political point of view.

Senator TAFT. No; I don't think it is wrong.

Mr. ACHESON. Well, if you will let me finish my sentence, Senator Taft, I will try to bring out why I think it is wrong. I think it is wrong from an economic point of view. I think it is also an unfortunate attitude to take in the United States toward other countries to say that we are putting up the only real money and everybody else is putting up waste paper. I don't believe that is the way to get on with economic cooperation. But my point is that what is put in the fund is currency which can be used to buy things. Each of these currencies is just as useful as any other currency for the only purpose for which any currency is any good; that is, to buy something. If no one wants to buy anything with the currencies, of course, they aren't any good, but if someone does want to use them and if there is an expanded international trade people will want to use them—

Senator TAFT. Oh, you are not being realistic about it at all. For instance, Greek paper money is worth just exactly the paper it is written on. It never will be worth any more unless we choose to give them dollars for it. Otherwise, it isn't worth anything.

Mr. ACHESON. If you want to buy some olive oil in Greece, does Greek currency have any value, or doesn't it?

Senator TAFT. Yes.

Mr. ACHESON. Of course.

Senator TAFT. I know, but the net balance of trade in Greece is such you have no difficulty whatever in buying Greek currency for nothing, unless you stabilize it, and I think you will still be able to buy it for half of what you stabilize it at, but putting it in the fund, it has no value. Nobody will buy it because it is so easy to get.

Mr. ACHESON. People will buy it if they need it for the purpose of trade.

Senator TAFT. I think that is a very unrealistic position, to put paper money into the fund which is not worth the paper it is written on, a large amount of it.

Senator TOBEY. We have a world that is prostrate. If we are going to live in it ourselves we have got to make some effort to get it back on its feet. There has to be an element of faith, an element of confidence somewhere. That is what we are trying to do here. We can afford to take some chances. I am willing to do it. The risks are small compared to the benefits that will come from this. The world is in extremis. We have got to do something.

Senator TAFT. Well, I say that is baloney. It will ruin this country, that kind of a doctrine. Every cent we give away must come from the American workingman.

Senator TOBEY. We are not giving anything away. We are making a contribution——

Senator TAFT. You say we ought to give it away.

Senator TOBEY. No. I say I am willing to take chances.

Senator BARKLEY. I move that the witness be given a chance to say a few words and let the committee do its arguing in executive session.

Senator FULBRIGHT. I second the motion.

The CHAIRMAN. Well, it was rather interesting. May we continue now?

Senator DOWNEY. Mr. Chairman, may I intervene? Mr. Secretary, I understand we in the United States have two-thirds, or maybe even three-fourths of the gold in the world. Whatever the specific figure is, it is very great.

Mr. ACHESON. Yes.

Senator DOWNEY. Unless that gold can be used as a foundation for international trade it really has no actual value at all, more than its value for commerce. In putting up a few billions of gold in this great enterprise we are merely attempting to salvage the value of that gold itself, if you want to reduce it to some very cheap, sordid outlook. If you wanted to do that, that gold just isn't worth anything unless it becomes the foundation of international trade. I just wanted to make that observation.

Senator TAFT. Do you agree with that, Mr. Acheson?

Mr. ACHESON. I think basically what the Senator says is right.

Senator TAFT. But practically, isn't what they get not our gold, but our goods? Isn't that the necessary result, isn't that the only reason they want our gold, to buy our goods?

Senator DOWNEY. Too bad they didn't have some of our gold to buy some of our goods in 1930, 1931, and 1932.

Senator TAFT. Well, that is another argument we haven't got to yet.

Mr. ACHESON. Senator, we could go along here in this dialectical manner quite a long time, I think, without throwing much light on the situation.

Senator TAFT. I think we are throwing some light on it.

Mr. ACHESON. What we are trying to do is create some sort of an international monetary system. There was such a system before World War I. That system will never come back. There was a system of economic warfare in currencies between the two wars which was really

no system. Now, we have created something which goes the greatest possible distance toward creating an international monetary system in this world under which there can be international trade, under which trade can grow, and that is absolutely essential to bring any sort of order and peace to this world. Now, that is what we have tried to do here, and that is the basic principle.

Senators may say if they wish that we don't need any system; that all the United States needs to do is to lend money here and there. In the long run you will lose by that every time. The only hope there is of peace is to create a system which will work.

This system, we believe, will work, if as Senator Fulbright says, it is run with intelligence. It won't work if it is run stupidly, but we believe it will be run with intelligence. That is the basic thing. All these other things are side issues and confusing.

Senator TAFT. That is not the basic thing, it seems to me. You don't mean this fund is going to solve the British currency and financial problem, do you, surely?

Mr. ACHESON. No; I don't claim, Senator Taft, that this will solve all the problems of the world. It will do a great deal to help.

Senator TAFT. Isn't the key to the currency problem the British situation today?

Mr. ACHESON. No; there is no key. Everybody is looking for a trick answer. They think that there is a key which unlocks some golden door and then you don't have to worry.

Senator TAFT. Oh, I don't mean that. Isn't the most important thing to stabilize currency for the British to be able to set a figure for the pound and agree with us and be in position to maintain it, in some way disposing of their block balances, in some way getting rid of that constant threat against their currency? The maintenance of pounds, isn't that the most important currency problem in the world today?

Mr. ACHESON. No; I don't think it is the most important currency problem at all. It is part of an important currency problem, yes. This is the old argument about the key currencies again.

Senator TAFT. Exactly.

Mr. ACHESON. I know I never can convince you and you never can make me back down and say this is all a great big mistake.

Senator TAFT. Well, we can bring out in evidence what your position is. Isn't it true that unless that is done this fund cannot maintain the value of the pound, unless there is some other solution of that problem by loans and other arrangements with the British?

Mr. ACHESON. No; it doesn't mean at all that it depends on what the value of the pound is.

Senator BARKLEY. If this organization, this set-up, will make some contribution to the solution of the financial situation and the stabilization of the pound in Britain and other currencies in other countries, beyond that it is up to the country to do whatever else is necessary to complete the circle of its stabilization and survival, but if this makes any substantial contribution, isn't it worth trying? And leave it to the other countries, all the other countries, to do whatever else is necessary to stabilize their own situations beyond what this can do.

Mr. ACHESON. That is correct, Senator? It will make a very great contribution.

Senator BARKLEY. The fact it may not go the whole distance——

Senator TAFT. May I——

Senator BARKLEY. I wonder if I could finish a sentence.

The CHAIRMAN. I would like to get an answer from the witness, too.

Senator BARKLEY. Nobody claims this thing will settle all the currency problems or the economic problems of any country or our own, but if it creates a situation where the atmosphere and the machinery is set up by which progress can be made, it will be easier for the countries to go the rest of the distance, outside of what this may do, in order to stabilize world conditions.

Mr. ACHESON. That is right. It is essential for them to have an orderly financial world in which to take the other steps. Clearly in countries like Great Britain other things are necessary. There does have to be some action taken to advance credits to the British in the intermediate period after the war. There does have to be some action taken by all of Britain's creditors in the sterling area in order to fund those debts over a long period, and reduce them, to make it possible to pay them over many, many years, but all of those steps are made infinitely easier if you have an orderly international financial world than they would be if there was perfect chaos.

Senator TAFT. May I read what Lord Keynes says about his views in the English situation and see if you agree with it?

Third——

This is the third great advantage to Britain:

Third, the wheels of trade are to be oiled by what is, in effect, a great addition to the world's stock of monetary reserves, distributed, moreover, in a reasonable way. The quotas are not so large as under the Clearing Union, and Lord Addison drew attention to that, but they are substantial and can be increased subsequently if the need is shown. The aggregate for the world is put provisionally at 2,500,000,000 pounds. Our own share of this—for ourselves, and the Crown Colonies, which, I may mention, are treated for all purposes as a part of the British monetary system, in itself a useful acknowledgment is 325,000,000, a sum which may easily double, or more than double, the reserves which we shall otherwise hold at the end of the transitional period.

He intends to keep it for a while at the end of the transitional period.

Mr. ACHESON. I think that is a gross misrepresentation of what Lord Keynes says.

Senator TAFT. Let me finish it. Then you can comment on it.

The separate quotas of the rest of the sterling area will make a further large addition to this. Who is so confident of the future that he will wish to throw away so comfortable a supplementary aid in time of trouble?

He refers to this supplementary aid as something that is essential to really solve the British situation. Then in another place he refers to this as just temporary, not an iron ration.

The quotas for drawing on the fund's resources are an iron ration to tide over temporary emergencies of one kind or another.

Now, isn't it clear from that that this is not going to solve the British problem if he looks at something else as essential, either a direct loan from us, or some other kind of an arrangement?

Mr. ACHESON. Well, it is not clear from that, Senator Taft. It is just clear from the nature of the facts that no one thing is going to

solve the British problem. I have said that over and over again. This is not a panacea. This fund alone will not solve the British problem, or the French problem, or all the problems of any country, but it will make a solution of the problems possible.

Senator TAFT. I am just suggesting you are putting the cart before the horse. That is, the fundamental situation in the world will have to be settled by other means before this fund can be put to work.

Senator BARKLEY. If it could be set up by other means we would not be here arguing about that.

Mr. ACHESON. I think that is right.

Senator DOWNEY. We could have starvation and chaos. Those are the two other possibilities.

Mr. ACHESON. Now, I think, Senator, I have stated the principles of the fund which the members were asked to agree to. The mechanism of the fund can probably be explained much better by Dr. White than it can be by me. I think it is enough to say that the fund is a reservoir of gold and currencies, a reservoir into which each member puts a certain amount of his quota in his own currency, and a certain amount in gold. From that reservoir countries may purchase currencies which they need in certain amounts and under certain restrictions. Those currencies when purchased are used to take care of temporary difficulties in their balances of payments which may run for 2, 3, 4, 5, 6, or 7 years, and then they repurchase their currencies again as they recover from those temporary difficulties. Broadly speaking, that is the whole plan—the mechanism is much more complicated, but that is the way it works.

There are certain safeguards which I shall mention because it will probably be said at once that this is merely loaning money to people who have no credit worthiness at all. There are certain safeguards which I have jotted down.

First of all, there are safeguards that apply before dealings can be had with the fund at all. They have to do first with fixing and agreeing on the par value of the currency; that the fund will not agree to any par value if that par value would require recourse to the fund on an unreasonable scale to maintain it. That means that the fund will not agree on a value for the franc or the yuan, which is completely out of line with realities and would require recourse to the fund on too great a scale to maintain it.

There is also another safeguard which is that in the case of occupied countries the fund may agree on a tentative rate and may impose conditions upon dealings with the fund until the condition of that country becomes clarified and it is possible to agree on a definitive rate.

In the third place, the fund may postpone exchange transactions with any members where given exchange transactions might result in prejudice to other members. That is, if the dealings of anyone with the fund are likely to put a drain on the fund which would prejudice other members, the fund may postpone the transaction.

Finally, if a member changes the par value of its currency despite the objections of the fund, it may be declared ineligible for dealings with the fund and may be asked to withdraw.

All of those safeguards have to do with the beginning of dealings with the fund, or termination of dealings, so far as they relate to the

par value of the currency, and they are very strong and very substantial safeguards.

Now, there are other safeguards which have to do with operations that are going along. The fifth in number is that a member cannot use the fund to meet large outflows of capital, and if it continues to come to the fund for that purpose it may be declared ineligible. We were discussing that with Senator Taft a moment ago. Furthermore, if a member persists in maintaining exchange restrictions after the fund believes that they are no longer necessary, that is after the member has come out of its transitional period, again the transactions may be stopped. Also if a member fails to perform any of its obligations under the fund agreement, it may be declared ineligible.

Then there are a whole series of service charges which Dr. White will go into at greater length. They are also safeguards against the abuse of the fund. There are repurchase provisions which he will explain in more technical detail, but which really mean that members going to the fund must use their own reserves in the same proportion that they call on the fund. There are exceptions to that where reserves of other countries have fallen to a very low level, but the normal operation is that a country going to the fund must use its own foreign exchange resources in the same proportion that it uses the fund's.

Then there is a safeguard that the gold value of the currency which it uses to purchase other currencies must be maintained. Finally, there is in article V, section 5, a provision which gives the fund very great discretion in taking whatever steps are necessary to protect itself. Whenever the fund is of the opinion that a member is using the resources of the fund in a manner contrary to the purposes of the fund, it shall present to the member a report setting forth the views of the fund and prescribing a suitable time for reply. After presenting such report the fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the fund may continue to limit the member's use of the fund's resources, or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the fund.

Now, that, I submit, gives the fund complete authority to limit the drawings of a member if it finds that the member is acting contrary to the purposes for which the fund is set up, and that is very important.

That, Mr. Chairman, I think, is enough from me on the fund. The bank I believe is pretty clearly understood. If you would like me to talk about that, I will; otherwise, I shall cease talking.

Senator TAFT. I would like to ask Mr. Acheson some further questions when the other members are through.

Senator FULBRIGHT. I wanted to ask one. I didn't hear—I may have missed it—a brief description of the way it is organized. I mean, is there a board of directors, or what is the mechanics of it? If you will give it just briefly.

Mr. ACHESON. There are two separate entities.

Senator FULBRIGHT. What is the nature of the organization?

Mr. ACHESON. The nature of the organization appears in article XII in the articles of agreement. It begins on page 22. Senator Wagner was the American representative on the committee that drew up those managerial sections and I think he knows all about them. In

short, there is a Board of Governors created, with a governor from each member country.

Senator FULBRIGHT. Each member country. That is what I had forgotten.

Mr. ACHESON. Then there is a group of executive directors, 12 in number. They are elected or appointed by the countries and that is the real day-to-day managing group.

Senator FULBRIGHT. That is the real board of directors?

Mr. ACHESON. That is the real board of directors. The Board of Governors meets annually and at certain other times, and has certain reserve powers, which are mentioned on page 22. Those powers must be exercised only by the large Board of Governors. The smaller group, the executive directors, are in continuous session. That is a full-time job. They have a managing director whom they hire. He is not one of the representatives, and he is the executive operating head of the bank. The votes which each director casts are the votes of the country which appointed him or elected him.

The United States, and four other countries, each has the right to appoint an executive director. Our director does not cast 1 vote. He casts 27,750 votes, I think. That is, he casts one vote for each \$100,000 of our quota plus 250; and similarly the British have the right to appoint a director. He casts a number of votes. His would be 13,250. The Russian director would cast 12,250. The Chinese and the French also appoint directors. Then there is a provision that if any country, or if two countries have their currencies used so that the fund has less of their currency than their quotas, they are given the automatic right to appoint a director, too. That means countries who are really creditor countries. It is possible that the Canadians would come in under that, and maybe some other countries whose currency would be used.

Senator FULBRIGHT. An additional director?

Mr. ACHESON. One of twelve, and that reduces the number to be elected.

Senator FULBRIGHT. But it stays at 12?

Mr. ACHESON. It is a rather complicated arrangement which I can go into if you like.

Senator TAFT. As I understand it, are there four—the United States, the United Kingdom, China, and France—which elect one director?

Mr. ACHESON. There are five: the United States, the United Kingdom, the Soviet Union, China, and France; they will appoint a director.

Senator TAFT. Then there is a list of other nations who appoint five more. Among those are, of course, eligible, the British Dominions. Certainly one of those five would be another British Dominion, possibly two more. I suppose, in view of the size of the quotas of India, Canada, Australia, and South Africa, over a billion dollars, they probably would be pretty well able to elect two out of the five, so you have three British members of the board, I rather assume. Then you get two from South America which are elected separately.

Mr. ACHESON. That is right.

Senator TAFT. But, of course, the proportion is determined not by the number of directors but by the number of votes which they can cast; is that correct?

Mr. ACHESON. That is correct.

Senator TAFT. What I want to suggest is this, and it has relation to your safeguards again. As I see it, this board is controlled by what you might call the debtor countries. I figure that of the 8,800 votes, or however you figure it, 3,900 come from Europe. That does not count people who are in the European range. Practically every country in Europe wants dollars today. In addition to the three billion nine, there is over a billion of British Dominions, and I notice that England reserves the right to vote India, at least, and Australia is rather in the debtor class. I suggest that all of these so-called safeguard, insofar as they are safeguards of creditor countries, may not be exercised by the board. We have no right to insist upon their being exercised. I suggest that when you loan your money, when you put your money in the hands of a board controlled by debtors, those debtors are going to be very liberal with debtors. Do you think that is a fair criticism of the set-up of the fund today?

Mr. ACHESON. Well, I wouldn't like to pass on its fairness. I don't think it is altogether an accurate criticism. The United States under the various provisions here will have a vote which ultimately will probably come up to about 33.

Senator TAFT. 33 percent?

Mr. ACHESON. 33 percent. It starts out at 27, but as the currency is used it will go up. The South American countries have votes which will probably have another 10 percent. Some of those are likely to be creditor countries.

Senator TAFT. Brazil was no creditor country 8 or 10 years ago.

Mr. ACHESON. But it happens to be true now, and may be for some time.

Whether the concept of debtor or creditor is going to determine how they are going to vote is something you may have an opinion on, as well as I.

Senator TAFT. I suggest that the board of 12 on which we have only one representative is going to have a moral effect even if the voting is different. Here 1 American representative with a third of the voting power and 11 other directors with a majority of the voting power. It seems to me in the first place he is going to be talked down and in the second place not have the votes.

Mr. ACHESON. I wouldn't worry very much about that. I think in a short time you suggested that there would be other British dominions. Undoubtedly Canada under the provisions would be entitled to have a director. Canada is not going to be a debtor country and is not going to be talked down. And there will probably be a Dutch director. And the Dutch, whether Holland is a debtor or creditor, are going to behave the way we are going to behave. They are very conservative people and all through this Conference behaved in a very conservative way and always have and always will in banking matters.

Senator TAFT. I suggest that the Dutch are closely tied into London. They will do what the British want them to do. And I suggest the Canadians will do what the British want them to do, in the ultimate resolution.

Mr. ACHESON. That is your suggestion, as you say. It wouldn't be my suggestion. I think you are wrong about that. I do not think that either the Dutch or the Canadians would be overawed by the

British, and I think that the British will be acting as a creditor nation. They are not going to do anything foolishly. But at any rate you have——

Senator TAFT. Well, the point I suggest is that all these safeguards are not compulsory safeguards written into the act. They are things that are in the discretion of this board.

Mr. ACHESON. There cannot be compulsory safeguards, Senator Taft. I was talking with a banker, for instance, down here at some meeting which you attended, and we illustrated the point this way. I said, "suppose you were very ill and not expected to recover, and you were the president of a great bank, and they said, 'No; we are not going to tell you who your successor is going to be, but we want you to write out some things here which will enable him to run this bank as successfully as you have. I won't tell you who he is; it doesn't make any difference. You just give us the rules as to how to run this thing.'" I said, "Would that make your last hours happy?"

And he said, "No. Of course that's crazy."

There are no rules that you write out as to how to run a banking institution successfully. If there were, bank examiners could do it. It requires management and intelligence.

Now, if you think that the people who are elected here will not use intelligence on this thing or will not operate it the way it is supposed to be operated to be successful, then of course it will be a failure, and I cannot possibly argue against that.

Senator TAFT. I suggest conditions in the world today are these: everybody wants dollars, and a great bulk of the nations are debtor nations, that their interests are adverse to ours, and yet that we are handing them our money to dispose of as they wish to dispose of it.

Mr. ACHESON. I don't think we are doing that at all.

Senator TAFT. Well, then I want to suggest one other thing I want to ask on this thing. You have spoken of a number of safeguards, and as I see it once you set this fund up there is no safeguard against giving every country its 25 percent of its quota every year if it asks for it, as a practical matter, and it has been assumed all the way through here—Lord Keynes assumes it in this statement I read—that every nation—Russia assumes it; that is why they wanted their bigger quota: that they have a right to walk in and take out 25 percent of their quota every year in any currency that they wish to ask for. Isn't that it? Is there any safeguard against that automatic loan whether they need it or not? In other words, that draft, it seems to me, is based purely on the automatic requirements of this fund, in that it differs from the bank and has no relation to the need of the people who get it.

Mr. ACHESON. Well, I——

Senator TAFT. Isn't that so?

Mr. ACHESON. No; that isn't the least bit so, not the slightest bit so. I am looking for the very first provision here which says that the only reason that anyone can come to the fund for any purpose at all is in response to current need.

I do not have the place. Perhaps Dr. White can give me the number of that. What is the provision that says that the drawing shall—the first one?

Dr. WHITE. You can use this article III, section 5.

Mr. ACHESON. No.

Dr. WHITE. Do you want that one?

Mr. ACHESON. No. It is the very first one here.

Dr. WHITE. That is the important one.

Mr. ACHESON. It says something about need.

Dr. WHITE. Oh.

Senator TAFT. Suppose you read article V, section 3. It is governed by that.

Mr. ACHESON. Yes. It is section 3. That is the one I was looking for. It is on page 8 here:

Conditions governing use of the fund's resources. A member shall be entitled to buy the currency of another member from the fund in exchange for its own currency subject to the following conditions:

Senator TAFT. "Shall be entitled." I mean that is pretty clear, that much. What other conditions?

Mr. ACHESON (reading):

The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this agreement.

Now, the very first thing that I wanted to bring out is that he must show that the amounts are presently needed. That does not mean that anyone has a right to walk into this fund and withdraw 25 percent a year. Nothing could be further from the truth than that concept. It is only if amounts are presently needed for making payments in the currency of that country that he has any right to come in at all.

Senator TAFT. That is not what the English says. The English says only that he has to represent that. It doesn't give the board any power to question his representation, and the board has no power to question his representation, Mr. Acheson. And that is the construction and the only reasonable construction to put on the language.

Mr. ACHESON. Well, that may be the construction that you wish to put on it, Senator Taft.

Senator TAFT. No. He represents. That is all he needs to do. And isn't it true that this struggle for quotas in Bretton Woods, from Russia and England—and England's Lord Keynes' slight disappointment in not getting more—was due to the fact that they wanted that right to get that money?

Senator FULBRIGHT. It is perfectly obvious that those are the ones that need it. That is one of the purposes. No use in our wanting a whole lot of it.

Mr. ACHESON. There is no idea whatever that a person walks in and goes through the empty formality of saying, "I need this presently to make a payment," and no one can look into it. That would be too childishly absurd.

Senator TAFT. Well, Mr. Acheson, it is childishly absurd. It is the whole basis on which this whole thing has been negotiated with these countries.

Mr. ACHESON. I assure you that that is not so.

Senator TAFT. Isn't there a special agreement with Russia that they can get \$1,200,000,000 at the rate of \$300,000,000 a year now, regardless, because they cannot prove anything; they don't have any exchange? The Government runs the whole works. So all they need

to do is to need it in the currency payments that are consistent. All they say is they want to spend \$1,200,000,000. Of course they want to import it. And wasn't it understood with them that they were to be specially treated?

Mr. ACHESON. It was not understood by me. I do not know of any such understanding. I don't believe there was one, if you are asking me.

Senator TAFT. I am asking you.

Mr. ACHESON. No.

Senator TAFT. I am asking you if it is not a fact that there is an understanding with Russia that they are entitled to draw this \$300,000,000 a year out of this thing?

Mr. ACHESON. As far as concerns any information I have, Senator Taft, that is not correct.

Senator TOBEY. Where did you get that information?

The CHAIRMAN. I never heard that either.

Senator TAFT. It has been commonly stated, because the Russian situation is peculiar. They have no necessarily—they don't have money in Russia as most other nations do. The whole thing is run by the Government. They can create through Government control any situation they want to.

Senator MILLIKIN. Mr. Chairman, I should like to ask a question or two.

The CHAIRMAN. Yes.

Senator MILLIKIN. Is Mr. Taft's question true or not correct as to any amount? He mentioned the specific amount. Is it——

Mr. ACHESON. The same answer would go for all.

Senator MILLIKIN. The same answer would go for anyone?

Mr. ACHESON. Yes. There is no trick in my answer.

Senator MILLIKIN. Are there any special arrangements of any kind with Russia regarding what it may do with this fund?

Mr. ACHESON. Not as far as I know.

Senator MILLIKIN. Not as far as you know. What are the currencies at the present time that have reasonably stable international value?

Mr. ACHESON. That is, I think, too difficult for me. I think I had better leave that for the Treasury.

Senator MILLIKIN. Well, you would say our own money; would you not?

Mr. ACHESON. I suppose that most currencies now have or have not a reasonably stable value depending on whether or not they now have an excess or a favorable balance such as the Brazilians and others, or have a stabilization agreement with us. But what they would be I don't know.

Senator MILLIKIN. Would we not say that our currency has a reasonably stable international value in relation, we will say, to the pound?

Mr. ACHESON. That is right, Senator Millikin.

Senator MILLIKIN. The pound has a reasonably stable international value, does it not?

Mr. ACHESON. Well, it is held there now by reason of the restrictions which have been put on it during the war——

Senator MILLIKIN. Yes.

Mr. ACHESON. In dealings between the two Governments. Whether it would have a stable value if you took all of those off is another matter. It probably wouldn't.

Senator MILLIKIN. When we get outside of those two countries, what other countries have it? Would Swiss currency?

Mr. ACHESON. Yes.

Senator MILLIKIN. Would Swedish currency?

Mr. ACHESON. Swedish, yes; I should think so. You could have a reasonably stable value with the franc, but this present one isn't reasonably stable; no.

Senator MILLIKIN. Would you say that the conditions are now clear enough in France to give the franc a reasonably stable value?

Mr. ACHESON. Well, I just don't know enough about it. I couldn't answer that.

Senator MILLIKIN. Have we omitted any country which, roughly speaking, has a currency that carries reasonably stable international value?

Senator TOBEY. Canadian dollar.

Senator MILLIKIN. Canadian dollar?

Mr. ACHESON. Yes, the Canadian dollar. There may be some others. I think you have included some that probably haven't got it.

Senator TAFT. Most of the South American currencies are stable today. They might not be tomorrow.

Mr. ACHESON. With most of those or many of those, we have had stabilization arrangements, so that we have made them stable in some respects.

Senator TAFT. Well, no. Isn't it true, though, that they are dollars?

Mr. ACHESON. That is so, yes.

Senator TAFT. So that they are actually able to do it themselves.

Senator MILLIKIN. Let me pursue my question a little further now.

Senator TOBEY. He has got a point.

Senator MILLIKIN. I think you will agree, Mr. Secretary, that there is a definite relationship between a stable government and a stable currency.

Mr. ACHESON. There is—there must be—some explanation for it.

Senator MILLIKIN. Is it possible to conceive of a stable currency in a country with an unstable government?

Mr. ACHESON. I don't know. I don't know what significance that has. If you—

Senator MILLIKIN. Well, I will develop that.

Mr. ACHESON. For instance, before the war I suppose that the French franc was stable at the rate at which it was kept by the tripartite agreement. Nothing was more unstable than the French Government. It changed sometimes twice a year.

Senator MILLIKIN. Yes; but it changed within a stable system up to that time.

Mr. ACHESON. Oh, you mean that if you have complete revolution and throw everything out and change the system?

Senator MILLIKIN. I mean this: That a change in the Government of the United States or a change in the Government of Britain or a change in the Government of France, operating within a stable overall system, is not necessarily an element of instability; is that not correct?

Mr. ACHESON. Yes; if you were going to have revolution and repudiation of debt and everything, of course, you couldn't have a stable currency.

Senator MILLIKIN. So that will you agree with me that as to all of these other countries in continental Europe, for example, other than those that we have mentioned—and I think the only country that we have mentioned in continental Europe that might have a semblance of a stable currency from an international standpoint is France—are not all of those countries, in your judgment, confronted with more than a possibility, with a rather strong possibility, of one or two or more revolutions and counterrevolutions before they will achieve what might be called a stable system of government?

Mr. ACHESON. Well, I wouldn't want to limit that danger to those particular countries. I should think that we might look with some apprehension upon the whole state of the world.

Senator MILLIKIN. Yes.

Mr. ACHESON. Certainly that is a danger if we are not able to work out some sensible international economic arrangements.

Senator MILLIKIN. I wouldn't take in too much territory. I am just thinking now of continental Europe. With the possible exception of what it may be possible to evaluate as a stable currency of France, is there a country in continental Europe, with the possible exception, let us say, of Denmark and Sweden—I mean, and Switzerland—is there a single country in continental Europe that isn't faced with a probability of one or more revolutions and counterrevolutions within the next few years?

Mr. ACHESON. I suppose that there is hardly a country in the world that isn't faced with that, if we do not work out some intelligent, sensible arrangements.

Senator MILLIKIN. Now, then, confronted with that, how can you possibly set up anything resembling a stable currency for those countries that are confronted with all of those instable elements which are bound to reflect on the stability of the thing we are trying to do?

Mr. ACHESON. Well, I think I see what you have in mind. This is the cart-before-the-horse argument, or the chicken-and-the-egg one. Do you set up stable governments first and then work out economic arrangements, or do you with economic arrangements assist in creating stable governments? I should think that the way to begin is to begin, and I do not conceive it possible to have stable governments anywhere with the whole economic arrangements of the world in a state of chaos.

Senator MILLIKIN. Well, do the proponents of this fund go so far as to believe that this little blood injection that we are giving to these countries in continental Europe will stay this process of revolution and counterrevolution?

Mr. ACHESON. No. I think—I am not sure that you were here a moment ago when I earnestly disclaimed any argument that this was a panacea.

Senator MILLIKIN. No; I was not.

Mr. ACHESON. This is not going to do that at all.

Senator MILLIKIN. You would not make an argument of that kind.

Mr. ACHESON. But there must be a great many things done.

Senator MILLIKIN. Yes.

Mr. ACHESON. And if as to each one we say, "No, this isn't the time to do that; we must do something else," then it is like shooting at quail. When a covey goes up, if you say, "No; I won't take that one. I will take this one," and then your gun waves around in the air, you don't shoot any quail at all. You have to get your eye on the bird and go through with the situation first.

Senator MILLIKIN. Do you get any quail when you are confronted with the fact that you can't possibly raise a covey because of the very nature of the place where you are hunting?

Mr. ACHESON. Well, of course that's true.

Senator MILLIKIN. And is that not the situation in the greater part of continental Europe, so far as reaching any stability in currencies is concerned for the next few years? And if you will go along with me on that—or if you won't, let it be my thesis: If that be true, then you are just attempting futilities, because what is done will be repudiated and wiped out by the successor revolutions that are bound to come.

Mr. ACHESON. Well, I think that you were not here yesterday when I was talking about what seemed to me to be the situation in Europe and in the Far East, which is one of unparalleled seriousness, in which the whole fabric of social life might go to pieces unless the most energetic steps are taken on all fronts, and on all fronts at the same time. That is why you have to do all of these things at once. You have to take the steps they are taking in San Francisco to try and give some order so far as aggression is concerned in the world. You have to take these monetary steps. You have to take the steps we are taking in the trade-agreement field. We ought to have and will have other meetings in the field of trade and commercial policy. A whole gamut of things must be done and must be done very quickly, because there isn't much time, and this thing will go to pieces.

You are quite right that this is a very serious situation. Yesterday I was bold enough to say that there has been no such serious situation for over a thousand years, and it seemed to me not unlike the troubles that Europe was in after the Mohammedan invasions. It is very serious indeed.

Senator MILLIKIN. Let me ask you this question: Under the long view the drafts that are made on the fund for dollars, and as far as the bank is concerned the loan of dollars, again will have to be made good by imports into this country, will they not?

Mr. ACHESON. Yes, I think so.

Senator TAFT. Mr. Acheson, May I, just to get back to this one thing we didn't finish? This basic question was whether this provision of section 3 (a) (i), saying that—

The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this agreement—

is a safeguard or isn't a safeguard. I suggest that the words are so broad, "consistent with the provisions of this agreement"—look at the purposes of the agreement on page 1. I suppose that is the thing to look at first. Is there any nation that couldn't make the showing, even if the Board has the discretion, which I don't think they have, to question their representation, that they need money in that currency

to buy things in that country? Isn't that so broad that it is really no safeguard at all?

Mr. ACHESON. Well, I think the very breadth of it makes it the safeguard. That is what I was going to argue, and I was drawing your attention to that.

Senator TAFT. I don't understand what you mean. That is nonsense.

Mr. ACHESON. Because I was pointing out in section 5 here that it is very clearly stated, in my opinion, that whenever the fund is of opinion that any member is using the resources of the fund in a manner contrary to the purposes—

Senator TAFT. Well, look at the purposes on page 1. Why, they are so broad that you couldn't use anything contrary to the purposes of the fund, practically, unless you—except for capital purposes, things that are expressly stated as exceptions.

Mr. ACHESON. Well, let's look at them.

Senator TAFT. To promote international monetary cooperation; to facilitate the expansion and balanced growth of international trade, and to contribute to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members; to promote exchange stability; to assist—

Mr. ACHESON. That is an interesting one. Don't let us go over that too fast.

Senator TAFT. I am suggesting that there are so many of them, you don't have to conform to them; you can conform to any of the others and meet your requirements under article V.

Mr. ACHESON. Well, that wouldn't be my view, that somebody could say, "Well, it's all right. I am promoting cooperation." The answer is: Are you promoting exchange stability? Now, if you are not, then you will have your drawings on the fund restricted.

Senator TAFT. Oh, no; because if—

Mr. ACHESON. That is why I say the breadth of this thing is the protection.

Senator TAFT. If you do any of these other things, you can get your money. So, of course, you are always doing those. Any government is always doing them.

Mr. ACHESON. You cannot have mechanical restrictions, Senator Taft, which will make the thing work.

Senator TAFT. I quite agree. But I am just suggesting that this was not a safeguard and that as a practical matter, under the terms of the fund, every nation in the world would be able to come in and get 25 percent of their quota and draw it down without any restrictions, and the Board has no discretion to refuse them. That is my contention and I think substantially true, and I do not think anything you have said answers it.

Mr. ACHESON. Well, I would bet my money that if you were the American director on this fund you would find that this was a safeguard; and, as you would argue as strongly on my side as you are arguing on the other side, you would prevail in securing a decision.

Senator TAFT. One other thing, just one question before we go on the floor. We are debating the reciprocal trade treaties. The principal argument for the reciprocal trade treaties is that the State Department must have bargaining power. Now, I suggest that if you

hold this Bretton Woods thing at all, it will give you a great deal more bargaining power than anything you can do with a 50-percent rate. I suggest that you are giving away \$6,000,000,000 here for nothing, at the same time that you are demanding bargaining power by a reduction of the tariff under the reciprocal trade treaty. What do you think about that argument? Is it a fair argument?

Mr. ACHESON. Well, I think what you are doing if you hold up these things is getting into the very situation that Senator Millikin is talking about, where you produce such utter chaos in the world that nobody can determine anything; it will all go to pieces.

Senator TAFT. I still think that we have the bargaining power. If we ever had the bargaining power, we have it, but right here we are giving away a large section of it in presenting them with this \$6,000,000,000 in this fund from which they can all draw.

Senator MILLIKIN. Mr. Chairman, it seems a perfect observation to me that if this additional request for 25 percent of bargaining power is a crucial, vital thing, we would be in a much better position if we had a 100 percent bargaining power.

Senator FULBRIGHT. You mean in the reciprocal trade?

Senator MILLIKIN. Yes, exactly.

Senator FULBRIGHT. Perhaps we would be better, but I am afraid they wouldn't get it.

Senator MILLIKIN. That is unfortunate. That is the fault of the system.

Senator TAFT. Mr. Chairman, there are a great many questions I would like to ask, but I do not insist on asking them of Mr. Acheson. I mean the question particularly of the scarce currencies, and a number of other things in the act, but I suppose I could ask Mr. White, perhaps. Is he going to testify?

The CHAIRMAN. Yes.

Mr. ACHESON. Dr. White will testify. I will be glad to—

Senator TAFT. Have you conferred? Is he going to testify?

The CHAIRMAN. I conferred with some members here. I haven't had a chance—I thought we would go on this afternoon at 2:30 over at the District of Columbia Committee room, right opposite the floor there.

Senator TAFT. I am afraid I won't be able to be there. I am afraid I will have to be on the floor with the reciprocal trade agreement.

The CHAIRMAN. All day?

Senator TAFT. I would guess so.

Senator BUCK. What safeguard is there, Mr. Acheson, to prevent the fund being depleted of dollars? Suppose they all came in.

Mr. ACHESON. You mean what will happen under the scarce currency provision?

Senator BUCK. Yes. I mean could they drain it of dollars?

Mr. ACHESON. Nobody can ever drain it of dollars.

Senator BUCK. Not any individual. A combination. Suppose they all came in for dollars and all asked at the same time for 25 percent.

Mr. ACHESON. Well, you have two questions, Senator Buck. One is what is the factual situation.

Senator BUCK. Yes.

Mr. ACHESON. Another is how it will work. Now, with respect to whether there is a real danger that currencies will become scarce and then the scarce currency provisions go into effect, there is, on the basis

of the figures, very little likelihood that the dollar is going to become scarce. We have, for instance, a record of the only time at which the dollar was a scarce currency. That was between 1934 and 1938. That came about through a great flight of capital from Europe, withdrawal of America capital, flight of other capital to the United States, but during that 5-year period on current account there was a favorable balance so far as the United States was concerned of \$1,000,000,000, a little less than \$1,000,000,000.

Now, the fund is dealing only with current account. The money in the fund is not to be used to check flights of capital; and therefore we look at the favorable balance of the United States on current account and find that in those 5 years it was \$1,000,000,000, which is the only time the dollar has become scarce.

It is true that during those 5 years there were all sorts of restrictions which if they had not existed would probably have increased this in the neighborhood of two billion or three billion or four billion, a much larger sum. Now, how much, how many dollars are there to cover a favorable balance of the United States on current account? Well, you have in the fund itself about \$4,000,000,000 in gold. You have that. Under the repurchase provisions the other countries have to put up an equal amount of their own currencies, their own reserves, so that would be another four billion, or eight. Then you have a requirement that newly mined gold outside of the United States should be used; and in a 5-year period or a 3-year period, say, that might be another \$4,000,000,000. So you would have 12. Now, if you take from that amount two for errors in calculating for other countries, you would have over a 3-year period at least \$10,000,000,000 without considering any capital investment from the United States.

If the Colmer committee's judgment is right and these Bretton Woods institutions lend enough stability to the world so that we would lend, they say, between 2 billion and 3 billion dollars a year in the first decade, you get up in the neighborhood of 16 or 18 billion dollars. On current account we cannot possibly foresee a deficit of more than one, two, three, four, or five billion, however much you want to multiply the one. So I think there would not be any real danger of the dollar becoming scarce. But if dollars did become scarce, then the fund puts into effect a rationing system of dollars so as to provide for fairness and not discrimination against the United States. That is the way it works.

Senator TAFT. Mr. Acheson, following that question up—you have opened the subject: In the first place, theoretically, purely in theory, dollars could be exhausted in 2 years. Isn't that correct?

Mr. ACHESON. No; I don't see any possible way in which they could be exhausted in 2 years.

Senator TAFT. Theoretically. I am not talking about actuality. I am not saying it would happen. Why not?

Mr. ACHESON. Well, why could they, theoretically?

Senator TAFT. Well, if nations having quotas of \$5,500,000,000—and they have some six billion outside the United States—all drew down their dollars, they could draw twenty-seven fifty; they could draw the first year 25 percent, thirteen seventy-five, and the second year, thirteen seventy-five.

Mr. ACHESON. Senator Taft, nobody—

Senator TAFT. Which would be all of the dollars in the fund; isn't that correct?

Mr. ACHESON. Nobody can possibly draw dollars just for the fun of drawing them. You only draw them to meet some adverse factor in your balance of dollars.

Senator TAFT. But don't overlook this fact, that in the next 2 years, if you set this thing up today, the next 2 years is going to be an era when everybody will want to buy goods in the United States and won't be making the stuff to send back. So that you cannot go back to any normal period. You have an exceptional, extraordinary period. We have been lend-leasing. We have been exporting 12 billions of goods every year under lend-lease.

Mr. ACHESON. Very largely military.

Senator TAFT. And importing 3 billion, so we have had an adverse balance of \$9,000,000,000.

Mr. ACHESON. Mostly for military equipment.

Senator TAFT. Not an adverse; a favorable balance for us. Surely. And it won't be that much, but it doesn't seem to me that a billion three seventy-five for each of the next 2 years is an unreasonable expectation of surplus exports over imports.

Mr. ACHESON. Then you think that we would have a favorable balance of, say, 4 billion in the next 3 or 4 years?

Senator TAFT. Well, I think it is very easily possible.

Mr. ACHESON. All right. Let us agree to it. Then why does that make the dollars scarce?

Senator TAFT. Well, I am only saying that theoretically on the basis of the thing, if countries with quotas of fifty-five hundred used 25 percent of their quota the first year and 25 percent the second, all to buy dollars, why, the dollars would be gone. That is all I am suggesting.

Mr. ACHESON. No; because they have to put up an equal amount of their own currencies, so you double that right away, and you would then have twice as much as you think the deficit is going to be.

Senator TAFT. Surely enough, they have to put up, but they take the dollars out and pay in their own currency, but the dollars are their own.

Mr. ACHESON. No. Under the repurchase provision they have to use their own gold or foreign-exchange resources to purchase.

Senator TAFT. I suggest the repurchase provision will not be applicable for the next 2 or 3 years, that these nations will all be saying—

Mr. ACHESON. Well, they can't—

Senator TAFT. That they can't repay it.

Mr. ACHESON. You can't have it both ways, Senator Taft. Sometimes when you argue you say there is more gold outside the United States, more gold in dollars than there ever was before. States, more gold and dollars than there ever was before.

Mr. ACHESON. Well, you haven't said it today, but you said it on other occasions when you debated with me.

Senator TAFT. Oh, no, no; not than there were before. Oh, no. I say there is a large amount of foreign gold abroad ready to buy, and so some of these people will be ruled out. I assume it is very badly distributed, and I assume repurchase of the gold that Russia has, that

they will get their billion two hundred million. I assume the repurchase of the gold in South Africa, that the British are going to take all the dollars they can get. And then there may be some other countries that won't. It probably won't be gone. I agree it probably won't be gone in 2 years.

Mr. ACHESON. Well, let us take your assumption about Russia as a test of the validity of your facts. You assume that Russia will draw all of its quota but that the repurchase provisions will not be applicable to Russia.

Senator TAFT. Will not operate.

Mr. ACHESON. Now, you can't assume that.

Senator TAFT. That is right; will not operate by 3, 4, 5 years. Incidentally, if a nation won't pay—

Mr. ACHESON. You can't—

Senator TAFT. If a nation won't pay something back, they won't pay it. How are you going to make them pay it?

Mr. ACHESON. Oh, now you are just saying that the fund is not going to operate according to its own principles.

Senator TAFT. I am saying a nation's obligation to pay money is something that cannot be enforced by individuals.

Mr. ACHESON. Obviously I cannot argue with you if you say that every provision in the fund to which I refer will be inoperative and every one to which you refer will be operative, because that loads the dice in your favor, naturally.

Senator TAFT. I suggest you are asking us to authorize an international body to use \$6,000,000,000 of our money, and I think I have a perfect right to assume that they will use it in the way that they possibly can use it. I don't think we can have any safeguard whatever that they won't use it the way that the fund permits them to use it, in the most extreme form. I think we have the right to assume that before we go ahead with an act.

Mr. ACHESON. All right. Now you have thrown the bank into this to get the \$6,000,000,000.

Senator TAFT. That accounts both.

Mr. ACHESON. That is right.

Senator TAFT. I should perhaps have said two billion seventy-eight. I didn't mean—I am talking about the fund for the present.

Mr. ACHESON. Yes.

Senator TAFT. The bank is better safeguarded. The bank, we have a veto on the loans and dollars. If you had anything like that in this fund, I think I would withdraw my whole opposition to it. I mean that is essentially the thing. But in this case we hand over \$2,750,000,000 without a string of any kind.

Mr. ACHESON. I think we can shorten the argument by my complete admission that if the question that you are asking me is that, assuming that none of the provisions in the fund to which I have referred will operate, that all the other countries will operate with bad faith and will not carry out their obligations, then all the disasters that you can think of are likely to happen, except that, under those circumstances, the fund will blow up so badly that nobody will use any of it.

Senator TAFT. I am suggesting that the fund might work in normal times, but any condition like that of today, in which the normal desires of these nations would be to buy billions of dollars of goods in

the United States, is an abnormal condition under which the fund will not operate and under which all of these things you speak about, the repayment of money, just won't happen. Just as you are putting off the removal of these exchange restrictions for 5 years, you are going to have to put off the repayment of the money for 5 years. As a practical matter you are trying to impose the fund on a world situation which is completely abnormal, before you have made the essential basic loans or whatever may be necessary to restore it to some normality. That is the reason that I think I have a right to say that the provisions that you pointed to in the fund are not like they are under present conditions. If you can once get the thing going, 10 years from now I would say many of the objections that I am making would be more or less out.

Mr. ACHESON. You understand, of course, that you do not undertake any foreign exchange transaction with any member of the fund until the fund believes that the member is in a sufficiently stable condition so that it can, without injury to the fund, conduct those transactions. You don't begin—if you ratified this thing tomorrow, you don't begin operating with every member of the fund. You understand that clearly? There has to be an agreement with the fund.

Senator TAFT. There has to be an agreement as to the stabilization formula, which, incidentally, seems to me to be something that cannot be made today, because it depends on the balance of trade in these different countries in a postwar period which is purely imaginary. I don't see how you can sit down today and fix the particular thing that you are speaking about. The fund won't operate as to those countries then, I suppose.

The CHAIRMAN. Well, gentlemen, the word has come over that we are needed on the floor to make a quorum.

Mr. ACHESON. Do you wish me to come back this afternoon, sir?

The CHAIRMAN. Well, we are not meeting this afternoon. The Senators all want to stay on the floor. So we are meeting tomorrow again at 10:30, and Dr. White will start in the morning unless there are some other questions that are to be asked of Mr. Acheson.

Senator TAFT. Well, the scarce currency I want to follow up, but I can follow it up with Dr. White; I have no choice.

Senator TOBEY. Couldn't we meet at 10:15, and gain 15 minutes?

The CHAIRMAN. What?

Senator TOBEY. Could we not meet at 10:15, and gain 15 minutes?

The CHAIRMAN. I am afraid not.

Well, thank you very much for your assistance, Mr. Secretary.

Mr. ACHESON. Yes, sir. I am glad to be here. I get promoted. [Laughter.]

(Whereupon, at 12:20 p. m., an adjournment was taken until tomorrow, Thursday, June 14, 1945, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

THURSDAY, JUNE 14, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Wednesday, June 13, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner, chairman, presiding.

Present: Senators Wagner (chairman), Barkley, Murdock, Fulbright, Tobey, Taft, Butler, Buck, and Millikin.

The CHAIRMAN. The committee will come to order. We have a very distinguished witness, Assistant Secretary White of the Treasury Department.

Mr. White, we will be glad to hear from you on what we are concerned with, something you know all about, as I know and others know.

Mr. WHITE. Thank you, Mr. Chairman.

STATEMENT OF HARRY D. WHITE, ASSISTANT SECRETARY OF THE TREASURY, WASHINGTON, D. C.

Mr. WHITE. I have a prepared statement, Mr. Chairman, which is as follows:

To establish a sound monetary and financial basis for international economic relations after the war the United Nations must deal with two distinct problems in the monetary and credit field. The first is to promote stable and orderly exchange arrangements under which international trade and investment can safely and profitably be carried on. The second is to encourage international investment for productive purposes so that countries can again produce, trade, and prosper. The Bretton Woods proposals deal with these two distinct problems through the International Monetary Fund and the International Bank for Reconstruction and Development.

The fund secures the cooperation of all countries in a program for maintaining fair exchange practices. All members of the fund are required to define their currencies in terms of gold or the United States dollar. Changes in the established parities can be made only after consultation with the fund and only to correct a continuing disequilibrium in a country's international economic position. In this way the fund places the sanction of international agreement on orderly exchange adjustments and outlaws competitive exchange depreciation.

Obviously, it will not be possible, after 6 years of complete disruption in world trade, to determine with certainty the rate in terms of gold that will be appropriate for each country. To permit prompt correction of an error in the initially accepted parities, changes aggregating

gating not more than 10 percent may be made by a country after consulting the fund but without the concurrence of the fund. On all other changes in parity a member must request the concurrence of the fund. If a country changes the parity of its currency after the fund has expressed its objection, the country becomes ineligible to use the resources of the fund and it may be compelled to withdraw from membership.

The establishment of a structure of reasonable exchange rates can thus be realized, and the maintenance of stability of those rates facilitated. But more is needed. Under the fund, countries agree to eliminate as soon as possible the restrictive and discriminatory currency practices that stifle world trade. It will not be possible for many countries to remove immediately all of the restrictions that they have continued during the war. They will need time, until they are again producing and trading at something like prewar levels. Therefore, during the postwar transition the fund permits countries to retain controls which are still necessary; but they undertake to remove such controls as soon as this becomes possible without excessive use of the fund. Without the fund, countries could at any time place whatever restrictions they wish on exchange transactions, or engage in any kind of currency cutthroat practices. That is precisely what some of them did in the 1930's, with such disastrous consequences to world trade.

To maintain stable and orderly exchange arrangements, and check easy resort to harmful restrictive or unfair competitive devices, countries must be able to have help at a time when there is pressure on the exchanges. The fund will have resources of 8.8 billion dollars in gold and currencies to be used specifically for this purpose. With the assistance that the fund can and will provide, countries get time to take the measures necessary to restore their international economic position without the necessity of resorting to drastic measures of contraction and restriction which so frequently help spread depression. The aid given by the fund will be in limited amounts and under adequate safeguards.

It has been said by some critics that the fund will offer credit in a novel way contrary to accepted credit principles. There is, however, nothing novel about the method under which the fund operates. We have used much the same method in our bilateral stabilization agreements, involving commitments of several hundred million dollars, without any loss. Indeed, the fund has even more safeguards than we were able to employ in our bilateral arrangements. The comprehensive character of the provisions that safeguard the use of the fund and protect the value of its resources is too often overlooked. They are an important element in the fund's constitution and should be known to those wishing to understand the fund. An outline of the more important of the safeguarding provisions follows:

1. Each member must subscribe gold and its own currency in an amount equal to its quota. This subscription is returned to the member when it leaves the fund after meeting all its obligations. When a country buys foreign exchange from the fund it must put up additional amounts of its own currency equal to the value of the foreign exchange which it buys from the fund. Thus, the fund always holds currency equal to at least twice the gold value of the foreign exchange which it has sold to a member.

2. The fund cannot lose from the depreciation of any currency. All of the currencies held by the fund bear a gold value guaranty. In the event of depreciation of a currency, that country must supply an additional amount of currency to maintain intact the original gold value of the fund's holdings.

3. The fund can always sell the currencies it holds to members who have to pay for imports from these countries. The currencies held by the fund cannot be blocked and their use for the purposes of the fund cannot be restricted in any way. If a country withdraws from the fund, it must buy back any currency the fund holds in excess of its subscription and it must pay with gold or convertible exchange. Otherwise, the fund can liquidate its holdings of the currency to reimburse itself. Except in case of repudiation, the fund takes no real risk of loss. A country that repudiates its obligations to the fund would become a financial and economic outcast.

4. There are quantitative limits on the purchase of foreign exchange from the fund. The net amount of foreign exchange purchased by a member from the fund in a 1-year period may not exceed 25 percent of its quota, and in the aggregate may not exceed its quota plus its gold subscription. Further purchases can be made only if the fund specifically waives these limitations and then only under conditions prescribed by the fund, which may include the deposit of appropriate collateral in addition to the member's currency.

5. A country purchasing foreign exchange from the fund must use its gold and monetary reserves in equal amount if these reserves exceed its quota. There are also provisions requiring a member to repurchase its own currency from the fund as its gold and foreign exchange reserves increase and exceed its quota. Thus, while the currencies held by the fund are constantly changing, the fund's resources tend to return to their original composition.

6. The fund will not permit its resources to be used to support a currency if it believes that the exchange rate is untenable. Article XX, section 4 (b), states that the fund will not agree to a rate if "in its opinion the par value cannot be maintained without causing recourse to the fund on the part of that member or others on a scale prejudicial to the fund and to members."

7. The fund will not begin operations with a country that is not prepared to maintain stable and orderly exchange arrangements. Article XX, section 4 (i), states:

The fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the fund, they would lead to use of the resources of the fund in a manner contrary to the purposes of this agreement or prejudicial to the fund or the members.

8. The fund's resources cannot be dissipated in a capital flight. Article VI, section 1 (a), states:

A member may not make net use of the fund's resources to meet a large or sustained outflow of capital, and the fund may request a member to exercise controls to prevent such use of the resources of the fund.

9. The fund can limit or stop a member at any time from using its resources contrary to the purposes of the fund. Article V, section 5, states:

Whenever the fund is of the opinion that any member is using the resources of the fund in a manner contrary to the purposes of the fund, it shall present to

the member a report setting forth the views of the fund and prescribing a suitable time for reply. After presenting such a report to a member, the fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the fund may continue to limit the member's use of the fund's resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the fund.

10. If a member acts contrary to the provisions of the fund on maintenance of the parity of its currency, on the termination of discriminatory currency practices, or on any other provision, the fund may declare the member ineligible to use the resources of the fund.

The above-listed safeguards make our participation in the fund one of the safest investments. No participation involving international transfer of funds can be wholly without risk, but the protective features safeguarding the assets of the International Monetary Fund are so complete as to reduce the risk of loss to a minimum.

One other and a very important provision should perhaps be emphasized. The fund will levy charges on the currency it holds in excess of the quota of a country. These charges increase progressively with the net amounts of foreign exchange purchased by a member and with the length of time during which the funds are employed. All charges are payable in gold, with minor exceptions. Thus, there is always strong pressure being exercised to restore the make-up of the fund to its original pattern.

Powers and safeguards have been given to the management of the fund which will enable it to apply proper standards of credit worthiness. If a country in good faith abides by the principles of the fund and if it meets the tests specified in the agreement, then the aid given to that country is quite in accord with the credit principles that should govern stabilization operations.

So much for the fund. Turning now briefly to the bank.

The countries that have been devastated by war and the countries that lack the modern means of production will need some foreign capital for reconstruction and development. The Bretton Woods Conference proposed the establishment of the International Bank for this purpose. The bank will have capital of \$9.1 billion to encourage private international investment for sound and productive purposes.

The principal business of the bank will be to guarantee securities of foreign governments and corporations sold to private investors. In cases where a loan cannot be made on reasonable terms, even with the bank's guarantee, the bank would be permitted to make the loan directly. For such loans, it would have 20 percent of its own capital, and it could raise additional sums by issuing its own securities.

The bank will be concerned with long-period loans for specific projects of reconstruction and development. A loan will be made or guaranteed by the bank only after a committee investigates the project and reports that the loan will contribute to the productivity of the borrowing country and that it will be in a position to service the loan. Loans made or guaranteed by the bank must first be guaranteed by the government of the country in which the project is located or by its central bank.

Obviously, there are risks in the bank. Obviously, some loans will not be repaid in full. That's why a bank of the character recommended is needed. The risks of loss will be shared by all countries

that subscribe to the bank. Even so, the loss will not fall wholly on the member governments. The bank will collect commissions of 1 to 1½ percent annually on the outstanding principal of the loans it guarantees to make. These commissions will be held as a special reserve to meet the obligations of the bank if the loan should be defaulted. It is estimated that these reserves will be adequate to meet all defaults if four out of five loans made or guaranteed by the bank are met in full. Even with the experience of the 1920's, this would appear to be a conservative reserve for losses.

If defaults cannot be met from accumulated reserves the bank will call upon its capital. Eighty percent of the capital of the bank is set aside as a surety fund for this purpose. It should be noted that the aggregate of outstanding loans made or guaranteed by the bank may not exceed the unimpaired capital and reserves of the bank. In this way holders of securities, guaranteed or issued by the bank, are given the greatest possible protection.

We have said, and it will bear reiteration, that the fund and bank by themselves cannot assure either sustained prosperity or enduring peace. They are nevertheless an important part of the structure essential to those goals. Other measures are obviously necessary, both in the domestic and international field. The bank and the fund not only make a very important contribution to those goals directly but also provide a favorable environment in which these other measures can be more effectively carried out.

And now I should prefer to spend a little time on some points that I think would be of special interest, and then if you like I would be glad to answer any questions.

Senator TOBEY. And, Mr. White, having heard you were here when most of the other witnesses testified, I take it you have heard the colloquies that have taken place around this table, and you in turn could go ahead as you like in answer to those things as questions have been asked in which they were involved.

Mr. WHITE. All right, Senator Tobey. Some of those points I will refer to, and others may develop if there are further questions, if that is agreeable, Mr. Chairman.

The CHAIRMAN. Yes.

Senator MURDOCK. I would like for you to discuss somewhere in your statement, Mr. White, this question; I don't care to have you do it now: Whether or not a reduction in gold reserves such as the Senate passed recently would be considered as equivalent to depreciation or devaluation of our currency?

Mr. WHITE. I can answer that briefly now, but I would prefer, if there is any expansion of that discussion, if you could hold your thought and I could take it up later.

Senator MURDOCK. Very well.

Mr. WHITE. Because it may take me afield.

Senator MURDOCK. That is entirely satisfactory.

Mr. WHITE. I could say that I do not think so, and then I will leave the reasons and further replies to any comments that you may have to make on the subject for later discussion. Is that satisfactory?

Senator MURDOCK. That is fine.

Mr. WHITE. One of the aspects of the fund that is frequently overlooked and is very important to a proper understanding of the risks

that we are undertaking in participating in the fund relates to a number of provisions safeguarding the resources of the fund, and I would like to spend a few minutes indicating definitely what are the safeguards and how effective they are to our own investment and to the resources of the fund.

I think it might be helpful if I could refer you to specific provisions, and I should like to do that. There are two general types of safeguard in the fund. One relates to safeguard of the assets of our own investment and of the resources of the fund, safeguards against possible monetary loss. That is one type of safeguards. There is a second type of safeguard, and there is a certain amount of overlapping obviously, but not enough so that they are not better treated separately. The second type of safeguard relates to the protection of the powers of the fund against abuse. I am going to talk about the first type of safeguard, and then I will go to the second.

Quite obviously there are risks inherent in any participation in international financial transactions. One cannot think of any type of safeguard which would eliminate all risk of monetary loss. There is some risk. But what we have attempted to do was to include provisions in the fund which would reduce those risks to a minimum. We were aware, in our very early discussions, of the various opportunities of loss, of the various loopholes that had to be plugged. We think that we have effectively plugged those loopholes and protected the assets of the fund against all sources of loss except one, which I will indicate.

Now, the first provision that I want to call your attention to is on page 7 of the articles of agreement, article IV, section 8.

Senator MURDOCK. What page is that?

Senator FULBRIGHT. 7.

Mr. WHITE. That is on page 7.

Senator MURDOCK. In this [indicating]?

Mr. WHITE. In this book, in the articles of agreement. That is correct, sir. Page 7, halfway down on the page, section 8. This provision is designed to keep the assets of the fund, which are made up of various currencies, at their same gold value. In other words, any depreciation of any currency does not affect the gold value of the aggregate currencies in the fund, because the country whose currency may have depreciated has to put more of its currency in. It has to put enough more of its currency in to maintain the original aggregate gold value. The provision reads:

The gold value of the fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

And the next section describes that—

Whenever the par value of a member's currency is reduced, or the foreign exchange value of a member's currency has, in the opinion of the fund, depreciated to a significant extent within that member's territories, the member shall pay to the fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the fund.

Now, the effect of that provision is that the fund's total assets of gold and various currencies—of pesos and dollars and sterling and milreis and francs—are always worth the same amount of gold. It starts with \$8,800,000,000; it still has that aggregate value as long as

it continues to function. It may have made, doubtless will have made, some earnings that would be added on, but the original assets continue to have the same gold value.

That is the first provision.

Senator BARKLEY. In other words, the lower the gold basis becomes the more they must put in to keep it at par, to keep the basis the same?

Mr. WHITE. That is right. You might state it that way, Senator Barkley, or we might prefer to say that any reduction in the value of currency in terms of gold, any unit of currency, has to be compensated for by requiring more of that currency to be put in.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Yes.

Senator MILLIKIN. It is equally true, is it not, Mr. White, that the value of (a) and (b) of section 8 depends entirely on the value of the currency in relation to gold?

Mr. WHITE. Yes. Well, that is fixed at the start, Senator.

Senator MILLIKIN. Yes; it is fixed, but it may be fixed incorrectly. You may be dealing with a currency that is so instable that you cannot give it a proper reference to gold; is that not possible?

Mr. WHITE. There are two parts to your question, Senator. You are partly correct in this sense—that when the currency of any country is put in the fund it has a stable value at that time.

Senator MILLIKIN. Yes?

Mr. WHITE. Otherwise they cannot enter the fund fully.

Senator MILLIKIN. Yes?

Mr. WHITE. Now, subsequent to that, Senator, as you say, the currency may depreciate.

Senator MILLIKIN. Yes.

Mr. WHITE. If it does, the member country whose currency it is, has to put in more of that currency, so that the gold value of the aggregate which they put in is always the same.

Senator MILLIKIN. And in establishing the original gold value of the currency, there also you have a question of appraisal?

Mr. WHITE. That is right. And we will come to that a little later.

Senator MILLIKIN. And you have to make a correct appraisal?

Mr. WHITE. You are quite correct. And that is one of the provisions that we will be concerned with later. Do you mind holding your further questions, Senator, until we come to that point?

Senator MILLIKIN. All right.

Mr. WHITE. So much for that first provision.

Senator MURDOCK. Suppose they would increase?

Mr. WHITE. Then the reverse is true, Senator Murdock. They get—

Senator TOBEY. Paragraph (c).

Senator BARKLEY. (c).

Mr. WHITE. The only reason I am not stressing that is that doesn't happen so frequently, and it would not be a cause of loss.

Senator MURDOCK. It doesn't happen so frequently.

Mr. WHITE. The second provision that I want to call your attention to is on page 3. Page 3, article III, on the top of the page, section 3 (a), right on top of the page, "Time, place, and form of payment."

Now, this provision is designed to make certain that the collateral of the country which borrows from the fund, if you want to call it

borrowing—we prefer to call it purchasing of exchange—the collateral held by the fund is at least twice what it owes the fund. That is quite important. The collateral left with the fund by a country is at least twice in gold value what it owes the fund. And that is taken care of by two provisions. The first provision is (a). That is, the subscription of each member shall be equal to its quota and shall be paid in full to the fund at the appropriate depository on or before the date when the member becomes eligible—as sort of entrance fee, if you like—a country has to pay its quota partly in gold, partly in its local currency. Before it can do any business it has to put in that amount of money in toto.

Senator BUCK. Every country has to put in some gold?

Mr. WHITE. Every country, some gold, yes. The less gold a country has, the less it puts in. The actual provision states that a country has the choice of putting in either 25 percent of its quota in gold or 10 percent of its gold holdings. And, Senator Buck, the purpose of that is this: A country that has a lot of gold holdings, such as the United States, for example, or France, would elect the 25 percent of its quota. Our quota, for example, being $2\frac{3}{4}$ billion, a fourth of that would be somewhere in the neighborhood in \$675,000,000. A country, however, that has a small amount of gold, like Greece, for example—

Senator BUCK. Would take 10 percent.

Mr. WHITE. Would take 10 percent of its gold holdings; and one of the purposes of that provision is not to exclude any country from participation merely by the fact that it has lost most of its gold or never had much gold.

The second part of the provision that assures double collateral will be found on page 8, article V. Page 8, article V, sections 2 and 3.

A VOICE. Section 2 is all right.

Mr. WHITE. Two and three.

That section provides that when a member buys foreign exchange it has to pay in an equal amount of its own currency. If a country comes to the fund to buy foreign exchange—some people like to refer to it as borrowing from the fund—the country that does the borrowing or does the purchasing has to put in an additional amount equal to its purchases or borrowings so that the fund would have at least double the amount due it.

Now let me try to make that clear. Supposing country X has a quota of around a hundred million dollars, it starts by putting a hundred million dollars in the fund, some gold, some of its local currency, whatever the name of its currency might be. Now, that remains in the fund. Supposing country X during the first year comes to the fund to buy sterling, dollars, francs, various currencies, or any one of them, up to the maximum which it is permitted under usual circumstances, namely, 25 percent of its quota; in other words, during the course of the first year it buys \$25,000,000 worth of dollars, if you like. Country X would have put in \$25,000,000 of its local currency.

Now, then, what does the fund have? The fund has the original hundred million put in by country X, plus the \$25,000,000 which country X has to put in to buy 25,000,000 of some other currency. So the fund has \$125,000,000 worth of the currency of country X.

What does country X owe the fund? \$25,000,000 for whatever currency it bought. So at the end of the first year the fund would have collateral which is worth five times more than the borrowing. It has 500 percent collateral.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Yes.

Mr. WHITE. Senator?

Senator MILLIKIN. That, Mr. White, all depends upon the correctness of the valuation of the currency of the particular country in relation to gold, does it not?

Mr. WHITE. Quite, Senator. Your point would apply to many of these provisions, and we will come later to an examination of the merits of the particular provision we are now discussing.

Senator MILLIKIN. All right.

Mr. WHITE. But that qualification would apply right through here.

Senator MILLIKIN. Yes.

Senator BUCK. May I ask one question: Are they limited to 25 percent of the deposit?

Mr. WHITE. During the first year.

Senator BUCK. During the first year.

Mr. WHITE. Except under special conditions. That limit may be waived.

Senator BUCK. In subsequent years can they be increased to a hundred percent?

Mr. WHITE. The next year another 25 percent.

Senator BUCK. That is 50 percent.

Mr. WHITE. That would be 50 percent. And I want to show how the amount of collateral diminishes from five times to double. The second year the country X took their full quota the fund would have \$150,000,000 of currency unit X, while country X would owe the fund \$50,000,000.

Senator BUCK. Three times as much.

Mr. WHITE. It would be three times. The next year it would be 175,000,000, and they would owe 75,000,000; and if they took their full quota, country X would owe the fund a hundred million dollars for the currencies it bought, and the fund would have as collateral \$200,000,000 of unit X. In other words, the fund would never have less collateral than twice the amount owed to the fund, which is as safe a margin of good collateral as anyone could want to ask. Rarely do you get 200 percent collateral of this quality. We will examine the quality of the collateral a little later.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. Would this be correct, Mr. White: That if a country makes repeated drafts on the fund would that not in itself show that its own currency had an element of instability in it?

Mr. WHITE. Not necessarily, Senator, for this reason. Under normal circumstances you are correct. You might be correct, but not necessarily so with the kind of operations that occur with the fund.

Senator MILLIKIN. I do not want to interfere with the orderly presentation.

Mr. WHITE. No. That is quite in point.

Where there is an increasing demand for foreign exchange, as for example, in countries that are experiencing what we call a flight of capital—

Senator MILLIKIN. Yes.

Mr. WHITE. Where the resident does not have confidence in his own currency—

Senator MILLIKIN. That is right.

Mr. WHITE. As was the case in France, you will remember, in 1935, '36, and '37, and in many other countries where they preferred the dollar both for speculative reasons, and for security reasons. They didn't have confidence in either the political stability or the economic stability or in the value of the currency, they would get out of their own currency into the dollar, and that would create a big demand for dollar exchange, and in that case you would be correct. But in that kind of operation, which we call a capital operation, they cannot come to the fund for dollar exchange. The only time they can come to the fund to purchase foreign exchange is when they need it to pay for goods and services on current account. It frequently happens in a country's history—it happens with us as well as with other countries—that there are periods of maybe 1, 2, 3, 4 years or more, when the demand for foreign exchange is in excess of the incoming supply, and when they need to acquire foreign exchange either by the sale of gold or through some credit operation.

Senator MILLIKIN. But generally speaking, even for goods and services, if the currency of a particular nation has a stabilized relative value, it would not have to funnel into the fund, would it?

Mr. WHITE. No; the member country would not go to the fund—

Senator MILLIKIN. Yes.

Mr. WHITE. For the currency unless it needed to acquire foreign currencies because it was buying more than it was selling.

Senator MILLIKIN. Yes.

Mr. WHITE. Of goods and services.

Senator MILLIKIN. As I get the picture of—the demands that are made on the fund will come about because the particular currency standing on its own feet does not have a stable value—

Mr. WHITE. No; not necessarily.

Senator MILLIKIN. Such as a trader would be willing to accept on its own feet.

Mr. WHITE. The experience of almost every country—I don't think there are any exceptions—is that there are periods when it needs to acquire foreign exchange in excess of what it is getting from its exports.

Senator MILLIKIN. I understand that. But if that is a repeat performance—

Mr. WHITE. It frequently is.

Senator MILLIKIN. If that continues, becomes a regular habit, does that not in itself show that there is a basic instability in this currency?

Mr. WHITE. Let us rather put it this way, Senator, and I think I see your point. If a country is continually confronted with an adverse balance of payments—

Senator MILLIKIN. Yes.

Mr. WHITE. Continually, year after year after year, then it is what we call in basic disequilibrium. It may not be because of a weakness

in its currency. It may be for other reasons. It may also be due to a weakness in its currency. In that case something has to be done. And we will come to that.

Senator MILLIKIN. All right.

Mr. WHITE. But that is a definite possibility.

Senator MURDOCK. Mr. Chairman, in line with Senator Millikin's question, I think, if I understood you, Senator Millikin, you have this in mind. Let us suppose now that we don't create an international fund, and there is a demand on the part of country X, let us say, out of line with the demands of the other countries for foreign exchange. Where—how do they get that now? How would they get it without the international exchange?

Senator MILLIKIN. Well, in normal times that is worked out through private international exchange.

Mr. WHITE. Well, in—

Senator MURDOCK. Now, that suggests this question to me. Why can't they follow the channels that they normally would?

Mr. WHITE. They do.

Senator MURDOCK. With the fund in existence?

Mr. WHITE. They do.

Senator MURDOCK. They still go through the normal channels?

Mr. WHITE. They do precisely that.

Senator MURDOCK. As long as they can?

Mr. WHITE. Not as long as they can.

Senator MURDOCK. Is that what you had in mind?

Senator MILLIKIN. Not only that; but I say when they go beyond that and have to come to the fund, and have to repeatedly, that shows in itself there is a basic instability.

Mr. WHITE. I think that is a misunderstanding and a misapprehension which I would like to clear up.

Senator MILLIKIN. Yes.

Mr. WHITE. But it comes under another point.

Senator MILLIKIN. All right.

Mr. WHITE. But, Senator Murdock, when I say that with the fund countries will function the same, what I mean is they go to their usual sources to get foreign exchange. It may be to sell gold. It may be they are getting credit from commercial concerns, short-term credit. It may be they will get short-term credit from banks for a seasonal movement. That will go on just the same. It is only when the central bank or the treasury or the stabilization fund—whichever is the fiscal agent of a government—sees from the operations that there is an inadequacy of foreign exchange that can be met only by dipping into its gold reserves more than they think is desirable, that the central bank comes to the fund to buy foreign exchange.

Senator MURDOCK. So that when the condition, let us say, becomes abnormal, would that be true? Then they come to the fund?

Mr. WHITE. No; it is not an abnormal condition. It is a common condition, but it is a condition that would apply only to countries some of the time.

Senator MURDOCK. Well, let us say, as long as country X can function through the normal channels in the acquisition of foreign exchange, she would not come to the fund?

Mr. WHITE. Well, I am afraid I have to give both a "yes" and a "no" answer to that, and I will explain it, Senator Murdock.

Senator MILLIKIN. I believe, Mr. White, if sometime during the presentation you could give us a case example of what finally culminates in a request on the fund for something—

Mr. WHITE. I will be glad to do that.

Senator MILLIKIN. It would tend to clarify the whole thing.

Mr. WHITE. Suppose I do that right now, then the discussion might more easily be followed.

Let us take country X the case you cite. Supposing country X has a favorable balance of payments. In other words, it is selling more coffee and cotton and whatever else it sells, in excess of its imports; so that there are sums due it. That country does not come to the fund; it has no occasion to come to the fund. It is acquiring gold or other foreign-exchange assets.

Supposing, however, that, as is possible after the war—2 or 3 years from now, it is buying more than it is selling, so that it has to get foreign exchange. It may be sterling, it may be dollars, or both. Now, it can get that foreign exchange in one or all of three ways:

(1) It can take gold out of its reserves, sell that gold in New York to the Treasury, or in London, and buy dollars or sterling and make it available to its traders. It can get foreign exchange through the sale of gold. That's clear. That is one way.

The second way is to borrow abroad. If it is a temporary shortage, if it is a seasonal movement, if the central bank expects, in other words, that in a few months the movement will be the other way, it can go to a commercial bank and borrow. Sometimes the credit of some countries is good enough so they don't have to leave any collateral. If they have a stabilization arrangement with us, as some of the countries do, they can get dollar exchange from us in return for their own currency. That is a bilateral arrangement. But let us leave that out of the discussion for the moment.

The third way that they can get foreign exchange is to cut their imports, cut their purchases, by imposing exchange restrictions or in any other way, and try to stimulate exports by depreciating their currency (in terms of gold).

The latter course, which countries frequently resort to when they do not have adequate gold reserves, has unfavorable consequences for the rest of the world.

Senator MILLIKIN. That is what you are trying to reach with this fund?

Mr. WHITE. That is what we are trying to avoid. So we say to that country: "If you are in that position, you can come to the fund. Your central bank comes to the fund, and if you need it for current exports, to pay for current goods and services, and not for a flight of capital; if you need it for the purposes which are indicated, and if you are pursuing policies which are in accord with the principles of the fund"—and that is something I want to discuss later—"then you have a right to come to the fund and say, 'We want to buy dollars, and here is our currency in payment.'" Country X goes to the fund and buys dollars if it needs them, or sterling—it is permitted to buy only the specific currency it needs—and puts in its own money, whatever it may be. It may either continue to buy for several years, or it may stop buying. In any case, they have to pay interest on that, and that

interest increases the longer the delay in repurchasing their own currency from the fund.

They later begin to repurchase, because by the time several years have passed they are on the other side of the swing. Either they begin to have a favorable balance of payments or they have to pull their belts in and cut down on imports. They begin to repurchase that exchange, and they begin to buy back their own money, paying for it with dollars or gold. So over a period of 4 or 5 years the fund's holdings will tend to be back to the original position.

In other words, the fund is a sort of cushion. It provides reserves, if you like, when a country is in difficulties. Instead of doing the sort of things that will be bad for the other countries, as in the thirties, member countries in difficulties can be taken care of temporarily by the fund in the same way as a situation would be handled by a bank that has a good customer who runs into a bad season: the customer can come to the bank and borrow with adequate collateral and then pay back the loan when conditions are better.

The adequacy of the collateral, the value of that collateral, which is important from the point of view of our risk is a matter I want to take up later.

Senator BARKLEY. But if the individual who wants to borrow the money from the bank, under your illustration, happens to be a stockholder in the bank, he is not relieved from the obligation of putting up collateral to secure the loan that he makes from the bank.

Mr. WHITE. But neither is he relieved from any collateral requirements with the fund. He always has to have it.

Senator BARKLEY. That is what I mean. It is a parallel situation.

Mr. WHITE. Right.

Senator BARKLEY. The fact that a nation is a stockholder in this fund in no way relieves it of the obligation to put up the collateral if it uses the fund.

Mr. WHITE. That is quite true. More than that, Senator Barkley, I do not think there is any bank that requires either the quality or the amount of collateral that this fund requires. And that is what I want to show: that the risk of monetary loss arises from only one source. I will indicate what that source is.

Senator TOBEY. Is it not your opinion, then, Mr. White, that anyone who in criticizing—and we expect them to criticize—that anyone who in criticizing this fund makes the statements that we are throwing money down a rat hole or that we are giving money away and it is not going to come back, and with that dogmatic expression behind it, is about a hundred percent wet? Isn't that right?

Mr. WHITE. They just don't understand the fund.

Senator TOBEY. And they don't want to understand the fund.

Mr. WHITE. Well, I don't know about that. But they don't understand the fund.

Senator TOBEY. No; that type of mind starts with the premise that the whole thing is no good and spends all its time justifying that point of view. That is the trouble.

Senator MILLIKIN. Well, isn't that dogmatic? Mr. Chairman, may I read something?

Senator TOBEY. It is truth, just the same. Sometimes dogma is truth.

Senator MILLIKIN. When I got home last night I found my April 7 issue of the *Economist*. I would like to read into the record what it has to say about Bretton Woods:

The Bretton Woods bill is not making very rapid progress, and it is reported that the administration has abandoned its original hope of getting it through before the San Francisco Conference opens. Whether the decision, when it comes, will be favorable or unfavorable is still obscure, though the greatest probability would seem to be that the bill will be passed with amendments. An impetus in this direction has been given by a report by the eminently respectable Committee for Economic Development, whose reservedly favorable attitude may serve to offset the more downright hostility of the American Bankers' Association.

Both the CED—

That is the Committee for Economic Development—

and the ABA, however—and this is a very general attitude—profess more love for the Reconstruction Bank than for the Monetary Fund. The ABA would abolish the fund entirely and transfer to the bank the only function now attributed to the fund which is thought to be useful—the making of loans to facilitate the stabilization of currencies. The CED does not go as far as this, but it would restrict the activities of the fund to currency transactions for the correction of temporary disequilibrium. The bogey, to both organizations—

And mark this well, please—

The bogey, to both organizations, is the possibility that the fund will be left holding only weak currencies. This is, of course, a necessary consequence of the purpose for which it is created, and the fact that it is urged as an objection shows how far the American business community is from seeing the fund in the same light in which it appears to other countries. The bill may be passed by Congress, but there is every indication that Bretton Woods will mean different things in different countries.

Mr. WHITE. I am glad you read that statement, because that points up precisely the point, Senator Millikin. It provides an excellent basis for the discussion which will follow.

The CHAIRMAN. May I inquire, was that statement made before the House passed the bill?

Senator MILLIKIN. This was April 7. The issue of the *Economist* is very delayed now. It takes several weeks.

Senator TOBEY. A lot of time has gone since then, and I would like to mention, Mr. Chairman, to put into the record, following this article, a most fulsome editorial praising the Bretton Woods agreements, in the *American Banker*, and in it it praises the wonderful job the House has done, the statesmanship, and the fine results secured, and praises it almost without limit. I think it would read well right there.

(The article referred to is as follows:)

[*American Banker*, May 29, 1945]

THE BRETTON WOODS COMPROMISE

(Thank you, Messrs. Congressmen)

The "compromise" amendments to the Bretton Woods bill represent a grand and heart-warming accomplishment. American democracy can be proud of such a demonstration of wisdom and effectiveness. We can be proud of the work of the House Banking and Currency Committee for having drafted so wise a framework for United States participation in the International Monetary Fund and the International Bank for Reconstruction and Development.

There appears to be no doubt that the amended bill will pass the House by a good majority and that while there may be some political fulminations in

the Senate, the amended bill will be substantially enacted into law by autumn. If the Senate process could be speeded up so that it can pass upon the measure before its summer recess, it would be better.

The world has waited too long already for the pattern of economic cooperation in the peace. Waiting has been disillusioning. It has strengthened the forces abroad which tremble as the result of past experiences with the United States. They remember the ineptitude of our international economic policy (or lack of one) in the past and wonder whether we can be trusted to be more consistent in our foreign loans and export-import and tariff program in the future. Their fears lead them to argue that the way of safety for their countries is by special trade agreements, barter arrangements, and imperial preferences until the world, and particularly the United States, has settled down to a new and stable working stage in world trade long after the war. There are many practical and worried men of affairs who find themselves thinking such thoughts, particularly in Great Britain. Every hour of delay in fixing the pattern of world economic cooperation makes such thinking seem logical. This is why we urge earliest possible action in the Senate on the Bretton Woods bill.

However, the outline of United States participation seems pretty clearly set in these House committee amendments. There has been no sign that the interpretation which they place upon the fund as an instrument for short term and temporary stabilization credits only will not be acceptable to the other 43 nations which formulated and signed the Bretton Woods agreements. Wherefore, it would seem, the world can proceed in the resumption of inter-nation trading upon the assumption that within the foreseeable near future the Bretton Woods fund and bank will be in operation.

That is all to the good for world economic health. It helps to dispell that sinking sensation in the pit of our stomachs when we contemplate the possibility of a drift again from economic warfare, isolationism, and imperialism into a World War III.

Let us hope that the United Nations Conference on International Organization currently meeting at San Francisco is equally fruitful and that when the agreement arrived at there is before our Congress it will receive equally wise treatment and, if needed, interpretation, which will strengthen the cause of sanity and democracy in world order!

The compromise amendments added by the House committee to the Bretton Woods bill do those two very things: (1) The stabilization loan limits expressed for the fund definitely strengthen the hands of its management in preventing abuses of its powers. The requirement that the United States Governor of the fund and bank be subject to an advisory council and responsible to Congress democratizes our participation. Both were needed additions to the bill.

Of course, the mere passing of a law, however wisely drawn and amended, will not assure us of a wisely managed world fund and bank. Equal wisdom must attend the selection of its personnel.

But, for the drafting of the compromise amendments and the approval of the bill by so great a majority as to assure House passage, we compliment and thank the members of the House Committee on Banking and Currency. Its members worked diligently and intelligently, first to understand the Bretton Woods proposals and the criticisms aimed at their weak points, and then ingeniously and swiftly resolved the conflicts into a compromise which gives the world the go-ahead signal on economic cooperation. Chairman of the Committee Brent Spence displayed extraordinary skill in legislative leadership in bringing about this result and in keeping the committee hearings on a high plane when there was so much temptation to indulge in political demagoguery. Representative Jesse Wolcott, who as Republican congressional delegate to the Bretton Woods Conference, kept himself uncommitted, so that as a member of the House Banking and Currency Committee he could make up his own mind, performed a public service of world-wide significance when he saw how sensible were the criticisms of the fund and then sponsored the cause of compromise to incorporate them in the bill. These two men, one a Democrat, the other a Republican, proved themselves talented legislative workmen. The prestige and influence of the entire membership of the House Banking and Currency Committee is handsomely enhanced by the fine handling of the hearings and issues involved in the Bretton Woods bill. We say again, we thank you.

We believe we can add that the little people of the whole world also are saying, "Thank you." They cannot understand why anything, money or material, should

be allowed to stand in the way of the effective democratic cooperation of nations toward the world economic peace which is necessary to end world wars and freedom from fear.

Senator MILLIKIN. I am making the point, Senator Tobey, that it is more than dogma by a few obstructionists who think that this fund will wind up with weak currencies, and I am citing the opinion of *The Economist* that they regard that as the very purpose of the fund. Let me repeat again:

This is, of course, a necessary consequence of the purpose for which it is created, and the fact that it is urged as an objection shows how far the American business community is from seeing the fund in the same light in which it appears—

to whom?—

to other countries.

Senator TOBEY. Yes. Well, now, as a corollary to that I point out that the American Bankers Association, through the very estimable gentlemen at the head of it, opposed the fund particularly, and they gave their reasons for it; and now that it is a fait accompli as far as the House goes, with some amendments which are legislative and not to be referred back to other nations, the American Banker, the daily paper of the banking profession, now comes out and praises the accomplishment, which includes the fund; and I thought it would be helpful, in view of the tenor of this editorial, to put in the record at this point the American Banker's pronouncement of approval. That is all.

Senator MILLIKIN. I think it would be a very good thing to do.

Mr. WHITE. I am glad you read that, because that does point up some of the misunderstanding. I might suggest that, while the *London Economist* is a very estimable paper, I do not think it is any more estimable than the *Commercial and Financial Chronicle* or many others in this country, and the opinion stated therein is the opinion of one or more journalists in the economic field and is not to be taken as the last word in the subject.

Now let us examine what is the value of the currencies that are in the fund, and what is meant, if anything, by weak currencies and strong currencies. I think it is worth spending time on because so much stress seems to be laid upon that point which springs from a misunderstanding of the operations and the safeguarding features of the fund.

Now, then—

Senator MURDOCK. Mr. Chairman, is it understood that the article referred to by Senator Tobey goes in the record here?

The CHAIRMAN. It will be; yes.

Mr. WHITE. You remember I said that the fund has collateral of at least 200 percent. If they utilize their full quota, it goes down to 200 percent. Prior to that, it is 300 percent or 400 percent. Now, that is what you apparently have some doubts upon and to which you think that writer refers.

Senator MILLIKIN. I am afraid, and, Mr. White, I will tell you frankly, I am afraid that this result which these fellows in London think is the purpose of the fund, will in fact be the result, regardless of whether it is the purpose. Now, that is the whole purpose of my probing into this thing.

Mr. WHITE. And that is an understandable fact, and we are glad to explain it, and I am sure that you are eager to get at a correct understanding.

Senator MILLIKIN. I am.

Mr. WHITE. And that is why I am glad to take the time to explain it. One must remember that it is a point of view which we are going to examine.

Senator MILLIKIN. I should like to add, Mr. White, that without the benefit of that opinion I would still have the fear in my mind that that might be the result, and regardless of the flow of opinion one way or the other I should like to probe it for my own satisfaction.

Mr. WHITE. Quite so. And it is because you have that fear, and it is because I am sure you want to get at the facts, that I am happy to discuss it.

These currencies, remember, have a collateral value in gold of at least twice what any country owes them. Now, the question you are raising is as to the adequacy of that collateral value.

Senator MILLIKIN. That is right.

Mr. WHITE. In other words, when I say that the cruzeiros—

Senator MILLIKIN. That's it.

Mr. WHITE. —are worth \$200 million in the fund if Brazil—taking that country simply for purposes of illustration—has bought a hundred million dollars' worth of foreign exchange, then what you seem to be having fears about is: Are the cruzeiros worth \$200 million?

Senator MILLIKIN. Exactly.

Mr. WHITE. Now, there are provisions in the fund aimed precisely at that difficulty, which I assure you we foresaw in the early beginnings. We wanted to make certain that the currency held by the Fund had a value in excess of what the country owed the Fund, and we proceeded to surround the value of the collateral with such safeguards as we could provide. What were those safeguards? They were the following:

In the first place, the currency that is in the fund has no strings attached to it. It is better than the same currency in anybody else's hands. Let us refer simply to country X. Country X might have restrictions on the use of its currency. It may say to foreign holders of its currency, "We have restriction on the use of our currency for such and such purpose." But country X, in undertaking membership in this fund and depositing its money, agrees that it will put no such restrictions on that currency. In other words, the currency that is held by the fund is better than similar currency in anybody else's hands because there can be no strings attached to it.

Secondly, when you say that you doubt the value of the currency, remember that the question of the value of the currency only arises—and this is important to remember—only if and when the country withdraws, either because it withdraws voluntarily or because it is compelled to withdraw from the fund.

Senator MILLIKIN. Mr. White, if I may make the suggestion—I don't want to interrupt you unduly.

Mr. WHITE. That is perfectly all right, Senator.

Senator MILLIKIN. That is like saying to a bank that the value of the collateral behind a loan only arises in its crucial form when the

debtor is bankrupt and the note is no good. I mean we must have a constant proof of the valuation of the collateral behind the loan.

Mr. WHITE. That is correct, and I think you have stated it well, if I may modify it in one respect, as to the collateral which a bank accepts, the question of collateral becomes crucial only when it is necessary to sell that collateral.

Senator MILLIKIN. Yes?

Mr. WHITE. The value of that collateral is constantly being valued.

Senator MILLIKIN. Yes.

Mr. WHITE. That is what I indicated in the very first provision, that that collateral must be kept at an equal gold value, just the same as if a bank took stock as collateral, and the stock fell in value, it would say to its client, "You have to put in more of that stock."

Senator MILLIKIN. That all comes to my original inquiry, which I assume you are coming to.

Mr. WHITE. That is right.

Senator MILLIKIN. Yes.

Mr. WHITE. The fund, then, has certain local currencies which it may have to sell in order to get gold or certain other currency back. Correct?

Senator MILLIKIN. That is right.

Mr. WHITE. One of the provisions in the fund requires—that is page 47, Senator, section 6. Section 6 must be taken together with certain other sections that I will point out.

It says that if and when the bank finds it necessary to sell its collateral, either because, as I say, the member is withdrawing and owes the fund gold or certain other currency, or is being expelled, then that collateral has a preferred status. In the first place, if the fund sells the collateral and does not receive the full value of what is due it, then the country that is withdrawing agrees to make up the difference.

In order to make sure that that currency has value all the time, all the member countries agree that if asked by the fund they will buy that currency before they buy the currency of that country held by anybody else. Inasmuch as every country is always dealing in other currencies, and inasmuch as the amounts involved are small relative to the total amount of transactions engaged in, what we in effect have—and mark this, because it is important—what we in effect have is a continual market for the collateral in question. The fund may not at that time be able to get the value that was placed upon each unit of currency, but if necessary it receives more units, and if those are not enough the country agrees to give still more. Therefore, if a country withdraws, the fund can suffer no loss.

Senator MILLIKIN. Mr. White, may I ask—

Mr. WHITE. The only loss that the fund can suffer—and this is what I referred to when I said there was one exception to the possibility of loss—the only loss which the fund can suffer is if a country repudiates its agreement. If a member government breaks its written pledge made to 40 other governments—if any country did that to the remaining members of the fund it would become a virtual outlaw so far as economic credit transactions are concerned, and it might be equivalent to committing economic suicide so far as international credit transactions are concerned.

Senator TOBEY. It would be an economic pariah.

Mr. WHITE. It certainly would. What individual or what country would extend credit to a country that repudiates an obligation of that character. It isn't as though it is a war debt. It isn't as though they said, "Well, you gave us this money because we were fighting for you." Nothing like that. It is an obligation entered into the open eyes and under conditions which are certainly reasonable.

Therefore I say that the risk of monetary loss that the United States runs in its participation in the fund is almost negligible. Even if country X did repudiate, the fund would lose some money, but the loss of that money would be spread among the other members.

Senator MILLIKIN. Well, if country X withdrew, or, if you wish to put it the other way, if country X repudiated, we would be in the position of a bunch of endorsers on a note taking over the collateral and realizing the best they could out of it.

Mr. WHITE. Yes; in which case—

Senator MILLIKIN. Whereupon for the first time the currency of country X would reach its own proper level in relation to other currencies.

Mr. WHITE. Well, the second part of your statement raises questions which are not apposite. I was directing my remarks exclusively to an explanation of the risk of monetary loss.

Senator MILLIKIN. Yes.

Mr. WHITE. The rest deals with something else.

Senator TOBEY. Mr. White, on this analogy between loss and repudiation, and so forth, take an ordinary commercial loan, and the borrower repudiates. He has repudiated and lost caste with his bank, as that is a more or less private transaction with the bank itself. And that is the case of a defaulting nation. The one who acted in bad faith is not only slapping down the United States but all 44 nations comprising the brotherhood of nations, with all of whom it has to work and do business; isn't that correct?

Mr. WHITE. That is entirely correct. And the publicity that would accompany that would be—

Senator TOBEY. Prejudice among all nations.

Mr. WHITE. It would be a serious step and any minister of finance, in my judgment, would prefer to default on any obligation that was outstanding, rather than an obligation to an international institution, of the kind we are discussing.

Senator MILLIKIN. Mr. Chairman, I should like to suggest that you cannot quite consider this problem in relation to an isolated country. You might find a whole block of countries which through no desire of their own found themselves in a position where they just could not make good their obligations. And that is not at all imaginative.

Mr. WHITE. Senator Millikin—

Senator MILLIKIN. It is entirely possible. If we did not have those crucial problems, those crucial dangers ahead of us, perhaps there would be no reason for the fund and for the bank.

Mr. WHITE. That is true of certain types of obligations. It may be that during a period of depression a block of countries affected equally by a depression of a major character may find themselves unable to meet the ordinary kind of obligation. But we have made this a very unusual kind of obligation. We have attempted to foresee every

danger of loss and blocked it, and we think we have done not a good job, but an excellent job.

One of the provisions in the fund makes it possible—requires, in fact—the fund to make arrangements with the country in question. If a country withdraws—and it is only in the case of a withdrawal, you see—while in the fund, all a member country has to pay is the interest. We are speaking only of the case of repudiation. There is nothing to force a country to repudiate, no economic conditions, because if they find themselves in serious difficulties, the fund has the authority, in the event a country withdraws, to make arrangements with the country allowing it time—1 year, 2 years, 3 years, or 4 years or more—in which to fulfill its obligations.

The obligation to the fund differs from the type that you are speaking of in the sense that the country doesn't necessarily have to raise the money. The money is usually already in the central bank on deposit in the name of the fund. It differs also, of course, in that the obligation is to an international organization representing most of the governments. Further, it is an obligation arising from financial aid given under conditions under which the terms of repayment are clearly indicated and expected. Such difficulty as may arise for repayment would result from the difficulty of transfer of payment, but provisions to take care of this difficulty are included. The fund owns currency on deposit with the central bank. To convert that currency into gold or other currencies, the fund could sell that currency on the exchange markets of the world. If the fund attempted to liquidate it quickly, a drastic fall in the unit value of the currency would result. The country whose currency is being sold would have more to lose by such a fall in the value of its currency than the fund because if the proceeds to the fund are not equal to the country's debt to the fund the country must make good the difference. Moreover, rapid depreciation of a country's currency from such a cause is bad for that country in many ways. That is one reason why a country would prefer to liquidate its obligation to the fund if reasonable time for repayment is allowed. The articles of agreement provide ample authority for granting a reasonable period of repayment.

Senator MILLIKIN. Mr. Chairman, yesterday in the discussion with Secretary Acheson I suggested in my own opinion that, with the possible exception of one or two countries, every nation of continental Europe is faced with one or two revolutions and counterrevolutions. In the face of that probability, if you are willing to go along with me that it is a probability; or if you are willing to assume it, if you won't go along with me; how do we protect this fund?

Mr. WHITE. That is a perfectly good question, Senator. In the first place, I would agree with you that it is a possibility. Whether it is a probability would be a matter of judgment. I would be inclined even to go along with you that it certainly is a probability with some countries; and it is because of that probability, as Mr. Acheson pointed out, that we are so concerned with doing everything we possibly can, even at the risk of some monetary loss, to try to prevent it.

Senator MILLIKIN. It may have a block effect. It may affect a dozen countries almost at once.

Mr. WHITE. Yes. Let us examine it.

Senator MILLIKIN. The collapse of one would be contagious—

Mr. WHITE. True.

Senator MILLIKIN. And go into another, and you might have an almost simultaneous collapse of a dozen countries.

Mr. WHITE. That is quite true, and the seriousness of that situation has led us to see what we could do to avoid it. The Bretton Woods proposals will not avoid it wholly. They should make a contribution toward that. But let us assume the conditions in your question. Now, what would the fund lose as a consequence of that? You know, Senator—you have doubtless been at conferences, had some dealings with, or have done some reading on, the responsibility and the task of an incoming government, a new government that is the result of a revolution. And you are talking about revolutions now.

Senator MILLIKIN. Yes.

Mr. WHITE. You are talking about an overturn and a complete shift, and the question you are raising is, Will the incoming minister of finance, as one of his first steps, repudiate the obligations to an international organization made by his predecessors or the preceding government?

One of the difficulties that a newly established government, whether it comes in as the result of a revolution or as the result of a war, or as the result of a dubious democratic election, one of the first tasks is financial reconstruction. The minister of finance knows he cannot reconstruct his economy without assistance from the outside. One of the last things that a minister of finance who has any sense of responsibility would do would be to repudiate his obligation where he hopes to get some help. The new government would not want to repudiate, they would want to meet their obligations. They would want to keep their credit unimpaired; to meet the interest due on foreign-held bonds of their countries, even at considerable trouble, annoyance, and expense. They don't want to impair their credit.

A minister of finance would be the first to come to the various governments and say, "Gentlemen, there has been a change, it is true, but we are going to stick by our financial obligations to this international organization," because while they might not like to do it, it would be very evident that if they didn't they would be creating serious obstacles for themselves.

Senator MILLIKIN. I would suggest you have been giving a perfect picture of responsible governments. Those governments—I am thinking of several of them in Europe—have good credit. They can get money from us and probably from Great Britain. They have reasonably stable governments. Those governments do not give us our problems. Our problems arise from governments that have not had a history of responsible financial management and there are many of them in Europe.

Mr. WHITE. Yes; there are a number of them that have operated their financial policy—

Senator MILLIKIN. When I say that I am not calling any names.

Mr. WHITE. That is right. There are some, and we don't need to mention any names, but, Senator, those are the very countries who find themselves in most need of help, and they are the ones which are most reluctant to kill the goose that lays the golden eggs they need so badly.

The first concern of any Minister of Finance that comes into office is credit, both domestic and foreign. That is what he operates on, and for him to take a step which would prevent his being able to undertake the necessary economic reconstruction would be, as I say, suicide. I don't say it might not happen. There may be irresponsible Ministers. They may be economic morons. It may happen, and if it does happen then the fund would suffer a loss, but bear in mind, Senator, that those countries probably would be countries with small quotas and the loss would be spread among others.

I don't say those countries would not repudiate their debts. I say it is unlikely that many would do it, and that is a risk we should be willing to take because the risk of not doing something is infinitely greater, as you so well point out yourself.

Senator TAFT. Mr. White, may I suggest it seems to me you don't get the full picture. What you would find is not repudiation of fund obligations. What you face is general inability to pay the obligations. Each one of these countries that is in bad shape is going to owe something to the fund, but that is just a small proportion of it. They are going to have loans called.

If it is going to survive the fund is not going to hold up a country that is not able to keep up its balance payments for sometime. So that what you face is general bankruptcy in that country. Surely, they would like to pay their fund debts and their other debts. But take the case of Germany after World War I. You had the Dawes plan, you had the Young plan, you had plans of receivership by which you tried to enable them to get on their feet, and you failed. Austria was in the same position. They were not able to pay any of their debts. There was a time when South American countries could not pay any debts, because their balance was so bad during the depression. Practically you could not get dollars in Brazil. They were not able to buy there.

But the danger you face is not that they don't want to pay this debt. It is that you are likely, unless you are willing to lend money indefinitely, to have a very considerable number of countries that are bankrupt, particularly if they lie down on the front and don't get their balance payments back where they should be.

Mr. WHITE. Senator, what you say relates to certain historical episodes. May I point out wherein those differed from what we are talking about here, and why what has been true and what may be true again for similar episodes is not true of the fund. You were not here when I began, maybe it will orient you if I say I was directing my remarks to one point, namely, that the assets of the fund are of a character which make almost negligible any monetary loss that would occur to the fund.

Senator TAFT. Well, as far as the American taxpayers are concerned, there is \$2,750,000,000 gone. It is no longer available to us. We may some day get it back if the fund is dissolved, I agree, but in the meantime we haven't got it.

Mr. WHITE. Senator, I am glad you put it that way because that question seems to need clarification. If we put two billion seven in the fund, it is true we don't use it, but that is precisely the case when we get two billion seven in gold and put it into Fort Knox. We don't use that.

Senator TAFT. We can use it.

Mr. WHITE. We can use the international fund in exactly the same way as we use the gold in our stabilization fund.

Senator TAFT. Wait a minute. We have to have a certain amount of gold to back up reserves, don't we?

Mr. WHITE. Yes.

Senator TAFT. And we have just been forced to reduce the reserve ratio from 40 to 25 percent. In order to maintain our currency we have to have gold and this 2 billions is no longer available for that purpose.

Mr. WHITE. Everything you say is true, but the point I am making is this—

Senator TAFT. Well, my point is this—

Senator MURDOCK. I think the witness ought to be given an opportunity once in a while to answer a question, Mr. Chairman. I must insist on it.

Senator TAFT. With all due respect, I think it is a perfectly fair and courteous exchange.

Mr. WHITE. Senator Taft and I understand each other.

Senator MURDOCK. That may be true, but there are others here who want to understand it. If you and Senator Taft want to have a discussion to yourselves, that is up to you, but if we are going to have a discussion beneficial to the group, once in a while the witness ought to be permitted to answer a question. I say that with the utmost respect for Senator Taft.

Senator TAFT. All right. Go ahead, Dr. White.

Mr. WHITE. When you put two billion seven in the fund, it is quite true, as Senator Taft says, we don't use that. We don't use it because we don't need it. In precisely the same way if England puts in a billion and two sterling it does not use it. If we put gold in Fort Knox, if we receive gold in payment for goods because we are selling more goods than we are buying, we get gold for it and we put that gold into Fort Knox. Now the question of gold as a monetary base is a separate question from what we are talking about here. I would be glad to discuss it, but that is a separate question. The only use we have for that gold is in international transactions.

The only use we have for that gold in international transactions is when we want to buy foreign exchange. If we are buying more goods than we are selling, we have to buy foreign exchange. It may be sterling, it may be drachma, it may be pesos, it may be yuan. If we reach that stage the central bank, in our case the Federal Reserve Bank of New York, will sell gold in order to obtain that kind of foreign exchange. In other words, it will take gold out of Fort Knox, figuratively speaking, and purchase necessary foreign exchange, but until it needs that foreign exchange the gold remains in Fort Knox untouched.

Now, that is precisely what happens to the gold put in the fund. So long as we do not have an adverse balance of payments, so long as we do not have to buy more foreign exchange than we receive, so long as that is true, we don't use our rights in the fund, and we don't use the gold in Fort Knox. If we do have an adverse balance of payments then we can buy exchange from the fund in precisely the same way as

every other country does and in precisely the same way that we use the gold in Fort Knox.

So that when you say the two billion seven we put in the fund has no use, what you are in effect saying, and correctly saying, is that gold we receive on balance has no use until we have an adverse balance of payments.

Senator TART. Mr. White, I think that is a lot of language to cover up the fact that as long as we have this gold we can do as we please with it. We can use it for backing our bank reserves. We can buy foreign exchange with it if we want to, but once it is in this fund we cannot do a thing with it. We cannot get it out. It is entirely at the discretion of a board we cannot control in any way. They dispose of it as they see fit. It is just the same as if you say, I have \$2,000 in the bank. I can spend it or do whatever I want to with it. If I have \$2,000 invested in a country like Germany or somewhere, that maybe I can get back and maybe I cannot get back, I cannot do anything with it at the moment.

Mr. WHITE. Senator, you have made a very effective statement. The only trouble is that it contains one basic misstatement which makes your conclusions unwarranted. The only things you can do with the gold in Fort Knox are the two things which you name; either you can leave it there and include it as a monetary base which we are not concerned with for the moment, because that is a separate question. I would be glad to discuss it, but it is separate. Or you can buy foreign exchange. That is precisely what you can do after you have put dollars in the fund. You can buy foreign exchange with your local currency. That is what every country does.

Senator TART. If we have it here we can buy any foreign exchange we want to. If we put it in the fund it goes automatically to any nation that happens to want it, at the discretion of a board we cannot control.

Mr. WHITE. What foreign exchanges would you want to buy? Remember, virtually all the foreign exchanges could be purchased from the fund.

Senator TART. We might want to buy Russian exchange.

Mr. WHITE. Then you could buy it from the fund.

Senator TART. We could only buy a small portion of it.

Mr. WHITE. Russia will probably utilize its privilege to buy dollar exchange, which means Russia will put more rubles in.

Senator TART. I mentioned Russia particularly to show I haven't any prejudice against Russia. It is a theoretical discussion, but the two things are fundamentally different. Unless we dispose of this gold we can do what we please with it here. You cannot say that about the \$2,750,000,000 of our money we put into a fund controlled by a board which we do not control, that is the same thing as having it here. It is not the same thing.

Mr. WHITE. Let me repeat what I thought I said and what I wish to be said in my own words, and let us drop the point at that. That the dollars we put in the fund represent our quota. That as a member, because we put those dollars in the fund, we can buy an additional amount of foreign exchange in precisely the same way that any other country can.

Now this is true, and possibly this is the point you may have in mind, Senator, that the gold is immobilized until you want to use it.

Senator TAFT. You have unsalable stock in a concern you don't control. You are a minority stockholder. It is not a marketable or liquid value. You can put it on your books if you want to, but it is not the same thing as having gold that you can do with as you please.

Mr. WHITE. I think we have probably explored that as far as is desirable. We just don't agree about that.

Senator TAFT. But you say it is just as good as if we had it at Fort Knox.

Mr. WHITE. Let us say rather it is almost as good.

Senator TAFT. Suppose there is the full number of dollars in the fund, there may be in the next 2 or 3 years, and they get all that gold that way—they either get dollars and buy gold or at any rate, the gold is gone, the net result being we have loaned the countries \$2,750,000,000, so that the net result of the transaction is to translate gold into a foreign loan.

Mr. WHITE. The last part is a reasonable statement, Senator, but the fund owes the United States Government two billion and three-quarters, which if the United States wished to withdraw, or if it were forced to withdraw, it would receive out of the assets which were in the fund.

Senator FULBRIGHT. May I ask one question that grew out of this discussion? As I understand, you are giving this fund a preferred status in each of the countries.

Mr. WHITE. That is correct.

Senator FULBRIGHT. Even though a country gets in difficulties and even though other creditors who own its bonds, we will say, private creditors who own bonds, the fund gets first call on the assets; is that correct?

Mr. WHITE. That is right.

Senator FULBRIGHT. So that even though that might happen, if there is anything at all, you get first call on it. If it goes completely bad, if there is anybody who is paid off it will be the fund; is that right?

Mr. WHITE. That is true. I wouldn't say if there is anything. There must be something, because no matter how badly off a country is it always sells goods.

Senator FULBRIGHT. I agree, but theoretically we will assume it evaporates into thin air.

Senator TOBEY. And isn't it also true that this money which we put in must always be considered in the light of the objective?

Mr. WHITE. Of course. After all, what is it that we want out of this fund? We don't want the interest we make on putting our money in. You see, we would get some interest on the fund and the countries that do not resort to the fund are the ones that get the interest. The others pay the interest. But that is not what we are interested in. We are taking some risks, Senator, there is no question about it.

We are going to quite a bit of trouble to get into this fund and we certainly are not in it for any profit. We have a stabilization fund which the Treasury has been operating for 7 or 8 years. It has made quite a lot of profit during those years, but it was not set up to make profit. This is a much larger venture, more comprehensive in scope, but the theory is somewhat similar. That is why we are going into it.

Senator TAFT. I am not attacking that argument. I was only trying to eliminate the general theory that this isn't going to cost us anything. I think the other argument is the real question, but I think we ought to admit that it is equivalent to loaning to foreign nations roughly around \$6,000,000,000. The question is should we do that?

Mr. WHITE. Well, Senator, if you put it that way, I think I would agree. In other words the \$2,750,000,000 put in may be a loan, the only thing we receive for that loan is interest.

Senator TAFT. Well, do we get interest or not?

Mr. WHITE. We get interest in this sense, Senator: The country that borrows exchange has to pay interest on what it borrows.

Senator TAFT. Could it be declared as a dividend?

Mr. WHITE. A dividend can be declared. If a dividend is distributed the country whose currency has been purchased gets the dividend in proportionate amount.

Senator TAFT. Well, it is most unlikely that a dividend would be declared. Wouldn't you want to build up a reserve?

Mr. WHITE. In the bank you would, that is true, but not likely in the fund. I would be delighted to draw a balance sheet at the end of 10 years and I think you would find we would have substantial interest in return which would probably be equivalent to the cost of borrowing our money, but it is true that it could be regarded as a sort of loan. I think you have stated it succinctly in that one statement.

Senator TAFT. As to Senator Fulbright's theory of a prior lien, I don't quite see that. For instance, country A has this interest in the fund. They probably owe four or five times that much. If country A, which is Rumania, we will say—not for the record—owes a lot of money to country B which is Russia, also not for the record, it seems to me there might be circumstances where they would be much more anxious to pay their debt to B than to the fund, relying on B to keep up their balance of payments. It is probably much more important for them to keep in good standing with B than it is with the fund. If they are thrown out of the fund, too bad, but somebody else is going to take care of them. I don't quite see the point that there is any prior claim on the fund.

Mr. WHITE. Rumania may not wish to make it a prior claim, but she has already done so by her initial agreement for participation in the fund. The money she owes Russia, in the first place, Russia does not have on deposit in Rumania. That is not likely if it is a debt, but she has money on deposit that belongs to the fund.

In the second place, and more important, Rumania has already agreed that there will be no strings on that, and that the fund can sell it to any market of the world that needs Rumanian lei. More than that, the member countries have agreed if they need any Rumanian currency they will buy it first from the fund. I explained that before you came in.

Senator TAFT. I maintain the same thing is true. They can take a chance on their leis around the world, but they have to pay the Russian debt.

Senator FULBRIGHT. All of these other nations besides Russia are interested and they would all be interested in this fund. I think all

the pressure of economic relations of other countries would be in favor of the fund.

Senator MILLIKIN. Mr. White, wouldn't it be correct to say that the lien applies to the fund of the debtor countries that are with the fund? That is the sole extent of the lien.

Mr. WHITE. Yes.

Senator MILLIKIN. Beyond that there is, I believe, under the paragraph you cited, there is an obligation on a country that it has to make good deficits.

Mr. WHITE. That is correct.

Senator MILLIKIN. But it is not an enforceable obligation, is it?

Mr. WHITE. None of these obligations is enforceable. You cannot enforce any of these obligations in the sense you can go in with an army and collect your debts. Final enforcement depends on the government's word. If a government repudiates it, as it might, I say that is a risk you take.

Senator MILLIKIN. I do not say it would not be made good, but it is not enforceable in the sense you take a judgment out and put it in the hands of a sheriff to collect some asset.

Mr. WHITE. That is correct. It is not enforceable in that way.

Senator TAFT. You spoke of these Rumanian leis which would be scattered around the world. Don't I understand under the act itself those might be Rumanian I O U's?

Mr. WHITE. I don't think I understand your question.

Senator TAFT. Cannot I O U's be substituted?

Mr. WHITE. The Rumanian currency, which is in the fund, can be substituted.

Senator TAFT. It can be withdrawn and put in Rumanian I O U's?

Mr. WHITE. In Rumanian Government I O U's.

Senator FULBRIGHT. One other question. As between the bank which seems to receive the approval of the banking association, and the fund, I would gather that this is less likely to lose money than a loan made by the bank.

Mr. WHITE. That is entirely true and that is the conclusion of, I think, almost every banker and economist who understands the fund. Some of these safeguard provisions are in the appendix. We put it in the appendix because we didn't want to lengthen the document and a great many people never read the appendix, but it is quite true that the risk of monetary loss is much less in the fund than in the bank.

Senator FULBRIGHT. The arguments have been just the opposite in most of the things I have read.

Mr. WHITE. That is true.

Mr. Chairman, I would like to say something off the record.

The CHAIRMAN. This is off the record.

(There was discussion off the record.)

Senator MURDOCK. Mr. Chairman, I would like to ask this question, going back to the very interesting question of Senator Millikin where he refers to revolutions and counterrevolutions and that it may affect a whole bloc of countries rather than just one. Isn't the very purpose of your Bretton Woods agreement an economic deterrent to those very conditions?

Mr. WHITE. It is precisely for that reason we are interested in going into this. If the world looked to us as it looked to many of us in 1925, 1926, and 1927, we would not be interested in undertaking any such major international arrangements. It is because what we see ahead of us is fraught with such great danger to our economic system and to our welfare and world peace and world security that we are taking the trouble of trying to devise institutions and that we also are willing to take the risk of monetary loss.

Senator TOBEY. It is because the need is indicated.

Mr. WHITE. That is correct.

Senator MURDOCK. We have lost a lot of money without such an institution and the very reason I see for such an institution is that we take less risk with it, even monetary risk, than we take without it.

Mr. WHITE. I agree with that.

Senator MILLIKIN. Mr. White, I think you have said this about three times and I want to put it in my own groove.

Mr. WHITE. Did I repeat myself unnecessarily?

Senator MILLIKIN. No. I was glad to hear you say it, and you said it very plainly, but I would like to put it in my own groove. Do I understand it is logical that if one concludes that the fund is unsound and undesirable, that he must also reach the conclusion that the bank is likewise unsound and undesirable?

Mr. WHITE. No; I shouldn't think so, Senator, because the fund and the bank are different institutions, designed for different purposes and they perform different functions. One could say this, Senator, that either standing alone undertakes greater risks of, I won't say failure, but is able to do less effective work than both standing together. If the fund should fail the risks undertaken by the bank would increase, but it doesn't necessarily mean that the bank would likewise fail.

Senator MILLIKIN. So if the determining feature in reaching a conclusion on this subject swings around the degree of risk, it follows that if we conclude that the risk is too great in the fund, we must conclude it is too great in the bank.

Mr. WHITE. That is excellent logic.

Senator TAFT. Mr. White, the next thing that interests me you say we make an agreement with Mexico that we will give them dollars for pesos. You don't mean an unlimited amount, do you?

Mr. WHITE. No; there is a maximum of 40 million.

Senator TAFT. \$40,000,000. Isn't that equivalent to a temporary loan?

Mr. WHITE. It is equivalent to quota in the fund.

Senator TAFT. Yes; but I still don't see why if they buy \$40,000,000 in pesos and we have 40,000,000 pesos that temporarily it is not a loan, practically.

Mr. WHITE. Oh, yes, you may call it a loan if they buy dollars under the agreement.

Senator TAFT. Haven't we been financing Mexico in the last 2 or 3 years in different ways?

Mr. WHITE. I dare say we have given some assistance to the Mexicans.

Senator TAFT. Didn't we practically loan them the money to pay the oil companies for the oil wells they confiscated?

Mr. WHITE. I don't remember any loan we gave Mexico for that purpose. You might be interested in this fact, Senator, we had a stabilization arrangement with Mexico over the past few years which they had the privilege of availing themselves of, and they didn't avail themselves of that privilege. There is no knowing at what point, if at all, they will buy any dollars with the pesos they have, so when you speak of a loan to Mexico, I know we made some loans for some small productive purpose, but I don't remember just what they were.

Senator TAFT. How about lend-lease. Do you remember what they have gotten under lend-lease?

Mr. WHITE. No; I don't. I know we have given them some help.

Senator TAFT. Isn't it a fact that we have been pouring money into Mexico right through the war, one way and another?

Mr. WHITE. Possibly.

Senator TAFT. Going back to the question I asked Mr. Acheson yesterday, I knew I had somewhere this idea about Russia having some special relation to this fund, in regard to drawing down 25 percent of their quota every year, \$300,000,000 a year. Mr. Edward E. Brown, who, of course, is a delegate in support of the thing, wrote an article in February and that is where I got the idea. It is not quite what I had in mind, but I will read it to you and ask you to comment on it:

Russia, with a complete system of state trade, does not require credit for strictly stabilization purposes, and it may be admitted that Russia will probably use up her quota in the first few years of the fund's existence to pay for imported capital goods necessary for her economic reconstruction.

So that I take it Mr. Brown had the idea, certainly, as a delegate, that there was some agreement that Russia was not to be held to the extreme terms of this fund, but was to be able to draw down 25 percent of their quota for reconstruction. Is that correct?

Senator TOBEY. Mr. Brown is right here.

Mr. WHITE. Yes. He can speak for himself, and will.

Senator TAFT. I only bring Mr. Brown in because that was my excuse. I didn't think I had invented the thing yesterday, and I was somewhat shaken by Mr. Acheson's flat denial of any knowledge of it. That is why I went back and looked it up.

Mr. WHITE. I think you also included in your question, unfortunately, something else.

Senator TAFT. A special agreement.

Mr. WHITE. I think you mentioned the fact there was an agreement with respect to Russia. One of the key words is "stabilization." You see, a stabilization operation is a very special term. It doesn't mean a loan. If it meant a loan, we would call it a loan. It bears certain close resemblances to a loan and some people refer to it as a loan, which is all right if they understand what it is, but if somebody in the Treasury said, "We just made a loan to Mexico of \$40,000,000," we would not understand it.

Senator TAFT. I understand that.

Mr. WHITE. I would like to take up the meaning of the word "stabilization" and how it relates to Russia's operations with the fund.

Now, stabilization is a transaction which is designed to meet a country's special need for foreign exchange. When a country needs foreign exchange in excess of what it can easily obtain through its exports and through the sale of gold, then it has to acquire it in some other way. If it acquires it through what we call a stabilization operation and you refer to as a loan—and you can, if you like—then it is a stabilization operation. What is its purpose? What is its cause? Why do we have stabilization operations? Because in every country there are emergency situations; there are developments which make it necessary for a country to have more foreign exchange than it can easily get. How does that arise? That arises in special ways. If a country like Brazil, for instance, has a failure in its coffee crop or its cotton crop, its two principal exports, its cotton and coffee may drop in price and not yield enough foreign exchange. That is one illustration.

A second illustration is if the country is selling to other countries who are experiencing a depression, they decrease their impact and the impact falls on one of several countries which then find themselves unable to get enough foreign exchange.

Another illustration would be if a country is experiencing a severe decline in its gold reserve and either through flight of capital or because it has been utilizing it in preceding years more rapidly than it should have, or because there was a capital inflow which suddenly ceased or because—and this is important—because of the most serious emergency of all, a war. When war strikes a country and devastates it, as it has a number of the European countries, it disrupts its balance of payments after the war.

In the first place, its productivity capacity is so curtailed it cannot develop an export market quickly.

Senator TARR. It seems to me what you say is perfectly true, but doesn't it lead to the conclusion you cannot separate stabilization from every other obligation of a country involved; that the only possible difference is between short-term help and long-term help, emergency help and permanent help?

Mr. WHITE. The most serious emergency that a country can experience is war. It reduces exports while import needs are greater than ever, so a country finds itself with declining foreign-exchange resources and greatly expanded needs. The stabilization operation is precisely what a country of that kind needs. Russia finds itself in need of foreign exchange and it is going to get it in many ways, as many ways as she can. I dare say Russia will probably be eager to obtain credits from concerns like Baldwin Locomotive, General Electric, and General Motors—I dare say she will also try to borrow money from bank investors. I dare say she will attempt to get credit from Government organizations in England and the United States. I presume she will use whatever avenues are available to her to get all the short-term credit, medium-term credit, and long-term credit she can, all the avenues of foreign exchange that would be available to her including her quota in the International Fund, she will come to the International Fund and she will obtain foreign exchange. How much, I don't know. It depends on what she gets from the other sources.

Senator TAFT. Do you agree with Mr. Brown's statement?

Mr. WHITE. May I proceed?

We know that she will come to the fund. How much she will want, I don't know. It is not unlikely she may take her maximum quota. The alternative to that, which is the same alternative which exists with all countries, and which we wish to avoid, the alternative to her getting foreign exchange is that she will adopt one of two, or both, procedures. One, she will cut down her imports, which is another way of saying we will sell less and everybody will sell less.

Secondly, she will try to increase her exports and if necessary dump on the market whatever goods she has. She could resort to all kinds of arrangements such as Germany and Japan resorted to.

Senator TAFT. You say so many things that I disagree with that I cannot keep up with you and cannot remember the things you say, but it seems to me the argument you are now making is simply the argument that if we don't lend every country a lot of money, somehow or other they are going to stop international trade.

Mr. WHITE. That is not the argument I am making.

Senator TAFT. Why, yes; you are stating that if we don't give Russia these credits they are going to fold up and dump a lot of stuff on our markets. Therefore we have to lend them a lot of money.

Mr. WHITE. I don't think I said that.

Senator TAFT. Mr. Acheson said yesterday that there was a restriction on buying the currency of another member of the fund, and it reads as follows:

The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this agreement.

I suggest what you are saying now entirely eliminates the force of this provision?

Mr. WHITE. I'm sorry I cannot agree.

Senator TAFT. Well, isn't that the necessary conclusion from what you have been saying about war demands and everything being within the purposes of the fund?

Mr. WHITE. No. May I expand a bit on that? Before I do, may I digress to Senator Millikin's question?

I haven't returned to the point you so kindly postponed. I am hoping I will have time to answer all these questions.

The CHAIRMAN. You probably will have to be here tomorrow.

Senator TAFT. Oh, I haven't even begun to question Mr. White. I have a lot of other questions.

The CHAIRMAN. Senator, why don't you spend an evening with Mr. White?

Senator TAFT. Go ahead, Mr. White. There are many technical questions and those are questions which Mr. White is very competent to answer, but I want to know why the conclusion you make isn't that practically any need for money today is within the purposes of the fund and therefore why that doesn't practically nullify this supposed restriction on the granting of money out of the fund to every nation that wants it.

Mr. WHITE. May I suggest some needs that would not be in accord with that?

Senator TAFT. Yes.

Mr. WHITE. Supposing, using the illustration you just used as relevant to some other discussion yesterday, supposing England wanted to buy dollars from the fund in order to permit India to withdraw some of her balances in the form of dollars.

Senator TAFT. Why not? Here is England, not ravaged by war, but trying to borrow money from India to put themselves in an absolutely indefensible position; why isn't the payment of indirect balances absolutely necessary?

Mr. WHITE. They cannot purchase exchange for that purpose. I would be glad to go into the reasons if you want me to take the time, but there is no question as to the fact that it is explicitly excluded. It would be contrary to the purposes of the fund.

Senator TAFT. I see no difference between what you said England cannot do and Russia can do.

Mr. WHITE. You are not questioning the fact, you are questioning the wisdom of excluding capital transactions.

Senator TAFT. I am really trying to show there is no difference, that in one form or another a loan to a country is a loan to a government, and the idea you can separate stabilization and any other loans, except in volume, just doesn't exist. It all comes out of the same pot in the end.

Mr. WHITE. In other words, you don't think it makes any difference what a country uses the fund for. In the same way you would say that if an individual comes to a banker and says, "I want to borrow \$10,000," the banker would say, "Don't tell me what you are going to use it for. The only question I have to ask is, Do I want to lend it?" I think you will find the banker would ask, if he is a competent banker, "What do you want this money for?" There are certain uses that are excluded and the reasons for their exclusion are valid, and I would be glad to discuss them with you.

Senator TAFT. Let me ask you this question: Suppose India says we want this money to buy pounds, representing that it is presently needed for making payment in that currency, and they buy all the pounds they can buy; 6 months later they find that has badly upset the pound and the pound is struggling along, and they need their currency stabilized from the fund. How can you refuse them? They are only paying their debts.

Mr. WHITE. We foresaw that possibility and took care of it by another provision. If a member country pursues a policy which will subsequently make her dependence upon the fund greater than reasonable, if, for example, prior export of capital is responsible for depletion of her reserves, that would be cause for the fund to say to that country, "I am sorry, but you have depleted your reserves for this other purpose. You are defeating one of the purposes of the fund." A country must not act in a way that violates any one of the purposes of the fund. That is why Mr. Acheson, I think, so well pointed out that we have one of the most powerful protective clauses that any lawyer could draft to enable the directors of the fund to protect its resources.

Senator TAFT. Well, I don't agree with that. I don't think it could be weaker or more general.

The CHAIRMAN. Mr. Witness, we are required now over there on the floor to put our names on the roll call. We are going to meet tomorrow at 10:30.

Mr. WHITE. Would it not be possible to go on this afternoon?

The CHAIRMAN. No; we cannot. I have discovered that. I think next week we will be able to, but while this legislation is pending the Senators have told me they have to be on the floor.

Mr. WHITE. Is it possible to appoint a subcommittee of Senator Taft and myself to explore this?

The CHAIRMAN. Why don't you have lunch together? We will adjourn now until 10:30 tomorrow morning.

(Whereupon, at 12:25 p. m., an adjournment was taken until tomorrow, Friday, June 15, 1945, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

FRIDAY, JUNE 15, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Thursday, June 14, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Radcliffe, Murdock, Fulbright, Tobey, Taft, Butler, and Millikin.

The CHAIRMAN. The committee will come to order. We are still hearing from the distinguished Assistant Secretary of the Treasury, Mr. White.

Mr. WHITE. Mr. Chairman, Mr. Ned Brown, of Chicago, is here, and, as you know, he is very busy. We would not like to keep him in Washington idle any longer than is necessary. Would it be agreeable with your committee if I retire in his favor and then as soon as he is through I will be on the stand? I will be here should he get through before the end of the session, or whenever the next session is held.

The CHAIRMAN. Is that agreeable with the committee?
Very well. Mr. Brown.

STATEMENT OF EDWARD E. BROWN, CHAIRMAN OF THE BOARD, FIRST NATIONAL BANK, CHICAGO, ILL.

Mr. BROWN. Mr. Chairman, my name is Edward E. Brown. I am chairman of the board of the First National Bank of Chicago. I was one of the delegates, as I think all of the members of the committee know, on behalf of the United States, at Bretton Woods.

Prior to that time I had been at Atlantic City where the experts of some 18 nations met for about a month. Before that I had been in the Treasury reviewing the record of some of the bilateral discussions which had taken place between representatives of our Government, the Treasury, State, Commerce, and Federal Reserve participating in them, and various other governments.

I have no prepared statement for your committee. Beginning 2 or 3 years before Bretton Woods there was a general recognition that at the end of the war in the case of a great many countries, both those devastated in the war and other countries whose economy had been seriously disrupted by the war, but which had not been physically devastated, that they could not maintain currency systems without some outside assistance. The bilateral discussions revealed a general agreement amongst the various nations that it was desirable to

set up some sort of an international organization to assist in the stabilization of currencies, and make it more feasible for countries to settle their balances on current account.

It was also felt that after the experience of the last war and the experience of the 1930's, that private lending on a large scale for reconstruction and for the development of undeveloped countries could not go forward except under some form of a guarantee, either of our Government or of an international organization; and that it was desirable to set up an international bank for the purpose of encouraging long-term loans by the citizens of countries which were in a position to export capital to countries which could use it advantageously.

Out of the bilateral discussions and out of the conference at Bretton Woods came the two agreements that are before you. The first relating to the international monetary fund is essentially a credit organization—a mutual credit organization.

Each country is assigned a quota. It puts up the amount of its quota in gold or its own currency, principally in its own currency, and in return it receives the right—the conditional right subject to various limitations and restrictions to obtain credit from the fund in the currencies of other countries up to the amount of its quota.

The Bank for Reconstruction and Development is based upon the principle that the export of capital by a country in a position to export it to countries that can advantageously use it, whose productive capacity is increased by getting it, which has reasonable or good prospects of being able to return it, is advantageous not only to the country that loans the money and the country that receives it, but to all other trading and manufacturing countries of the world, because it promotes a high level of international trade.

It was felt that after the experience of the people of the United States with foreign loans in the twenties and thirties and the many defaults that occurred, the people of the United States would not loan money abroad except under some form of a governmental guaranty. That guaranty could be given by the United States by the making of a loan through some organization like the Export-Import Bank, or it could be given by an international organization in which the risk would be shared by all the principal trading countries.

Senator TAFT. Did you say you didn't think it was possible to develop the export of capital without Government guaranty?

Mr. BROWN. Not on any large scale without some sort of guaranty, Senator. While we could do it through the Export-Import Bank, or some other similar organization, since all the other countries of the world would benefit by the export of the capital from the United States and from other countries, it was thought only fair that all the countries should share in the risk involved in the extension of such long-term credit. The bank has met with general acceptance in this country and unless the committee wishes me to discuss it, which I shall be glad to do, I will direct my remarks to the fund.

Senator TAFT. I think it might be a good time to discuss the bank and the policy that is involved in it. That is, if that is agreeable to the chairman—before he goes on to the fund, if he has time to do that.

The CHAIRMAN. Yes.

Senator TAFT. We haven't discussed the bank yet. Do I understand you feel this export of capital is an essential feature of postwar American policy for the benefit and general improvement of the world?

Mr. BROWN. I think it is highly desirable both for the benefit of the world as a whole and for the benefit of our American economy.

Senator TAFT. Would you agree that this Colmer Postwar Economic Report in the House of Representatives, which says, I think, as I remember it, that they believe that we should invest abroad at the rate of—I think it was two or three billion dollars a year for the next—well, 10 years ahead, so far as I can see?

Mr. BROWN. Personally I doubt if our total export of capital should reach that sum. I was one of those who believed that the export of capital if it is made at too great a rate to be in harmony with the economy of this country and in harmony with the economy of the countries receiving it, that it can create debts which cannot possibly be serviced. I think it is difficult to say or predict how many dollars we should export on an average. I have heard statements that exports of capital of as much as five or ten billion dollars a year should be made. I think that is too much. Whether two or three billion dollars is too much, I don't know. If you ask my own personal opinion, Senator, I would say that probably from a billion to two billion dollars a year would be more nearly a desirable amount.

Senator TAFT. This is the statement of this Colmer committee, which, I assume, is in accord with the general Treasury policy:

If these measures are adopted, if the United States reaches a satisfactory solution to its postwar problems, production loans for the sum of two or three billion dollars may be made for some time after the war. Lending of this magnitude would have a lasting benefit both to the United States and the rest of the world.

Then in another place they say, "After a period of 20 or 30 years of making foreign loans and direct foreign investments, the position of the United States will be similar to that of the United Kingdom before the present war." Do you think that is an excessive amount of foreign loans and investment, or not? You say 5 billion a year is too much. Do you think this is reasonable?

Mr. BROWN. I would say it was roughly reasonable.

Senator TAFT. So that would require a loan policy that was beyond anything contemplated in this International Bank, wouldn't it?

Mr. BROWN. I don't think so.

Senator TAFT. As I understand it the International Bank is limited to three billions of dollars, approximately, in their lending policy unless we put in more.

Mr. BROWN. No. The Bank will operate primarily by guaranteeing loans, and it cannot make or guarantee loans in excess of its unimpaired capital. Its capital is approximately \$10,000,000,000, so it could guarantee loans up to 10,000,000,000 in dollars and those loans could be floated in the United States.

Senator TAFT. I didn't understand that. Do you mean to say that American banks could make loans up to \$10,000,000,000 and have them guaranteed by the bank?

Mr. BROWN. Yes.

Senator TAFT. But if loans are made in dollars, they are subject to the veto of our representative on the bank, are they?

Mr. BROWN. They are.

Senator TAFT. Although we only put \$3,000,000,000 in, they can loan 10 billion?

Mr. BROWN. Yes.

Senator TAFT. How do they get the other \$7,000,000,000 in case they are called upon to pay it? Because the other 7 billion is in pounds and Czechoslovakian money and all sorts of money—how do they get the other 7 billion to enable them to make good on any such guaranty?

Mr. BROWN. Well, assuming 50 percent of your loans are defaulted, that would be \$5,000,000,000 which would mean that to make up the \$10,000,000,000 guaranty they would have to collect \$5,000,000,000 from the subscriptions of various countries.

Senator TAFT. In gold or dollars?

Mr. BROWN. In gold or dollars. The subscriptions have to be paid in gold or in the currency in which the guaranty loan is made—we will assume dollars.

Now, take the United States contribution of \$3,000,000,000 and take Canada's and Cuba's, and the United Kingdom, the Scandinavian countries, Holland and Belgium, it is inconceivable to me that you would get a situation where even if the whole \$10,000,000,000 were guaranteed that the guaranty of the bank would not be good. I think the bank is a highly conservative institution in that respect and there was a great deal of criticism of it at Bretton Woods in that instead of having power to make or guarantee loans for only \$10,000,000,000, that is, only equal to the amount of its unimpaired capital, it should have authority to do that for two or three or five times that amount. Finally a fight was made that it should have the right to guarantee up to one and one-half times its capital, but the more conservative view prevailed.

Senator TAFT. Do you think our representative in the Treasury would be likely to approve loans in dollars of over \$3,000,000,000?

Mr. BROWN. Over a period of years; yes. I should say that our representative would not approve loans which would represent an export of capital to a degree that would injuriously affect the economy of the United States. If we were in a boom era and prices were high, you might increase the boom by foreign lending and reduce at the same time the supply of capital available in this country. Under certain circumstances I think they would tend to hold down the amount of dollar loans they would approve very materially.

If on the other hand conditions in this country were such that business was slack and that it was highly desirable that more manufacturing should take place, they might very well adopt a more liberal policy.

Senator TAFT. Do you favor the making of foreign loans by the Government to stimulate manufacturing? Do you think that is a sound economic policy?

Mr. BROWN. I don't know what you mean, Senator, by this question. These loans are to be made by private individuals. They are to be guaranteed by an international organization, of which it is true, we have about 30 percent, but in which all the other governments of the world are met, and I think that it is sound business for such an institution, and I think it is sound business for the Export-Import Bank to guarantee foreign loans.

Senator TAFT. I understand that, but I was questioning whether—you stated one of the reasons for making it was if we didn't have

enough manufacturing in this country—to stimulate manufacturing.

Mr. BROWN. I didn't state that, Senator.

Senator TAFT. Then I misunderstood your statement. That is what I wanted to clear up.

Mr. BROWN. You asked me if I remember it, whether I thought that the representative of the United States on the bank would approve dollar loans to the extent of \$10,000,000,000. I said that I thought he might, that the amount of loans he would approve in any one year would be governed in part by the conditions of employment and prosperity in this country. I think that is correct.

Senator BARKLEY. Right there, I would like to ask, in any policy of loaning money, direct loans by the Government of the United States to stimulate employment, loaning to foreign countries would be wholly outside of this organization—this does not contemplate direct Government loans to other people, does it?

Mr. BROWN. It does not.

Senator BARKLEY. It is a guaranty by this bank of loans made by private institutions?

Mr. BROWN. Yes.

Senator BARKLEY. We might assume that they made loans up to \$10,000,000,000. You certainly could not assume that all of them were going to default and the whole ten billions would go into the sinkhole. The amount of the liability of the guaranty—the ultimate amount of the guaranty would depend on whether any of them defaulted. If none of them defaulted, of course, the capital would remain unimpaired.

Mr. BROWN. That is true.

Senator TAFT. Am I mistaken? Isn't the bank authorized to make direct loans if it wants to?

Mr. BROWN. The bank is authorized to make direct loans out of its own capital paid in. It is also authorized to borrow money and the amount of its borrowings and its guaranties cannot exceed its unimpaired capital. If it loans money in dollars it must borrow in dollars.

In other words, it cannot borrow dollars and make loans that are not repayable in dollars. In other words, it has got to keep a covered position in dollars.

Senator TAFT. What I meant is that it may make direct loans or it may guarantee other people's loans. It cannot do one thing in greater volume than the other. It cannot call in this capital.

Mr. BROWN. It cannot call in its capital except for the purpose of meeting defaults on loans beyond the initial 20 percent which is paid in. It can only call the additional 80 percent for the purpose of meeting losses.

Senator TAFT. So it does contemplate primarily a guarantee system.

Mr. BROWN. Yes.

Senator TAFT. Not direct loans—the direct loaning power is more or less limited; is that correct?

Mr. BROWN. If it found it more advantageous to sell its debentures, for instance, for dollars, it could use the proceeds of those debentures for loans equal to the amount of dollars it borrows.

Senator TAFT. Having called in the 20 percent, do you think it likely, supposing the bank is in operation successfully, is it likely it would try to sell debentures in the United States too, in order to

raise more money for direct loans, or not? What do you think is the probability of the policy?

Mr. BROWN. I think it is quite probable that it might at some time do it. If there were a number of small loans, rather than guaranteeing loans to Guatemala, or some other country, of \$500,000, it might lump a number of loans and make a sale of a five or ten or fifty million dollar issue of debentures. I think the probability is that the greater part of its operations will be by guaranteeing loans of other countries, but I think it will probably also sell a certain amount of debentures. It cannot sell debentures payable in dollars or float debentures payable in any other currency in the United States without the consent of the United States representative on the Board and it has to maintain a balanced position as to any obligations it incurs and the loans repayable to it, so that if it loans dollars it would have loans equal the amount of its own obligations repayable in dollars.

Senator TART. Debentures like that would be pretty much sought after in the United States, probably, wouldn't it? I mean it would be a pretty good security.

Mr. BROWN. I should say that with the conservative limitations put upon the bank, in the present money market a loan guaranteed by the bank, or a debenture of the bank, would probably sell on a 3-percent basis. That is a matter of judgment and future money market.

Senator TART. Do you favor in addition to this bank, the enlargement of the Export-Import Bank? Would you contemplate that that bank also would in effect make or guarantee permanent investments in foreign countries?

Mr. BROWN. Did I state I favored enlargement of the Export-Import Bank?

Senator TART. I thought you mentioned it. I don't know. You mentioned it as being a supplement to the International Bank; whether you meant to enlarge its capital, or not, I wouldn't say. But its present capital is only \$750,000,000 and is pretty much used up, so I assume that it would have to be enlarged.

Mr. BROWN. You ask me the question if I do favor the enlargement of the Export-Import Bank, and my answer would be yes, but when you put a statement into my mouth that I didn't make, I don't like that.

Senator TART. Well, that was not intentional. I am sorry. I thought that was in accord with the general policy that has been advocated of increasing it from \$750,000,000 to \$2,200,000,000, or some point that has not been decided on. However, what I wanted to ask was whether you thought part of this foreign investment should be made through the Export-Import Bank as well as what is made through the International Bank.

Mr. BROWN. I think there are certain types of transactions which should be made through the Export-Import Bank rather than through the International Bank for Reconstruction and Development.

Senator TART. What are those? We will probably have that bill before us? What are the types of investments to be made in that way?

Mr. BROWN. I should say for instance, if Mexico wanted to import a considerable amount of American agricultural machinery for the purpose of reselling it to its agricultural population and that it would have to take the notes of its farmers payable over 2 or 3 years,

much as agricultural implement dealers give time to farmers in this country on the purchase of agricultural implements, that such a loan with the term running 2, 3, 4, or 5 years, the proceeds of which were to be used exclusively for the purchase of American manufactured goods is the sort of an operation which ought to be taken care of by the Export-Import Bank.

Senator TOBEY. In other words, short-term uses instead of long-term security?

Mr. BROWN. I would say shorter loans. These long-term loans are the sort that would be bought by insurance companies, trust companies, and individual investors. They do not like to buy obligations payable in 3 or 4 years.

Senator TART. As I remember the Export-Import Bank made a loan to Brazil in connection with the building of a steel mill. Would you think that that kind of a thing would now be transferred to the International Bank and reserve the Export-Import Bank for short-term stuff?

Mr. BROWN. I don't know about the details of that loan, although we hold part of it in our bank under the guarantee of the Export-Import Bank. I would say that sort of a transaction would normally go to the International Bank for Reconstruction and Development rather than the Export-Import Bank.

Senator TART. Have you any views on the Export-Import Bank as to whether its loans should be made to governments or guaranteed by governments, or whether it should be made in the ordinary functions of export trade to private individuals? This Mexican case you mentioned is a loan to the Mexican Government to enable it to finance its growers. Do you think it should be confined to Government loans, or not?

Mr. BROWN. Well, I would say that the loans ought to be made as in the case of the Brazil Steel Co. and in many cases, to private firms. I think in every case the guarantee of the government or the central bank of that government should be required. My reason for that is that unless you get such a guarantee you have no assurance that the exchange will be made available to pay the interest and amortization of your loan; but either in the case of the International Bank for Reconstruction and Development or the Export-Import Bank the loans would be made to private corporations or municipal corporations, but the guarantee of the government, of the central bank, would be required primarily to insure that the exchange would be available and also to give the benefit of greater security to the loan.

Senator TART. I thought under the International Stabilization Fund exchange would be always available to governments making loans. Do they impose any restrictions on private transactions of normal character?

Mr. BROWN. There is an express provision, I think, that presently existing exchange controls can be maintained during the transitional period of 5 years. There is also a proviso that the resources of the bank shall not be available for capital export.

Senator TART. Yes; that is true; but the question of exchange—it seems to me the purpose of this was so that you could be sure there would not be—the purpose of the fund is to assure you you won't have that—I don't think it would do that—certainly not for 5 years. So I

think the argument you make for the Export-Import Bank asking a Government guaranty was probably sound.

May I ask one other thing? One of the general arguments for this is that it will produce peace in the world. I am a little troubled by this theory of exporting capital so that we own billions of dollars of property all over the world—haven't we experienced that that has created hard feelings? We have been absentee landlords and they are always accusing us of exploiting people. Isn't it likely to build up hostility to us rather than any genuine friendship?

Mr. BROWN. You say that has always been the result. I think our largest export of capital from the United States has been to Canada. I should say our relations with Canada have been greatly benefited by the fact that American citizens have invested very large sums of money and they are deriving large returns from their investments in Canada. I think the same thing has been true in a good many other countries. I am quite willing to agree with you, Senator, if we go to a South American country and representatives of the bond-house bribe the government to make a loan at very high interest rates and then the money is spent by contractors and a large part of it is wasted, or perhaps it is used to build an opera house, assuming the opera house was built without graft, but the loan was unproductive, that when you come to collect the interest and principal on such loans, that it does result in hard feelings. I think that loans that are made with the proviso in the International Bank for Reconstruction and Development, that the purposes of the loans shall be carefully looked at; that they should be of a nature to aid the productive capacity of the country and ability of the country to provide more goods for exports and thereby obtain more foreign exchange—I think that international investments properly made help international relations. I think the relations between England and this country were greatly stimulated by the fact that for 50 or 60 years English capital played a great part in the development of the Central West and Far West of this country.

Senator TAFT. Do you think that improved feeling toward England in the Central West?

Mr. BROWN. I do.

Senator TAFT. Well, I certainly do not. I went down last year to Puerto Rico. The American sugar companies in Puerto Rico are the target of every Puerto Rican politician as having exploited the people of Puerto Rico. I don't think it is true.

Today in Cuba, the fact that we have invested large sums of money in Cuba is the principal argument of the tremendously growing communistic movement in Cuba today. It enables them to build up feeling against the United States and American capital.

Senator MILLIKIN. May I interrupt?

Senator TAFT. Surely.

Senator MILLIKIN. Mr. Brown, is the line of distinction perhaps between countries that have a standard of living comparable to ours and those countries which have a very, very inferior standard of living in comparison? For example, you mentioned Canada. We have much the same outlook and a relatively comparable standard of living. We don't have those same stresses and strains that Senator Taft mentions in Puerto Rico where we have a revolutionary move-

ment because people are oppressed. Isn't the distinction to be found in the conditions in one kind of a country as distinguished from the other?

Mr. BROWN. I think in Puerto Rico you have political domination by the United States. I think in the case of countries like Argentina where there are very large American investments by meat-packing concerns owned in the United States and where the standard of living is certainly lower than it is in this country, that the investment of money down there which has greatly increased the productive facilities of the Argentine, has tended to promote good feeling.

Senator MILLIKIN. May I ask one more question?

Senator TAFT. Surely.

Senator MILLIKIN. Is it the intention of the bank to attach social conditions to its loans? For example, let us assume we made a loan to X to the south of us for the construction of a steel plant. Would there be any conditions attached to the loan regarding the wages paid to those who build the steel plant and the wages paid to those who operate the steel plant? Would there be any condition of that kind attached?

Mr. BROWN. None are set forth in the document. There were certain people at Bretton Woods, certain technical advisers and volunteer advisers, even to the American delegation, who thought that it would be desirable to impose conditions regarding labor unions and wage rates and other things. Once the loan is made the money can only be spent on an audited system of vouchers. Generally speaking, the only amount that can be loaned is money required to pay for the foreign exchange which is required to pay for the imported articles that go into the project. For instance, if we loan money for a railroad in Brazil we would loan them money for the rails and signal equipment and locomotives. We would not loan them money for the labor to build the track or the ties or for the station buildings, which the country would have to provide out of its own capital resources.

Senator MILLIKIN. In addition to the charge in the country where we have made the loan that our money would be used to oppress people, I am wondering what the effect would be in this country on some segments of our population. Would they feel we were using our money in foreign countries to obtain substandard wage rates, and so forth? In other words, would you be building up agitation in our own country through the use of our money in foreign countries?

Mr. BROWN. I cannot see any possibility of that. If you loan money for the purpose of developing foreign countries or opening up their agriculture, or for the purpose of aiding in their industrial developing, the natural effect of that would seem to be to raise the standards of living in those countries.

Senator MILLIKIN. What was specifically in my mind was that in a number of loans we have made to the south of us during the war in order to encourage the production of war essential minerals we have attached in one way or another provisos for wage scales which are substantially higher than those which prevail in the country getting the loan. That has resulted in quite a lot of internal trouble in those countries. I am just wondering not only what the effect there is going to be, but what the effect here of loans of that kind might be.

Mr. BROWN. Well, there is nothing in the bank proposals which would justify the bank interfering with the wage scales or union conditions of the people engaged on the project.

Senator MILLIKIN. Like all bankers, they could interfere as bankers do, if they wanted to; couldn't they?

Mr. BROWN. I wouldn't say that because the money which is loaned is to be used to pay for foreign exchange for imported articles in connection with the project. It would not be used to pay the local labor on the project. If we loaned money to Brazil, for instance, in order to pay for rails imported from the United States and from England or a signal system imported from Sweden, I cannot see how it would affect—how we could possibly impose any labor conditions on Brazil in connection with the project.

Senator MILLIKIN. That would be outside of the functions of the bank, would it?

Mr. BROWN. One of the defects in international loaning in the twenties, particularly as it applied to South America, but it was also true of Germany, that no differentiation was made between the loan of money needed for the foreign exchange in connection with development projects and loaning them money required to pay for purely local expenditures for labor and home-grown supplies.

Senator RADCLIFFE. Mr. Brown, whenever loans are made by a bank or any institution, there may be indirect results affecting social conditions. That would apply in this country or any other country. But it seems to me to be rather unreasonable to expect a bank to so guide its policy because these indirect results might come about.

Senator TAFT. Don't you think there are a lot of people in the Government today who would like to use that to raise wages? I don't say it is a bad thing. I am just asking whether you don't think that is likely to happen.

Senator BARKLEY. Mr. Chairman, what is the use of speculating about what some individual banker might want to do, or what his motive might be? It seems to me to be using up valuable time. I would like to have Mr. Brown get into the fund, if he has said all he wants to about the bank.

Senator TAFT. I haven't quite finished my questions about the bank.

The CHAIRMAN. Well, Mr. Brown suggested that this last matter we were discussing had nothing to do with the provisions of the articles of agreement for the bank.

Mr. BROWN. I am glad to answer any questions about the bank, but you know better than I do what sort of people are employed by the Government. I don't live in Washington, and you do.

Senator TAFT. Well, I will have to draw my own conclusions from that.

Senator BARKLEY. I think it ought to be said that on the whole they are not below the average of American citizens.

Senator TAFT. Of course, it is true when a man makes a loan of money he can attach any condition to it that he sees fit; that is, he has that power. Under this International Bank they could impose conditions if they wanted to; whether it would be wise or not we cannot judge at the present time.

Mr. BROWN. Yes; and they will impose conditions such as that the money has to be used for purchase of imported material, since the loan is designed to provide foreign exchange. They will impose con-

ditions that the project has to be useful, to increase the productive capacity of the country.

You ask me whether they are going to impose conditions about wages and working conditions, union conditions, and I would say there is no intention in the draft of the document that they should do that.

Senator TART. Mr. Brown, I only want to suggest that international investment on such a scale as this, it seems to me, would make trouble. You brought up the question of Canada. In Canada American money is looked upon practically as Canadian money. There is such close friendship between the countries there is not likely to arise any feeling. But in other countries it is always a question. The moment a foreigner comes in, that fellow is a foreign devil, or he is exploiting their people, or he is an absentee landlord.

I only wanted to suggest that that kind of thing carried on on such a tremendous scale as seems to be contemplated here—I am just wondering whether that would not be productive of more hard feeling than it would be of peace.

Mr. BROWN. It is my opinion that international investment on a scale that increases the productive capacity of countries who cannot provide their own capital, which advances their development by many years, if it is made on not too large a scale and is made for productive purposes, will increase international good will and good feeling.

Senator TART. Just as another instance of what I had in mind, besides Cuba, there is Mexico. Apparently the feeling against American investments in Mexico and the ill-will was so great that the government confiscated all American oil wells. How are we going to guard against that in the postwar period, against the confiscation of American investments or international investments? How can we prevent a continuation of that?

Senator BARKLEY. Isn't there quite a difference between a loan made by this International Bank for development purposes and the private exploitation of foreigners going into a country and gobbling up all their natural resources, which is what happened very largely in Mexico?

Senator TART. Since Senator Barkley interrupted me, may I say I cannot see any difference between foreigners going in on their own and gobbling up resources on the one hand, and on the other hand, gobbling them up on the guaranty of an international bank? It is both gobbling up resources.

Senator BARKLEY. In the latter case the exploiting would take place by the citizens of the country where the money was borrowed and not by somebody on the outside. If you go on the theory that anybody who borrows money is going to be mad at the lender, the Government of the United States probably is awfully sore at everybody in this country because it is borrowing a lot of money from all of us.

Senator TART. This is not a question of borrowing money. It is a question of foreigners coming in and owning your big plants and resources. This is not only an International Bank; it contemplates American investments all over the world as I see it, and I want to suggest that while some of that is all right, if it is not carried to extremes, I think it is going to make more trouble in the world and more hard feelings than it will do good and promote peace in the world. You don't agree with that.

Mr. BROWN. I don't agree with that. I happen to have been in Mexico a great many times. I don't agree with your Mexican analogy at all.

Senator TAFT. Well, if Mexico had done that to us and we had been some other country—if they had taken and confiscated our oil wells and we had been some other country that I know of, we would have gone to war about that. It would have been a cause of war, the fact that they had confiscated our citizens' property in Mexico. It happened that we had a Government determined to be at peace with Mexico and trouble was avoided, but that kind of thing might easily lead to war, as I see it.

Mr. BROWN. Then I would say that a loan guaranteed by the Government or by the Central Bank of the Government, as provided in the International Bank for Reconstruction and Development would give you a safeguard against a charge that you had gobbled up their natural resources. We canceled a lot of investments of various oil companies in Teapot Dome and Elk Hills after they had been made. I don't want to go into a discussion of the Mexican oil situation, but at least the Mexican Government claimed a good many of those oil concessions had been obtained by means of—

Senator TAFT. The International Bank will have a representative, won't they—

Senator BARKLEY. Let him finish his sentence. By means of what?

Mr. BROWN. By fraud.

Senator BARKLEY. Yes.

Mr. BROWN. And bribery.

Senator BARKLEY. Anyhow, this International Bank will not be loaning money to Americans to go into some other country to develop and exploit it; they will be making those loans to some foreign agency, will they not, to develop its own country?

Mr. BROWN. It will probably loan it to some Mexican corporation, privately owned, possibly municipally owned, perhaps some province, perhaps to the Government itself.

Senator TAFT. It might be either, might it not? It might be an American who had obtained a concession from China, we will say, to go in and build a mill in China?

Mr. BROWN. It could be.

The CHAIRMAN. At Bretton Woods we talked about international cooperation. We were quite insistent we were going to have that, too. We are not talking that way here now.

Senator BUTLER. In the making of loans internationally the psychology isn't any different from making loans domestically by your own bank. If you owe a loan and you get in trouble you are not making friends with the banker. The banker is generally a pretty good fellow until collection day comes along. Of course, if he has made a good loan in the first place he may keep the friendship, but otherwise the borrower isn't very friendly.

Mr. BROWN. Well, I can only say that I have loaned a lot of money as a banker and that I still count most of the people who borrowed money from us amongst my friends.

Senator BUTLER. Well, you made wise loans.

Mr. BROWN. I have had people blame me for loaning them too much money, particularly people who thought I ought not to have

loaned them any in 1928 and '29, when they were very anxious to borrow it.

But, generally speaking, I think a bank grows through its customers who have borrowed from it and who remain friends of the bank.

Senator BARKLEY. If this is the only day in which Mr. Brown can appear here, I think we ought to get down to the fund.

Senator TAFT. May I suggest that while the bank is less controversial, it involves in some ways a more fundamental departure and has greater bearing on the general question of the future foreign-trade policies of this country than the fund over a long period. I think that is very important. I don't think it should be neglected. It has been neglected from the very beginning. It was dragged in as a sort of a stepchild. I don't see how there can be any objection to investigating the policy of the bank which is a part of American foreign investment.

Senator MILLIKIN. I think the point is that this particular witness has to leave and we want to get some testimony on the fund from him.

Senator TAFT. All right. I have finished, as far as I am concerned.

The CHAIRMAN. Very well. We will go to a consideration of the fund now, Mr. Brown.

Mr. BROWN. Well, I have taken part in a great many discussions in a great many places on the fund. I have heard, I think, almost every possible objection which can be raised to it. I think the objections to the fund in the last analysis center around two things, on the part of informed critics of it.

First, the fund is a kind of novel loaning institution in that it is not up to the management to determine who shall have credit and to impose—if they give credit—such conditions as they see fit, but the borrower has a restricted and conditional right to borrow money up to the amount of its quota. That is an idea which is opposed to the general thinking of bankers, of whom I happen to be one, and businessmen who believe that the lender should have the right to make or refuse a loan; should have a right if he makes a loan to impose any conditions that he wants on the making of the loan.

If I could set up an International Monetary Fund and leave that discretion in the hands of the fund management and get the other nations of the world to join in it and put up their share of the capital required for it and to assume their share of the risk, I would be in favor of doing so, but I think to anybody who took part in Bretton Woods, who took part in the Conference and heard the representatives and experts of other countries at Atlantic City, who settled nothing, but put forward their views, who have gone over the record of some of these bilateral discussions, would realize that he could not have gotten any great proportion of the various nations of the world to go into an international stabilization fund unless their rights of access to it were defined. Their rights of access to the fund are not automatic as some people state. They are subject to a good many conditions and restrictions.

A country cannot take more than 25 percent of its quota in any one year. It must borrow the money for the purposes of the fund and represent that it needs the money for the purpose of settling transactions on current account.

The fund management has the right to refuse even initial access to the fund if it finds that use of the resources of the fund would be contrary to the purposes of the fund and injurious to its other members. The agreement necessarily is a compromise between the point of view of leaving absolute discretion in the management of the fund and giving an absolute right of access to the fund on the part of the members. I think the restrictions are such that with proper management they will work. I think the interests of the various countries in the fund, not alone of the United States, are such that they will see that the restrictions and conditions are not violated.

The second greatest objection to the fund, or the one most often urged, is the objection that the whole thing is premature, that you cannot possibly have currency stabilization until the world is settled down, until various countries have balanced their budgets, until they have built up a balanced state of trade where their exports and imports, including services on both sides, balance each other, till the danger of internal political upheaval is past.

Again, the question comes that the condition of a great many European war-devastated countries, the condition of a great many countries whose economies have been completely dislocated by the war, is such that without outside assistance they cannot on their own resources set up a currency which their own citizens will accept and use as a basis for even short-term transactions. They cannot have a currency which will have such a relative stability that their people will be willing to engage in foreign trade, manufacture for export, or make contracts to buy goods for imports, because they do not know what their costs may be or what prices they will get if the exchange value of their currency fluctuates rapidly. And unless something is done it is my belief that you are going to have a continuing chaotic condition in those countries and that they will inevitably go to some form of totalitarian government, simply because it will be the only way that their people can get food to eat. And I think that if such a thing happened apart from the destruction of any possibility of increase in foreign trade it would increase military and naval expenditures on the part of the United States that would cost us far more than any possible risk that is involved in our contribution to the fund.

Senator TAFT. I do not quite understand. What military operation do you refer to?

Mr. BROWN. I would say, for instance, that if another war broke out—

Senator TAFT. Oh, well, if another war broke out, I agree it would be infinitely more expensive. I thought you said something growing out of a particular country that went Communist or something of the kind, or was disturbed by failures.

Mr. BROWN. Well, I think that chaotic economic conditions in a country produce civil wars and civil wars are apt to produce wars between nations.

Senator TAFT. I think that is right.

Senator MILLIKIN. Mr. Brown, would this be a correct statement of your thought, which I think is a very interesting one: That as you

have an increase in totalitarianism our own military risks increase; therefore we have to spend more for armament, and so forth? Is that your theory?

Mr. BROWN. I think so. I would put it this way: As unsettled and revolutionary conditions and wars in other parts of the world increase, our own necessity for expenditures on armament increases.

Senator MILLIKIN. In other words, in the absence of actual involvement in war, necessarily we would have to increase our expenditures for military preparation due to the increased tensions in the world due to the things you are talking about?

Mr. BROWN. Yes, sir. It seems to me that you simply cannot wait before you do something about it. Now, it is perfectly true that we as a government, through lend-lease or some other device, can give great quantities of money to various countries through direct loans, subsidies, what will you; but it seems to me that going into the International Monetary Fund is a much cheaper and a much less risky way of bringing about a result which is very necessary for the self-interests of the United States, because I think we do need foreign trade. I do think we do want to avoid chaotic conditions in the rest of the world, in our own self-interest. Unless you have some relative degree of currency stabilization, you won't have any great volume of foreign trade, and you will have very heavily increased military expenditures.

Senator MILLIKIN. Mr. Brown, you say that from the standpoint of a Senator who is trying to pass unbiased judgment on the matter, he has to decide whether these particular measures together with the whole program of foreign help will tend to halt or at least ameliorate the progress toward Communist or other totalitarian forms of government, or whether we are simply throwing a bucket of water into a great conflagration and wasting it; isn't that true? From our point of view isn't that one of the things that we have to consider? It is your theory, as I understand, Mr. Brown, that doing these things will halt or have a tendency to soften these revolutionary movements. Against that might be the argument that what we are proposing to do here is just a wasted bucket of water in a great conflagration.

Mr. BROWN. Well, I think that unless the United States by one means or another assists other countries who by themselves find it difficult, if not impossible, to maintain currencies which have relative stability and which can be used as a basis for calculations by their nationals and by our people in foreign trade, that we will suffer a tremendous loss both because we won't have export trade and also because we will be put to much greater military expenditures. I cannot predict that the adoption of the Bretton Woods plans is necessarily going to prevent the development of totalitarian governments. I think it will have a tendency to prevent chaotic conditions developing abroad and will consequently greatly increase the chances of a peaceful and cooperative world in the future. Nobody can say absolutely that this, that, or a whole collection of things will perform that result.

Senator RADCLIFFE. Mr. Brown, even though the viewpoint that this is merely a bucket of water is not overpessimistic—it seems to

me that it must be—has anyone brought forward any suggestion in regard to replacing the Bretton Woods propositions with anything which would seem or promise to be effective or efficient?

Senator MILLIKIN. If you are directing the challenge at me, Senator—

Senator RADCLIFFE. No.

Senator MILLIKIN. I would answer it in this way—

Senator TAFT. I call your attention to the proposals of Mr. John H. Williams, of the New York Federal Reserve Bank, for a key currency approach. There are other plans. There were other plans proposed before this became a central feature, weren't there Mr. Brown?

Senator RADCLIFFE. Yes; I know there were other plans proposed, but I wondered if anyone felt that they were an adequate substitute for these, whatever they may be worth.

Mr. BROWN. There have been plenty of plans, Senator. No. 1 is the question whether this plan is better than other plans. Question No. 2 is even if you thought the other plans were better than this plan, whether there would be any chance to get the other plans adopted.

Senator TAFT. Well, the only suggestion was that there was no other plan. I just wanted to clear that up. That is all I was answering, all I was suggesting.

Senator RADCLIFFE. I did not suggest there wasn't any other plan. I suggested whether there was any which would promise to be more nearly adequate than this. That was the point I had in mind.

Senator TAFT. May I ask this, the thing that occurred to me in connection with the bucket-of-water argument of the Senator from Colorado; isn't half of this thing wasted? I mean nations are entitled to draw down their money whether they need it or not, as I see it. They are entitled to draw down for purposes not connected with currency stabilization. Isn't your own statement on Russia, for instance, that undoubtedly this will be used to buy machinery in this country—isn't that a statement that has little relation to currency stabilization—that particular billion two hundred million?

Mr. BROWN. Well, I would say it depends—I think my language was that Russia would undoubtedly use its quota in the fund to pay for imported capital goods, principally from this country, which it desired for its economic reconstruction, and that this would not be regarded as for strictly stabilization purposes in the general use of the word "stabilization."

Senator TAFT. Well, isn't it—

Mr. BROWN. But again, you take the case of Russia, and defining what you mean by "stabilization purposes," the purpose of the fund is to take care of the country's situation where the balance of payments is upset but which within 2, 3, 4, or 5 years you can reasonably expect will have it restored. If Canada should have a couple of severe crop failures in 2 successive years, it would be regarded as entirely proper, within the purposes of the fund, to advance the money to Canada.

Senator TAFT. Yes; but what I mean now, 1.2 billion—I mean \$300,000,000 a year to buy capital goods and build plants is a permanent loan, isn't it? It is not any stabilization. It is not any temporary stabilization question. That is permanent. That is, the cost. That is a permanent loan.

Mr. BROWN. It is a permanent investment. Whether it is a permanent loan depends on how soon Russia would be able to pay it off.

Senator TAFT. It is the kind of loan we have said was the proper thing for the bank to undertake, isn't it?

Mr. BROWN. It would be, but I mean suppose that you say building plants; Russia will, in addition to building plants, undoubtedly want to buy tremendous quantities of agricultural machinery which have a life of 3 or 4 or 5 years.

Senator TAFT. That is Export-Import Bank business, but that is not currency stabilization, I mean, as I see it; is it?

Mr. BROWN. It depends what you mean by currency stabilization. I think that I have nothing to retract—that I would say it is not strictly a stabilization loan. On the other hand, you can take the viewpoint or argue it, if you want to, that if Russia had been devastated by a crop of locusts, and its principal article of export was wheat, and it had no wheat to export, that it would be a stabilization loan to give it the money, to wait until it got next year's crop. If Russia has been devastated by German armies and wants to borrow money which it feels it can repay in 3, 4, 5, or 6 years, and is willing to undertake to repay it, for the purpose of getting its agriculture going and getting itself in a position where it can export goods, it seems to me that it would be a proper thing for a short-term loan.

Senator TAFT. The only thing, it seems to me, though, Mr. Brown, that that kind of argument just confuses the whole thing between capital loans and temporary loans and stabilization loans. Surely they are all for the same purpose. Personally, I think it is all in the same pot. I think the whole question is how much money Russia is going to borrow and when they will pay it back. I don't know when they will pay it back, but what I want to suggest is that, as far as this fund is concerned, Russia is really—that 300,000,000—that billion two hundred million seems to me to be wasted as far as currency stabilization is concerned. They don't need it for that purpose. As a matter of fact, Russia has no currency, have they? I mean they have no private ownership at all?

Mr. BROWN. Oh, yes; they have money in Russia.

Senator TAFT. They have no private ownership?

Mr. BROWN. Yes.

Senator TAFT. Well, put it this way, then: All trade is done by the Government with foreign countries outside? That is the only—

Mr. BROWN. I would say all trade is run through Government-controlled companies with state monopoly. So with manufacture.

Senator TAFT. And so when you talk about removing restrictions on trade, you do not remove them in Russia, do you?

Mr. BROWN. You do not.

Senator TAFT. They can just refuse to take your goods if they don't want to take them, and nobody else can take them. That is not an exchange restriction, because they do not restrict it; they just do not buy your goods. Isn't that correct?

Mr. BROWN. That is perfectly true.

Senator TAFT. So that as far as Russia is concerned we cannot achieve the removal of the depreciation of currency; we cannot achieve the removal of restrictions on exchange. They can run their foreign

trade the way they please, and the Government is the only person who runs it. Isn't that correct?

Mr. BROWN. Well, when you say depreciation of currencies, I would say that they can run their foreign trade in any way they wish to run it. They can buy from whom they please and sell to whom they please.

Senator TAFT. Well, isn't it true that as far as the stabilization question is concerned, from any technical standpoint Russia should just have been left out of it? I see why they can't be. I don't object to their being included, but I only wanted to suggest that a lot of this 8 billion 800 million or our \$2,750,000,000 is wasted under this present situation; that if we took that whole thing and applied it to maybe one-third of the countries that are in the fund, we perhaps could help those countries to solve their whole problem with this money; whereas now those countries will get a little piece of this fund, and then it is going to have to be supplemented by large loans or other arrangements. Isn't that a fairly correct statement of the whole effect of this?

Mr. BROWN. No; I wouldn't say it was. I would say that a country which has a system of state trade doesn't in a strictly technical sense need stabilization funds or have a stabilization problem. Obviously, if all trade is under the control of the government, they can balance imports and exports by starving their people, if they want to, and buying less, or they can sell goods at a loss to produce funds for export if they want to. I do think, and I understood you to say that you think, it was desirable to include Russia in the fund.

Senator TAFT. If you are going to have this kind of a fund, the international fund, you have to include Russia. From a political standpoint I can see it has to be done. I just think it is a necessary result of this kind of a fund which throws away some of the money as far as the purposes of the fund are concerned.

Mr. BROWN. I don't—

Senator TAFT. It dissipates a large part of the fund.

Mr. BROWN. I don't think it throws it away, because I believe myself that Russia can and will pay back its advances from the fund.

Senator TAFT. Well, I do not mean that it will not be repaid. I don't mean to say that. I meant to say that it is wasted as far as this immediate currency stabilization problem is concerned. That is what I was suggesting.

Senator MILLIKIN. Mr. Chairman, may I ask Mr. Brown a question?

The CHAIRMAN. Certainly.

Senator MILLIKIN. Mr. Brown, I am somewhat concerned with the effect of the operation of this fund on the tariff or export and import policies of the country. In theory, if you give me the right to regulate the value of our money, I ipso facto have control over our exports and imports. Now, we are delegating to this Board that has charge of the fund the power to establish the relative values of money. Are we not by that token granting that Board power to regulate the export and import policies of the world, interfering with the power, let us say, of this country to regulate our own export and import policies by congressional action or congressional delegation, keeping in mind for the purpose of my question that we do not control the fund; we only have 30 percent, or something of that kind, of the voting power of the fund.

Mr. BROWN. Well, in the first place, the values of all currencies are stated in terms of gold, and it is expressly provided that the fund cannot change the gold value of any country's currency without the consent of that country. The fund could no more change the gold value of the dollar, of the pound, than I could. If a country wants to change the gold value of its currency, it has to consult with the fund; and, with certain small exceptions, if it acts without the fund's consent, it can be denied the use of the resources of the fund.

Senator MILLIKIN. But from the—

Mr. BROWN. I don't see, as far as the value of our money or the desirability of American dollars is concerned, that the fund has got anything to do with it. If you mean that in the long run, if a country loans money abroad, whether it loans it through participation in this fund or directly or in any other way, that it can only get it back by taking goods or services or gold, I would agree with you. If you loan money abroad, you can take repayment in goods or services. You can take repayment in gold. But there isn't enough gold to go around. Ultimately you may get more than you yourself want. You can loan more money for the purpose of paying interest on the obligations you already have and for the purpose of covering the export of more goods, but finally you get tired of loaning money, and then you have either got to stop exporting or lose your money.

Senator MILLIKIN. One of the things, as I understand, we are trying to remedy is the manipulation by countries of their currencies to affect their foreign trade. Aren't we doing the same thing at least initially when we establish the relative values of moneys of the countries?

Mr. BROWN. No; I would say not. The initial value has got to be established by agreement between the country and the fund. In the case of a country which really sells and buys gold at a given level, the value is automatically determined by that fact. In the case of a country which doesn't buy or sell gold, or isn't prepared to, at a given level, which is on a completely inconvertible basis, the fund and the government of that country have to agree on a value; and the fact that you have an international body or group agreeing on the value of other countries' currencies initially would, I hope, mean that the value of those currencies would be determined as well as could be. I realize that under present conditions in the world it is very hard, if not almost impossible, to set a value on a great many currencies, and that a great many of the initial values will inevitably have to be changed up or down.

Senator MILLIKIN. Let me put it to you this way, Mr. Brown. Let's assume that the fund, by some stroke of miraculously good judgment, is able to establish the proper relationship of all currencies to each other. Will not that determination affect the export and import situation of each of the countries whose currencies have thus been valued?

Mr. BROWN. Well, the valuation of a country's currency in relation to the terms of other currencies necessarily plays an important part in determining the course of its imports and exports, but I don't see what the initial determination by the fund has got to do with the question, because the country and the fund have got to

agree on an initial value. If they don't agree, the country doesn't participate in the fund.

Senator MILLIKIN. I am willing to assume, for the purpose of discussion, that the fund makes a miraculously accurate determination of the respective relative values; but, once determined, and every time that it is changed, if it be changed, my thesis is that we are affecting at the same time the relative position of each of those countries in relation to world trade. From that I take the next step—and I am just speculating here to clarify my own mind. From that I take the next step; that to the extent that the fund does that, it interferes with the other controls that the countries may have over their export and import business; that in our own case that control is in Congress, and in our own case so far as the fund is concerned we will be in a minority position. It do not know whether there is anything to it, but I just want to get the benefit of your vast experience.

Mr. BROWN. Well, they cannot change the gold content of the dollar. So that, taking the mass of the other world currencies—and they have to be expressed in terms of gold—I don't see how any action of the fund would affect the question.

Senator TAFT. Let me ask you specifically, Mr. Brown—

Senator FULBRIGHT. May I ask Mr. Brown, Mr. Chairman, one or two questions?

Senator TAFT. Oh, excuse me. All right.

The CHAIRMAN. Very well.

Senator FULBRIGHT. I have one or two questions.

Do you feel that there is any substantial chance of the loss of the amount we put into this fund? Do you agree that this is better protected than the amount of the risk in the bank?

Mr. BROWN. Well, I would say that the fund—I am not talking about the dollars in the fund alone. Undoubtedly the greatest demand by other countries is going to be for American dollars. I mean the American dollars will go out of the fund in large part, and they will be replaced by other currencies. If we are willing to receive imports and if we are willing to receive services of other countries in a sufficient volume, the thing ought to get into balance, and the dollars would not become scarce. If all the dollars in the fund were used up and dollars were rationed, and we decided to get out, our money would be frozen, if you want to put it that way, in a lot of other currencies; sterling, Canadian dollars, Mexican pesos, what will you. Maybe in francs, Polish, or other currency. We would be entitled to get those other currencies at their gold parity with the dollar, what they were then worth, which means that if we were willing to accept payment in goods or services we could collect our money. If we are not willing to accept payments in goods or services, there probably won't be enough gold to get payment in, and we will be sitting with a frozen claim but not a lost claim; and even the only place where I would feel danger of final and ultimate loss would be in the event of another general war or—

Senator TAFT. How about another general collapse like that of 1932 and 1933?

Mr. BROWN. I do not think that that would do it, because we might freeze, but I do not think that our collapse in '31 and '32 would

have been nearly so great if we had been willing at that time to have taken imports from other countries. We were not.

The CHAIRMAN. The tariff prevented that.

Senator TAFT. Well, no. Wait a minute. We were willing to have bought \$4,000,000,000 worth of goods in 1930. That was when the collapse was going on—after the collapse; is that true?

Mr. BROWN. The stock-market collapse had started, but not general business.

Senator TAFT. 1929. 1930 was fairly poor, too.

Senator FULBRIGHT. The operation of this fund successfully would be inconsistent with the recognition of a high-tariff exclusive policy on the part of this country, wouldn't it? It contemplates a reasonably free flow of trade, does it?

Mr. BROWN. Well, it depends what you mean by a high tariff. I mean if the country—if we loan money abroad, I don't care whether we do it privately or whether we loan it through the International Bank or loan it through the fund, in the long run unless we are willing to take imports and services we won't get our money back, and—

Senator FULBRIGHT. What I mean by "high tariff" is—

Mr. BROWN. I think that you can have a high tariff on certain articles, and if your total imports are great enough, why, you will balance up. If you have a high level of employment in this country, our past history has always been that even against pretty high tariffs we have imported things like fancy English woollens and French perfumes and German china and a lot of other things.

Senator MILLIKIN. A large free list.

Mr. BROWN. We have a large free list.

Senator TAFT. Are you through, Senator Fulbright?

Senator FULBRIGHT. One other thing. There has been a criticism that the period of these loans is too long, that instead of—I understand in the House this matter was argued, and I would like to hear you comment on it: That instead of contemplating, I believe they use the word "cyclical"—it might be 6, 8 years; it might be limited to 18 months. I would like to have your view as to how long that should be.

Mr. BROWN. Well, I think the dislocation of world trade due to the war, the destruction caused by the war, is such that the periods of time required to get countries into a position to balance their payments, to catch up, where a country has been off balance, are much greater now than they were before the war. It is a situation as if a country had had a succession of four or five very heavy crop failures one after the other, and that you have got to give a greater length of time than 18 months if you are going to get trade going again and to have a reasonable chance for a country's developing an even balance of payments. Maybe in a country like Brazil, for instance, they will have a great quantity of coffee, which keeps pretty well, but it cannot export the coffee, because it cannot get ships to move it. Its big supply of coffee may be backed up for 2 or 3 years.

Senator TAFT. Mr. Brown, just one point, following up the question or a question raised by the Senator from Colorado: Doesn't the action of the fund have a direct effort on our tariff and importation of goods in competition? For instance, if you fix the pound at \$4 to the pound, which is where we are trying to maintain it today, I take it—instead

of that you fixed it at \$3 to the pound. In other words, you permit the British in your initial thing to depreciate their currency, at least the paper value of the currency. Doesn't that so reduce the cost of English woollens, for instance, delivered in this country, that a 50-percent tariff may be wholly inadequate? In other words if you are trying to protect—if you have a tariff policy attempting to protect the American textile industry, doesn't the fixing of the pound at \$3 practically nullify, or may it not nullify, a tariff completely by permitting the importation at much lower prices?

Mr. BROWN. I wouldn't say that it would. In the first place, I think, under the agreement they have got to communicate as the initial rate the rate which was in force at a certain time, which was designed to prevent countries proposing a lower rate. If they want a different rate, they would have to get the consent of the fund.

Senator TAFT. Oh, I think—well, of course they have to get the consent of the fund. There is no question about that. I agree that we couldn't—we could perhaps block it, but we might want to agree to it. Maybe \$3 is the proper economic basis of the pound. I don't know. I am only saying what I am really—and the argument that I think I made on the floor yesterday—certainly will today—is that to try to fix our—to revise our tariffs now before we know where the fund is fixing the value of these currencies leaves us with a vitally important unknown factor in the possibility of competition with American industry.

Mr. BROWN. Well, I think, take the case of English woollens and their competition: England has to buy its wool from other countries. It has to buy most of the food which its people live on from other countries. It may get a temporary advantage and temporarily for a very short period reduce its cost of production; but if it reduces its pound from \$4, say, to \$3, and the American dollar stays where it is, it will pay very much more for its wool.

Senator TAFT. Well, I don't think it would. The Australian currency would almost certainly go along with the pound.

Mr. BROWN. It has not in the past.

Senator TAFT. So there wouldn't be any change in the wool, would there?

Mr. BROWN. It hasn't in the past.

Senator TAFT. You do not think it would go down with sterling?

Mr. BROWN. No. It went down by itself long before sterling. I mean it's—

Senator TAFT. Well, I am only interested, or it seems to me that the—

Mr. BROWN. I think this—

Senator TAFT. I don't see how it could be denied that the fixing of the value of currencies by the fund, which has to be done—may be done perfectly properly—has a substantial effect on the question of how much tariff we need to protect an industry if we wish to protect it. Doesn't it?

Mr. BROWN. Well, I will put it the other way: that at the present time countries can engage in currency depreciations for competitive purposes without any let or hindrance. Today, if England wanted overnight to drop the pound from \$4 to \$3, it could do so. One thing that the fund will certainly do will be to prevent competitive exchange depreciations.

Senator TAFT. Well, now, why do you say that? It clearly permits a 10 percent—without even talking about it, it permits anybody else—it permits you to go any distance you want to, if that is in accord with your political policies or whatever it is.

Mr. BROWN. No.

Senator TAFT. I mean that practically, as I read the fund, it really is an invitation to the devaluation of currency as a means of righting internal affairs, of righting internal disequilibrium.

Mr. BROWN. Well, I don't read the fund that way at all. Originally 10 percent; yes. Beyond that, if the fund finds that it refuses to concur, and the country goes ahead and acts, the fund can cut off that country from access to the fund's resources.

Senator TAFT. Let me read what Lord Keynes said:

We are determined that in future the external value of sterling shall conform to its internal value as set by our own domestic policies, and not the other way around.

Now, isn't that a statement that the English regard the fund as permitting them to depreciate their pound just as much as they choose to do so, if it is in accord with what they consider to be their internal political and economic policies?

Mr. BROWN. I don't think so. If you had read a great many of the criticisms of the fund which have appeared in English newspapers, you would find arguments that England should not go into the fund, because, precisely, they can't change their money as readily and easily as they do it now, once they get into it; and therefore it is to England's advantage to stay out of it.

Senator TAFT. Well, Mr. Keynes should be right, then. He was a delegate at Bretton Woods. He knows what was intended, and he says the opposite, and it seems perfectly obvious to me from the language of the fund itself that there is no bar to depreciation of currency if a country regards it as part of its internal policy, economic or politico-economic policy. I don't see any answer to the language of the thing. I just call Mr. Keynes in as a witness, but it is written in the fund.

Mr. BROWN. Well, all the Senators can read the section and form their own conclusions on it.

Senator TAFT. Well, suppose they read it. I mean it says that—

The fund shall concur in a proposed change—

The CHAIRMAN. What page are you reading from now?

Senator TAFT. It is on page 6, the article IV, section 5 (d), (e), and (f):

The fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii)—

And (c) (iii) is anything—

above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

All you have got to do is to adopt a domestic social or political policy that creates a fundamental disequilibrium, and the fund can't object.

Mr. BROWN. I would say that if a fundamental disequilibrium exists you then don't have a competitive currency depreciation such as was practiced by Germany, at times by Belgium and France, with the de-

liberate purpose of getting a jump on production costs as against other countries.

Senator TAFT. Well, I don't think that France ever did that; do you? France permitted—my impression was, not.

Senator FULBRIGHT. What do you understand by that term "disequilibrium" there, "fundamental disequilibrium," Mr. Brown? Just how would that operate?

Mr. BROWN. Well, take a very clear case: Chile at one time had a good balance between exports and imports, and its principal article of export was nitrates. Means were discovered of getting nitrates in from the atmosphere, and the principal article of Chile's export trade disappeared almost overnight. Well, obviously there was a situation where there was a disequilibrium and a fundamental disequilibrium in the condition of Chile's export trade. While there may be a difference of opinion, I believe the only way you could correct that disequilibrium, practically, was by a change in the value of Chilean money, because they had to develop copper production and production of other articles of export to take up their slack. They had to cut off importing a great many articles which they had previously imported.

You ask what a fundamental disequilibrium is. I mean it is——

Senator FULBRIGHT. That is, then they did not devalue it for the purpose of getting a competitive advantage?

Mr. BROWN. No.

Senator TAFT. Wouldn't you say, however, that if England was unable to export enough to pay for their imports, that was a fundamental disequilibrium? They have to live. To live they have to export more.

Mr. BROWN. Yes; I would say that.

Senator TAFT. That is a fundamental disequilibrium.

Senator RADCLIFFE. Mr. Brown, this language that Senator Taft referred to a little while ago, I am quoting:

In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

Isn't that discretion in the fund and not in the country which is affected? If it is in the fund and not in the country, then it certainly does not give the country the arbitrary right to bring forward this plea and insist that it shall be prevailing. However, if that is the proper interpretation of that language, I therefore assumed that the discretion was in the fund and not in the nation which offered that explanation.

Mr. BROWN. Well, the idea was that if we were spending a great amount of money in social security, that the fund's government couldn't say, "Well, we won't allow you to change the value of your dollar even though you need it to balance your trade."

Senator TAFT. Let us follow that through. You mean if you assume a policy in which you have a large government deficit which results in a depreciation, perhaps, of your currency, then that is a fundamental disequilibrium; you can't object to it?

Mr. BROWN. No.

Senator TAFT. Because it is brought about by your social policy; is that right?

Mr. BROWN. I mean, you have a fundamental disequilibrium. I mean if it is brought about by—there is no comma between the “domestic social or political policies.” I mean it is domestic social.

Senator TAFT. Social or political only; yes.

Mr. BROWN. Social or political policies; that the nations of the world were jealous, and the United States was jealous, that the fund should not say to us, and other nations were jealous that it shouldn't say to them, “Your trouble is the dole in England. You are spending too much on relief. Your trouble is that you allow labor unions and protect them by labor legislation which keeps your labor cost up. And your trouble is your whole form of government, which is Bolshevik.”

Senator TAFT. Mr. Brown, I understand——

The CHAIRMAN. Wait. Let him finish.

Senator TAFT. Yes.

Mr. BROWN. That if through a social measure a fundamental disequilibrium has been brought about in a country, and the fund finds that a change in the currency is necessary in order to correct the fundamental disequilibrium, that they can't force a country against its will to change its domestic social or political policies.

Senator TAFT. Well, it can't prevent its depreciating its currency, because that is a result of it. That is what—it is not that it can't. Of course, they can't tell them directly to do it or not. But, Mr. Brown, I can't understand why that does not nullify the whole purpose of this fund. The purpose of the fund is to stabilize currency. The only causes of unstabilized currency are two: (1) That you have a deficit policy in your Government finance. This says you can't have any objection to that. The other is that you can't export enough to pay for imports. You say you can't do that because your wages—you are promoting high wages. You can't object to the fact that they are promoting high wages and are unable to export. So it seems to me the net result is just wholly to eliminate your right to object to the only things that bring about instability in currency.

Mr. BROWN. Oh, there are other things that bring about an instability in currency.

Senator TAFT. Well, those are the principal things, aren't they, those two, your export balance and your Government fiscal policy? Those are the two things, aren't they, that affect the value of currency most?

Mr. BROWN. They are two of the things that affect the value of currency, but there have been a great many cases of countries deliberately cutting the value of their currency in order to undercut the markets of another country. There have been devices of countries selling certain kinds of currency or making it available for purpose of destroying the economy of another country or of getting a certain export market exclusively for itself. Germany did that in the Balkans with its special form of marks.

Senator TAFT. Russia could do it now without any of that, couldn't it, by simply selling for one-fourth of its value, if they wanted to? Any totalitarian country in dealing in its own goods could get around it right away by simply going out and selling stuff at any price it wants to sell it for.

Mr. BROWN. It would get tired of it pretty quickly if you—

Senator TAFT. Well, I think Germany would have got tired of that practice. It wasn't going to benefit Germany in the long run. I agree.

Senator FULBRIGHT. If the effect is brought about by a social—you say social security—actually that country hasn't received much advantage. There is no incentive there in the same way as there is in this deliberate practice for the purpose of undercutting. That is, they are actually paying that out in the costs, and it is squeezing them much harder, isn't it? There is, it seems to me, a difference, where that is brought about by increased social-security payments or doles and where they just do it in order to gain a market. There is some leeway where they are not actually spending more internally.

Mr. BROWN. Well, that is why I still insist that I was correct in my answer to Senator Taft that a competitive currency depreciation would be prevented by the fund agreement. Currency depreciations may not be prevented if a country wants to follow unsound fiscal or social policies, but that is not competitive currency depreciation. The Russians, for instance didn't want a proviso that we could object to their totalitarian form of government or communistic form of government. The English wouldn't want us to object to their social-security or labor legislation. We wouldn't want to have any international body saying what our labor legislation or what our social-security policy should be. There were a lot of people in the United States in 1931 and 1932 who thought the remedy for the depression was cutting Government expenditures and cutting wages.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Yes.

Senator MILLIKIN. Isn't this correct, though, Mr. Brown: From the international standpoint it doesn't make any difference whether a particular currency is depreciating by reason of the social policies of the country or whether it is a deliberate act to better its international trading position? Isn't the value of the currency, in the last analysis, no matter how created, the determining thing?

Mr. BROWN. No. I would say that it would have a different effect. For instance, if a country was unable to maintain its export position because its costs were very high due to a social domestic policy such as relief or guaranteed wages, or something of the sort, and which was thus losing its trade and couldn't export enough goods to get the food on which to live, and its currency went down—I would say that its effect would be quite different from that of a country which was getting along pretty well and then suddenly decided that it wanted to get the jump on somebody else and drop the value of its currency, which would—

Senator MILLIKIN. There might be a time element in there. But let us assume the pound went to \$3 because of social policies, or let us assume that it went to \$3 as the result of deliberate manipulation. The wool would flow to this country? It would be the \$3 value that would cause the wool to flow and not the reason for the \$3 value; isn't that correct?

Mr. BROWN. I don't know whether I quite get your question, Senator. If England's cost of manufacture, due to its social policy,

had gotten so high that it could not export enough stuff to get the necessary imports to feed its people and keep its economy going or maintain its standard of living, and then it decided that the only way it could bring about a change was by dropping the value of its currency, the effect of which would be to reduce wages, without perhaps the people who were getting wages knowing it—and that is what currency depreciation is—would that have the same effect if it had been done deliberately in advance, as if it were done after things had gotten so far out of balance that the fund would find that a disequilibrium had already taken place? I think there is a difference in trying to correct a situation which has clearly deteriorated and trying to improve a situation which has been static.

Does that answer make sense?

Senator MILLIKIN. Well, I understand the answer.

Mr. BROWN. Well, you may not agree with it.

Senator FULBRIGHT. There would be a great deal of pressure on them to change the internal policy in that case, wouldn't there—a great deal more reason for them to change the internal policy?

Mr. BROWN. Well, of course, that is the great argument between the people who think it ought to be entirely discretionary with the fund as to whether credit is extended or whether a country should have a conditional right to get credit from the fund. A lot of people say that the latter is not fair. They say that a government does not need to reduce the value of its currency; what it ought to do is to balance its own home budget by increasing taxes; it ought to cut down on governmental expenditures for relief, and ought to stop public housing; it ought to do this, that, and the other thing. That is substituting the judgment of the fund for the judgment of the people who are running the country, and I do not believe that you are going to get any considerable number of nations to give a bank that power over its economy.

The CHAIRMAN. Are there any other questions of Mr. Brown?

Senator MURDOCK. Mr. Chairman, if all other questions have run out, I would like to ask this.

The CHAIRMAN. Yes.

Senator MURDOCK. We have recently found it necessary, Mr. Brown, to cut our gold reserves in this country. The Senate has already passed that. It has been recommended by the Federal Reserve Board. I assume the other countries are in no better position so far as gold is concerned than we are. I am wondering whether you as a banker can see any objection to bringing silver into the picture alongside gold as a metallic base for our international and national currencies.

Mr. BROWN. Well, I think I can, Senator.

Senator TAFT. It is not the 16-to-1 question.

Senator MURDOCK. How is that?

Senator TAFT. The 16-to-1 question, the \$64 question.

Senator MILLIKIN. I would like to have a very serious answer to that question.

Mr. BROWN. Well, in the first place, I do not think there is a total shortage of gold in the world. I think that there is enough gold in the world and enough production of gold, and it is a question of its distribution. I think it is desirable to use silver to the limit, that is, for subsidiary coinage. I think that there is a provision in this agree-

ment that silver can be taken as collateral for advances by the fund where the advance exceeds the quota, which provision was put in at the urgent request of Mexico and Peru and some other countries, because of a situation that arises in time of prosperity locally. Mexico is prosperous today as it was during the last war. A lot of silver gets into circulation, and people hoard it, and then when a depression comes they begin to use it for living expenses, and it pours into the central banks of those countries, and they want to find a means of carrying it over what they regard as a cyclical depression. My main objection to the use of silver as a monetary base is that a great part of the silver in the world is or was produced as a byproduct of lead and zinc and copper mining, and that anything that is produced as a byproduct tends to have fluctuations in value wholly apart from its intrinsic value. If a lot of zinc is being produced with a considerable amount of silver, a lot of silver is produced, and the silver would be produced irrespective of the price of silver, so you do not have as good an automatic balance as you do in the case of gold.

Senator MURDOCK. Even with the great production that you have during the war, the greatest production of lead and zinc and copper, you still find that the production ratio of gold and silver has maintained a rather—the production of silver has not increased proportionately to the production of gold. It is still, however, the ratio of 16 to 1. I do not want to lead you into any long discussion of gold and silver. I just wanted to know if you did object to bringing silver in, and as I understand your answer it is that you do.

Mr. BROWN. Yes. I think there will be no chance of getting any considerable number of countries of the world to agree to using the silver as a yardstick or a measure of value for their currencies in any kind of an international fund. I think—

Senator MURDOCK. Was it discussed at all at Bretton Woods?

Mr. BROWN. It was.

Senator MURDOCK. It was?

Mr. BROWN. The American Smelting & Refining Co. and various other people even managed to get people into the hotel without passes to argue their point. [Laughter.]

Senator MURDOCK. Evidently the opposition was sufficient, however, to keep silver out.

Mr. BROWN. Well, of course, many of the delegates from Mexico and Peru made arguments for silver.

Senator MURDOCK. I am hopeful that some day the bankers will see the light on silver and bring it into the picture.

Senator FULBRIGHT. Mr. Chairman. If you are through.

Senator MURDOCK. I am through.

Senator FULBRIGHT. There is one question that is perhaps not exactly on the point, but it has been discussed at some length on the floor, and it has relation to this. That is the relative importance of our international trade, and some people insist that it is only two, three, four billion, that it possibly could be five, although it is not really of much importance, that it is just an incidental matter.

Senator TAFT. Do you mind if I change your premise? Nobody has argued it isn't important. The argument is that the tariff won't make any difference, won't make enough difference as between about four billion and five or five billion and six. That is the argument.

It isn't that international trade isn't of importance. It is of importance. It is that what you can do about it is being exaggerated. That is the argument.

Senator FULBRIGHT. Well, I think—I believe you said its importance has been exaggerated.

Senator TAFT. That is right; its importance.

Senator FULBRIGHT. The importance of our imports?

Senator TAFT. No, no; the importance of the change. As to our imports, my position is you are going to have imports anyway. You are going to have three or four billion on the free list. Regardless of what you do, you are going to have a considerable number over the tariff, no matter what the tariff is.

Senator FULBRIGHT. Isn't it fair to say that you did leave the impression that it has been vastly exaggerated and that our domestic market is so much more important? My point is—

Senator TAFT. I wouldn't say that. I say the importance of our doing something to promote it is exaggerated, considering what can be accomplished. That is more what the point is.

Senator FULBRIGHT. But is it fair to take just the amount that is exported and say that is all the difference it makes. It is the secondary effect of our foreign trade upon our domestic. What I have in mind particularly in the South, that formerly cotton was exported to around 50 percent of the crop, but the fact that we exported that relatively small amount in dollars had a tremendous effect. It isn't measured by export figures. It is exceedingly important to the whole economy of all of the domestic trade of that area. Instead of saying it isn't as important, I think it gives a false impression in just quoting the amount that does move actually in foreign trade. It gives a false impression that it is much less important than it is.

I would like for you to comment on what you would say is the relative importance of building up international trade.

Mr. BROWN. Well, I think, of course, that the importance of foreign trade—and, I take it, export trade—is very different in different sections of the country and with different industries. In the South there is no possibility of finding a market for the cotton, which so far is the one cash crop, unless you export a very large percentage of it. It used to be around half the crop; I think it is down to about 30 percent now. It is very important in the farm machinery industry. Maybe it is only 15 or 20 percent of the total production that is exported, but the existence of that 15 or 20 percent has an effect on costs and mass production which makes it very important; and I think that if the amount of our exports, say, is 5 or 10 percent of the total production, that the loss of that 5 or 10 percent would have secondary effects which would cause the total production to go down, not 5 or 10 percent, but 15 or 20 or some other percent.

Senator FULBRIGHT. That is my point. Now, the fact that we cannot sell the cotton does not affect just the cotton grower, because we in turn buy a great deal of this farm machinery from the manufacturers in Illinois, which doesn't show up as international trade, but actually we are very big purchasers, and you can't say just the South is in bad shape. It actually will react upon the manufacturers far greater than the amount that they export in dollars. It does not have that cumulative effect.

Mr. BROWN. I think it has a cumulative effect. I think that its importance in the general economy is a question of degree.

Senator FULBRIGHT. The effects.

Mr. BROWN. But I think that to show that our exports are 5 percent of our total production doesn't mean that the loss of that 5 percent would only affect the general welfare that much.

Senator FULBRIGHT. That is right.

Senator TAFT. Well, the point I should try to make, there is no question of the loss of that 5 percent. There is a possible question of the loss of 1 percent or the failure to gain 1 percent not 5 percent.

Senator MILLIKIN. Mr. Chairman, may I suggest to the witness that the point made by the Senator from Arkansas, which I think is sound also carries with it a very important corollary. It also applies to imports. A very small percentage of the total production of the country in terms of imports might have precisely the cumulative effect in devastating regions of this country.

Senator MURDOCK. I am wondering, Mr. Chairman, whoever said the South wasn't smart. I can't believe that was ever said.

Mr. BROWN. I do not believe that you can have exports unless you have imports, if that is what you mean.

Senator MILLIKIN. I am simply making the point that the cumulative effect of injury to the South through its failure to export carries with it a corollary that when you import the percentage of import does not necessarily measure the damage. By the same token you have a cumulative disaster possibly to the livestock people, the wool people, the mineral people, the hide people, the dairy-products people, all of whom can be put out of business by imports.

Mr. BROWN. Well, we had a situation—

Senator TAFT. We might adjourn this discussion to the floor.

The CHAIRMAN. Yes. Well, it is all right.

Senator TAFT. Excuse me, Mr. Brown. I didn't mean to interrupt you.

Senator FULBRIGHT. The Senator from Colorado had an answer on his tongue that he didn't get to give about whether or not this is just a bucket of water in a great conflagration. I was very interested in the answer, and he was unable to gain the floor. I wonder if he would still give that.

Senator MILLIKIN. Well, the point, Senator, as I understand it, was that this should be acceptable unless we can think of something better. That was the end point. Of course, it depends entirely upon the premise from which you start. If this is a good thing, then, of course, it should be acceptable in the absence of anything better. But if you start from the premise that it is a bad thing—and I am really educating myself on this—then it is like going down the hall here, and we find a fellow prostrate on the floor, and we all rush around and we look at him, and we see he is in a bad fix. Some do-gooder rushes into the drug store and grabs a bottle of carbolic acid, and he is about to stick it down the poor devil's throat when some fellow says, "You are giving him a lethal dose of medicine."

"Well," the fellow with the carbolic acid says, "unless you can think of something better, by God, he is going to take this." [Laughter.]

Senator FULBRIGHT. I knew it was a good answer. That is why I asked for it.

Mr. WHITE. It was very good.

Senator RADCLIFFE. I didn't have all of that in mind when I asked the question, but I would like to say that I was thing of the question of an alternative: If this thing should have some value, and if a bucket of water can do a little bit of good, if you don't have the bucket of water, whether you want to do nothing at all or whether you can suggest some alternative; and, if you have some alternative, what would be the relative value of this alternative. That is what I was driving at. It is a question of relativity.

Senator MILLIKIN. The final point is that the poor devil might get well. He probably will die, but he might get well if you left him alone.

Senator RADCLIFFE. You still believe that doctors and medicine have some purpose?

Senator MILLIKIN. Well, they prescribe spiritus frumenti sometimes.

Mr. BROWN. Does this all go in the record? [Laughter.]

Senator TAFT. I think we all wish to thank Mr. Brown—I know I do—for his coming here.

The CHAIRMAN. Well, I certainly do.

Senator TAFT. It has been very interesting.

The CHAIRMAN. He was a great aid to us in Bretton Woods. We couldn't have gotten along without him.

Mr. BROWN. Thank you.

The CHAIRMAN. We are going to meet again tomorrow morning at 10:30 to go on with Mr. White.

(Whereupon, at 12:50 p. m., an adjournment was taken until tomorrow, Saturday, June 16, 1945, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

SATURDAY, JUNE 16, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Friday, June 15, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner, chairman, presiding.

Present: Senators Wagner (chairman), Radcliffe, Downey, McFarland, Fulbright, Taft, Butler, Capper, and Millikin.

The CHAIRMAN. The committee will come to order, and we will hear again the Assistant Secretary of the Treasury, Dr. White.

STATEMENT OF HARRY D. WHITE, ASSISTANT SECRETARY OF THE TREASURY, WASHINGTON, D. C.—Resumed

The CHAIRMAN. Doctor, you heard some few little problems and some questions asked, that Mr. Brown was asked to answer, and I imagine that you may want to expand a little bit on the answers. That might be a good way to start.

Mr. WHITE. All right, Senator. Would it be agreeable to you if I referred back to the question which Senator Millikin asked me and which I postponed answering?

The CHAIRMAN. Fine.

Mr. WHITE. And before we forget or miss the opportunity, I would like to comment on the question that he so kindly agreed to postpone.

The CHAIRMAN. Certainly. Fine.

Mr. WHITE. If I remember correctly, Senator, and you correct me if I am in error, you asked—

The CHAIRMAN. A little louder.

Mr. WHITE. I thought Senator Millikin asked me what assurance was there, if any, that a proper evaluation of currencies could be made for those countries which have been subjected to the disruptions of war, at a time when the future was so uncertain as the coming years. Was that about the gist of it, or would you wish to rephrase it?

Senator MILLIKIN. That is entirely correct as far as you have gone, and I would add the element which I think is implied in your statement: That those particular countries are, at least in my view, threatened with revolutions and counter revolutions for God knows over what period of time, and that suggests to me that for those reasons it would be very difficult, if not impossible, to make a sincere valuation of their currencies.

Mr. WHITE. Well, that was a problem that gave us a good deal of concern. We realized, as you stated, that many of the countries would

be subjected to disturbances after the war of a serious social, economic, and political character, that the period of adjustment, of achieving stability, might be a long one, and that the determination of exchange rates which would be appropriate for those countries would not be an easy task.

An illustration of the difficulties involved in such a task, which I would like to describe off the record, faced us 2 years ago.

(There was colloquy off the record.)

Mr. WHITE. There is another provision which states that the fund can postpone the time at which a country can have access to the fund resources, even if the original rate which had been agreed upon is in effect, if in the opinion of the fund that country cannot maintain that rate without too great dependence on the fund's resources. That protective provision is important because it authorizes the fund to say in effect to a country, "It is true you selected this parity to gold. It is true we agreed to that parity. However, in our judgment now the use of that parity is going to make it necessary or make it likely that you will depend upon the fund to a greater extent than we think is in your interest or in the fund's interest, and therefore you cannot have access to the fund's resources until and unless certain things are done which will eliminate our serious doubts as to the appropriateness of your present rate."

Senator RADCLIFFE. Would that be a complete denial of access, or would there be some temporary use or benefit which they might get?

Mr. WHITE. It would be as complete as the fund cared to make it until such time as in the opinion of the fund the basis for that opinion on the part of the fund altered.

Senator RADCLIFFE. But the fund would have the discretion to make it absolute—

Mr. WHITE. Quite.

Senator RADCLIFFE. Or partial, as they saw fit?

Mr. WHITE. Entirely so. And that question of discretion which they would have in that instance, the question of judgment which the fund would have in agreeing to any rate, is, in our judgment and in the judgment of all those who participated in the formulation, one of the strong features of the fund. I would like to expand on that a little later when I have finished answering the question of Senator Millikin.

Therefore, the likelihood that the rate finally agreed upon by the fund will be a reasonable rate is not a remote one. People in this country and in other countries who are concerned with the determination of rates have considerable experience in that task. They have been dealing with problems of that kind for 15 years or more.

Senator McFARLAND. Well, now, Mr. White, did you use that experience in fixing this exchange in these countries that we have already gone into?

Mr. WHITE. We would have liked to, Senator, but in some cases we didn't have the authority to do so, and in others the lack of appropriate data greatly complicated the task.

Senator McFARLAND. You do not claim that any of those rates are reasonable?

Mr. WHITE. I would claim that some of them are unreasonable.

Senator McFARLAND. Do you know of any that are?

Mr. WHITE. Off the record.

Senator McFARLAND. Well, I want this on the record. Our boys are paying through the nose over on the other side.

Mr. WHITE. Well, if you will——

Senator McFARLAND. Are the exchange rates reasonable? I do not know of a single exchange that is reasonable. In France it cost me for shirts a dollar a shirt, in our money, to get them laundered. They have plenty of labor there. There is no reason for that. In Rome it cost me \$5.20 to get a suit cleaned and pressed. And our boys are paying it on the exchange that you fixed.

Mr. WHITE. Senator, that is what we want to avoid. We didn't have the final say. They did not come before a fund in which any country could be told: We think this rate is reasonable and this rate is not reasonable. The discussions around the table in the Treasury to which I referred were voluntary discussions designed merely to provide an exchange of opinions. We had no authority to tell those countries that the gold parity of their currency should be, except in the case of Italy. The fixing of the Italian rate raises problems that I do not think we would want to go into now.

Senator TAFT. May I suggest, though, that we had absolute power to do as we pleased, and when we get into this fund we are not going to have absolute power to do as we please. It is going to be fixed by these same fellows that are getting the advantage today free gratis for nothing from us; whereas, once this fund is set up, why, they control the board. These various countries that have all of these various rates of exchange control the board, and our hands are tied completely; whereas when we have full control we give it away.

Mr. WHITE. Senator——

Senator TAFT. I do not see how we can expect anything better from a board that we do not control.

Mr. WHITE. Senator, one of the very important and extremely desirable features about this fund is that we do not dictate the monetary policy of the whole world. We do not tell other countries what the gold parities of their currencies shall be, and we do not want any other country to tell us what the gold parity of the dollar shall be. That is a matter of agreement among many countries.

Senator TAFT. Mr. White——

Mr. WHITE. And if you say that we are not in control in the sense that we should be in a position to ram down the throats of every other country, whatever the opinion of the United States should happen to be. I say that is not in the fund agreement, and I say that the representatives of this country at Bretton Woods would be the first to insist that it should not be. After all, the fund agreement provides for an international institution, not machinery to impose our views on others.

Senator TAFT. I think it is outrageous, because I think in this case this is a question of creditors and debtors.

Mr. WHITE. What was the question?

Senator TAFT. And in this case we are giving our money to a board which is controlled by the debtors, the very fellows who are going to borrow. That underlies the whole fund. When you talk about the discretion of the fund, you mean the discretion of the debtors themselves. And when you talk about the power of the fund, that it can do this and that, and that it can put on those restrictions, we have no assurance that they will put on any restrictions.

Mr. WHITE. Senator——

Senator TAFT. I do not think anybody has ever proposed to give away American money as this fund proposes to give it away, to people who themselves will control its disposition.

Mr. WHITE. Senator, I have heard you say that before, and doubtless you will say it again.

Senator TAFT. I certainly will, because it underlies every feature.

Mr. WHITE. Yes.

Senator TAFT. We are just making that as the basis, in my opinion, of this whole proposition.

Mr. WHITE. And notwithstanding the fact that I think you will say it again, I should like to examine the basis of what you are saying, and let us see whether it is warranted. Not that I expect that you will change your mind, but possibly it might help clarify the subject.

We will have approximately 28 to 35 percent of the votes on the decisions in the fund operations. I say it runs between 28 and a maximum of 35, because there is a provision in there, you know, that gives us more votes as other countries buy more dollars from the fund, and gives the country that buys more currencies from the fund, whether dollars or sterling and so forth, less votes. So that our voting power increases as more of our currency is purchased.

Senator TAFT. Reaching a maximum of 35.

Mr. WHITE. Thirty-five percent; quite so.

Now, in any decision that will come before the board and the fund, whether it is a question of adjustment of exchange rate, whether it is a question of the amount of currency which can be purchased by any country, or any one of the decisions which will come before the board, what will be the situation, Senator? Well, it would be much the same as would prevail were a decision to be made by a group like this where each member represented a different state, or as in the Supreme Court in which we have various judges represent different views, et cetera. The question would be thrown on the table for discussion. The American representative will have certain ideas as to what the appropriate decision should be. And I assure you that if the American representative has certain views, unless he is wrong, he is going to be joined by representatives of other countries who also have a sense of fiduciary responsibility, who also have an equal desire to see that the fund will work well, who have an equal desire to see that there shall not be monetary disruption, and who have an interest even greater than ours in seeing that the resources of the fund are not unnecessarily dissipated or unwisely used; and you will have the representative of Canada and the representative of the United Kingdom and the representative of Netherlands—

Senator TAFT. Well, now wait a minute.

Mr. WHITE. And the representatives of other countries—

Senator TAFT. United Kingdom; no. Now, my suggestion is this: European countries are all in the debtor class today. They have 3,900 votes. The South American countries in the long run are in the debtor class. They favor easy money for nations. The British Dominions add over a billion dollars. The British Dominions and Europe together have a majority vote, and I suggest that this fund will be dominated by the British, that the British will be on the side of all the debtor nations of the world, that they themselves will want easy money. They are heavily in debt. And I do not say they are

going to repudiate their obligations under the fund or do anything out of the way, but I just say that on every decision where the question is whether you shall be easy on debtors or whether you shall be hard on them we are going to have a majority against us.

Mr. WHITE. I gathered that, sir. You had made that clear before. And that is a claim that I want to examine, and I started to say that the representatives—

Senator TAFT. Well, you started examining by saying the United Kingdom would be on our side.

Mr. WHITE. I didn't say it would be on necessarily our side, Senator.

Senator TAFT. I understood you to say that.

Mr. WHITE. We might be on opposite sides on a given problem, and we might be on the same side on a different problem. What I did say was that the representatives of many countries will be responsible, reasonable, and competent. I should hope that they would all be competent. I do not think the United States has a monopoly of wisdom on international financial matters, nor do I think it has a monopoly on a sense of responsibility toward world prosperity. I think that quality is shared by the representatives of a great many countries; and when a particular problem comes before the fund it will be examined on its merits, and a decision will be made on its merits. Your statement that the debtors are against the creditors doesn't apply at all because the debtors—what you call debtors, I suppose you refer to countries that are coming to the fund for foreign exchange—do not have a common interest that would lead them to always vote together. On the contrary, Senator, their interests are different with respect to one important point, namely, the other country's use of the fund's assets; each country is interested in seeing that the resources of the fund shall be kept as liquid as possible and shall be ample for itself because each member country regards those resources as its particular second line of reserves; and if its representative votes or permits action which permits abuse of the fund, which permits improper uses of the resources, then its own resources are being reduced. And you are suggesting, for example, that if country X comes to the fund for a decision which results in an abuse of the fund's resources, that England and Netherlands and France and others are going to say, "We will permit that abuse of the fund because we too are going to abuse the fund."

Senator TAFT. Mr. White, I am not suggesting an abuse of the fund. I am suggesting that it is so vague. There is so much power. There is so much question how you let this go on for 5 years, these restrictions, whether you let them go on longer, whether you make them pay back at the end of 1 year, 2 years, 5 years, 20 years. Those are not abuses of the fund. They leave it wide open.

Mr. WHITE. I am glad to hear you say that you do not feel that the decisions which will be made will be abuses of the fund. I am happy to hear you say that, happy to have that on the record. Now let us continue. You say that the provisions are so broad that there is room for differences of opinion. Precisely. And any attempt to formulate a set of principles under which any international organization of the character of the fund can operate will be futile unless

we realize that such an organization has to have principles which are broadly stated, has to have principles which permit some flexibility of decision according to the specific case.

There is excellent precedent for that, you know, Senator. I presume that if someone having an attitude similar to the one holding that these regulations are not specific had been arguing on the Bill of Rights when the fifth amendment was up for formulation, that you cannot take away property or liberty from a citizen without due process of law, I can just see him sitting there and saying, "Now, what does that phrase mean? You are not protecting any private individual. All you are saying is that you can't take it away without due process of law. Now, what is due process of law? You think due process of law is one thing, I think due process of law is something else, and a third fellow thinks due process of law means something quite different. They are never going to interpret that properly." You could have said that about the fifth and also the fourteenth amendment with the same justification that you can say it about this.

Senator TAFT. Mr. White, I don't want to interrupt you, but with due respect I don't think there is any parallel at all.

Senator DOWNEY. Mr. Chairman.

Senator TAFT. We adopted that because we had complete confidence in an American Congress and an American Supreme Court and an American Executive. I haven't the same confidence in a board made up of a lot of people whose interests are entirely different from American interests.

The CHAIRMAN. I suggest that we permit Mr. White to finish the answer.

Senator TAFT. The difficulty is that—

The CHAIRMAN. And not interrupt him.

Senator TAFT. It is true that I talk a great deal, but I have a long series of questions I would like to ask Mr. White, and he makes a speech every time you ask him a question. You never can get through.

Senator DOWNEY. Mr. Chairman, could I ask a few questions?

Senator MILLIKIN. Mr. Chairman, I think my question has not been answered yet.

Senator BUTLER. Senator Millikin's question is still before the committee.

The CHAIRMAN. I do not want to be discourteous to any Member of the Senate, but I should think the witness ought to be permitted to answer.

Senator MILLIKIN. I do, too.

Senator BUTLER. It was Senator Millikin's question. I think Mr. White has been attempting, perhaps not to your satisfaction, to answer your question.

Senator MILLIKIN. But I don't think he has completed it, Senator, and I am willing to defer, if that is better, his answering the question.

Senator BUTLER. Well, I do think it should be answered.

Mr. WHITE. Well, I don't want to be in the position, either, of making long speeches, but probably if I am not interrupted I can make the answers shorter.

Senator MILLIKIN. So far as I am concerned you can make a speech answering my question.

Mr. WHITE. Yes.

Senator MILLIKIN. It is all right with me.

Mr. WHITE. Well, I thought my remarks were directed to your question to begin with. We got shunted off on an important point, and therefore the length of my reply I think is in some respects warranted because again, and again, and again, the critics of the fund proposal come back to the idea that the protective features in this document, that the principles which are set forth to guide the men in their decision, are so broad that they can be interpreted in one way or another by the members; and that, since the members are, using the terms of some of the critics, all debtors and the United States is the only creditor, the very breadth, the very flexibility of decision, the general character of the statement of principles, is such that it provides an easy loophole for all the other countries that they have no confidence in—apparently all except the United States—to take us for a ride; and I just want to make one remark with respect to that view.

I say that if you have no confidence in the other countries, if you do not believe that they are entering into this agreement seriously, wholeheartedly, in order to achieve the same objectives that we desire to achieve, if you believe that they have no sense of fiduciary responsibility, that they intend to enter the fund and permit the dissipation of its assets as quickly as possible, then I say you should vote against the proposal. But that was not the spirit of the representatives there. That is not the basis upon which we are seeking international collaboration. That is not the experience—

Senator TAFT. May I say—

Mr. WHITE. Of our dealings with other countries. And therefore I think you are not justified in assuming that each country is going to act wholly out of accord with the stated purposes of the fund.

Now may I return to your question [addressing Senator Millikin]?

Senator TAFT. May I correct one statement. My suggestion only is that each representative of each country will act in accordance with the interests of that country, and that the interests of that country are not the interests of the United States.

Senator DOWNEY. Well, Mr. Chairman, it is right on that point that I would like to ask one or two questions in this hearing. I have been here several days and have not been able to get in a question yet. I would like to.

Now, Mr. White, Senator Taft has raised a very categorical point. Assume that the debtor nations would fix a price for their currency that seemed too high from our viewpoint. I would like to ask you to consider that with me in two categories. Would it follow, if that were done, that it would be easier for the debtor countries to settle with us the existing indebtedness that is owed us? Would that be the result that would follow from that, as to past indebtedness?

Mr. WHITE. If you have reference, Senator Downey, to their obligations to the fund, and your question is that if they depreciate the gold value of their currency, then the answer is, it is likely to be more burdensome for them to meet their obligations to the fund.

Senator DOWNEY. Their debts?

Mr. WHITE. Their debts as well as their obligations to the fund.

Senator DOWNEY. I mean their general indebtedness too, I am talking about now.

Mr. WHITE. If it is a foreign debt set in dollars, it would be more difficult.

Senator DOWNEY. It would be more difficult for them. Well, now, what would result from a fixing of the currency by the debtor nations the way Senator Taft is apprehensive might be done, upon current transactions, commercial transactions, between the nations? What would be the effect?

Mr. WHITE. Well, I am not sure that I understand your question, but if I understand it, and if I might rephrase it, you are asking what would happen that a country would deem to be in its advantage that would lead a country to depreciate the value of its currency.

Senator DOWNEY. Yes. And what result would flow from it as injury to us or benefit to them? What might we expect if that would happen?

Mr. WHITE. Well, the temptation for some countries to reduce the value of their currency would come from the desire to increase their exports and to reduce their imports, to make their goods cheaper to all foreign countries and make the goods of all foreign countries more expensive to them. Now, if they do that, as some countries have in the past, as we think many countries will in the future unless there is something like the fund to influence their action, the result will be that our trade will be adversely affected, the trade of the rest of the world will be adversely affected, and other countries will be encouraged or forced to pursue the same tactics. And that is precisely what competitive devaluation is.

One country seeks an advantage that puts pressure on certain other countries. Some countries can stand the pressure better than others, either because they have larger reserves or because foreign trade is not as important to them, or because they don't compete with the important export articles of the country that is depreciating its currency. For one reason or another the pressure will not be the same on all countries, but the pressure will be great on some countries. Those countries will either be forced or will feel it desirable to protect themselves and they will also depreciate their currency. That spreads the area of pressure. Then another country depreciates. Another country, etc. And you have in effect what happened in the thirties. That is what we call competitive depreciation.

Senator DOWNEY. Well, then, Mr. White, if I understand your opinion, that even if we assume that there was prejudicial and unfair conduct in the representatives of the debtor nations depreciating their currency, under the plan that we have there is very little likelihood that as bad a condition would be worked out as would probably exist without this plan being put in operation?

Mr. WHITE. Yes, Senator Downey; there would be much greater likelihood that this type of depreciation would be either completely stopped or reduced, and the reason for that is fairly simple. A country seeking that type of advantage, coming to the fund and saying,

"We want to alter our exchange rate," raises to the fore a problem which strikes at the interest of every other country. There is not a similarity of interests with that country. On the contrary, every other country immediately says to itself, "Well, if they are going to depreciate their currency, if we are going to vote to permit them to depreciate their currency, they are going to put pressure on us. Our trade is going to suffer." Instead of coming before a board which is stacked against the United States, on the contrary, that board is, in fact, stacked against every country that want to depreciate its currency. Any country desiring to alter its rate would have to demonstrate that its request to alter its currency is based on what we call a basic disequilibrium, and I want later to take up that phrase—basic equilibrium—because it is an important one which is apparently much misunderstood. It will have to demonstrate to the rest of the Board members, or to enough of them to make a majority vote—and remember that the United States has 30 percent—it will have to demonstrate to a group of men who are entirely familiar with the consequences and the ramifications of that step—they are likely to be technicians, experts long experienced in the field—they will have to demonstrate to that group that their request for the permission to reduce the gold value of their currency results from a need to compensate for a basic disequilibrium. The provisions in the fund—not one but several of them—specifically make that clear.

Senator DOWNEY. All right. Now, Mr. Chairman, I just have one further question and then I have completed.

The CHAIRMAN. All right.

Senator DOWNEY. Mr. White, Senator McFarland spoke of these very excessive rates that were being charged for goods and services in the occupied countries at the present time.

Senator McFARLAND. Well, that is on account of the exchange—the legal exchange.

Senator DOWNEY. That is just what I wanted to ask. Is that wholly due to the rate of exchange, or is it due partly to rate of exchange and partly to other causes? Do you know?

Mr. WHITE. Senator, and that is something we keep fairly close track of. We have men in the field who are constantly informing us of the situation, and it is something that we are keenly interested in, and the people of the country have a right to look to their Treasury to see that, insofar as possible, their interests on the matter of foreign-exchange rates are protected. The prices in country X are very high. I mean local prices. If an examination of the relative purchasing power were made by a group such as would constitute the fund, they might well come out with a different exchange rate. But the situation in country X now is a special one. Our interest there lies only partly in what the troops get for their money. We don't want to see our troops get—

Senator McFARLAND. We have not protected it very well.

Mr. WHITE. This is off the record, please; either that or I will have to modify my discussion.

The CHAIRMAN. All right; let it be off.

(There was colloquy off the record.)

Mr. WHITE. Everything you say argues for the adoption of the International Monetary Fund——

Senator McFARLAND. Our boys pay for it.

Mr. WHITE. That is a separate problem, and I am afraid discussion of it will take us too far afield.

Senator McFARLAND. That is right. You started it.

Mr. WHITE. Yes.

Senator McFARLAND. I helped to bring it along here.

Mr. WHITE. The determination of what constitutes a proper rate takes into consideration a comparison of the prices you would pay for a list of articles in one country as against the prices of similar articles in others. There are many other factors that enter into a determination of the rate, and under the International Monetary Fund the rate that would be determined would be, I think you would conclude, a reasonable one. But in the absence of an International Monetary Fund each country determines its own currency value, its own par value, which may not be reasonable from our point of view. We don't have any effective say as to its reasonableness, unless——

The CHAIRMAN. Right after the last war it was quite unreasonable, wasn't it?

Mr. WHITE. Some were; yes.

The CHAIRMAN. Yes.

Senator TAFT. Mr. White, I don't want to—once the soldiers get out of there, then the interests of these countries will be to have their currency low. I mean I take it ultimately the battle with the sterling bloc, if there is a battle, will be their desire to put sterling lower than \$4.03; is that correct?

Mr. WHITE. Senator——

Senator TAFT. At present their interest is to keep it high; is that correct?

Mr. WHITE. Whether or not the advantages in lowering the value of a currency outweigh the disadvantages is a decision that cannot be made without taking the specific currency and the specific situation into consideration. There are always disadvantages, Senator.

Senator TAFT. Well, I agree with you, surely.

Mr. WHITE. And there are——

Senator TAFT. I don't think there is any disadvantage in devaluing the currency.

Mr. WHITE. You don't think there is any disadvantage?

Senator TAFT. But it seems to me the Keynes view is that there is an advantage in devaluing your currency.

Mr. WHITE. Let us put it this way, Senator. I think you probably misstated yourself. I thought that probably what you meant is that you feel that the disadvantages always outweigh the advantages.

Senator TAFT. I don't say always.

Mr. WHITE. Usually.

Senator TAFT. And I say roughly speaking I don't think it is a real advantage to you to devalue your currency, but nevertheless the Keynes philosophy seems to me to be that it is an advantage.

Mr. WHITE. Well, Keynes' philosophy is this, as I understand it, that there are times——

Senator TAFT. He said the pound——

Mr. WHITE. Yes.

Senator TAFT (continuing). For instance, should be lower than \$4.03.

Mr. WHITE. I think perhaps a more accurate way of saying it—I think the way Keynes might state it if he were asked that question—is that there are times when the advantages of lowering the value of a country's currency exceed, outweigh, the disadvantages. There are times when they do not. There are times when the disadvantages substantially outweigh the advantages, and there are times when that is not so, and the purpose of the fund is to make it possible for a country to lower its currency value when in the opinion of the fund the disadvantages of remaining at a given parity are outweighed by the advantages of changing that parity.

Senator TAFT. Well, in the first place, they can do it themselves up to 10 percent.

Mr. WHITE. Yes.

Senator TAFT. Which changes the whole competitive process, doesn't it?

Mr. WHITE. Well, not so fast, Senator. I think it was explained earlier that it was absolutely essential, if you are going to expect countries to fix their rate of exchange in agreement with the fund before operations can take place, that consideration be given to the fact that many countries have been without normal trade for many years, and that it is more difficult to know whether a selected parity is the correct one or some other rate is the best one when you don't have the immediate past normal trade experience to go on. It is quite reasonable and in our own interests to make certain that the wrong rate shall not be selected and perpetuated. And so we say, because of the great uncertainties which have prevailed in the past 5 years as to what is an appropriate rate, we will permit a country, after consultation with the fund, to alter it up to 10 percent. What we seek is the establishment of an exchange rate structure which can be continued and which is in the long-run interests of all countries concerned. We do not seek any advantage. We do not want the other countries to have an advantage, nor do we want other countries to be faced with a situation leading to depressions, because depressions spread and affect us.

Senator TAFT. I am only pointing out, though, that we are letting these countries do it on their own without the fund having a word to say about it.

Mr. WHITE. Well, but you are pointing out something that is wrong, Senator.

Senator TAFT. They do it 10 percent.

Mr. WHITE. Oh, up to 10 percent.

Senator TAFT. That is right.

Mr. WHITE. Yes.

Senator TAFT. One country does 10 percent; another country does 10 percent.

Mr. WHITE. That is right.

Senator TAFT. It seems to me you just start the competitive devaluation.

However, what I wanted to ask is this one question before I go to something else: Don't you think before we tie this thing up and submit the whole question of the relation between the dollar and sterling

to this Board, the decision of which we don't know, we ought to agree with the British on a relation between the pound and the dollar?

MR. WHITE. Senator, that is a perfectly good question and one that we gave a great deal of thought to, because sterling is one of the important currencies. This is the problem that we are faced with: The appropriate level for sterling depends in part upon the level that is fixed for other currencies. In the same way that what would be appropriate from the point of view of France with its currency, or Belgium or Holland or any one of the countries, depends upon what other countries do with their currency value. Therefore you cannot say to any given country that "the rate which you ought to establish should be 50 to the dollar or 25 to the dollar," because that country could very appropriately respond:

"Well, that would be appropriate, right, I agree with you, if the other rates remain where they are; but what are you going to do with the rate of country X, and what are you going to do with the rate of country Y, or some other rate? We have to know what the other rates are before we agree what is appropriate for us."

Senator TAFT. I suggest first—

MR. WHITE. Let me follow that for a moment, Senator, because we have thought a good deal about it, we have had a good deal of experience in such matters, and I think our views on it are worth weight, as are the views of other persons and countries who have had to deal with this problem. France is not concerned solely with the dollar-franc rate. France does not compete solely with American products. In fact, our trade is not very important to the French economy in normal times. But the Belgian rate is, the British rate is, the Dutch rate is, the Italian rate is, very important to France; and before France can say what is the appropriate dollar-franc rate she has got to know what are to be the other rates. Therefore you have to settle the important rates more or less together. Therefore, any attempt to settle a rate between X and Y countries independently of what other countries may do, would at once meet with opposition on the part of either or both countries. Supposing one of the two countries was the United States. Then the other country would say, "Well, we know you are not going to change the dollar—you have stated so publicly," et cetera. "But how about us? We compete with a lot of other countries besides the United States, and what are they going to do with their exchange rate? You are asking us to fix the dollar-X rate, which makes it impossible for us to change with reference to the other currencies. Oh, no. We have to know what the other currencies do." And I doubt if any responsible minister of finance would determine his rate with reference to the dollar without reference to what the other countries were doing with their rates.

Senator TAFT. I suggest the first thing you will have to do with the fund is to settle the dollar-sterling rate and that you had better do it first, because the sterling bloc may control the board of the fund and decide against the things that we want to agree to. As to the value between sterling and the dollar, it seems to me the sterling-dollar rate is going to determine the rates of all these other countries.

MR. WHITE. It would help determine it, Senator.

Senator TAFT. And, of course, they are more interested in sterling, I agree, than they are in the dollar, and that means they are going

to take the English point of view when it comes to voting on the question, and it seems to me we ought to have that question settled first.

Senator DOWNEY. Mr. Chairman.

Senator TAFT. It seems to me all you say is merely a conclusion that everything is going to be uncertain. We can't do it now. If so, why have the fund now?

Senator BUTLER. I would like, Mr. Chairman, to get the answer to Senator Millikin's question. We have been waiting ever since the opening of the meeting, and it has not been answered yet.

Mr. WHITE. Well, let me wind up the answer. A great deal of what we have been talking about is germane. What we have tried to bring out was that the task of determining appropriate exchange rates in the coming months is not an easy one. It is not an insuperable task.

It is one in which there doubtless will be some errors made, but in the main we would expect the rates that would be determined by group discussion among the fund members would be much more realistic and much fairer than would be determined by unilateral action, and we have provided certain protective provisions to safeguard the assets of the fund in the event errors are made, and to make possible changes where an error has been made.

Senator MILLIKIN. My observation on your answers, Dr. White, would be that it may be assumed that the fund provides the mechanics whereby you can assemble men who are engaged in this esoteric art of money valuation to apply their judgment to what a particular currency is worth, and that the fund gives that opportunity. My basic tentative thesis was that there are so many variables in this world today, that with the exception of a few countries—where there is a relative degree of stabilization and a long history of fiscal honor—with the exception of those few countries, you have so many variables due to the political situation, the economic situation, the social situation, that no matter how competent these gentlemen may be that operate in these esoteric ways that the rest of us can't understand, they cannot reach a sound result. That is my point.

Senator DOWNEY. Well, may I ask the distinguished Senator from Colorado, my very dear friend: Is that the ultimate of pessimism, then? I mean, are we just in such a complicated world today that we cannot attempt to work out of the chaos that engulfs us? Is that it?

Senator MILLIKIN. I would not decry any attempt to work out of chaos, but I want to see what the attempt is, and I want to see whether it has promise of success.

Senator DOWNEY. Well, Mr. Chairman, that leads me to the question that I wanted to ask: Now, in your last colloquy with Senator Taft you have stated your opinion, Mr. White, that country X could not afford to and would not settle the X dollar rate in advance of the settlement of other exchange rates, and you seemed to me to point out reasons why that would be true. Now, let me ask you to approach the problem now from our own viewpoint, from us here in the United

States. Could we in the United States know at this time, in advance of the settlement of other currency rates in the establishment of this bank and this fund, what would be the most provident and wisest X-dollar rate? Could we do it in advance?

MR. WHITE. No; I don't think we could. We need to have all the facts at our disposal; and if country X participates in this fund, she is agreeing, as we pointed out, that she will not alter the rate agreed upon unless a basic disequilibrium develops. Therefore she would naturally wish to be very careful as to the rate she would set, because she is depriving herself of unilateral action thereafter so long as she remains a member, and we would deem it in our interest to see that an appropriate rate structure emerged, and we could not tell what that was by looking at one rate alone. We would have to see the pattern of rates.

SENATOR DOWNEY. In other words, all the great nations of the world today are tied together, and we ought to attempt to work out the exchanges of all of them about the same time?

MR. WHITE. That is a good way of stating it, Senator.

SENATOR DOWNEY. Thank you.

THE CHAIRMAN. Are there any further questions to be asked?

SENATOR TAFT. Oh, yes; I haven't asked any of the regular questions I have prepared. Did Senator Millikin get an answer to his question?

SENATOR MILLIKIN. Yes; the doctor has addressed himself to my question.

SENATOR TAFT. I have prepared a list of questions. I prepared it 3 days ago. Quite a few of them have since gotten in sideways, but not directly.

THE CHAIRMAN. All right; go ahead.

SENATOR TAFT. In the first place I wanted to get a general picture. The purpose of the fund, I take it, is to see that currencies are stabilized; is that right, as distinguished from the loans and the functions of the bank?

MR. WHITE. That is one of the purposes.

SENATOR TAFT. The reason we are putting in our money—what is it we are trying to accomplish by that?

MR. WHITE. I would rather give a list of the purposes, because I am not sure one is any more important than another. First, we would like to reduce insofar as we possibly can, the practice of competitive exchange depreciation and multiple currency practices.

SENATOR MILLIKIN. That is, having a rate for tourists as distinguished from the rate for the people of that country.

MR. WHITE. That was before the war.

SENATOR MILLIKIN. Yes; but that is an example of what you mean?

MR. WHITE. Yes.

SENATOR TAFT. Well, I mean the main purpose is to stabilize exchange rates between countries. These things you mention are just things that interfere with that stabilization; isn't that correct?

MR. WHITE. No; not necessarily. A country can legitimately desire to alter its currency value because of basic disequilibrium, and it would not be because it was seeking to obtain an unreasonable competitive advantage.

Senator TAFT. You mentioned competitive devaluation and multiple currency practices?

Mr. WHITE. That is right.

Senator TAFT. What else?

Mr. WHITE. We want to promote increased trade and a more nearly stable level of trade.

Senator TAFT. That is by stabilizing currency, do you mean?

Mr. WHITE. There are other factors involved. There is the question of promoting proper monetary policies in the various countries, promoting confidence in the stability of currencies and promoting an appropriate flow of international investment.

Senator TAFT. That is the bank, isn't it, rather than the fund?

Mr. WHITE. No; the bank has to do with that directly, but one of the important obstacles to a reasonably adequate flow of funds to and from various countries as well as the withdrawal of profits that a particular corporation or investor would have coming to him is the various restrictions which are imposed on the movement of funds and the fluctuating rates of exchange which cause, in many cases, losses and make the investment a losing one rather than a profitable one. One of the most important ingredients, I would say, in restoring confidence in foreign investments would be confidence in the stability of exchange rates.

Senator TAFT. Well, the peculiar function of the fund is to stabilize exchange rates; isn't that true?

Mr. WHITE. That is one of them.

Senator TAFT. And through that you hope to accomplish a lot of other things?

Mr. WHITE. Through that we hope to accomplish a lot of other things along with that; and in addition one of the important things that the fund will make possible is that you will have representatives of the major countries or all of the countries, in fact, sitting around a table and discussing their financial and monetary problems, explaining the monetary policy which their country sees fit to pursue, discussing the serious consequences that some other country's policies would have.

Senator TAFT. You could do all that without a fund. I want an international board. I agree to that. But you could do all that consultation business without a fund.

Mr. WHITE. You couldn't do all of the things we have been discussing without a fund.

Senator RADCLIFFE. Mr. White, you said one of the objectives was to increase trade?

Mr. WHITE. That is right.

Senator RADCLIFFE. It is your idea that the operation of the fund would tend to facilitate trade operations by reason of the fact it would have a tendency to increase it; is that right?

Mr. WHITE. That is right. It would definitely remove one of the impedimenta to the growth of trade which is dislocation of exchange markets.

Senator RADCLIFFE. Anything that tends toward stability would, in your mind, have a natural tendency also to increase trade?

Mr. WHITE. That is our belief.

Senator TAFT. Mr. White, isn't the principal determining factor in the value of currency the fiscal policy of the Government that issues the currency?

Mr. WHITE. No. That is only one of them.

Senator TAFT. Well, isn't that one of them?

Mr. WHITE. That is one, I think.

Senator TAFT. How will this fund in any way change that fiscal policy?

Mr. WHITE. It depends entirely on the country in question. It depends on the nature of policy in question. It depends on the consequences of that policy. We had a fiscal policy—we had one before the war and we will have one after the war. There may be some people who do not approve of it. There may be some foreign governments who do not approve of it, but our fiscal policy is one that is not subject to change by the wishes of foreign governments so long as we do not come to the fund for assistance.

Senator TAFT. Mr. White, isn't it a fact that a government which pursues for years a deficit policy is going to find that the tendency is to depreciate its currency.

Mr. WHITE. No; I wouldn't say that. It depends on how long and what the magnitude of it is and what is happening in the world.

Senator TAFT. Isn't that one of the main factors that did depreciate the currency for France and Germany after the First World War—and some other countries?

Mr. WHITE. It was important in some countries and in other countries it was not.

Senator TAFT. I only suggest that with the automatic purchase right and the inability of the fund to prevent devaluation based on a fundamental disequilibrium resulting from domestic policies, the conditions imposed are wholly unable to meet that particular factor affecting the stabilization of their currency.

Mr. WHITE. I disagree with that.

Senator TAFT. Why?

Mr. WHITE. There are a lot of factors which go into the making of a stable exchange rate. One of them is the fiscal policy of the country, but there are many others. Its import policy, its tariff policy, its foreign investment policy, to name but a few.

Senator MILLIKIN. Mr. White, would you say that once these rates are stabilized, except for a short term, they remain stabilized unless the economic and fiscal practices, the social practices, and the political practices of the country upset that stabilization? In other words, can you preserve stabilization by a mechanically imposed operation within countries with practices that tend to render the values established by that stabilization entirely unreal?

Mr. WHITE. It would be very difficult, in many cases unwise, and in some cases impossible.

Senator McFARLAND. Mr. White, you were talking about depreciating the value of currencies. After the last war was that due to the actions of the governments, or was it due to the economics of the nation?

Mr. WHITE. Do you have a particular country in mind? For example, Germany, whose currency depreciated so drastically—that was due to a combination of several factors which you probably remember.

Senator McFARLAND. Well, I wouldn't want to take Germany because—

Mr. WHITE. She would be a special case.

Senator McFARLAND. She would be a special case. But take France, for instance.

Mr. WHITE. France in the last war when its currency depreciated, prices within France had risen tremendously during the war though the exchange rate during the war was kept fairly stable. A country can more easily do that sort of thing under war conditions, but after the war she was confronted with the necessity of adjusting her exchange rate to something approaching her domestic price movements.

Senator McFARLAND. The point I am trying to find out is whether governments really try to stabilize their currency rather than to inflate it or depreciate it.

Mr. WHITE. During a war it is very difficult for a country to prevent price rises. We are having our own difficulties here, as you know.

Senator McFARLAND. I am trying to find out what will happen after this war.

Mr. WHITE. With respect to France?

Senator McFARLAND. Any country.

Mr. WHITE. They will do they best they can with respect to stabilizing their currency. Some of them will be successful and some will not be. My colleague hands me a chart which is interesting. It shows how after the last war country after country in its search for the restoration of stability and confidence in its own currency attempted to go back to the gold standard and how many of them did.

You may pass this chart around [handing chart to Senator McFarland].

You will notice the upward curve. In 1923 there were about 10 countries that went back to the gold standard. In 1924 about 5 more. In 1925 about 10 more. In 1926 about 3 more. The next year 4 more. It reached its peak in about 1927 and 1928. Then trouble began. For a variety of reasons those countries began to be forced off or elected to go off the gold standard and their currencies began to depreciate.

By 1939 they were almost all off. So that you do have countries that attempt to maintain stability. Some achieve it successfully. Some achieve it for a time.

Senator DOWNER. Well, did any government remain on the gold standard except the United States in 1939?

Mr. WHITE. Yes, in a modified sense, Switzerland and Sweden. There were some restrictions in those countries. You can say they were on the gold standard, or reasonably close to it.

Senator RADCLIFFE. Dr. White, if this is the appropriate time for you to comment on it, I am interested in what you might call the historical approach to where we are now. If the opinion prevails, and since it seems to prevail, that the economic and financial conditions of the world are in such terrible shape, and that some form of international cooperation is both possible and could be made effective, I assume that you approached this matter without any preconceived ideas and more or less an open mind; that you have considered various other general plans; that you have considered possibly a general substitute for this whole proposition and you have considered very material changes in this particular plan.

Now, the result is you have reached certain definite conclusions. Would you care to comment on anything you may have considered and discarded before you got to this definite conclusion?

Mr. WHITE. Oh, yes; Senator, the proposals there before you are the net result of discussions, as you know, that went on for 3 years among literally several hundred people who were in the field of financial and international money matters.

Senator RADCLIFFE. Yes.

Mr. WHITE. There were two or three or four or five alternate provisions which were suggested for every provision finally adopted.

Senator RADCLIFFE. Was there any different one which was given consideration?

Mr. WHITE. Yes.

Senator RADCLIFFE. And was believed to be not workable?

Mr. WHITE. Oh, yes. There were a number of proposals that were given a good deal of weighty consideration because they deserved it. There was a French proposal. There was a British proposal. There was a Canadian proposal. There was ours and the end result was a merging of what, in the judgment of the negotiators, was the best from each proposal they could agree upon. There were a large number of proposals that came in from various individuals and groups which were all carefully gone over. Sometimes an idea was regarded as good, and it was thrown on the table and carefully discussed.

Senator RADCLIFFE. Just one other comment, Dr. White, and I won't go any further. Then this represents your conclusions after a process of study and elimination. Does it also represent the idea that unless something like this is worked out you are facing the prospect of what you might call practical if not theoretical isolationism?

Mr. WHITE. Well, I think that the reason why you are able to get representatives of 44 countries with diverse national attitudes and interests with respect to certain matters to agree on a plan is because they all recognize that unless something of this character were devised then the future looked very dark indeed for all of them and ourselves.

Senator TAFT. My understanding was that the American delegates were told that the plan presented by the United States had to be supported by them. They were not allowed to suggest any fundamentally different plan. Isn't that correct? When the delegates reached Bretton Woods, isn't that the instructions they were given?

Mr. WHITE. When the delegates went to Bretton Woods they had before them a statement of principles which were the highlights resulting from prior discussions with many of the countries. The major countries had agreed to an outline of the proposal and the delegates presumably were to work out many of the important details, many of the ramifications of the plan without drastically changing some of the basic elements of the fundamental structure.

That fundamental structure called for international collaboration for the purposes indicated in the outline. For example, they set certain limits as to the amount of money which the United States was willing to put in—

Senator TAFT. I take it your answer is "Yes."

The CHAIRMAN. May I say right here that our delegates were meeting every morning at 9:30; isn't that correct?

Mr. WHITE. At least by 9:30.

The CHAIRMAN. At least by 9:30 and sometimes earlier than that, and we discussed what went on at the previous session.

Mr. WHITE. Not only discussed, but altered many provisions.

Senator TAFT. I don't say that the delegates were not willing to go along with other countries. I only say they were told before they went to Bretton Woods that fundamentally this plan would have to be adhered to, that this plan had been proposed to 44 nations by the United States Government and that it represented the views of the United States.

Mr. WHITE. That is not true.

Senator TAFT. Am I correct?

Mr. WHITE. May I state what I think was the situation?

Senator TAFT. Yes. What is correct?

Mr. WHITE. The principles which were the basis for discussion at Bretton Woods were principles which represented agreement among the principal countries who had been discussing this over a period of a couple of years. They agree on certain outstanding points. Those outstanding points were some of the basic framework or the basic principles. They did not represent the views of the United States alone. It was a joint proposal. It was not the American proposal. The Americans adhered to the general principles as did Great Britain, Canada, Russia, China, and others.

Senator TAFT. America issued the invitation to come to Bretton Woods.

Mr. WHITE. That is true.

Senator RADCLIFFE. Dr. White, I asked you sometime ago—I am not sure whether I got the import of your answer in regard to that particular point. I asked you if there were any alternative plans either in whole or in part which came up for consideration. You made some reference to a French plan or some other plan, but you didn't go into any discussion of it.

Senator TAFT. Mr. President, I don't want to interfere, but this seems to be getting a way off the issues which this committee has before it.

Senator RADCLIFFE. I don't agree with Senator Taft at all. We are here to consider a certain proposition, and what I want to know is if there was anything in the alternative considered. I think that is perfectly pertinent.

Senator TAFT. I tried to bring out that our delegates were committed to this plan. While there may have been plans before that time there was no consideration at Bretton Woods of any alternative plan, and our delegates were not supposed to propose any fundamentally different or alternative plan. Isn't that a fair statement, Mr. White?

Mr. WHITE. I think it is fair to say that they were supposed to have been in agreement with the basic principles outlined in that document which was made public and which was sent to them prior to the Bretton Woods agreement. Those were the high lights of the plan, and they are contained, in more or less modified form in the agreement before you, and the reason for that, Senator Taft, I think you will fully appreciate.

We had international discussions; we had international conferences with respect to these matters going on for over 2 years on an informal basis.

Senator RADCLIFFE. Mr. White, my inquiry was not restricted to what we had actually before us at the Conference. My reference was to any alternative plans which had come up for consideration at any time prior to this, either from Canada or from us or from any other source.

In other words, I wanted to know what had been before us either at the Conference or at any time before that, because I assumed other ideas had been considered.

Mr. WHITE. Oh, very definitely, Senator, and as I said, two plans received more detailed attention than others because they were more comprehensive, more detailed, and more to the point. Those were the British plan, which had been developed quite independent of the American plan as the American plan was developed quite independent of the British plan.

There was also the Canadian proposal. They were carefully considered prior to Bretton Woods and the principles which emerged were taken as probably representing the most workable features of those plans upon which agreement was possible. In calling an international conference it is only to be expected, and I think Senator Taft, you would approve of that procedure, that there have to be some terms of reference which had been decided upon by many of the countries after prolonged discussion; that you cannot come to an international conference to formulate powerful and comprehensive proposals of this character and start from scratch. There has to be some preliminary clearing away of the ground.

Senator TAFT. Well, Senator Vandenberg insisted on complete freedom of action before he went to San Francisco to suggest any change he wanted to have made in the Dumbarton Oaks proposal, and my suggestion is that freedom did not exist in the case of Bretton Woods.

Mr. WHITE. I don't believe any delegate had the least inhibitions with respect to suggesting any changes or any modifications, whether large or small; nor do I remember that any suggestion that was made by a delegate did not receive complete and adequate discussion. The decisions by the delegation to my recollection in all cases were unanimous, or almost unanimous. Am I correct in that, Senator Wagner?

The CHAIRMAN. Yes.

Senator TAFT. This statement is contained in Annex C:

The proposals formulated at the Conference for the establishment of the fund and the bank are now submitted in accordance with the terms of the invitation for consideration of the governments and people of the countries represented.

I suggest that the delegates themselves left the thing wide open and that this is the first time that the governments and people of the—well, that the people of the countries, at least, have had an opportunity to consider this proposal.

Mr. WHITE. This is the first time, I think, that Congress has been called upon to act officially on the program. The representatives could not commit their governments to the proposals. And the proposals in the form they existed in the principles and in the preliminary stages were made public and were very, very widely discussed among all interested people in this country and other countries, but you are correct in this part of your statement: That Congress for the first time is called upon to either accept or reject or modify the articles of agreement.

Senator TAFT. I am suggesting furthermore that while our delegates may have approved it, they did not purport to commit the United States Government to this plan and expressly reserved the right not only for ratification, but for full consideration by the people of the plan before its approval.

Mr. WHITE. That is entirely correct.

The CHAIRMAN. That is what we are doing. I think we emphasized the fact that Congress had to finally decide upon this question upon all the agreements.

Mr. WHITE. I take it that is why we are here.

Senator MULLIKIN. Mr. Chairman, along the line of Senator Radcliffe's question, I would like to ask this: Am I not correct, Doctor, in the thought that either at Bretton Woods or some stage or other of the winnowing-out discussion that a plan was proposed that the fund would be constituted of the nations that do have reasonably stable currency at the present time, such as in the sterling areas, and a few other nations?

Mr. WHITE. Oh; yes; early in our discussion with some of the officials of the Federal Reserve Bank of New York and with some of the other bankers and economists the suggestion was made that what we ought to do was to confine ourselves to what they called the key currencies, and a suggestion was also made that we ought to postpone action on the fund, and that the fund should be much smaller. Suggestion was made we should not have the bank. There is not, I believe, Senators, a single criticism that has been offered since the fund and bank have been placed before the people of this country, or before Congress for action, that did not—was not presented to us long prior to Bretton Woods, that did not receive the most comprehensive kind of discussion, not only within the American Technical Committee which consisted of some score of experts who were designated by the various departments, but was explored in the discussions we had with other countries, and in the discussions we had at Atlantic City.

Senator RADCLIFFE. Doctor, I had the impression that such was the history of the matter. That is the reason I was desiring you would give us the specific facts in regard to it.

Mr. WHITE. Senator, we were most eager to work out something that would be practical and realistic, that would be the best we could work out to meet the situation as we saw it. We had no ax to grind. We had no pet hobbies. We started from the point of view of getting the best that many minds could produce. If you will remember in the very early draft which we made public as soon as we could get permission, which was over a year and a half before Bretton Woods, in the preliminary document, we said something to the effect that "We are submitting the following tentative unofficial proposals for the public and for interested and expert opinion, in the hope it would stimulate discussion, in the hope it would call forth suggestions, improvements, and criticism, and so that we could develop a document which would help meet very serious problems which we saw ahead of us." That is what happened. We received visits from hundreds of people; we received hundreds of letters; we had literally hundreds of conferences on various suggestions.

Senator RADCLIFFE. I assumed so. Certainly there was no preconceived take-it-or-leave-it idea.

Mr. WHITE. On the contrary.

Senator TAFT. Well, I suggest you have adhered to the original plan desired by the United States Government without any change whatever in the basic idea of the plan; there may have been all sorts of modifications, but always in conformity with the plan worked out by the American experts.

Mr. WHITE. If so, I think that is a tribute to the judgment and competence of the American technicians.

Senator TAFT. And to the ability of Mr. White, I might add.

Mr. WHITE. I should like to claim that compliment, but it would be unjust. There were many hands and many heads that had a share in this, and my colleagues deserve no less credit than myself. There were many minds that have contributed to it.

Senator TAFT. Mr. Chairman, I want to call attention to the fact that I haven't asked one question yet. I started a half hour ago.

The CHAIRMAN. Can you do it in 15 minutes?

Senator TAFT. I would say about an hour would do it. I don't think I could get through in 15 minutes.

Senator MILLIKIN. Dr. White, will you agree with me that to the extent that the fund stabilizes unreal currency values that it renders a disservice to honest stabilization?

Mr. WHITE. Could I answer it, this way. I think you would agree with my answer to the question that the fund to the extent that it makes mistakes falls short of the ideal and the fund will make mistakes. That is inevitable. The fund will learn. There are differences of view with respect to many of these things, as you have so well pointed out, on these complicated problems, and I am certain that if 10 years from now one were to look back one would find decisions that had been made which proved to be unwise in the light of later developments.

Senator MILLIKIN. But if those mistakes accumulated and were adhered to, those mistakes would bog down the whole thing?

Mr. WHITE. Oh, let's put it this way: The fund could be so badly managed and the decisions made could be so unwise that many of the good things we expect from the fund would not materialize.

Senator RADCLIFFE. May I ask a question based on Senator Millikin's question? Assuming a disservice would result from stabilizing the fund unwisely, as I think you said, wouldn't it be just as easy, if not easier, to correct that mistake, than if we had done nothing whatever?

Mr. WHITE. Much easier because the mistake that had been made by the fund would be apparent in 3 months, 6 months, or a year in this type of matter, and the fund under the provisions and rules would have authority to try to correct it.

More than that, it would be in the interest of members that the error be rectified, and I think also one might add that the mistakes in judgment this fund would make are fewer than would occur in the chaos which would develop if there was nothing to take the fund's place. Where there are human beings that have decisions to make, there are going to be mistakes made.

"The American Farm Bureau Federation favors the participation of the United States in the proposed International Monetary Fund and the proposed International Bank for Reconstruction and Development, as outlined in the Bretton Woods Monetary Conference.

"In adopting these new international institutions, it should be realized that they are not substitutes for sound domestic fiscal policies. Unless sound domestic and foreign trade policies are adopted by the nations of the world, no plan of international monetary stabilization or monetary cooperation will succeed.

"The International Monetary Fund and the International Bank should not be used as relief agencies in the postwar period, but should be conducted on a business basis, leaving relief grants to other agencies of government. In adopting this plan, it should be clearly understood that the United States will not provide funds to perpetuate uneconomic trade practices or unsound monetary policies through the operation of the stabilization fund. Foreign trade must be developed upon a basis of the exchange of goods and services among the nations of the world, and not upon the basis of extending credits.

"These proposed international institutions should be operated in such a manner as to promote stability in the general level of prices within the various countries of the world.

"Since the proposals by necessity leave wide discretionary powers to the administrators of the two institutions, the individuals chosen to operate these institutions must be high-type men, representative of the various segments of our economy, experienced in international affairs, and free from political domination."

During the hearings held by the House Banking and Currency Committee, I presented an extended statement in behalf of H. R. 3314, which is a part of the published hearings of that committee.

The Federation favors the Bretton Woods proposals for the fund and the bank because these programs are an attempt to stabilize the world in the years ahead and lessen the likelihood of another war.

The total commitments involved on behalf of this Nation in both the bank and the fund are less than \$6,000,000,000. If we can spend over \$7,000,000,000 a month to fight a war, if we can sacrifice the lives of thousands of our best young men, we should be willing to risk nominal sums in an effort to promote peaceful relationships among nations.

Farmers have always been deeply interested in currency stabilization, for the reason that the impact of widely fluctuating price levels is always most severe on the producer of raw materials. It must be apparent to anyone that in international trade, stabilization of currencies as between nations is just as important as domestic stabilization.

During the war, our farm production has increased by 33 percent. Experience proves that once farm production has been expanded, it is very hard to contract. Unquestionably, within a short time after the close of the war with Japan our farmers will be confronted with huge surpluses above the requirements of the domestic market. It is a matter of extreme urgency that we do our utmost to bring about, at the earliest possible moment, conditions which will facilitate and encourage the free flow of commodities and manufactured products among the various nations of the world, so as to open up outlets for our farm surpluses. This will be impossible unless we bring about currency stabilization as between nations.

Without such stabilization it is more than likely that a general shortage of dollar exchange will develop in many of the foreign nations which are potential buyers of our agricultural commodities and the free exchange of goods and services between nations will be seriously curtailed. The beneficial effects of trade and commerce in maintaining peaceful relations would be lost.

House passage of H. R. 3314 on June 7 by a vote of 345 indicates that public opinion in the United States is overwhelmingly in favor of this country's participation in the International Monetary Fund and the International Bank for Reconstruction and Development. We earnestly hope that this measure will receive similar support in the Senate, and that the members of the Senate Committee on Banking and Currency will join in nonpartisan support of the bill and report it favorably at an early date.

I shall greatly appreciate it if you will include this letter in the record of the hearings before your committee on the bill.

Sincerely yours,

EDW. A. O'NEAL, *President.*

STATEMENT OF EDWARD A. O'NEAL, PRESIDENT, AMERICAN FARM BUREAU FEDERATION,
BEFORE THE SENATE BANKING AND CURRENCY COMMITTEE, ON THE PROPOSED INTERNATIONAL MONETARY FUND AND THE PROPOSED INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

On behalf of the American Farm Bureau Federation, I wish to testify in favor of the participation of the United States in the proposed International Monetary Fund and the proposed International Bank for Reconstruction and Development, as outlined at the Bretton Woods Monetary Conference. The American Farm Bureau Federation, of which I am president, represents about 830,000 farm families in 45 States; thus our membership represents approximately $3\frac{1}{2}$ million farm people. These farm families, who have sacrificed their sons on far-flung battlefields throughout the world, and who have also labored long and hard in order to produce food for the war effort, are vitally interested in international cooperation. While we may not understand all the technical details of international finance, we do know that the results of chaotic international monetary conditions have fallen very heavily upon the farm people of our Nation.

At our annual meeting, in December 1944, the delegate body adopted the following resolution pertaining to international cooperation on a monetary program:

"The American Farm Bureau Federation favors the participation of the United States in the proposed International Monetary Fund and the proposed International Bank for Reconstruction and Development, as outlined in the Bretton Woods Monetary Conference.

"In adopting these new international institutions, it should be realized that they are not substitutes for sound domestic fiscal policies. Unless sound domestic and foreign trade policies are adopted by the nations of the world, no plan of international monetary stabilization or monetary cooperation will succeed.

"The International Monetary Fund and the International Bank should not be used as relief agencies in the postwar period, but should be conducted on a business basis, leaving relief grants to other agencies of government. In adopting this plan, it should be clearly understood that the United States will not provide funds to perpetuate uneconomic trade practices or unsound monetary policies through the operation of the stabilization fund. Foreign trade must be developed upon a basis of the exchange of goods and services among the nations of the world, and not upon the basis of extending credits.

"These proposed international institutions should be operated in such a manner as to promote stability in the general level of prices within the various countries of the world.

"Since the proposals by necessity leave wide discretionary powers to the administrators of the two institutions, the individuals chosen to operate these institutions must be high-type men, representative of the various segments of our economy, experienced in international affairs, and free from political domination."

Some groups seek to change these proposals. Such action might delay their adoption indefinitely. We do not say that the proposed international monetary organizations are perfect in every respect, but we do feel that they represent a tentative agreement among the financial experts of over 40 nations on some kind of a monetary program. We believe that this is a significant step. The following statement, which was contained in the prelude to our resolution dealing with international cooperation, in which our organization went on record as favoring the principles of the Dumbarton Oaks peace plan, the International Food and Agriculture Organization, and the Bretton Woods proposals, is particularly applicable to the present situation:

"Another war within 25 years cannot be tolerated. Past policies have not been effective in maintaining world peace. It therefore behooves every thoughtful citizen to be courageous in developing plans to prevent future wars. This is an extremely difficult and involved problem. Honest differences of opinion will exist among nations and among individuals within nations. These differing opinions must be fully expressed; then, after thorough discussion, constructive plans for international cooperation must be developed. Since these plans by necessity will be the result of compromising many conflicting interests, complete agreement by all citizens on all details cannot be expected. These minor differences should not prevent cooperation by this Nation on sound international proposals."

The farmers of the Nation are looking to Congress for leadership, and they are hoping that this distinguished body will exercise intelligent judgment and demonstrate a willingness to cooperate in plans which will lessen the likelihood of another war within the next generation. Certainly if we can spend over \$7,000,000,000 a month to fight a war, if we can sacrifice the lives of thousands of our best young men, we should be willing to risk nominal sums in an effort to promote peaceful relationships among the nations. The total commitments involved on behalf of this Nation in both the bank and the fund are less than \$6,000,000,000. Furthermore, barring extremely unfortunate experiences, the most of these funds will be an investment, not an expenditure. Between June 1940 and December 1944, our total commitments on the war program amount to 390.5 billion dollars. Our cash war expenditures to that date amounted to 244.5 billion dollars. In spite of heavy taxation, it is estimated that our national debt will be in the neighborhood of \$300,000,000,000 at the close of the war. We have spent over \$38,000,000,000 for lend-lease during this war period. These gigantic figures cannot be cast aside lightly. We must diligently seek methods of international cooperation which will lessen the likelihood of repeating the catastrophe in which we are now engaged. Let it not be said of this Congress that they refused to try. It will be better to have tried and failed, than not to have tried at all.

We believe that the proposed bank and the proposed fund are a necessary part of international cooperation, and also necessary for a satisfactory domestic economy. As we understand it, one of the primary purposes of the International Monetary Fund is to prevent the misuse of monetary manipulations (e. g., currency depreciation and exchange control), for the purpose of improving the competitive position of domestic producers, while the International Bank for Reconstruction and Development will facilitate international loans for the postwar reconstruction and the economic development of undeveloped areas and thus facilitate a larger volume of trade.

We farmers have seen our markets disappear. We have experienced widely fluctuating prices. The history of this Nation shows that farmers have always been interested in monetary policies and have taken active parts in various types of monetary reform. Their interest in monetary policy is because they are the ones who have borne the brunt of widely fluctuating price levels. We believe that one of the biggest contributions the proposed fund will make is in getting the nations of the world around a table and keeping them there, which will provide a method through which national and international monetary problems can receive proper consideration and attention.

Since monetary matters are basic to economic cooperation and also to most other kinds of cooperation, we believe that it is entirely appropriate for the Congress to consider these proposals early on the list of legislation involving international cooperation. It would be fine if these monetary organizations could receive congressional approval prior to the conference on a world peace organization.

There is much discussion about maintaining full production and full employment during the postwar period. If we are going to even approach these desirable goals, we must trade with the rest of the world. We cannot trade with other nations unless there is a satisfactory method of handling foreign exchange. We have experienced new forms of international trade barriers in currency wars and exchange manipulation. These are likely to be worse, not better, in the postwar period unless there is some kind of an international stabilization fund. We know that this proposed fund or the bank cannot possibly be a substitute for sound domestic economies, and that if any nation is going to export products it must also import. But we do not believe that the fund especially will focus attention upon uneconomic trade practices and encourage steps to be taken to correct such practices.

The effect upon foreign trade in both agricultural and industrial products is one of the biggest stakes the farmers of the Nation have in the proposed International Bank, and particularly in the proposed fund. Export markets are vital to large segments of American agriculture, and incidentally 43 percent of our population lives in rural areas—23 percent being on farms and about 20 percent in rural areas but not on farms. Over the past 40 years we have exported about 58 percent of our production of cotton, about 36 percent of our production of tobacco, about 21 percent of our production of wheat, nearly 30 percent of our lard, 18 percent of our rice, and about 7 percent of our pork (p. 1 of statistical

appendix). The cotton farmer cannot survive without export markets, and cotton is the basic industry in much of the South. According to the Agricultural Adjustment Agency, 10,000,000 people on 2,000,000 farms depend on cotton as their chief source of income. Tobacco, which is dependent upon export markets as an outlet, is also an important agricultural product in the South.

The total volume of agricultural exports has been declining, particularly since 1929 (p. 2 of the statistical appendix). Part of this has been due to the industrialization of our Nation, part of it to high tariffs, and undoubtedly part of it to the manipulation of foreign currencies and exchange rates. Exports of cotton in 1935-39 were about a third less than 10 years earlier. Wheat exports had dropped by nearly two-thirds. Lard exports had declined to only about a fifth of their former volume.

I consulted with the Office of Foreign Agricultural Relations of the United States Department of Agriculture concerning how the misuse of monetary policies during the 1930's had handicapped the foreign trade in agricultural products. They tell me that the prevention of the use of monetary manipulations to secure trade advantage over other countries is in the interest of United States agriculture. Through the thirties our agricultural exports suffered from such manipulations.

The position in the world market of competing agricultural exporters, such as Argentina in the case of wheat and Brazil in the case of cotton, was improved by reductions in the exchange value of their currencies, which enabled them to sell at a low price in other countries.

On the other hand, importing countries have, through currency manipulations, diverted their purchases of agricultural products from the United States to other countries.

An outstanding example of this latter type of currency manipulation was Germany, which, from the beginning of the thirties, forced many countries that depended largely on the German market (such as countries in eastern and south-eastern Europe and the larger of the Latin-American countries) to trade with her on her own terms. Since the United States would not accept those terms, Germany shifted her purchases of cotton, wheat, and other important products from the United States to other countries. The decline in German imports from the United States is illustrated by the examples given on page 6 of the Statistical Appendix.

In essence, the Germans offered agricultural export countries that suffered under the burden of accumulating surpluses a market for large quantities, sometimes the entire crop, and a price above the world market price. She paid, however, in reichsmarks that could be used only for direct purchases in Germany, and only for purchases of such commodities as the German authorities permitted to be sold for export. What that meant in practice is shown by the fact that, in order to use up the reich mark balances accumulated through exporting to Germany, countries had, in many instances, to buy large amounts of commodities for which they had little use. For example, Yugoslavia was compelled to buy huge quantities of aspirin. Rumania many thousands of typewriters, and Greece mouth organs by the hundred thousands.

Moreover, Germany kept for herself only part of the agricultural products that she bought in such a manner. The rest she resold in the world market, and frequently for less than the purchase price. By this manipulation Germany obtained dollars and other free exchange, while countries like Greece, Bulgaria, and Turkey, which had sold Germany large quantities of their tobacco and raisin crops, found the rest of their foreign market ruined by German resales at cut prices. Germany also resold high-quality Colombian coffee in competition with Colombian coffee exporters, and similar resales were reported for Argentine and Brazilian articles.

While the producers of cotton, wheat, tobacco, rice, and certain fruits are vitally interested in export markets, all agricultural producers have reasons to be concerned in the development of foreign trade. Records show that during this war period our total volume of agricultural production has increased 33 percent above the prewar level (p. 3 of statistical appendix.) History also indicates that once agricultural production is expanded, it is very hard to contract. We are going to need not only good domestic markets, but also active foreign markets in order to meet the postwar situation in agriculture. If outlets cannot be found for those agricultural products normally exported, then it will mean that the producers of those commodities have no alternative but to turn to the production

of products for the domestic markets, ample supplies of which will already be available. The farmer's stake in world trade is manifold: first as an outlet for the commodities he produces; secondly, as the source of getting supplies and materials he needs for an increased standard of living and lower production costs; and, third, as an encouragement of active business conditions, which gives him better domestic markets.

Realizing the importance of international trade to agriculture, at our last annual meeting we passed a resolution on this subject in which among other things we recommended the following:

1. Calling an international trade conference to consider lowering of barriers to trade, and to discourage erection of barriers in the future.
2. That the United States participate in international action on monetary and credit policies designed to stabilize currencies and prices.
3. That foreign and domestic barriers be gradually adjusted or removed.
4. That the trade-agreements program be improved and expanded.
5. That new and improved international trade agreements for surplus agricultural products be developed.
6. That all nations be given access to the raw materials needed for their peace-time economies.
7. That our Government adopt a positive program to develop world trade.

Foreign trade is also vitally important to the manufacture of many nonagricultural products of this Nation (p. 4 of the statistical appendix). Records show that for the period 1936-38 about 17 percent of our total exports went to the United Kingdom, about 15 percent to Canada, 8 percent to Japan, 5 percent to France, 5 percent to the West Indies and Bermuda, 4 percent to Germany, and 2 percent to Italy. When these figures are considered in the light of a realistic world, the need for some uniform exchange mechanism becomes apparent.

We believe that the International Bank for Reconstruction and Development will also make a significant contribution. In the absence of special measures facilitating the export of capital from the United States, it is probable that a general shortage of dollars, such as prevailed during most of the thirties, will again develop in those foreign countries that are potential buyers of our agricultural products. In such a case, foreign governments are again likely to reserve the bulk of their supply of dollars for the purchase of United States industrial goods, especially tools and machinery, which they will want in considerable quantity. The consequence of such an action would be to divert their agricultural purchases to exporting countries whose currencies are not scarce. In other words, if enough exchange dollars are not available in these countries, they will look to nations other than the United States for their needed food and fiber supplies. The recurrence of such a situation may be prevented if the export of United States capital is facilitated by measures such as the establishment of the International Bank for Reconstruction and Development.

The loans of the bank will be made only after adequate investigation into the purposes for which the money is to be used. This should not only prevent unsound lending of the kind carried on during the twenties, but it should also offer an opportunity for taking into consideration the legitimate interests of United States agriculture. In making or guaranteeing a loan, the bank is to take into consideration not only the interests of the borrowing country but also the interests of the member countries as a whole.

Agriculture has a very great stake in a sound money program. Farmers have not forgotten that between 1929 and 1940 there were over two and a quarter million farm foreclosures. This is equivalent to more than one farm in every three being foreclosed. Within the lifetime of most farmers, according to average figures reported by the Department of Agriculture, they have seen the price of corn range from 19 cents a bushel to over \$1.88 a bushel. They have sold wheat for 32 cents a bushel; likewise, they have sold it for \$2.56 a bushel. They have sold hogs for \$2.59 a hundredweight, and they have sold them for over \$20 a hundredweight. They have seen the price of cotton fluctuate from 4.6 cents a pound to 38.5 cents a pound. Within the short space of 15 years, farmers have seen the price of many of the major products drop until they sold for only one-

eighth of their former values (p. 5 of statistical appendix). Practically no other segment of our economy has experienced such violent fluctuations in the prices received for the products of their labor. They realize that part of this fluctuation has been due to changes in industrial employment and to changes in the purchasing power of consumers. Part of it has been due to changes in the supply of various products, part of it to changes in the export demand. Likewise, part of it has been due to changes in domestic and international monetary conditions.

While farmers are willing and anxious to participate in international monetary agreements, in the near future they are going to request the Congress to take progressive steps to develop a coordinated peacetime program of domestic price stabilization along with monetary activities. Farmers want a policy in the future which will give a parity of exchange value among all groups of our economy. They are not interested in perpetuating a dollar which will be subject to wide fluctuations in purchasing power, due to changes in monetary conditions. They realize that to tie the value of dollars and other currencies to the value of a commodity such as gold may at some future date cause some undesirable price movements. However, they feel that with the chaotic conditions in the world, with practically every nation of the world using a different monetary system, that if chaotic international exchange is to be avoided, it is necessary to stabilize on some common terms. Surely if conditions arise where it is necessary to make adjustments in the monetary program, there will be intelligence enough in such an international organization to make the needed changes, rather than holding tenaciously to some predetermined standard which will again make money the master of men, rather than men the masters of money.

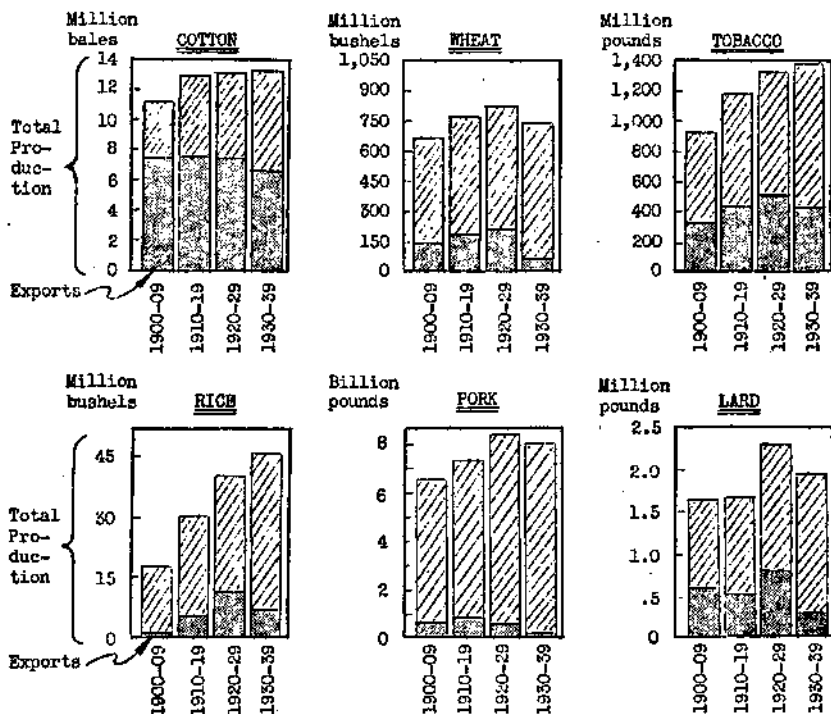
I have not attempted to go into the technical details of the proposed bank and the fund. I have attempted to show that the farmers of the Nation favor these proposed organizations as an attempt to improve the chaotic conditions which have existed in the past, and as an attempt to cooperate with other nations of the world with the hope of lessening the likelihood of another war. They want to see our cooperation on a sound basis. They believe Congress should exercise its authority and control over the participation of the United States in international programs. They know that this fund or this bank cannot be a substitute for sound domestic economies within the various nations of the world. They believe that the proposed fund and the proposed bank, if properly administered, will be aids but not cure-alls in stabilizing the world during the years ahead. Likewise, they believe that these organizations may make a contribution to world peace, and after all history clearly demonstrates that war is a most disrupting instrument to international trade, to internal finance, to stable prices, to a balanced economy, to say nothing of the heartaches caused in the homes of all peoples.

Percentage of total United States production of wheat, cotton, tobacco, rice, pork, and lard exported, by 10-year periods, 1900-1939

Period	Percent domestic exports are of total production of—					
	Wheat	Cotton	Tobacco	Rice	Pork ¹	Lard
1900-1909.....	21.9	57.1	35.4	7.4	10.0	24.8
1910-19.....	24.2	58.3	37.0	16.5	11.4	30.9
1920-29.....	26.1	56.6	38.8	27.2	6.9	24.8
1930-39.....	9.1	50.0	31.4	16.2	1.6	18.5
40-year average.....	20.6	57.6	35.6	18.4	7.2	29.8

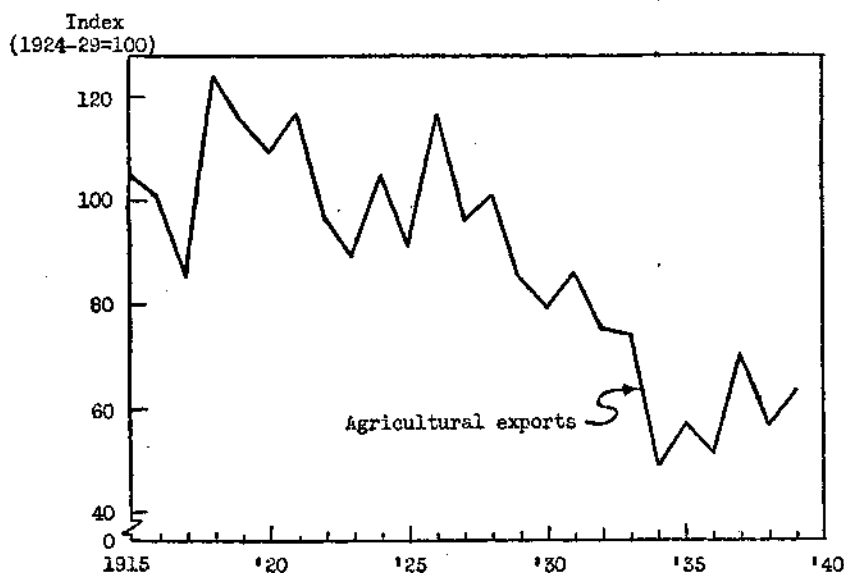
¹ Excludes lard.

Source: Weighted averages for 10-year periods, calculated from Agricultural Statistics, 1942.



During the 1930's, approximately 50 percent of our cotton production, 9 percent of our wheat crop, and 31 percent of our tobacco was exported. For these three crops, a smaller proportion was exported than during any of the preceding decades. Wheat exports dropped from 26 to 9 percent of our production between the 1920's and the 1930's. At the beginning of the century, we exported nearly two-thirds of our cotton production.

QUANTITIES OF UNITED STATES AGRICULTURAL EXPORTS, 1915-39

Quantities of United States agricultural exports, by 5-year periods, 1915-39¹

[Index numbers, calendar years 1924-29=100]

Period	Total agricul- tural	Cotton, includ- ing linters	Agricul- tural, except cotton	Tobac- co, un- manu- factured	Fruits	Wheat and flour	Other grains	Cured pork	Lard, includ- ing neutral
1915-19.....	106	68	141	91	38	120	-----	322	67
1920-24.....	103	74	130	91	56	140	-----	180	113
1925-29.....	98	101	95	104	105	92	94	78	95
1930-34.....	73	90	57	87	107	40	22	29	63
1935-39.....	60	87	53	85	109	34	64	16	22

¹ Simple average of index numbers by 5-year periods.Source: U. S. Department of Agriculture, *Agricultural Statistics*, 1942, p. 540.

Volume of agricultural production in the United States, 1909-44

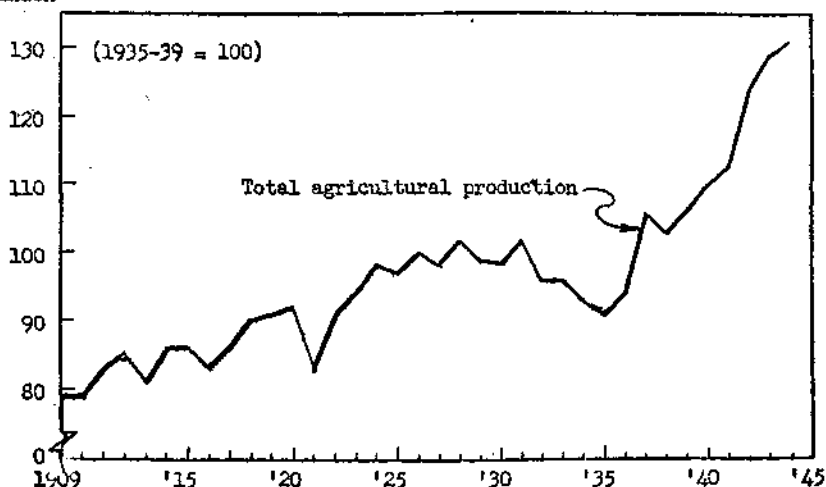
[Index 1935-39=100]

Year	Total food products	Total agricultural products ¹	Year	Total food products	Total agricultural products ¹
1909	79	79	1927	97	98
1910	79	79	1928	100	102
1911	83	83	1929	97	99
1912	85	85	1930	98	98
1913	81	81	1931	100	102
1914	86	86	1932	98	96
1915	86	86	1933	97	96
1916	83	83	1934	100	93
1917	86	86	1935	93	81
1918	90	90	1936	97	94
1919	91	91	1937	101	106
1920	8	92	1938	103	103
1921	85	83	1939	106	106
1922	92	91	1940	111	110
1923	95	94	1941	115	113
1924	97	98	1942	125	124
1925	93	97	1943	132	129
1926	97	100	1944	137	133

¹ Includes in addition other feed grains, hay, cotton, tobacco, hops, soybeans, flaxseed, wool, and mohair.
² Preliminary.

Source: U. S. Department of Agriculture, Bureau of Agricultural Economics, the National Food Situation October 1942 and January 1945.

Index



The total volume of agricultural production in 1944 was 33 percent above the prewar average and over 47 percent greater than the 1918 production. Favorable growing weather, improved farming methods, and hard work on the part of farm families have resulted in the greatest volume of agricultural production in our history.

Percent of production of leading commodities exported, 1929, 1933, 1938 and 1941

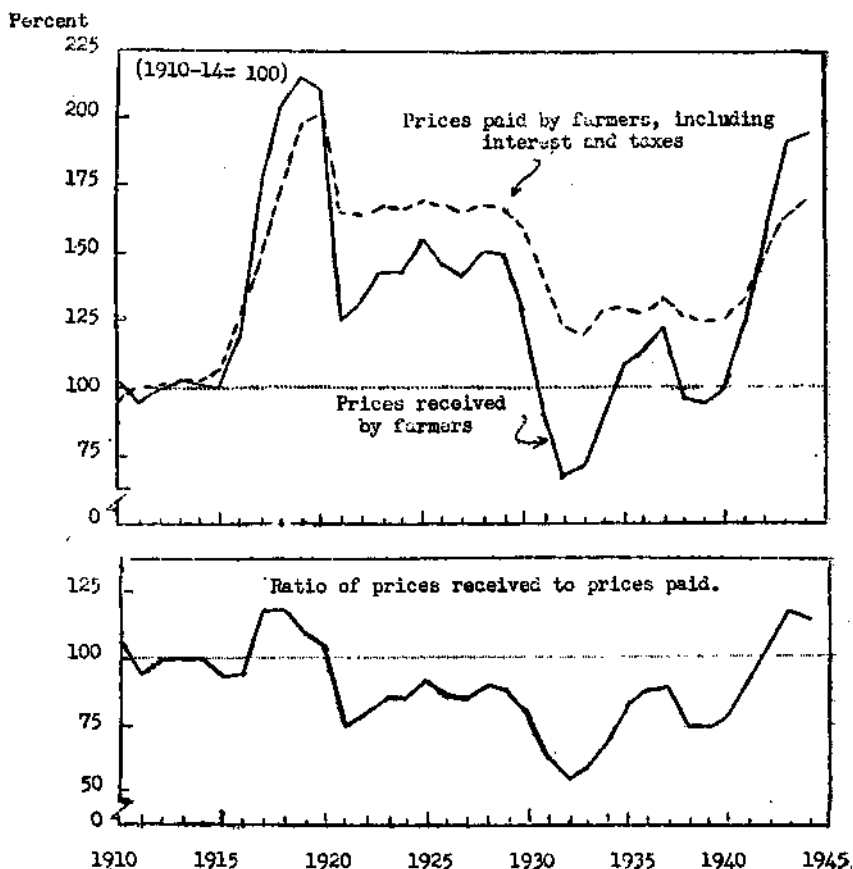
Commodity	Percent exported			
	1929	1933	1938	1941
Crude materials:				
Tobacco leaf.....	41	39	29	12
Cotton.....	55	66	30	8
Anthracite coal.....	5	2	4	6
Bituminous coal.....	3	3	3	4
Crude petroleum.....	3	4	6	2
Phosphate rock.....	41	45	52	38
Foodstuffs and beverages:				
Meat products.....	3	1	1	3
Lard.....	34	24	12	17
Milk, condensed, evaporated, and dried.....	4	2	1	15
Rice.....	33	15	21	26
Wheat.....	18	5	12	5
Cottonseed.....	13	7	3	(1)
Canned vegetables.....	3	1	1	1
Grapefruit, fresh.....	7	9	6	4
Oranges, fresh.....	10	7	10	6
Apples, fresh.....	10	14	7	1
Pears, fresh.....	16	19	16	2
Dried fruits.....	46	39	36	35
Canned fruits.....	23	21	13	18
Semi-manufactured and finished manufactures:				
Leather.....	9	6	5	4
Cigarettes.....	7	2	4	4
Cornstarch and corn flour.....	22	6	4	17
Cotton cloth, including duck.....	7	4	4	6
Lumber and timber.....	8	9	4	2
Paper and manufactures.....	4	3	3	4
Coke.....	2	2	2	1
Refined mineral oils.....	20	12	11	11
Petroleum asphalt.....	12	8	5	3
Sulfur, crude (shipments).....	35	32	36	21
Rolled iron and steel products.....	6	3	8	10
Plates and sheets (iron and steel).....	6	3	9	7
Tubular iron and steel products.....	6	5	5	7
Aluminum (ingots, plates, sheets, bars, etc.).....	8	7	4	13
Copper, refined.....	36	41	53	11
Lead, refined.....	9	9	12	2
Zinc (slabs, plates, blocks, sheets, etc.).....	3	1	1	11
Agricultural implements and machinery.....	25	30	17	14
Automobiles (cars, trucks, busses).....	13	7	14	7
Aircraft and parts, including engines.....	10	27	27	56

¹ Less than 0.5 percent.

NOTE.—For details concerning appropriate footnotes, see table 33, pp. 53-54, Summary of Foreign Trade of the United States, Calendar Year 1941, May 1944, U. S. Department of Commerce, Bureau of Foreign and Domestic Commerce.

In 1938 the following proportions of our production of various agricultural products were exported: Cotton, 30 percent; wheat, 12 percent; leaf tobacco, 29 percent; lard, 12 percent; rice, 21 percent; oranges, 10 percent; apples, 7 percent; dried fruits, 36 percent; and canned fruits, 13 percent. In this same year, the exports of coal amounted to approximately 3 percent of the production; crude petroleum, 6 percent; phosphate rock, 52 percent; leather, 5 percent; lumber and timber, 4 percent; coke, 2 percent; refined mineral oils, 11 percent; crude sulfur, 36 percent; aluminum, 4 percent; refined copper, 53 percent; refined lead, 12 percent; and zinc, 1 percent.

PRICES RECEIVED AND PRICES PAID BY FARMERS, 1910-44



Value of principal agricultural products imported by Germany from the United States in specified years, 1929-37

[Value in millions of reichsmarks ¹]

Commodity	1929	1930	1933	1934	1937
Wheat	48.6	34.1	1.9	1.3	2.1
Corn	22.1	1.2	.4	.5	(²)
Nontropical fruits	69.8	55.1	38.3	30.6	1.9
Lard and tallow	106.7	73.7	31.9	9.5	(²)
Cotton (raw, waste, and linters)	618.5	427.6	223.1	146.1	78.4
Tobacco	14.2	13.9	4.7	4.0	4.4
Resins, gumlac, and shellac	18.4	14.4	6.5	4.6	3.1

¹ Official exchange value of reichsmark remained unchanged during this period.² Less than 50,000 reichsmarks.

Source: Office of Foreign Agricultural Relations, U. S. Department of Agriculture.

Percent of total value of principal agricultural products imported by Germany that came from United States in specified years 1929-37

Commodity	1929	1930	1934	1937	1937
	Percent	Percent	Percent	Percent	Percent
Wheat.....	10.8	14.7	2.1	1.3	1.3
Corn.....	18.6	1.3	2.1	(1)	(1)
Nontropical fruits.....	32.9	27.2	28.1	1.9	1.9
Lard and tallow.....	75.0	68.4	37.7	(1)	(1)
Cotton (raw, waste, and linters).....	75.9	73.7	56.1	28.3	28.5
Tobacco.....	5.7	5.4	3.2	3.6	3.3
Resins, gumlac, and shellac.....	30.2	31.6	21.6	14.5	14.6

¹ Less than 0.05 percent.

Source: Ibid.

Senator TAFT. The Grange has also devoted a great deal of attention to it and they take the opposite view from the American Farm Bureau.

Mr. WHITE. They did at first; but I believe they changed their minds after they had an opportunity to study the plan.

The CHAIRMAN. As they began to learn of the proposal they became convinced that it was a wise thing.

Well, now, I think we ought to meet Monday morning at 10:30.

Senator TAFT. I can get through with Mr. White in the morning if I have reasonable assistance from the other Senators.

The CHAIRMAN. The meeting is adjourned until 10:30 Monday morning.

(Whereupon, at 12:30 p. m., an adjournment was taken until Monday, June 18, 1945, at 10:30 a. m.)

(The following statement was later received for the record:)

STATEMENT OF THE NATIONAL LEAGUE OF WOMEN VOTERS FOR THE SENATE BANKING AND CURRENCY COMMITTEE ON THE BRETTON WOODS AGREEMENTS

The National League of Women Voters testified before the House Banking and Currency Committee in support of the Bretton Woods agreements. We wish to renew our statement of support for the Senate. We appreciate the work of the members of the House committee in presenting a bill which members of both parties could support, and did support with an unusual degree of unanimity in the House. As a nonpartisan organization concerned with government and with the development of policies in the public interest, we urge on you especially the significance and importance of a bipartisan consideration of Bretton Woods. At no point should questions of foreign policy become the object of political strategy. Action on these agreements should represent a decision in which we stand united as a Nation, thus reassuring other nations of our stability for the difficult reconstruction period ahead.

These agreements are, we believe, of unusual value because they have been developed on a multilateral rather than a unilateral basis. By cooperation, more evidence becomes available, different points of view are considered, and wiser decisions are reached. All nations are concerned with monetary problems. The burden of solving them, therefore, should rest on every country, not just on the United States, and all should share the financial risks of the reconstruction period. These risks are inevitable, but can be mitigated under the Bretton Woods plan for joint action and conference.

The League of Women Voters publishes a memorandum series on items in our program. The memorandum on Bretton Woods has had one of the highest sales in our history, and has been in use in practically all of our 530 local leagues. Correspondence has also been especially heavy. Our members are therefore deeply aware of the significance of this issue as a foundation for economic cooperation and the achievement of world peace.

BRETTON WOODS AGREEMENTS ACT

MONDAY, JUNE 18, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Saturday, June 16, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner, chairman, presiding.

Present: Senators Wagner (chairman), Radcliffe, Downey, Murdock, Fulbright, Taylor, Tobey, Taft, Butler, and Millikin.

The CHAIRMAN. The committee will come to order. Dr. White, we will go on with you and hope to finish. Incidentally, we will have to quit at quarter to 12.

STATEMENT OF HARRY D. WHITE, ASSISTANT SECRETARY OF THE TREASURY, WASHINGTON, D. C.—Resumed

Mr. WHITE. I don't remember just where we left off. I can proceed with my discussion or I will be glad to just answer questions.

Senator FULBRIGHT. Before we go any further there is one point I would like to have cleared up, Mr. Chairman.

The CHAIRMAN. Very well.

Senator FULBRIGHT. They say that when the dollars run out, then America will be in the position that if we don't put up more dollars or make arrangements to continue a greater supply of dollars, we are in the position of sabotaging this plan or of being "Uncle Shylock." I would like to have you clarify as much as you can what happens when dollars are exhausted or become scarce.

Mr. WHITE. Senator, I think that is a rather important question and I would like to answer it in two brief parts.

Senator TAFT. May I say that that is part of my question too, and I suggest that the committee turn to article VII, Scarce Currencies, and ask Mr. White to explain just how it works.

The CHAIRMAN. What page is that?

Senator TAFT. Page 13.

Mr. WHITE. I would like to explain first how it works and then answer your question.

Senator FULBRIGHT. Yes. I would like to have that question developed.

Mr. WHITE. The provision operates as follows: Dollars are being withdrawn from the fund and dollars are coming back. There will be dollars coming in and there will be dollars going out. We expect that a lot of the countries will want dollars and the dollars will be

going out of the fund; later dollars will also be coming back; not immediately, but after 6 months, a year, or two, because there will be always some repurchasing going on. So you have a continual outflow and a continual inflow, but in the case of dollars I think it is quite reasonable to expect that the outflow will be greater than the inflow for a few years.

Senator FULBRIGHT. Because our exports will be greater than our imports?

Mr. WHITE. Yes. That would be the chief cause.

Senator TART. Are you speaking of the immediate postwar period?

Mr. WHITE. Of the first 2, 3, 4, or 5 years. There is a difference of opinion how long that period will last.

Senator DOWNEY. To what extent would incoming interest or dividend payments to the United States above what we would be paying out be a factor in that? Wouldn't that be a considerable factor, Mr. White?

Mr. WHITE. It will be a smaller factor in the first few years, Senator Downey, than it was in the past, because there has been a good deal of repurchasing of our foreign investments, but it will be a substantial factor. I will give you the exact figures in a moment. My colleague, Dr. Bernstein, will give you that.

Mr. EDWARD M. BERNSTEIN. In 1939 the nationals of this country received \$541,000,000 in interest and dividends from abroad. In turn the nationals of foreign countries received \$230,000,000 in interest and dividends in this country.

Senator MULLIKIN. Would you mind repeating that? Just that last figure.

Mr. BERNSTEIN. The nationals of foreign countries received \$230,000,000 in interest and dividends from investments in the United States. The net excess of income of Americans from foreign investments, in excess of the income of foreigners from American investments, was \$311,000,000. As Mr. White indicated, during the war considerable investments of the United Kingdom and other countries have been liquidated in this country, so that after the war you would be starting off with smaller foreign investments. Simultaneously we have been repatriating our own investments abroad. They will both be lower when the postwar period begins.

Mr. WHITE. I would be inclined to guess that our interest and dividend receipts on investments that are coming to us would be in the order of a half billion dollars a year immediately after the war and that it will begin to increase rather quickly on the assumption we will be making an increased amount of investments in foreign countries.

Senator DOWNEY. Thank you.

Mr. WHITE. Coming back to Senator Fulbright's question, the demand for dollars being in excess of the supply, as I say, the dollars in the fund will be decreased. We start with a couple of billion dollars in the fund and another 1.8 billion dollars in gold. As the dollars in the fund decline over the months, and they are watched closely, to a level, say, of around a billion dollars, the fund would begin to do something. One of the things the directors might do would be to supplement their dollars in the fund by selling some of the gold

that is in the fund. They will have a substantial amount of gold. They will sell that gold to the Treasury and purchase more dollars—that is, gold that is contributed by the United States and by all other countries. Let us assume that process of the increasing outflow of dollars as against the inflow of dollars will continue. The dollars continue to do down. When they will have reached a level which would have to be judged at that time as being a sort of a red signal, if you like, they will use the rest of the gold they have to supplement it and they will do something else. They will make a report to the executive committee—the technical staff will—as to the causes of the continual outflow of dollars. Now, the cause of sustained net outflow, or rather the causes—there is always more than one cause—may be that some of the countries are purchasing more imports than they should. It may be that the United States is selling far more than it is buying, and is making no attempt to modify that situation. In any case, that report will go to the committee and it may issue that report in original or revised form or they may not. It may issue a report and make recommendations around the table to the representatives of the United States and other countries as to what might best be done to begin to modify the situation. Let us assume that, notwithstanding the report and the suggestions, the dollar balances in the fund continue to decline. When dollars reach a certain level which in the opinion of the fund is what they might call the level of scarcity—that possibly would be in the neighborhood of a half billion dollars or so—they would then announce to the member countries that dollars are scarce in the fund.

May I digress just a moment to point out that in the absence of a fund dollars would have been scarce just the same, except they would have been scarce a long time before. The effect of the fund would be to postpone the scarcity by supplying dollars which would otherwise not be available.

Senator TARR. Unless loans were made, in other words?

Mr. WHITE. We might say unless there were other arrangements made to supply dollars, and that is one of the things I want to bring out in connection with this in a moment. When the fund announces that dollars are scarce, it would be a formal announcement. It is required by one of the provisions to issue a report which would be carefully prepared, indicating the causes of that scarcity and possibly recommendations for alleviation of the difficulty. Now, what happens when the fund issues the report that dollars are scarce? Two things. The countries that are members are relieved of their commitment not to place any limitations on the sale of dollars. In other words, a member country cannot say prior to this declaration of scarcity of currency that the amount of dollars that will be granted to any particular importer shall be limited unless it is during the transition period or unless the fund approves of it. But after dollars are declared scarce member countries can ration dollars. They can say to importers, "You can have only so many dollars. You can have a permit to purchase only so many dollars," or "You can import and pay for only certain categories of goods and not others." In other words, they can do precisely what they do in the absence of the fund and precisely what they have been doing in the last 10 years. They have got to do that because—

Senator MILLIKIN. Mr. Chairman, may I interject a question? .
The CHAIRMAN. Yes.

Senator MILLIKIN. I would like to ask whether that is another way of saying that at that point this fund and this scheme would have the power to regulate our exports.

Mr. WHITE. No. That would be a little misleading, I think, Senator. The fund cannot regulate our exports at all. Members individually can decide which of our exports they will buy the same as they do now, or as they will after the war, and as they did before the war. In other words, if a resident of country X wanted to buy certain goods in the United States, he had to get an exchange permit first because country X didn't have enough dollar exchange to supply the demand in country X. There are many countries which do not have enough dollar exchange to sell to all who wish to buy dollar exchange. Therefore they have to ration it. They could say, "First come, first served," as long as the limited supply lasts, or more likely, "We will give exchange permits up to a certain amount for the importation of machinery or up to a certain amount for the importation of food, and so forth." In other words, they have to ration the exchange among the various claimants. That has nothing to do with the fund.

Senator TAFT. They can freeze sterling balances in this country and say, "You cannot have any dollars to pay your sterling debts."

Mr. WHITE. I am not sure I understand that. Do you mean they could freeze all our American holdings of sterling in London?

Senator TAFT. They could refuse to give the British dollars to pay their debts in the United States.

Mr. WHITE. Oh, yes. The fund doesn't cause that. The countries now do that anyway. All that the fund does is to say that while dollars are scarce in the fund, the limitation on exchange is temporarily restored.

Senator MILLIKIN. Well, under the fund or without the fund, whenever you reach a position of dollar scarcity, you reach a point where you are modifying our export policies.

Mr. WHITE. They are not buying as much as they would like to, maybe. Each country would determine for itself what dollars they would permit their citizens to buy, but that is exactly what has been going on in the last 15 years.

Senator MURDOCK. Have we ever found it necessary in this country to adopt similar procedures with reference to any other country?

Mr. WHITE. Oh, no, Senator. The reason is that we have more than an adequate supply of gold so that our citizens can buy anything anywhere except for shipping and other restrictions during wartime?

Senator FULBRIGHT. In addition to that, for about 20 years our export balance has been roughly a billion dollars more than our imports, in round numbers; isn't that true?

Mr. WHITE. Yes; but a more significant figure, Senator Fulbright, would be one which included, in addition to exports and imports of goods, tourist expenditures and services and that sort of thing, because they have the same effect as exports and imports of goods.

Senator FULBRIGHT. And loans?

Mr. WHITE. That is a very important factor. If you take our purchase of goods and services and also the tourist expenditures and in-

terest payments and other current items, you would find that that comes to a very much smaller amount than a billion a year net. In the period from 1934 to 1938, inclusive, taking that period so as to miss the depression and the war, you will find foreign countries owed us on current account only a billion dollars for the entire last 5-year period before the war.

Senator DOWNEY. You are not justified in putting the balance on tourist trade in those items, are you? That has a contrary effect.

Mr. WHITE. No, Senator. Our expenditures for tourist trade is just the same as imports so far as our balance of payments is concerned.

Senator DOWNEY. You were stating the causes that gave us a favorable balance, on which we could trade upon for our exchange, while tourist expenditure is one in favor of the other countries.

Mr. WHITE. Oh, yes; you are quite right. We have frequently been accused of exporting so much more than we have been importing as to create trouble for other countries, and people frequently overlook the fact that our tourists spend large sums of money which are equivalent to imports.

Senator DOWNEY. They leave that out?

Mr. WHITE. That is too frequently overlooked.

Senator DOWNEY. That is about \$300,000,000 a year, isn't it?

Mr. WHITE. It has been even more than that in some years and it will probably be much larger, we expect, after the war—after the headache phase of postwar adjustment passes.

So, to come back, when a period of scarcity is declared for a currency, then the situation so far as each foreign country is concerned, returns to what we might call the prefund condition, and that continues until there are enough dollars coming back into the fund so that the scarcity no longer exists.

Now, there has been some expression of opinion that a scarcity of dollars will develop. I want later to indicate why we do not believe that is likely to happen. But if it should happen, there has been an assumption that the fund would break down or no longer be able to operate, the fund would be frozen, the critics say. Nothing could be further from the truth. There will be something like 50 or 60 countries, we hope, who become members. The United States, though it is an important area of trade, has less than 15 percent of the world's export trade, a little less than one-sixth. You will have all the other countries continuing to buy exchange from the fund, continuing to use the facilities of the fund the same way as in the beginning. More than that, the fund will be even more effective, because it will more quickly bring about a correction of their serious imbalance. And the agreement which the countries make in joining the fund that they will not resort to competitive exchange practices, and so forth, continues. The only difference that will take place, if dollars are scarce in the fund, is that countries will be able to apply limitations, so far as exchange transactions in dollars are concerned, as they did before the fund existed. That is all that happens.

I would like to call your attention to the fact that there has been much too easy an assumption that everybody wants dollars and that dollars will become scarce in the fund very quickly. It is true that in the earlier years, 2, 3, 4, maybe 5 or 6 years, there will be a greater

demand for American goods so that there is almost certain to be a balance due us.

Senator MURDOCK. Did I understand you to say there will be a greater demand for goods than we are able to produce?

Mr. WHITE. Except for the very immediate postwar months, no; unless there is a continuation of a boom period. Of course, that is possible.

Senator TAFT. May I say that Mr. Eccles suggested in the last testimony he gave here that we simply would have to ration exports, that the demand would be so great for goods at home and abroad there would be no possibility of meeting that demand for some years.

Mr. WHITE. I think that is very likely to be true for a period of a year or two, but we have a tremendous capacity in a lot of items, though possibly not in the over-all picture, but if you take 3, 4, or 5 years from the end of the war, I doubt very much that that will be true. I hope it is true.

Senator TAFT. Oh, I think 5 years from now that situation will have changed.

Senator MURDOCK. That prompts me to ask this question. The very thing we have been ambitious for in this country, as I have understood it, is what might happen to our dollar, that is, there will be such a demand for American goods that the dollar exchange will not be sufficient; that is, that they will have to ration the dollar exchange.

Mr. WHITE. That other countries will have to ration it, you mean?

Senator MURDOCK. Yes.

Mr. WHITE. We want our exports to increase, but we want other countries to be in a position to pay.

Senator MURDOCK. That is the thing we have been ambitious to have.

Mr. WHITE. And that is one of the things that the fund is created to make provision for, and of course that is one of the things that makes the fund of considerable interest to foreign countries. They will have an additional supply of dollar exchange with which to buy more of the goods they want. But that condition which may and probably will last over several years must be taken together with the fact of how much dollar exchange is going to be available from all sources. That is the part which is frequently overlooked. In the first place, there are a number of countries that have greatly increased their gold holdings during the war. The neutral countries particularly, and the South American countries, because they have been selling a lot of goods and have not been able to buy as much as they would like to. Therefore their foreign-exchange assets have piled up.

The CHAIRMAN. And they have gotten gold?

Mr. WHITE. And they have gotten gold. In some cases they have bought dollars with it and kept it on deposit, but they acquired a substantial amount of gold. Now, when the shipping stringency disappears and the manufacturing restrictions in this country, the WPB restrictions and so on are removed, they will begin spending that velvet, so to speak, that they have accumulated over the years. We have made some estimates and conservatively we would expect that they will reduce their gold reserves and get dollar exchange with it, to spend here, up to probably \$3,000,000,000. Some think it will be much more, but 3 billions is a conservative estimate. In other

words, they would have \$3,000,000,000 worth of gold that they can and will spend. There will be newly mined gold during the next 5 years outside of the United States, and outside of Russia. I exclude Russia because there is a special provision which gives her special privileges during that period. That will be over the 5-year period in the neighborhood of \$5,000,000,000—that is the aggregate of all countries except the United States and Russia. Most of that will be spent. You see, members have to spend most of those increases while they go to the fund. That makes about \$8,000,000,000. I am talking now of a total for a 5-year period. Now, we have to add to that figure our capital exports, because obviously that is a source of dollar exchange. How large those capital exports will be is a matter of guess or judgment. In the decade after the last war they averaged a little over a billion dollars a year. I think that most people feel that it will be less than that after this war if nothing is done. With the fund and the bank in operation, which will greatly help to stimulate foreign investment, the capital exports should grow to a couple of billion dollars a year or more.

Senator TAFT. I suggest they will be very small; that is, for some years. Insofar as the Government itself guarantees the money and confidence may be restored, say in 5 years, I think it may increase, but immediately I don't think anybody is going to rush abroad to invest in foreign countries, unless the Government is going to guarantee it.

Mr. WHITE. There is one source of capital export, Senator, that I think you have overlooked. There will be a lot of building branch plants and establishing new factories in South America and other foreign countries. There is a big backlog to be met. Altogether, capital exports will probably be somewhere in the neighborhood of a couple of billion if the bank and the fund go into operation. That is, a couple of billion dollars a year. Over a 5-year period that is \$10,000,000,000. Adding that to the \$8,000,000,000 you have gives a figure of \$18,000,000,000 over a 5-year period that can be paid to the United States.

Senator TAFT. We will have enough gold even to satisfy Senator Murdock.

Senator MILLIKIN. May I suggest that it is not compulsory on the part of countries that have earmarked gold to spend it here, if they can import to better advantage from the sterling bloc.

Mr. WHITE. That is very true; but if they have any increase in gold it will find its way to the fund. What I was indicating was that the assumption that there is going to be a shortage of dollars in the fund in a short time ignores these very pertinent factors.

Senator TAFT. That is the over-all average in question.

Mr. WHITE. That is right.

Senator TAFT. It does not apply to a large number of countries—some countries have more than they need and others haven't got anything; isn't that true?

Mr. WHITE. That is true. Countries with a small amount of gold are usually the small countries. That is one important reason why we need the fund.

Senator FULBRIGHT. Did you say that all new gold has to come to the fund?

Mr. WHITE. When any country purchases foreign exchange from the fund, let us say dollars, in this case, and simultaneously increases its gold or other forms of monetary reserves, so that at the end of the year it has received more than it has paid out, it has to use that increase to buy back its own currency from the fund. It has to put gold back in the fund in place of its own currency. That is one provision. The second provision is that when a member country buys dollars from the fund or any other currency it has to pay half in gold unless it has less gold than its own quota.

Senator MURDOCK. Under section 3, "Subscriptions," it says:

Each member shall pay in gold, as a minimum, the smaller of 25 percent of its quota, or 10 percent of its net official holdings of gold and United States dollars as at the date when the fund notifies members that it will shortly be in a position to begin exchange transactions.

Are United States dollars interchangeable with gold?

Mr. WHITE. We happen to be the only country, practically, in which that is true. Wherever we said gold we also said dollars, because to many countries they would just as soon hold dollars as gold. If the agreement would have put just gold alone, some countries might have converted their gold into dollars. That would have been a big loophole. So gold and dollars are the same in calculating the gold subscription to the fund.

Senator MURDOCK. Now, in making up their quota, let us say that Argentina had a great quantity of United States dollars. Could she deposit those dollars with the fund in place of gold?

Mr. WHITE. She could not, according to the terms; I think it would have to be gold. In fact, it wouldn't make any difference to us, because—

Senator MURDOCK. I know it would not to us.

Mr. WHITE. It wouldn't to anybody, because they can buy and sell dollars and gold by just a telephone conversation. So they might very well say to the fund, would you like gold or would you like dollars? Actually, countries pay their gold subscription in gold rather than dollars.

Senator MURDOCK. That answers my question. Thank you.

Senator MILLIKIN. The reason the countries have an excess of \$3,000,000,000 in gold is because they had dollars which they transferred into gold?

Mr. WHITE. Mostly, with this one exception, Senator. As a result of the fear of invasion in those countries, some of the countries deliberately shipped a lot of gold here.

Senator MILLIKIN. That being the case, I wonder if it is entirely sound to say you can regard the two things as the same. If we are establishing a habit here of having dollar balances transferred into earmarked gold, doesn't it indicate a preference for gold as against dollars?

Mr. WHITE. It would for those countries and the reasons vary from country to country. Some countries are required by their laws to have gold reserves behind their balances and are not permitted to include dollars. In other cases there is a feeling that gold earmarked has a different legal status than dollars to their account—that we would hesitate to do anything with earmarked gold where we would not hesitate with dollar balances.

Senator TAFT. We don't seem to be making much progress. We wander off so much from the things we start on.

Mr. WHITE. I thought I had finished with what we started on. I attempted to explain what we mean by dollars being scarce in the fund and what follows from the declaration of such scarcity, and then I wanted to indicate that the likelihood of dollars being scarce in the fund is remote and would take place only if we changed our policy so that we sold so much to other countries compared with what we bought, as to put terrific pressure on all the countries unless foreign investment helped offset it.

Senator FULBRIGHT. Would there be any inclination on the part of the fund to put pressure on us to increase that amount through our own activity, not through reduction in their purchases?

Mr. WHITE. One thing we might do—it doesn't look as though we were going to—it would be most unfortunate if we did—is to pass a higher tariff act which would mean that other countries could sell us much less. Another thing we might do is to not reduce certain of the tariffs which are inexcusably high.

Senator TAFT. What are those, Mr. White? I would like to know.

Mr. WHITE. Oh, Senator—

Senator TAFT. Well, I really want to know. I am interested.

Mr. WHITE. I remember in my capacity as a member of the Trade Agreements Committee for 10 years, where we used to examine tariff schedules, we all agreed there were certain specific ones that were much too high.

Senator TAFT. Many of them have been reduced. How many are too high now? I want to know which they are.

Mr. WHITE. It is my judgment, Senator, that there are some that are still too high and that the proper way to attack the problem is to consider each item separately.

Senator TAFT. I just wondered which you thought were too high today.

Mr. WHITE. I am afraid that would take me too far afield. I would like to finish this subject first. One way in which pressure for dollar exchange could be eased would be by encouraging capital exports. If, as the Senator believes might be the case, that in the absence of these two institutions there would be very little capital going into these countries, they might have a scarcity of currency that would be very great and would impose upon them a great urgency to do something to increase the supply of dollars and diminish the demand for dollars in their countries. That is a condition we would like to avoid, if possible.

Senator TAFT. Section 3 of article VII says they "shall formally declare such currency scarce" after a report. I suggest that one of my difficulties with it is that that seems to be an international indictment of the United States practically made by that and our fiscal policies. You say it could be done without the fund but it could not be done in such an official way to which we have formally and in advance agreed. One of my suggestions is this: That this section 3 (a)—I mean this is a statement from the world that the United States is refusing to take imports, they are refusing to lend us money, they are refusing to export

capital, and so we indict them. We are going to declare their currency scarce. We are not going to pay debts we owe them. We have agreed to all of that in advance. That is what bothers me about section 3.

Mr. WHITE. Let me give you a little of the background. There is some point to your remark, as will be clear from what I am about to say. In some of the proposals that were submitted by experts of foreign countries they wanted to impose a penalty on the country whose currency became scarce, having in mind, of course, chiefly the United States. If that should happen they said the United States might be the chief offender. If the United States does the same thing as she did after the last war, make it impossible for us to sell goods to the United States and insist at the same time upon subsidizing her exports, it is going to disrupt the monetary systems of the world merely because she is not pursuing the policy we think she should. Therefore they want to penalize that country pursuing such a policy by imposing a charge or penalty fee. That was in the discussions before Bretton Woods.

The American technicians took this position: We would not consider any such penalty and we would not accept such a conclusion. The causes for countries buying more than they are selling differ from time to time and from country to country, and the chief fault may not at all be ours. It might be ours in part, but it might also be the fault of the other countries. The mere fact that a particular country wants to sell us fish oil although we don't want to buy it, perhaps we don't like so much fish oil, is no reason why they should force us to buy more fish oil. In other words, countries may be living beyond their means. They may think there is an unlimited amount of foreign goods they can buy from the United States irrespective of what they can sell. What they have to sell may not be sufficiently desirable to other countries.

Countries may get into a position where there is a scarcity of foreign currency not because of the fault of the country from which they are buying but due to their own extravagant policies. We said we could accept no such assumption, either implicit or explicit, that if dollars become scarce in the fund, that the fault is necessarily ours. We finally agreed that if any currency becomes scarce a report will be prepared and a member of the committee which prepares that report shall be a representative of the country whose currency is becoming scarce. We want to make certain any report made is a competent one, and places the responsibility for the scarcity where it belongs and give proper weight to each of the various causes. We said we would agree to have the fund make a report. More than that if the fund declares a currency scarce we would agree that the fund be required to make public the report. That, we think, is highly desirable, because if there are causes for that scarcity which are in part due to policies pursued by the United States, then we think that Congress ought to know it. The report of the fund would have prestige, if the fund earns prestige. If the fund conducts itself in such a way that it wins the confidence of the various countries, Congress or a committee—your committee would have it—would have before it the report of the fund for you to examine for what it was worth. If the reason stated in the report seemed sound it might influence your policy, you would take that fact into consideration. You are not required to do anything about it. All

that you are called upon to do is to give the report of the fund consideration.

Senator TAFT. And it says:

A formal declaration under (a) above shall operate as an authorization to any member, after consultation with the fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency.

In other words, we cannot get dollars for pounds. They raise other results.

Mr. WHITE. No, no.

Senator TAFT (reading): "Subject to the"—

Mr. WHITE. Excuse me. May I correct that? The fund says in effect:

If you subscribe to this fund, you have to agree not to put certain restrictions on the acquisition of any foreign currency on current transactions. If, however, any currency becomes scarce, then the members of the fund revert to their original position with respect to that currency.

Senator TAFT (reading):

Subject to the provisions of article IV, sections 3 and 4, the member shall have complete jurisdiction in determining the nature of such limitations—

Mr. WHITE. Which is what they have now.

Senator TAFT (reading):

but they will be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit.

I only suggest that it is a very different thing from a world in which we pursue our own course. Where we have difficulty with exchange with a country, we go to that country and make an arrangement to make loans if we wish to, or we let their trade go because it happens to be something we don't particularly—we prefer to pursue our existing policies.

Senator FULBRIGHT. You can still make loans.

Senator TAFT. Where you have the world saying, in effect, "America is creating order and law and prosperity in the world," and they may be right or they may be wrong. In any event, it affects us the same way.

Mr. WHITE. Well, Senator, what they would say in that event—it is not a likely event, but if that did occur—what they would say is that everybody cannot have as many dollars as they want, which is precisely what has been said for the last 15 years. There is nothing new in that.

Senator FULBRIGHT. It seems to me we would want them to restrict it in order to get replenishment.

Mr. WHITE. Of course.

Senator FULBRIGHT. And we can still make money.

Senator TAFT. I would like to read at this point Lord Keynes' statement on the subject, because I think it throws light on it:

There is another advantage to which I wish to draw your lordship's special attention. A proper share of responsibility for maintaining equilibrium in the balance of international payments is squarely placed on the creditor nations. This is one of the major improvements in the new plan. The Americans, who are most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the interwar years, namely, the draining of reserves out of the rest of the world to pay a country which was obstinately

borrowing and exporting on a scale immensely greater than it was lending and importing.

Now, here is a statement that I think gives a wholly false statement of our position in the interwar period:

Under clause VI of the plan a country engages itself, in effect, to prevent such a situation from arising again, by promising, should it fail, to release other countries from any obligation to take its exports, or, if taken, to pay for them. I cannot imagine that this sanction would ever be allowed to come into effect. If by no other means than by lending, the creditor country will always have to find a way to square the account on imperative grounds of its own self-interest. For it will no longer be entitled to square the account by squeezing gold out of the rest of us.

I may interpolate here that you seem to be going to take eight or ten billion of their gold, still, under your own theory.

Here we have a voluntary undertaking, genuinely offered in the spirit both of a good neighbor and, I should add, of enlightened self-interest, not to allow a repetition of a chain of events which between the wars did more than any other single factor to destroy the world's economic balance and to prepare a seed-bed for foul growth. This is a tremendous extension of international cooperation to good ends. I pray your lordships to pay heed to its importance.

Now, does that state substantially the results? I do not think it states the facts fairly, but do you think it states the results of this conference?

Mr. WHITE. I dislike very much to criticize anything that Lord Keynes has said, because I have a very high regard for his integrity and ability and understanding of the subject, and his interest in helping to bring about world prosperity and peace. However, I think I would not have written it that way. The only thing that the fund can do—and we were quite agreeable to include that, and I think it is an excellent thing—is to make a report. The committee of the fund can make a report, and one of the committee members, as I say, would in that case be the American representative. They would make a report concerning the various causes, suggesting certain remedies, and that report would come before your committee, and you would give it whatever consideration you thought it deserved. If you thought the arguments that were given were sound and that they did indicate and called for some modification of Government policy, I am sure you would be glad to adopt it. If, on the other hand, you felt that they were in error, if you felt they were distorting the facts, I am sure you would likewise give the report the consideration which it deserves. You would in that case throw it in the basket.

Senator TAFT. Well, I just suggest that it puts us in the position before the world of always allowing—as long as we have a high standard of living and greater prosperity, of doing acts of sabotage to the rest of the world by an official body. I think Lord Keynes is right when he said you were extremely generous in agreeing to such a provision.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. I suggest, Senator, that to my mind it takes the form of giving this fund the power to develop an embargo on the United States.

Mr. WHITE. Senator, I do not quite understand that. What will happen after the war, supposing the fund never goes into effect, is precisely what happened in the last 15 years, and you can even go further back than that in certain countries. A country cannot satisfy the requests of all its nationals for dollar exchange. Now, what can a country do? It has, let us say, a half billion dollars' worth of gold or foreign exchange which it feels it can spare without going below a proper monetary base and critical reserve. Here they have a demand on the part of their nationals for the equivalent, let us say, of two hundred million a year. Any responsible central bank would look at those figures and say, "Good Lord, if this keeps up we will soon be in trouble. We may have to depreciate our currency or subsidize exports," or adopt any one of the other devices that we would prefer them not to use. Instead of that, a reasonable approach to the problem is the one that we want to encourage. The fund would say, "You have to ration that exchange. You haven't got enough to go around." They don't declare an embargo against our exports. There was no embargo against our exports from the year 1926 to the year 1939, and yet some countries rationed their foreign exchange. There were only a few countries who could have afforded to operate without rationing their foreign exchange.

Senator TAFT. May I suggest that by the fund rationing what dollars there may be, they determine where we can export, instead of our determining it, whereas if we are free to handle it ourselves we can determine where we want to export and where we do not.

Mr. WHITE. No. We never ration our exchange. It is the other countries that do it.

Senator TAFT. Doesn't the fund first ration those dollars between the countries? That is what I am trying to get at.

Mr. WHITE. Oh, the fund rations what little there is left in the fund, and that has to be the case, because if dollars in the fund are not enough to satisfy all the countries that are asking for them, quite obviously the fund has to ration them.

Senator TAFT. Mr. White, may I ask you one question that bears on this? It is a technical thing that I don't exactly understand. Are you sure that all the dollars will get into the fund? For instance, my suggestion is that French exporters export, and they naturally hang onto those dollars individually. They want them themselves. They want to go over and buy something, perhaps, in this country, or use it to buy something somewhere else.

Mr. WHITE. That is a very good question.

Senator TAFT. How can we be sure that the fund won't run short of dollars when there are dollars scattered around the world in the hands of other people who would have come to this country and bought goods but who are now forbidden to do so by these sudden restrictions imposed?

Mr. WHITE. That is an acute observation, Senator, and that is something that troubled us when drafting the provisions. This is the way we provided for it, and we think we provided for it effectively. What, I gather, Senator Taft is saying is that countries may come to the fund to buy dollars while the dollars those countries acquire from various sources, private individuals will have.

Senator TAFT. They don't get them. Their individuals get them.

Mr. WHITE. Individuals will.

Senator TAFT. They cannot control those individuals, can they?

Mr. WHITE. We included a provision which takes care of that very thing. Dr. Bernstein will describe it if he may.

**STATEMENT OF E. M. BERNSTEIN, TREASURY DEPARTMENT,
TECHNICAL ADVISER AND EXECUTIVE SECRETARY OF THE
DELEGATION OF THE UNITED STATES TO THE BRETON WOODS
CONFERENCE**

Mr. BERNSTEIN. The general provision states that a country that uses the fund—

Senator MURDOCK. Which provision is that?

Mr. BERNSTEIN. There are two provisions I am going to refer to. One is in article V.

Senator MURDOCK. What page?

Mr. BERNSTEIN. Page 10, section 7, and I am going to summarize for you section 7 (b).

Now, this provision states that when a country uses the fund to acquire foreign exchange it must see that its own exchange resources are used in equal amount; and, as Mr. White explained, that means if they have an increment of exchange, they must use all of it before they come to the fund. If they have used the increment and still want to use the fund, then they must draw down their own gold reserves by an equivalent amount. A country that gains, for example, a hundred million dollars in gold and uses the fund to the extent of a hundred million dollars, would have to buy every single unit of its currency back that it has sold to the fund in that period.

The point that Senator Taft raises is this: We say a country that has an increment of exchange must repurchase its currency. His point is, I gather, that the central bank or the Treasury won't get this exchange. It will be in the hands of individual Frenchmen or Brazilians or whatever the country may be. Now, we have taken care of that in article XIX when we explain what are the exchange holdings of a country.

Mr. WHITE. Refer to the page of article XIX.

Mr. BERNSTEIN. It will be on page 35. No. Excuse me. It is on page 34, at the bottom. That is article XIX (c), "The holdings of other official institutions." The explanation of what is a member's monetary reserves for the repurchase provisions is explained in this series of paragraphs. It is made clear, first, that it includes the gold and dollar reserves of the central bank, the Treasury, the stabilization fund, and other official institutions. That is the first thing.

Mr. WHITE. May I interrupt you there? Not only gold and dollars but, should any currency have the same interchangeability between gold and currency, that would be included. It so happens that dollars are about the only one.

Mr. BERNSTEIN. That is right. I should qualify that. If later it turns out that other currencies can become substitutes for holding gold or dollars, they would be included. Then it states that some dollar exchange and, as Mr. White indicates, other convertible currencies may be held as balances by their banks, in which case the fund can

take the attitude that, if the banks are accumulating more than they need for working balances, the excess shall be deemed to be part of the official holdings.

For example, suppose that we assume that British banks need \$300,000,000 of foreign exchange in order to carry on their exchange business conveniently. Suppose they increase the balances to \$500,000,000. Then the fund can deem the excess \$200,000,000 to be part of the official holdings and subject to precisely the same repurchase qualifications as gold, dollars, or other convertible currencies held by the Bank of England or by the British Treasury.

Then we came to the question, What shall we do with holdings of businessmen? Here businessmen, corporations, may be holding balances. Now, it is quite proper for them to hold some dollar balances, if they are doing business in the United States. In order to avoid too much difficulty in making their purchases and their payments here, they may be allowed, quite properly by their government, to keep moderate balances. But suppose they do what Senator Taft suggests, they now try to build up these dollar balances in order to avoid giving it to the government. And the question before us was, What shall we do about preventing such a means of avoiding the repurchase provisions?

Now, we had two ways of doing it, and we decided on the second. The first was to say very plainly that the fund shall require every government to take from its nationals the excess holdings and count it as part of its own reserves; and in some of the early discussions we did have some such provisions.

The second method, which we thought, on further discussion, to be the better, is this: Not to have any sort of statement in the agreement which would seem to imply that this Government thinks that every government in the world ought to jump on its corporations and businessmen who hold foreign exchange and say, "Turn this over to the government. We want to count it as part of the official reserves." We preferred an indirect method which was this: If the banks hold 300 million as normal, they hold 300 million because the businessmen, say, hold a hundred million which they are going to use themselves. Then when businessmen need supplements they will buy from the banks. Now, if businessmen should hold excessive balances of foreign exchange, by definition what the banks need to deal with them becomes that much less.

Senator TAFT. What is "excessive"? I mean why shouldn't a corporation in France figure that 2 years from now they will need something they are going to have to buy in the United States and keep it? What is "excessive" about it?

Mr. BERNSTEIN. The fund is the judge of what is excessive, I should first point out. In all these cases the fund is the judge. It is what in the fund's opinion is excessive which would count. If, for example, a corporation holds three times as much as it ever held before the war, if it is building up exchange reserves which it is not likely to use for 2 or 3 years, while in the meantime it would be getting in an accumulation of exchange reserves, you can see that they are excessive.

Senator BUTLER. How will the fund know where these are located?

Mr. BERNSTEIN. Every country is required to report to the fund on all of these data.

Mr. WHITE. We get such reports now, Senator.

Senator BUTLER. In each individual name?

Mr. BERNSTEIN. No. In aggregates. Now, we ourselves know what is held in this country by foreign governments and central banks, by foreign banks, by foreign corporations, in deposits. That has been reported to this Government regularly once a month.

Mr. WHITE. And by foreign individuals.

Mr. BERNSTEIN. And by foreign individuals, too. That has been reported to us regularly once a month since 1934. The banks collect this information for their own guidance, and they pass it on to the Treasury. We do not ask for the name of each corporation separately. We don't need to. When we see the aggregate is rising as compared to what it should have been, and we know what it should have been—we know what it has been now, you see, for 10 or 11 years—we would have complete information as to whether or not people are trying to evade the repurchase provisions in the manner that Senator Taft suggests.

Senator TAFT. Chiefly, I suggested we would have trouble in putting on all those restraints in our desire to get information and reports from every foreign country.

**STATEMENT OF HARRY D. WHITE, ASSISTANT SECRETARY OF THE
TREASURY, WASHINGTON, D. C.—Resumed**

Mr. WHITE. That is true, Senator, but we do not depend on their reports. We are speaking of the countries which are likely to be the major countries, chiefly the United States, in which foreign balances are being increased for the purpose of getting around this thing, and that would be chiefly the United States. We get our reports. Other countries will need to get their reports, and one of the desirable things that will result from the fund is that all countries will find themselves required to have much better financial data, much better factual information for their own use as well as for use of the fund than they have ever had. There will be a gradual development in collecting data, and we hope that it won't be long before these countries will have something that approaches our own. We probably, possibly with the exception of Canada and one other country, lead the world in the adequacy and competency of the data in this field. Ours could be improved, but those of many other countries could improve much more.

Senator TAFT. Well, I do not know very much about the technical difficulties of trying to line up these private dollars, but it occurs to me it requires the mass regimentation of every foreign-exchange transaction and every holding of foreign currency throughout the entire world.

Mr. WHITE. No, Senator; that is a misunderstanding, and I want to refer to something on exchange controls and capital movements you asked one of the earlier witnesses which probably was not, I fear, cleared up. Firstly, it is well to remember that what we are dealing with in these balances and data are aggregates, not individuals. We are not interested in individual accounts. We watch the total balances; the balances of one country, the balances of each of the other countries, or the balances of all countries; not of individual accounts.

Secondly, we are not concerned with amounts that are small for the country in question. For example, supposing you are taking up matters involving a movement of British capital here, the sum of a score of million dollars one way or another would have little significance compared to the amount of transactions with which we are dealing. What would be significant for England would be fairly substantial amount of capital movement and a recurring movement.

On the other hand, if you took a country like Honduras or Guatemala, a movement of a few hundred thousand dollars would stand out like a sore thumb in her total operations and in the fund's operations with them. That would be large for Honduras. So that a great degree of accuracy in following capital movements is not needed for purposes of fund decisions. It is easy to ascertain significant movements when we will have adequate data, as we expect to have as time goes on.

Now, you commented that you thought that the accounts of individuals and the transactions of individuals would have to be examined in order to determine whether they are undertaking black-market operations. Senator, that is not so. We are protected against that requirement by a provision that I think you would be interested in, that you may have overlooked.

Mr. LUXFORD, what is the number of that provision?

Mr. ANSEL F. LUXFORD. Section 3.

Mr. WHITE. Yes. I am going to ask Mr. Luxford to explain that provision because he helped draft it. Mr. Luxford is in our legal department.

Mr. LUXFORD. If you will turn to article IV.

Senator BUTLER. What page?

Mr. BERNSTEIN. 5.

Mr. LUXFORD. Just a second. I will give it to you. Page 5, section 4.

Mr. WHITE. (b).

Mr. LUXFORD. Section 4 (b) provides that—

Each member undertakes, through appropriate measures consistent with this agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under section 3 of this article.

That is for approximately parity.

Then there is the statement following that, which is very important from the point of view of the United States:

A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the fund under section 2 of this article shall be deemed to be fulfilling this undertaking.

Now, this is what that means in general. If the fund was going to mean anything you had to have countries adhere approximately to parity in their foreign-exchange rates. In other words, you couldn't have the black market that Senator Taft has mentioned, operating, or you would say this is all nonsense and you have a fictitious rate of exchange, and we had to put on countries the burden, the responsibility for maintaining that rate. On the other hand, we did not want a situation where the United States could be blamed for the fact that, say, the Mexican peso rate with the dollar was off, and

people would say, "Well, what's wrong?" We wanted to be able to say that so long as we were willing to buy and sell gold freely—our Government authorities—that was the extent of our responsibility and we did not have to impose exchange controls. We did not have to do anything beyond maintaining this buying and selling of gold in order to enforce our obligation. Now, that means that if the peso rate went far from the agreed parity Mexico had the responsibility to see that it went back up to parity. Do you see what I mean?

Senator TAFT. Yes; I see. That is all right here, but no other country would be able to do this; and when you come around to question whether there are a lot of dollars around the world in China and other places, and the Chinese Government is not controlling, isn't it quite possible still that they will be unable to control the black market in currency? They never have in the history of the world for thousands of years. And isn't it possible that the dollars may be short in the fund—and that is the question I originally raised—when they really are fairly plentiful around in these other countries, in the possession of private citizens?

Mr. WHITE. There are two separate parts to that question, sir.

Senator TAFT. And the only way they could do it would be by the strictest kind of black-market control in these other countries, which probably they wouldn't enforce.

Mr. WHITE. Senator, I think there are two different points you are raising. Mr. Luxford's remarks were directed toward simply the question whether we in the United States would have to exercise control over individual transactions, and the answer is: No; so long as we stand ready to buy and sell gold at a fixed price. Now, any country that does the same is equally free.

Senator MURDOCK. When you buy freely at a fixed price—

Mr. WHITE. Yes; at that figure.

Senator MURDOCK. How can you buy and sell gold freely—

Mr. WHITE. Well, what I mean is—

Senator MURDOCK. At a fixed price?

Mr. WHITE. Well, in this way. This is what we do. If any bank has an international obligation abroad, it can come to the Treasury as it always has, and buy gold at a fixed price to settle its balances. That means that the exchange rate on countries that buy and sell gold at a fixed price cannot vary much.

Senator MURDOCK. Yes; but you say here in section 2, "Gold purchases based on par values."

Mr. WHITE. Yes.

Senator MURDOCK (reading):

The fund shall prescribe a margin above and below par value for transactions in gold by members.

Mr. WHITE. That's right.

Senator MURDOCK. Now, does that mean that the fund could say that we could purchase gold at—

Mr. WHITE. \$35.

Senator MURDOCK. Well, could we purchase it a little above that?

Mr. WHITE. There is a small margin to cover the cost of handling gold, and of course the price for gold is \$35 an ounce.

Senator MURDOCK. Yes.

Mr. WHITE. Plus the handling charge. And we will sell gold to any legitimate dealer at that price, and we will buy gold from anyone who offers it.

Senator MURDOCK. Does this margin simply refer to the handling charge?

Mr. WHITE. Plus transportation. It is a small margin, plus or minus 1 percent. And that question of the control of the black market for the other countries—that is their responsibility. As for the problem that we originally started to discuss here was whether or not it is possible for individuals abroad to build up balances in the United States. It is easy enough to show that some individuals might be able to do this, and any economist who is familiar with the subject, if he wished to mislead and distort, could say, "Well, you can't tell. Here is a private individual that could, through a third party, disguise the holdings and not register them, and so on," Surely. But that is dealing with peanuts. I mean what we are after in this monetary policy is large sums, sums that are large with reference to the country; and it is impossible for a country like England, for example, to hide the fact, and she wouldn't wish to—the British authorities wouldn't wish to—that balances had advanced by \$50,000,000 or \$100,000,000 here. The bank in this country or a business firm would have to be in collusion, and there would have to be a lot of covering up that we would find out. There would be no reason for it. It would be equally difficult for people who lived in Guatemala or Honduras or any one of those small countries to obscure or hide the fact that their balances had increased in the United States by a million dollars. You see, the kind of banking data which are submitted to us make it easily possible for the monetary authorities in this country to know what is happening, not with respect to particular transactions, not with respect to small amounts, but with respect to amounts that are relevant to the kind of problems which the fund handles.

Senator MILLIKIN. Mr. Chairman, may I ask a question at this point?

The CHAIRMAN. Yes.

Senator MILLIKIN. Dr. White, as the fund gets to operating and as the bank gets to operating, the dollars available to foreign countries together with the capital and money which they can assemble out of their own generative processes will put them in position to make a rather rapid restoration of their own exporting industry, supply their own domestic needs, and to export within their normal or within their new trading areas, whatever they may be.

Russia, for example, with the aid that the fund and the bank will give her, together with her own strength, the aid she would have elsewhere, would be in a position to export to her satellite countries. A restored Belgium, a restored France, and possibly a restored Germany will have their industries gradually supply their own domestic needs and will be exporting within their trade areas.

Does not the effect of that process tend either to defer or to alleviate the short-dollar position? In other words, as these exports are multiplied by the countries which now must import from us, as we put them in position to make their own exports, that will decrease the amount

of exports from this country, will bring our exports in closer relation with our imports, and thus ameliorate a dollar shortage?

Mr. WHITE. That, to me, Senator, is a very fair and, I would be inclined to say, very accurate statement of what will happen.

Senator MILLIKIN. But it also defeats this dream that we are going to continue to be an enormous exporting country?

Mr. WHITE. That, I find myself a little less inclined to agree to. I don't know what dream you have reference to, but it does mean that the level of exports, the level of world trade, if you will—

Senator MILLIKIN. Yes.

Mr. WHITE. Would be higher, you see. But the first point you made, which I think is more important for this discussion, is that it would mean there would be a closer approach to balance, and the balance would be reached at a higher level.

Senator MILLIKIN. It in part is a timing problem. If these industries can restore themselves, reformed and improved out of their own strength and out of what we and other countries are able to do for them, this dollar-shortage business might not come up in crucial form, or it might be long deferred.

Mr. WHITE. I think that is fair.

Senator MILLIKIN. And that very process decreases our exports.

Mr. WHITE. No. It decreases the export excess. And that is a very different proposition.

Senator MILLIKIN. All right; call it the export excess.

Mr. WHITE. That is right. In other words, our level of trade is higher, though the imbalance is less.

Senator FULBRIGHT. The Senator does not think we all dream we are going to be the only exporting nation in the world? That is not a dream of any rational people, is it?

Senator MILLIKIN. Well, I am glad to hear that.

The CHAIRMAN. Well, we have got a lot of things to do.

Mr. WHITE. Have we finished our consideration of the problem?

Senator FULBRIGHT. I do not think so.

Mr. WHITE. Time is up, Senator.

The CHAIRMAN. I do not think we are quite finished with you yet, Doctor. Will you be here tomorrow at 10:30?

Mr. WHITE. Senator, I am at your disposal. If you feel I can be of any help, I will be glad to be here.

The CHAIRMAN. After that will come Governor Eccles, and we hope to have a session tomorrow afternoon too, gentlemen.

(Whereupon, at 11:50 a. m., an adjournment was taken until tomorrow, Tuesday, June 19, 1945, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

TUESDAY, JUNE 19, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Monday, June 18, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Radcliffe, Downey, Murdock, McFarland, Taylor, Fulbright, Mitchell, Tobey, Taft, Butler, Capper, Buck, and Millikin.

The CHAIRMAN. The committee will come to order. We are 10 minutes late now. We cannot wait very much longer.

STATEMENT OF HARRY D. WHITE, ASSISTANT SECRETARY OF THE TREASURY, WASHINGTON, D. C.—Resumed

The CHAIRMAN. Mr. White, when we finished yesterday you were about to discuss some matters, and we cut you short because we had to go to the Senate. Will you proceed from there on, if you will?

Mr. WHITE. I shall be glad to, Senator. I had wanted, before I continue, to attempt to answer a question which Senator Murdock put very early and which I said I would like to postpone to get through with something else.

The CHAIRMAN. Very well.

Mr. WHITE. With your permission, I would like to return to that question and answer that before I go on to any other material.

The CHAIRMAN. Fine.

Mr. WHITE. And I shouldn't like to have any other question take me off of that point, because Senator Murdock has been very patient in waiting for an answer to his question.

The CHAIRMAN. Very well.

Mr. WHITE. If I remember correctly, Senator Murdock, you inquired as to whether or not the recent alteration in the reserve requirements of our note issue and deposits would have the consequence of depreciating our currency. Was that your question, Senator?

Senator MURDOCK. Yes. I wondered if a movement such as we have taken here in a reduction of our reserves could, under the Bretton Woods agreement, be construed as a depreciation of our currency.

Mr. WHITE. The answer to that, Senator Murdock, is definitely "No" under the fund agreement. In fact it is doubtful whether even in the absence of the fund the consequence of that reduction would have any significant effect on the internal value of the currency or on the external value. The reason for that is, this is one of the times,

I think, peculiar in history, when any country has reduced its reserve requirements which had been established by law because of the expansion in note issue and deposits, and not because of a loss of gold. Most countries, when forced to reduce their requirements, are forced to do so because there has been a flight of gold, a drain of gold, either an external drain or a domestic drain, and gold reserves go down in absolute amounts. To meet that situation they may be required to lower their gold reserves unless they want to abandon the legal reserve requirement or do other things. In our situation it has not been any reduction in the gold reserves to any significant extent that was responsible for the declining reserve ratio, but rather it has been the expansion in note issue and deposits due to war conditions. So that the consequences that would follow normally, do not follow now. When a country's gold holdings are being reduced due to an outward drain, there develops a loss of confidence in the currency.

Senator TOBEY. May I ask a question there, Senator Murdock, on that point?

Senator MURDOCK. Surely. I wish you would raise your voice, though.

Senator TOBEY. Of course it is very involved, I realize that, but I wish to point out that as to this 25 percent, when a nation puts out its currency, its promises to pay, whether it is in the form of currency or debentures, behind that promise to pay are all the assets of the country, are there not?

Mr. WHITE. Oh, yes.

Senator TOBEY. In the last analysis that is all behind it.

Mr. WHITE. That is behind the word of the Government.

Senator TOBEY. So that as to this 25 percent, as far as this country's solidarity goes, and the spirit to pay, we still have all the gold we had, whether as reserve against those notes or not; is that correct? Do you agree to that, Senator Murdock?

Senator MURDOCK. Well, I agree with you fully that any issuance of currency, like our Federal Reserve notes, is, you might say, or constitutes, a blanket mortgage on all of our resources and on all of our taxpaying powers.

Senator TOBEY. On all the wealth of the country, exactly, in the last analysis.

Senator MURDOCK. Yes.

Senator TOBEY. So that, finally, while our reserves are 25 percent, yet behind those and every other thing we put out is all the gold we own, as well as other property; isn't that right?

Senator MURDOCK. That is right.

Mr. WHITE. Senator Tobey, I think—

Senator MURDOCK. Of course, if you come to the hard money position that a lot of people take, who want to discard absolutely everything but the metal behind the money, why, they probably would not agree with you and me on it. I am in full agreement with you that we not only have our gold behind our money, but we have every resource and every asset.

Senator TOBEY. Exactly.

Senator MURDOCK. Every resource and every asset of the country behind it.

Senator TOBEY. That is exactly right, but many people overlook that fact or speak about the particular percentage of gold against the currency.

Mr. WHITE. That is quite true.

Senator TOBEY. I am not arguing against that; I am simply trying to bring out the fact.

Mr. WHITE. That is quite true. But there is this important point that I think Senator MURDOCK has in mind. Usually when there is a reduction in the gold reserve ratio it is because of the loss of gold. A substantial loss of gold, by destroying or, rather, reducing the confidence of the people within the country and abroad in the future value of that currency leads to a further drain and subsequently may well lead to depreciation of currency. But in our particular case the situation is different by virtue of the fact that it has not been the loss of gold so much—

Senator MURDOCK. Well, it has not been a big loss.

Mr. WHITE. But the expansion.

What is that, sir?

Senator MURDOCK. We have had some loss of gold.

Mr. WHITE. We have sold about 2,000,000,000 in the last couple of years.

Senator MURDOCK. I do not think that is the big reason.

Mr. WHITE. That is right.

Senator MURDOCK. I think it is extension of Federal Reserve notes—

Mr. WHITE. Correct.

Senator MURDOCK. Plus extension of demand deposit.

Mr. WHITE. True.

Senator MURDOCK. That has made this necessary.

Mr. WHITE. True.

Senator MURDOCK. The thing that promoted the question on my part was this: That when confronted with that situation we had two remedies. One remedy was a reduction in reserves. The other was the increase, increasing the value of gold, and we adopted the former instead of the latter. Now, of course, if we could remove that situation by increasing the value, then the question arises: If you take the other manner, of decreasing the gold reserves, shouldn't that have the same effect, both internal and external, of having depreciated your currency? Your answer, as I understand it, is "No."

Mr. WHITE. It is "No." You might be interested in this aspect, too, Senator: That the funds which we will be called upon to put in the International Monetary Fund as our subscription fee would come largely out of our own Stabilization Fund. That fund is, as you know, separate from the specie reserve which is behind the note issue, and so, to the extent that we can use that amount, which would be 1.8 billions it will not further reduce the reserve ratio. That is an important fact to remember, because there are some who are worried about the declining gold ratio, and about the prospect that we are going to further reduce it by our subscription, but most of it will come out of the Stabilization Fund which is already set aside and is not included in the monetary base.

Does that answer your question?

Senator MURDOCK. Yes; that answers that quite satisfactorily.

Mr. WHITE. Fine.

Senator BUCK. Mr. White, may I ask a question?

Mr. WHITE. Senator Buck.

Senator BUCK. In your answer to the Senator, is there really any difference—in your explanation is there any difference if you hold your currency a stable amount and change your gold value or your quantity of gold, or if you keep your gold reserve and increase your currency? I mean, don't you see a difference there?

Mr. WHITE. There is a difference, Senator, of a kind, and the difference rests on two grounds. Where you are losing gold—in other words, where your reserve ratio diminishes because you are losing gold—

Senator BUCK. Yes.

Mr. WHITE (continuing). Then people, as I said, begin to worry as to whether or not the country will have enough gold to meet later commitments, external commitments, that it may have; and also people begin to be concerned about the strength of the currency.

Senator BUCK. Yes; but in the value of the dollar itself there is no difference?

Mr. WHITE. There wouldn't be unless that feeling of lack of confidence became so great that you had a flight of currency, in which case you might find it necessary to choose among several alternatives, and one of the alternatives that you might be forced to adopt is the reduction—is the depreciation of currency. That is one of the things that happened in 1936 and 1937 in France, where the gold reserves began to diminish because people in France were concerned about the future value of the franc, or wanted to make speculative profits, and they began to send their money out of the country. They went into dollars and sterling and Swiss francs. That meant an outflow of additional gold. The more reserves that went out, the more worried people became and the more pressure on exchange became. One of the consequences was a fall of the franc.

It is much, Senator, like a run on a bank. If they begin withdrawing their funds from a bank, well, then depositors get worried, and they withdraw their deposits, and the first thing you know the bank is in difficulty; whereas when the reserve ratio declines, as in our case, because the monetary supply is increased, it does not have the same effect, particularly in wartime where it is expected that the monetary supply will expand, and it is not a symptom of bad monetary policy.

Senator BUCK. That was in France?

Mr. WHITE. That is right. Our expansion of money is necessitated by war. Everybody understands that and expects that, and it is true in every country.

Would you want to begin with questions now, or shall I continue?

The CHAIRMAN. All right.

Senator TAFT. Mr. Chairman, I would like to ask one question here.

The CHAIRMAN. Certainly.

Senator TAFT. Mr. White, going back to the question we discussed before, of course one of the purposes of the fund is to get rid of all of these various exchange restrictions, and so forth. Well, it seems to me that article XIV to a large extent nullifies that, and that it is so indefinite and so uncertain that we have no assurance that we are going to get rid of any of these restrictions short of 5 years or perhaps some time after 5 years. Do you wish to comment on that?

I suggest that we are actually financing, if you please, the maintenance of these restrictions against us, that they will be maintained for the next 4 or 5 years. What is the use of going into this fund now with the understanding that the restrictions are going to be indefinitely continued?

Mr. WHITE. Senator, there have been some comments on that score. There is little I might add. If we were given the choice, or if we had to make a decision—let us put it that way—alone, that all restrictions should be eliminated, we would say “No,” in our own interests as well as the interests of the other countries, that should not be done, because that would mean that the other countries would be in trouble right from the start. The situation which confronts other countries, as I think you yourself, Senator Taft, pointed out earlier, is that they have very sizable obligations in other currencies, they have a demand for foreign goods substantially in excess of their ability to obtain necessary foreign exchange through their exports with which to pay for those goods. Take the peoples in European countries. They have been without goods for 6, 7, or 8 years; without many of the consumer and manufactured goods that they need. If you were to take the lid off purchases from abroad you would find that importers in those countries would give enormous orders to the few countries that are in position to deliver them, both because they have been without those goods and because many of them are in no position to produce such goods now because their factories have not yet been converted from wartime to peacetime, and in many cases the factories have been destroyed.

Senator Taft. Mr. White—

Mr. WHITE. I would like to finish this question because I think it bears on your point. This is an important point, Senator, that you raised before, and I think it should be clarified.

Now, if there were no restrictions imposed by those countries on the ability of their importers to purchase, those countries would have to pay gold out of their reserves to get the foreign exchange necessary to pay for the goods which their nationals have bought. Now, the amount of gold which they would have to pay out in a short time is so large compared to what they have that it wouldn't take very long before their reserves would be depleted far beyond the danger point, and they would be forced to take one of several steps—

First, they could depreciate their currency in an effort to check that. You see, when they depreciate their currency they make foreign goods more expensive, and they make their goods less expensive. That is one thing they would do.

They might also impose low import quotas and finally restrictions on exchange. They have no alternative. And any minister of finance or any parliament or congress, faced with that contingency long before it developed would foresee it and would say, “We cannot remove the restrictions we have on purchases of foreign exchange because to do so would lead only to monetary chaos.”

Senator Taft. Mr. White, aren't you saying it is impossible to carry out the purposes of the fund today? Isn't that the substance of your answer?

Mr. WHITE. I don't think so. May I develop my point and see whether you agree?

Senator TAFT. Isn't that it? Isn't it that you are saying it is impossible to abolish the exchange restrictions? That is the main purpose of the thing, and it is impossible to do it?

Mr. WHITE. No.

Senator TAFT. Isn't that your statement?

Mr. WHITE. I don't quite think so. I think there is something in that which bears a resemblance to what I am saying, but I think the difference is more important than the similarity. What I was pointing out is that it is impossible for many countries to operate without restrictions. It is impossible for them, and it would be bad for us, because the consequences of their attempt to do so would result only in the very things that we are trying to avoid. And so we say to those countries that during this unusual period, during this postwar period when you have this enormous, piled-up backlog of demand, when your factories are not yet reestablished on a peacetime basis, when your trade is not yet reestablished, when your gold reserves are very low, when confidence in your currency and in your political institutions is at low ebb—we say, "During that period we want you to continue those restrictions which are necessary, and as soon as the necessity for those restrictions disappear you are committed to remove them gradually and as rapidly as possible." And we have a period of 3 years after which the situation is reexamined, and at the end of 5 years they need permission of the fund in order to continue the restrictions.

So that one of the purposes of the fund, as you well state—one of the important purposes of the fund, Senator, is to move toward the elimination of restrictions. We do not want restrictions imposed where they are not necessary and are maintained or imposed for the purpose of the national advantage of a country when it is not warranted by the general situation.

Senator TAFT. But we put up our \$2,750,000,000 now.

Mr. WHITE. Yes.

Senator TAFT. And whether we cut these restraints, the purpose of it, 5 years from now, is in the lap of the gods.

Mr. WHITE. I think that each country puts up its amount, and the amount each country puts up is important to it, and we move in the direction of eliminating those restrictions. Senator, I think it must be borne in mind that the role of this fund is not solely to function for the immediate postwar period. This is a permanent institution, and you have to make progress gradually. We are attempting to do something along these lines for the first time in history. We are attempting to get countries to cooperate together toward the elimination of the type of restrictions which result in general lowering of the level of world trade. Now, that achievement must be a gradual process. If you attempted to do it suddenly, drastically, you would get nowhere. It would simply end in a break-down. You have to do it gradually. You have to recognize the difficulties which other countries are faced with. Now, that is what we have done.

Senator TAFT. I understand. Now let me—

Mr. WHITE. That is why we allowed time in which to move in that direction.

Senator TAFT. Let me read this. This article XIV, section 2, page 29:

In the postwar transitional period members may, notwithstanding the provisions of any other articles of this agreement, maintain and adapt to changing circumstances (and, in case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions.

Now, I take it that that means these restrictions may not only be maintained where they have previously existed, but they may be adapted to changing circumstances, whatever that means.

Mr. WHITE. That is correct; yes.

Senator TAFT. And also, as far as any country in Europe is concerned, brand-new ones may be imposed to an unlimited extent or—no; I take that back. May be imposed—

and, in the case of members whose territories have been occupied by the enemy * * *—

That means France, Belgium, Holland, every other country they are in.

Mr. WHITE. Most all Europe.

Senator TAFT. Would you say that Sweden would not introduce new restrictions?

Mr. WHITE. No; I should not think so. But Sweden doesn't happen to be a member. Maybe she will be some day. But if she were, it would not be a country that would be regarded as occupied by the enemy.

Senator TAFT. Have you read the monetary agreement between Great Britain and Sweden, dated March 6, 1945?

Mr. WHITE. I have. I don't know whether I would be familiar with all the details, but I am familiar with the general terms.

Senator TAFT. Well, this is an agreement. Mr. Chairman, I think it ought to be inserted in the record, if I may insert it at this point. I do not want to read it all. It isn't very long. It is only three pages.

(The monetary agreement between Great Britain and Sweden is as follows:)

Sweden No. 1 (1945)

MONETARY AGREEMENT BETWEEN THE GOVERNMENT OF THE
UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND
AND THE GOVERNMENT OF SWEDEN

London, 6th March, 1945

Presented by the Secretary of State for Foreign Affairs to Parliament by Command of His Majesty

The Government of the United Kingdom of Great Britain and Northern Ireland of the one part, and the Government of Sweden of the other part, have agreed as follows:—

ARTICLE 1.

(i) The rate of exchange between the Swedish krona and the £ sterling shall be Swedish kronor 16.90 = £1.

(ii) This rate (hereinafter referred to as "the official rate") shall not be

varied by either of the Contracting Governments except after giving to the other as much notice as may be practicable.

(iii) In all territories where they have jurisdiction the Contracting Governments shall enforce the use of the official rate as the basis of all transactions involving a relationship between the two currencies.

(iv) The Bank of England and Sveriges Riksbank, as agents of their respective Governments, shall fix by mutual agreement the maximum spread above or below the official rate which will be authorised on the markets which they control.

ARTICLE 2.

(i) The Bank of England (acting as agents of the Government of the United Kingdom) shall sell to Sveriges Riksbank (acting as agents of the Swedish Government), against Swedish kronor to be credited at the official rate to the Bank of England's No. 1 Account with Sveriges Riksbank, such sterling as may be required for payments which residents of Sweden, under the exchange regulations in force in Sweden, are permitted to make to residents of the sterling area.

(ii) Sveriges Riksbank (acting as agents of the Swedish Government) shall sell to the Bank of England (acting as agents of the Government of the United Kingdom), against sterling to be credited at the official rate to Sveriges Riksbank's No. 1 Account with the Bank of England, such Swedish kronor as may be required for payments which residents of the sterling area, under the exchange regulations in force in that area, are permitted to make to residents of Sweden.

ARTICLE 3.

(i) The Bank of England shall have the right at any time to sell to Sveriges Riksbank against all or part of the sterling balances held by that Bank either Swedish kronor at the official rate or gold to be set aside at the Bank of England in London.

(ii) Sveriges Riksbank shall have the right at any time to sell to the Bank of England against all or part of the Swedish kronor balances held by that Bank either sterling at the official rate or gold to be set aside at Sveriges Riksbank in Stockholm.

(iii) Gold set aside in Stockholm in accordance with the provisions of this Article shall be at the Bank of England's free disposal and may be exported.

(iv) Gold set aside in London in accordance with the provisions of this Article shall be at Sveriges Riksbank's free disposal and may be exported.

ARTICLE 4.

(i) The Government of the United Kingdom shall not restrict the availability of sterling at the disposal of residents of Sweden for making—

(a) transfers to other residents of Sweden;

(b) payments to residents of the sterling area; or

(c) transfers to residents of countries outside Sweden and the sterling area to the extent to which these may be authorised by the United Kingdom Government under the arrangements contemplated in Article 8 (iii) hereof.

(ii) The Swedish Government shall not restrict the availability of Swedish kronor at the disposal of residents of the sterling area for making—

(a) transfers to other residents of the sterling area;

(b) payments to residents of Sweden; or

(c) transfers to residents of countries outside the sterling area and Sweden to the extent to which these may be authorised by the Swedish Government under the arrangements contemplated in Article 8 (iii) hereof.

ARTICLE 5.

To the extent to which Sveriges Riksbank requires sterling area currencies, other than sterling, for the purpose of providing for payments in the countries where such currencies are legal tender, Sveriges Riksbank shall purchase them through the Bank of England against payment in sterling.

ARTICLE 6.

The Contracting Governments shall co-operate with a view to assisting each other in keeping capital transactions within the scope of their respective policies, and in particular with a view to preventing transfers which do not serve direct and useful economic or commercial purposes.

ARTICLE 7.

Any sterling held by Sveriges Riksbank shall be held and invested only as may be agreed by the Bank of England, and any Swedish kronor held by the Bank of England shall be held and invested only as may be agreed by Sveriges Riksbank.

ARTICLE 8.

(i) If, during the currency of this Agreement, either of the Contracting Governments adheres to a general international monetary agreement, the terms of the present Agreement shall be reviewed with a view to making any amendments that may be required.

(ii) While the present Agreement continues in force the Contracting Governments shall co-operate to apply it with the necessary flexibility according to circumstances. The Bank of England and Sveriges Riksbank, as agents of their respective Governments, will maintain contact on all technical questions arising out of the Agreement and will collaborate closely on exchange control matters affecting the sterling area and Sweden.

(iii) As opportunity offers the Contracting Governments shall seek with the consent of the other interested parties—

(a) to make Swedish kronor at the disposal of residents of the sterling area and sterling at the disposal of residents of Sweden available for making payments of a current nature to residents of countries outside the sterling area and Sweden; and

(b) to enable residents of countries outside the sterling area and Sweden to use sterling at their disposal to make payments of a current nature to residents of Sweden and to use Swedish kronor at their disposal to make payments of a current nature to residents of the sterling area.

(iv) Notwithstanding that each of the Contracting Governments shall be alone responsible for its monetary relations with third parties, they shall maintain contact wherever the monetary relations of the one affect the interests of the other.

ARTICLE 9.

For the purposes of the present agreement—

(i) The expression "the sterling area" shall have the meaning from time to time assigned to it by the exchange control regulations in force in the United Kingdom.

(ii) Transactions between the Bank of England and Sveriges Riksbank are to be considered as transactions between the sterling area and Sweden.

(iii) Transactions entered into by the Government of any territory within the sterling area or by the Swedish Government are to be considered as transactions entered into by a resident of the sterling area or Sweden, respectively.

ARTICLE 10.

The present Agreement, which shall be subject to review and adjustment after mutual consultation, shall be deemed to have come into force on the 1st day of January, 1945. At any time thereafter either Contracting Government may give written notice to the other of its intention to terminate the Agreement and the Agreement shall cease to have effect three months after the date of such notice. It shall terminate five years after the date of its coming into force unless the two Contracting Governments agree otherwise.

In witness whereof, the undersigned, duly authorized by their respective Governments, have signed the present Agreement and have affixed thereto their seals.

Done in London, in duplicate, the 6th day of March, 1945.

(L.S.) ANTHONY EDEN.

(L.S.) ERIK BOHEMAN.

Senator TART. This is an agreement by which they have entered into an agreement with Sweden, stabilizing the Swedish currency and the British currency, and the Swedish Government undertakes not to restrict the availability of Swedish kronor. I read from article 4 (ii):

shall not restrict the availability of Swedish kronor at the disposal of residents of the sterling area for making—

- (a) transfers to other residents of the sterling area;
- (b) payments to residents of Sweden; or
- (c) transfers to residents of countries outside the sterling area and Sweden to the extent to which these may be authorized by the Swedish Government under the arrangements contemplated in article 8 (iii) hereof.

As I read it over, it seems to me to be imposing a kind of bringing of Sweden into the sterling bloc and imposing of restrictions on the availability of what the Swedes may do regarding the making of dollars available or getting dollars with sterling.

Mr. WHITE. Senator, that type of agreement is one of a large number of arrangements which are being made—we ourselves are making some of a somewhat different character—and which are made not only with our full knowledge but with our approval. They are monetary arrangements between two countries which seek to reduce the danger of a scarcity of foreign exchange.

England will say to Sweden—she may have another arrangement with France, and so on—it will say to those countries:

If we are selling you goods, we will accept your kronor, and we won't submit those kronor for conversion into gold until we reach a certain level at which time we want to rediscuss and see where we go from there.

Similarly, you are to pay sterling in return for Swedish exports to England. We will let sterling balances which may result pile up in the central bank until they reach a level at which we want to reexamine the situation.

Senator MURDOCK. Mr. White.

Mr. WHITE. Senator Murdock.

Senator MURDOCK. May I ask this question: Could that be construed as an effort on the part of England to keep away from gold?

Mr. WHITE. No, no. England is in the position where she must import goods and is quite uncertain about her ability to export, and quite reluctant, as one can well understand in view of the frozen balances and other commitments, to have her gold reserves diminished; and so she is seeking to make arrangements with other countries so that they will accept each other's currency without presenting them for redemption in gold or attempting to sell them on a third market, which might have the effect of draining gold from her reserves. Up to a certain level it is almost like—if I might merely hit the high spots and leave out many of the qualifying technical details—it is much as though Sweden would say to England, "We will sell you goods on credit. That is, you will pay for the goods, but you will pay us in sterling, and we will accept sterling up to a certain amount. Your British importers will keep the sterling on deposit," which is a way—

Senator TART. Doesn't it amount to this? Now, doesn't it come down to this? Isn't England saying to Sweden, "If we buy anything from you, you have got to buy something from us"? Isn't that about it? In other words, isn't it one of these bilateral trade agreements which are supposed to be eliminated by this whole plan?

Mr. WHITE. No.

Senator TAFT. Isn't that what it comes down to?

Mr. WHITE. No, Senator. It does have some aspects of that, but again the differences are more significant than the similarities. You are not dealing with countries in which the Government does the trading. England doesn't say to Sweden, "You buy this from us, and we will buy this from you." The people who do the buying and the people who do the selling are private individuals, private corporations.

What England is saying to Sweden is that, "If our people buy from you, they will pay for it in the way people always pay; they will pay for it with their sterling, but your central bank will accept sterling and hold it up to a certain amount."

Now, then, the Swedish individual—the Swedish corporation—buys his goods wherever he wishes. He buys it in the cheapest market. Sweden is a country that can afford to operate, I think, after the war, and probably will, with no restrictions. It has adequate gold reserves. It has not been subjected to the same disruption as other countries, and I think you will find that the Swedish individual will be able to buy in whatever market he wishes. If an American exporter can offer machinery, or whatever it is that Swedes wish to buy, cheaper than the British exporter, the Swedish individual will buy in the United States, and his Government will pay gold; but should a Swedish importer prefer to buy in England, then England will accept a krona balance, or reduce Sweden's sterling balance.

Senator MURDOCK. Well, but doesn't the arrangement, then, hold intact the gold reserves of both countries and make them dependent on their own currencies—rather, on the currency of both countries and all countries' gold? It seems to me that if you carry the thing—take off the thing—that they will hold it up to a certain point. Remove that entirely and you move off gold entirely, don't you?

Mr. WHITE. Well, that is true, Senator Murdock, except that—and this exception is vital—except that neither Sweden nor England nor any other country will accept balances in other countries' currency more than a relatively small amount, any more than we would. The only time countries have been willing to sell goods and accept a foreign balance of large magnitude has been in the case of India, for example, where India has sold goods to England and accepted sterling in payment and has at the same time agreed that she will not be able to use that sterling except under conditions set by England. But that is because England is at war and England regards India as an ally and part of the Empire, and believes India should cooperate. The extent to which India has a choice in the matter is something else again. But that is quite a special circumstance. You would not get that situation between countries which are completely independent, that is, not to the same magnitude. If you did, as Senator Murdock says, gold would have less importance. If countries were willing to accept in unlimited extent the currencies of other countries, it would be a quite different matter.

Senator TAFT. Mr. White——

Senator MURDOCK. Well, let us look at it from this angle. Let us suppose, as has been indicated, I think, by what has been said in England, what has been published in England, and also in this country,

that England is rather anxious to get away from gold as an international exchange.

Mr. WHITE. Well, I—

Senator MURDOCK. Now, if that is true—

Mr. WHITE. Senator, I don't think that is the case.

Senator MURDOCK. Isn't the natural thing for England to do to begin by this stepping-stone process of first putting on limits and then getting away from gold entirely?

Mr. WHITE. Senator, I don't think that England is at all eager to get away from gold.

Senator MURDOCK. Well, it has been intimated that she is.

Mr. WHITE. On the contrary, I think probably England would be one of the last countries to want to eliminate gold, because her empire is a very large gold producer. The British Empire has a bigger stake in gold—at least in gold production—than we have.

Senator MURDOCK. That would be my conclusion, but it has been intimated during the hearings, as you well recall, that England has wanted to get away from gold.

Mr. WHITE. Well, no; I quite agree with your conclusion.

Senator MURDOCK. Whether that is true or not, I don't know.

Mr. WHITE. Definitely not, I think.

Senator MURDOCK. It is hard for me to tell.

Mr. WHITE. Definitely not. What England is trying to do is precisely what I think this committee would try to do if we were faced with the same situation England is faced with; she is trying to make it possible for her importers to buy as much as they think they reasonably need and can pay for, without pressure on England's gold reserves, because England cannot stand much depletion of her gold reserves, because her gold reserves are not large.

Senator TAFT. Well, Mr. White, what I want to indicate is, not only, it seems to me, is this thing a license to continue existing restrictions, but it appears to me as regarded by the British as a license to extend their restrictions and build up a lot of special arrangements. Lord Keynes has, I think—perhaps I may have read this before—said—

It is clearly recognized and agreed that during the postwar transitional period, of uncertain duration—

incidentally he doesn't say anything about 5 years; it is "uncertain duration."

Mr. WHITE. But the articles say—and the fund's operations will be guided by the articles of agreement and not by any statement of Lord Keynes.

Senator TAFT. Yes; but after 5 years you consult as to what you shall do about it, and if the Board doesn't want to insist upon it—and they won't if the British are very strong about it—the 5 years is going to be extended indefinitely.

However—

of uncertain duration, we are entitled to retain any of those wartime restrictions and special arrangements with the sterling area and others which are helpful to us, without being open to the charge of acting contrary to any general engagements into which we have entered.

And it occurs to me that they haven't show any indication that they are going to abolish imperial preferences, that they are going to open

their market to our imports. I cannot see anything in this whole agreement that assures us that we will get what we are supposed to get, namely, an abolition of the existing restrictions which are said to have hampered our exports.

Mr. WHITE. Senator, this agreement deals only with the monetary and credit aspects of international economic transactions, and it does not deal, as you point out, with the possibility that England may hold onto her Empire preference so far as trade is concerned. It does not deal with such things as the height of import quotas. The answer to that is the one that has been given a number of times: That the Bretton Woods agreement only attempts to help solve the monetary and credit problems; that there are other problems that remain. There are commercial policy problems that remain. Some of those other problems will be the subject for discussion or legislation in Congress. You are considering right now the reciprocal trade agreements, which is another phase of the problem. They are all interrelated, but Bretton Woods deals only with the monetary and credit aspects; and as it does deal with them effectively, it, in our opinion, constitutes a long step toward the elimination of restrictions, of monetary practices, which stand in the way of an expanding world trade.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. Senator Taft, would you mind specifying, before you leave this subject, how many agreements of that type have been entered into by Great Britain?

Senator TAFT. I don't know, frankly.

Mr. WHITE. I will be glad to give you what information we have.

Senator TAFT. I have here a copy——

Senator MILLIKIN. Will you put it in the record?

Mr. WHITE. Yes; I will be glad to.

Senator TAFT. I have here a copy of the agreement between England and France—the French Republic—which deals in general with the immediate problems but contains an annex that is very much similar to the Swedish agreement. I shall be glad to put that in, and perhaps Dr. White could produce——

Mr. WHITE. I will submit a list.

Senator TAFT. I have also an Anglo-Chilean exchange agreement, but that was prewar really, made about 1940, and I don't think it has—it may not be the last one.

Mr. WHITE. There are a number of them, and England probably will attempt to consummate more. Their basic pattern is the same. There are differences as to amounts and differences as to certain adjustments and settlements, but the basic pattern is the same; and they, as I say, are consummated with our knowledge. That is what they should do in the circumstances that they are in, and they will help reestablish world trade and help put England on its feet economically, and help put many other countries on their feet economically, and to the extent to which they do so do they lessen the pressure on their demands for assistance from us.

Senator BARKLEY. Is there any basic inconsistency between those bilateral agreements that cover a field not necessarily covered by this

Bretton Woods agreement, and the agreement here that we are considering?

Mr. WHITE. No, Senator Barkley. They assist in reaching the stage that is one of the objectives of the Bretton Woods agreements. The situation which those countries are in makes it necessary for them to explore all those possibilities to reduce their pressure and dependence upon the International Fund.

We were asked about it. They maintained there was nothing inconsistent with the Bretton Woods agreements. We agree that it was desirable for such steps to be taken. It will help the functioning of the fund, and it will make conditions move more rapidly to that ideal state when we can have multilateral clearing.

Senator MURDOCK. Mr. Chairman, in answer to Senator Barkley's question, it might be interesting to just read article 8 here; that is, the first part of that.

Mr. WHITE. Yes.

Senator MURDOCK (reading):

If, during the currency of this agreement—
this is the Swedish-English agreement—

either of the contracting governments adheres to a general international monetary agreement, the terms of the present agreement shall be reviewed with a view to making any amendments that may be required.

Mr. WHITE. I am very glad you caught that, Senator. My colleague just slipped me a note reminding me of the fact that when the agreements are between members the document states that they are consistent with the fund undertaking. They didn't want to undertake any arrangement—

Senator TAFT. Well, may I suggest I wasn't saying it was inconsistent with the fund. My point was that it was consistent with the fund, that the fund expressly permits, apparently, the continuing of this kind of special agreement for 5 years or indefinitely thereafter. The suggestion is not that. My whole point has been that the agreement is so drawn that it itself permits the defeat of the very purposes that are said to be the principal purposes of the fund. I am not so sure about Sweden, because that might be a doubtful question.

Mr. WHITE. If you will go over each one of the purposes which are in article I, I think that you probably will find that they are all very excellent purposes and that if any action that any government takes is in accord with those purposes, and no action that any member government takes is out of accord with those purposes, we shall have achieved a state of international economic relations and a state of world prosperity and peaceful relations that is much to be desired.

Senator TOBEY. According to what you have just read, then, isn't it a fact that the net result is that these other nations may have these multi- or bi-lateral arrangements but recognize that when the fund is a fait accompli in effect that is the major document and the major movement that will supersede these other things?

Mr. WHITE. It will make them subsidiary.

Senator TOBEY. That is what I am getting at: make the fund predominant.

Mr. WHITE. That is right. I think the point that is expressed in one of your remarks, Senator Taft, is well taken, and it is this: that

the progress that we can make in this area is gradual; that in view of the very disrupted conditions of the past 10 years you cannot attempt to introduce a completely orderly and ideal arrangement in a short period of time. It is just as though you are dealing with an individual who has suffered severe wounds as a result of a bomb exploded right near him, and you cannot get him back to working state as quickly as you would like. You have to heal certain wounds; you have to permit him time to make his adjustments, et cetera. But our program, which is the important thing, Senator, is looking toward steady progress each year being made toward reaching that state of affairs that I think we all want.

Senator TAFT. My suggestion is that you can only reach that state of affairs by direct agreement of a much more drastic character settling other questions besides this with each country, and that as far as this is concerned there is no immediate need for it; that 3 years from now is just as good as now. The very fact that you have to except from it shows it. In other words, it is the cart-before-the-horse argument you referred to as to that, and I think it is an eminently sound argument. I think that if you want to cure these things you have got to cure them by an agreement with each country in some way.

Mr. WHITE. The only thing, I think I would say that—

Senator TAFT. And outside the realm of monetary. My point is that the other questions, trade questions, are far more important than monetary.

Mr. WHITE. Well, you may have that feeling, but Bretton Woods attacks the monetary and credit problem, which is a very important part of the others. Without settlement of the monetary aspects you would have a very difficult time settling the other trade problems. And with respect to making special bilateral agreements I think you will find, Senator, that few countries would give up the sort of thing that you are suggesting through bilateral arrangement with us. England wouldn't consider for one moment making a bilateral arrangement with us which would call for elimination of all her restrictions, or exchange transactions unless we did one thing: unless we were willing to say to England, "All right; you remove your restrictions. You put an end to these various bilateral arrangements. We'll finance you. We'll supply you with all the dollars you need."

Senator TAFT. Not all the dollars they need, I hope.

Mr. WHITE. Well, all the gold they need.

Senator TAFT. I would be in favor of some reasonable adjustment, but not anything they ask for.

Mr. WHITE. If we were willing to finance them to a very great extent, if we were willing to say to England: "We will give you"—not loan you, mind you, because they have stated, I believe, they would hesitate to undertake large loans because they only have to pay them back and with interest.

Senator TAFT. I don't understand that.

Mr. WHITE. And they say, "If you will give us some lend-lease, or, if you don't like the word 'lend-lease' maybe you can find some other word the effect of which will be the same; if you are willing to give

us a large sum of money, you will solve our present problem." There is one important person, connected with a very large bank, who has even suggested that we give England \$5,000,000,000. Well, that is very generous of him to suggest that the American people give England \$5,000,000,000 and after we give England \$5,000,000,000 you will help her solve a lot of her problems, but you also will have on your hands the problems of some 30 or 40 other countries, who may want \$25,000,000,000 and I can think of no way—

Senator TAFT. I am not associated with any large bank, and I am not in favor of giving away \$25,000,000,000.

Mr. WHITE. No, Senator; I was not quoting you. This was somebody else.

Senator TOBEY. And it begins with "A," doesn't it?

Senator RADCLIFFE. Dr. White, you stated just a moment ago, I think, that trade agreements may be intrinsically more important than this monetary arrangement.

Mr. WHITE. I stated that it would be intrinsically more important?

Senator RADCLIFFE. Well, I don't know whether you went as far as that or not. Senator Taft may have.

Mr. WHITE. No; I wouldn't have said that, because I don't believe that, Senator.

Senator RADCLIFFE. Well, assuming it, whether you did or not say so.

Mr. WHITE. I see.

Senator RADCLIFFE. But you also stated—and you did state, I think, that you felt that the putting into operation of these monetary arrangements would have a tendency to facilitate making trade agreements.

Mr. WHITE. True.

Senator RADCLIFFE. Trade arrangements. Now, you wouldn't suggest, would you, that these monetary proposals be held up so that the two could be worked out simultaneously, would you?

Mr. WHITE. No; definitely, I would not. It is easier to make trade arrangement after you have had monetary arrangements.

Senator RADCLIFFE. In other words, this is a natural step?

Mr. WHITE. I should think so.

Senator RADCLIFFE. And you think it is a natural step toward working out trade agreements, agreements with regard to trade, later on?

Mr. WHITE. That was the opinion, I think, of most of the experts. When we were considering the sequence of proposed solution of the postwar problems, it was agreed that the monetary was most urgent.

Senator RADCLIFFE. At least, the making of these agreements wouldn't tend to militate against or in any way impede the making of trade agreements later on?

Mr. WHITE. Oh, no.

Senator TAFT. Mr. White, are not the currencies of these principal countries fixed today by agreement de facto? Don't we have an agreement—

Mr. WHITE. In some cases.

Senator TAFT. Don't we have an agreement with Great Britain for the pound at \$4.02½ or \$4.03? You so stated sometime, I think, yesterday.

Mr. WHITE. I don't remember having stated we had an agreement with them, Senator.

Senator TAFT. I just put in the record an agreement of England and France in which the franc is stabilized with the pound at 200 francs to the pound. I have just put an agreement in the record, an agreement with Sweden, by which the Swedish krona is stabilized with the pound, 16.9 kronor to the pound.

Mr. WHITE. Yes.

(Financial agreement between Great Britain and French Republic is as follows:)

France No. 1 (1945)

FINANCIAL AGREEMENT BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND AND THE PROVISIONAL GOVERNMENT OF THE FRENCH REPUBLIC

Paris, 27th March, 1945

Presented by the Secretary of State for Foreign Affairs to Parliament by
Command of His Majesty

THE Provisional Government of the French Republic (hereafter called the French Government) and the Government of the United Kingdom of Great Britain and Northern Ireland (hereafter called the Government of the United Kingdom):

Desirous of developing to the maximum commercial exchanges between the franc area and the sterling area, and of facilitating current settlements, especially commercial payments, between the two areas; and, further,

Desirous of reaching a final settlement of the various financial claims which have arisen between the two Governments since the beginning of the war,

Have agreed as follows:—

SECTION 1.

ARTICLE 1.

1.—(a) The Government of the United Kingdom shall make available to the French Government a non-interest bearing credit up to £100 millions, to be available up to the 28th February, 1946. The Bank of England shall open in the name of the French Government an account to be called Account A, to which instalments of this credit shall be paid at the request of the Bank of France (acting as the agent of the French Government). This Account A will be utilised by the French Government in order to provide funds, so far as this is necessary, for the account of the Bank of France at the Bank of England.

(b) The French Government shall make available to the Government of the United Kingdom a non-interest bearing credit up to Francs 20 milliards, to be available up to the 28th February, 1946. The Bank of France shall open in the name of the Government of the United Kingdom an account to be called Account A, to which instalments of this credit shall be paid at the request of the Bank of England (acting as the agent of the Government of the United Kingdom). This Account A will be utilised by the Government of the United Kingdom to provide funds, so far as this is necessary, for the account of the Bank of England at the Bank of France.

(c) If the figure of £100 millions mentioned in sub-paragraph (a) above, or the figure of Francs 20 milliards mentioned in sub-paragraph (b) above, should prove insufficient, the two Governments shall consult together with a view to increasing these figures as necessary in order that there shall always be sufficient funds in the account of the Bank of France at the Bank of England and in the account of the Bank of England at the Bank of France.

2. On the 28th February, 1946, a balance shall be struck by comparing the drawing to date of the Government of the United Kingdom and the French Government on their respective A Accounts. This balance shall be struck in the currency of the creditor Government. To this end the drawings made in the currency of the debtor Government shall be converted into the currency of the creditor Government on the basis of the official rate of exchange in force at the date of each drawing.

ARTICLE 2.

1. If, on the 28th February, 1946, the calculation referred to in Article 1 (2) above results in a balance in sterling due from the French Government to the Government of the United Kingdom, this balance shall be settled as follows:—

(a) The French Government shall discharge the balance in gold up to the equivalent of one-third of the gross total of the payments in franc or sterling currencies made during the year ending the 28th February, 1946, from the franc area to the sterling area, excluding those payments made out of Account B referred to in Article 4 below. This total shall be determined by agreement between the Bank of France and the Bank of England.

(b) If Account B referred to in Article 4 below shows on the 28th February, 1946, a balance in sterling in favour of the French Government, the French Government shall utilise this balance, in so far as is necessary, to pay the remainder of the amount due by them after the payment in gold mentioned in sub-paragraph (a) above.

(c) If the payment mentioned in sub-paragraph (b) above shall not be sufficient to liquidate the remainder of the amount due by the French Government, the balance which shall not have been reimbursed on the 28th February, 1946, shall be carried forward on conditions to be agreed between the two Governments.

2. If, on the 28th February, 1946, the calculation referred to in Article 1 (2) above results in a balance in francs due from the Government of the United Kingdom to the French Government, this balance shall be settled as follows:—

(a) The Government of the United Kingdom shall discharge the balance in gold up to the equivalent of one-third of the total of the payments in sterling or franc currencies made during the year ending the 28th February, 1946, from the sterling area to the franc area, excluding those payments which are made into Account B referred to in Article 4 below. This total shall be determined by agreement between the Bank of France and the Bank of England.

(b) If the payment mentioned in sub-paragraph (a) above shall not be sufficient to cover the total amount due by the Government of the United Kingdom, the balance which shall not have been reimbursed on the 28th February, 1946, shall be carried forward on conditions to be agreed between the two Governments.

ARTICLE 3.

As from the date of coming into force of this Agreement settlements between the franc area and the sterling area as well as the general monetary relations between the two areas shall be regulated by the technical provisions set out in the Annex to this Agreement.

SECTION 2.

ARTICLE 4.

1. The Bank of England (acting as agent for the Government of the United Kingdom) shall open a sterling account to be called Account B in the name of the French Government.

2. The following sums shall be credited to Account B:—

(a) As soon as possible after the signature of this Agreement the French Government shall pay into Account B, by drawing on Account A mentioned in Article 1 (1) (a) above, the sum of £40 millions, which shall be deemed by the two contracting Governments to be the equivalent of the excess of the sterling monies in the United Kingdom belonging at the date of this Agreement to persons resident in Continental France over the franc monies belonging at the same date to Continental France to persons resident in the United Kingdom.

(b) The Government of the United Kingdom shall pay into Account B the following sums:—

(i) The balance in the Franco-British Liquidation Account established in July 1940.

(ii) Sums due by the Government of the United Kingdom resulting from the use since June 1940 of French merchant ships and from the disposal of cargoes belonging to persons resident in the franc area.

(iii) Sterling sums due by the Government of the United Kingdom to the French Government in connection with the expenditure of the British Armed

Forces in the franc area during the period prior to the entry into force of the present Agreement.

3. The French Government shall pay out of Account B, as soon as funds are available, the following sums:—

(a) The sum due by the French Government to the Government of the United Kingdom as reimbursement of the advances made by the latter to the French National Committee in accordance with the terms of the Agreement of the 7th August, 1940, (1) between the British Prime Minister and General de Gaulle. This sum shall be determined by agreement between the two Governments.

(b) Sums due by the French Government to the Government of the United Kingdom for the period prior to the entry into force of the present Agreement in connection with supplies furnished for the civil population of Continental France by the Allied Armed Forces.

4. Any further sums may be paid into or out of Account B by agreement between the two Governments.

ARTICLE 5.

1. The Anglo-French Financial Agreement of the 12th December, 1939, is hereby abrogated, and no claims shall be made by either contracting Government against the other in respect of its provisions.

2. The two Governments being desirous of waiving all further financial claims against one another arising out of the prosecution of the war have agreed as follows:—

(i) The French Government shall waive their claim to all payments by the Government of the United Kingdom for—

(a) The transfer to the Government of the United Kingdom on the 16th June, 1940, of the munition contracts in course of execution in the United States for the account of the French Government.

(b) The repayment of sums disbursed by the French Treasury in respect of debts contracted in France prior to June 1940 by the British Expeditionary Force.

(c) Repayment of the balance in favour of the French Government in the Reciprocal Advances Account set up in 1940.

(d) War material made available in 1940 by the French Government to the Finnish Government on behalf of the Government of the United Kingdom.

(ii) The Government of the United Kingdom shall waive their claim to all payments by the French Government for—

(a) War material furnished to the Turkish Government by the Government of the United Kingdom on behalf of the French Government.

(b) War material furnished prior to the 1st July, 1940, by the Government of the United Kingdom to the French Government.

(c) Expenditure of the Government of the United Kingdom on the maintenance of French troops in the United Kingdom in 1940, other than expenditure incurred under the provisions of the Agreement of the 7th August, 1940, between the British Prime Minister and General de Gaulle.

(iii) (a) The Government of the United Kingdom shall make available to the French Government, free of cost, in accordance with the Annex to this Article, supplies of goods and services of agreed categories which shall be estimated by common agreement to represent a total value of £45 millions.

(b) No part of the above supplies shall be sold by the French Government outside French territories.

(c) The two Governments shall co-operate to ensure that the total deliveries arranged under this paragraph shall reach the agreed amount.

(d) The two Governments shall also co-operate with a view to determining which supplies and services shall fall within the scope of this paragraph, and which shall fall within the scope of Mutual Aid.

(iv) In application of the provisions of paragraph 2 (i) (a) above, the French Government shall refund to the Government of the United Kingdom the sums which the latter has paid in dollars to an account at the Bank of Canada in connection with the transfer of the said munition contracts. This repayment shall be made by instalments *pari passu* with the implementation of the programme of deliveries referred to in paragraph 2 (iii) (a) above.

¹ "France No. 2 (1940)." Cmd. 6220.

ANNEX TO ARTICLE 5.

(1) The two Governments will consult together from time to time to draw up the lists of supplies, materials, equipment and services referred to in Article 5, paragraph 2 (iii). They will draw up the first list as soon as possible.

(2) The supplies, materials, and equipment referred to may include any new or second-hand article (apart from raw materials), which is, or which may become, the property of the Government of the United Kingdom, and has been produced or acquired for war purposes.

(3) The deliveries of the supplies, materials and equipment referred to in the preceding paragraph may be either for the use of the French Military, Naval and Air Forces, having regard to Article 5, paragraph 2 (iii) (d), or for the satisfaction of French civilian needs, and may include such categories as materials, equipment and installations for ports, railways, inland waterways, road, sea and air transport, public works, telecommunications, mines, public utilities, hospitals, housing, &c., as well as for manufacturing industries. This enumeration is purely indicative, and is only intended to show those classes of French civilian needs which are most pressing.

(4) The services may include in particular those required in connection with the shipment and delivery of supplies, to which reference has been made above, and to charges for hire of such goods.

(5) The two Governments will do all in their power to see that the programme is implemented with the least possible delay.

(6) The global value of the supplies, materials and equipment included in each list will be determined by common agreement, on the basis of original cost, after making suitable deduction for depreciation due to wear and tear.

SECTION 3.

ARTICLE 6.

1. The Government of the United Kingdom shall make available to the French Government any information which, by virtue of the British regulations regarding trade with countries in enemy occupation it may possess concerning assets in the sterling area belonging to French nationals residing in the franc area.

2. The French Government shall make available to the Government of the United Kingdom on a reciprocal basis any information which it may have regarding assets in the franc area belonging to persons of British nationality residing in the sterling area.

SECTION 4.

ARTICLE 7.

The Financial Agreement of the 8th February, 1944, between the French Committee of National Liberation and the Government of the United Kingdom shall be abrogated as from the date of the signature of this Agreement.

ARTICLE 8.

1. The present Agreement shall be deemed to have entered into force on the 1st March, 1945.

2. The provisions of Section 1 of the present Agreement and the Annex attached thereto shall be valid for one year. At least three months before the end of that period (that is to say before the 1st December, 1945), conversations shall take place with a view to examining the possibility of prolonging the provisions of Section 1 and the Annex for a further period of one year, account being taken of any modifications which circumstances may render necessary.

In faith whereof the undersigned plenipotentiaries, being duly authorised thereto, by their respective Governments, have signed the present Agreement and have affixed thereto their seals.

Done this 27th day of March, 1945, at Paris in duplicate, in English and French, both texts being equally authentic.

On behalf of the Government of the United Kingdom of Great Britain and Northern Ireland: On behalf of the Provisional Government of the French Republic:

JOHN ANDERSON.

R. PLEVEN.

ANNEX TO ANGLO-FRENCH FINANCIAL AGREEMENTS

I.—(i) The Bank of England shall open an account No. 1 in the name of the Bank of France which shall be credited with:—

(a) Sterling amounts drawn from the credit placed at the disposal of the French Government by the Government of the United Kingdom in accordance with Article 1 of the Financial Agreement;

(b) Sterling amounts accruing to the Bank of France as a result of sterling settlements in accordance with the exchange regulations in force in the Sterling Area.

(ii) The Bank of France shall open an account No. 1 in the name of the Bank of England, which shall be credited with:—

(a) Franc amounts drawn from the credit placed at the disposal of the Government of the United Kingdom by the French Government in accordance with Article 1 of the Financial Agreement;

(b) Franc amounts accruing to the Bank of England as a result of franc settlements in accordance with the exchange regulations in force in the Franc Area.

(iii) Each of the two Banks is required at all times, on the request of the other, to re-purchase at the official rate the balance on No. 1 Account standing in the name of the other, even though such re-purchase would necessitate drawing on the credits referred to above.

II.—To the extent required for the execution of the Financial Agreement and of the present Annex the Bank of France and the Bank of England shall sell each other gold on a basis agreed upon between them.

III.—(i) The Government of the United Kingdom shall not restrict the free use of sterling which may be at the disposal of residents of the Franc Area for:—

(a) All transfers to other residents of the Franc Area.

(b) All payments to other residents of the Sterling Area.

(c) Transfers to residents of countries not included in the Franc or Sterling Areas to the extent that they may be sanctioned by the Government of the United Kingdom in application of the arrangements contemplated in paragraph VII (iii) (a) below.

(ii) The French Government shall not restrict the free use of francs which may be at the disposal of residents of the Sterling Area for:—

(a) All transfers to other residents of the Sterling Area;

(b) All payments to residents of the Franc Area;

(c) Transfers to residents of countries not included in the Franc or Sterling Areas to the extent that they may be sanctioned by the French Government in application of the arrangements contemplated in paragraph VII (iii) (a) below.

IV.—(i) To the extent that the Bank of France requires currencies of territories of the Sterling Area (other than sterling) in order to make payments in such territories the Bank of France shall purchase such currencies through the Bank of England against payment in sterling.

(ii) To the extent that the Bank of England requires currencies of territories of the Franc Area (other than the French franc) in order to make payments in such territories the Bank of England shall purchase such currencies through the Bank of France against payment in francs.

V.—The Authorities responsible for Exchange Control shall mutually assist one another to keep capital movements between the two areas within the scope of their respective policies and in particular in order to prevent transfers which would not serve direct and useful economic or commercial purposes.

VI.—Any sterling held by the Bank of France may be held and invested only as may be agreed by the Bank of England and any francs held by the Bank of England may be held or invested only as may be agreed by the Bank of France.

VII.—(i) If during the period of application of the present Annex the two Governments become parties to a general international monetary agreement, they shall review the provisions of the present Annex with a view to making any amendments which may prove necessary.

(ii) So long as the present Annex remains in force the two Governments shall mutually assist one another to ensure its application with the necessary elasticity as circumstances shall require. The Bank of France and the Bank of England, acting for account of their respective Governments, shall maintain contact on all technical questions raised by the Agreement and shall collaborate closely on questions of exchange control affecting the two areas.

(iii) The French Government and the Government of the United Kingdom shall endeavour with the consent of the other interested parties—

(a) To make the francs which may be at the disposal of residents of the Sterling Area and sterling which may be at the disposal of residents in the Franc Area available for payments of a current nature to residents of countries not included in the Franc and Sterling Areas.

(b) To permit residents of countries not included in the Franc and Sterling Areas to use the sterling which may be at their disposal to effect payments of a current nature to residents of the Franc Area and francs which may be at their disposal to effect payments of a current nature to residents of the Sterling Area.

(iv) Notwithstanding that each of the two Governments shall be alone responsible for its monetary relations with third countries, they shall maintain contact wherever the monetary relations of the one affect the interests of the other.

VIII.—All sterling transactions in the Franc Area and all franc transactions in the Sterling Area shall be settled on the basis of the official rate of exchange.

The official rate (at present Frs. 200=£1) may only be modified after mutual consultation.

IX.—For the purposes of the application of the Financial Agreement dated this day and of the present Annex—

(i) The expression "Sterling Area" shall have the meaning assigned to it from time to time by the Exchange Control Regulations in force in the United Kingdom.

(ii) The expression "Franc Area" shall comprise the following territories:—

Metropolitan France (which includes Corsica and Algeria).
 French West Africa.
 French Equatorial Africa.
 Madagascar and its dependencies.
 Réunion.
 French Somali Coast.
 French Guiana.
 Guadeloupe.
 Martinique.
 St. Pierre and Miquelon.
 French Establishments in India.
 Indo-China.
 New Caledonia.
 French Establishments in Oceania.
 The Condominium of the New Hebrides.
 The Protectorates of Morocco and Tunisia.
 The French Mandated Territories of Cameroon and Togo.
 Syria and Lebanon.

(iii) Notwithstanding paragraph (ii) above, the provisions of the Financial Agreement dated this day and of the present Annex shall only apply to Indo-China when the whole of its territory has been liberated.

(iv) The foregoing provisions shall not modify the existing arrangements under which the Condominium of the New Hebrides and the French Establishments in India which form part of the Franc Area defined in paragraph (ii) shall be regarded for certain purposes of exchange control as forming part of the Sterling Area.

(v) Settlements effected by the Government of any territory included in one of the two areas defined above shall be regarded as settlements effected by a resident of the said area.

Senator TAFT. We have an agreement with France tentatively, apparently, which our soldiers are suffering under, by which a franc is equal to 2 cents. I suggest that as far as their monetary stabilization is concerned, it is done now as far as the value is concerned, as far as stabilizing it is concerned; and now all this agreement does is to look forward 5 years to a time when there are some things that are coming into force, but that, as a practical matter, England—there is nothing that we accomplish today except exactly what we have got.

Mr. WHITE. Senator Taft, there is only one fly in that very lovely ointment of yours, and the fly is so big that there is very little ointment left. What you call an agreement is not really an agreement in the sense in which we are using the term "agreement" in the International Fund.

Senator TAFT. I suggest it is not really an agreement, either, on these questions.

Mr. WHITE. Well, may I explain that, Senator, because any one of the countries can alter its rate unilaterally merely by informing the other and withdrawing from an agreement which doesn't mean a great deal to either party. Now, what we are trying to do is to get a multilateral arrangement in which countries cannot alter exchange rates, and so forth, except by multilateral approval. We have an arrangement with Mexico, Senator—

Senator TAFT. But I suggest that the fund doesn't do that; that for 5 years they can keep all the restrictions they want; that they can devalue their currency 10 percent without even saying "boo"; that they can devalue their currency more than that if they can set up—

Mr. WHITE. If they can say "boo" loud enough. [Laughter].

Senator TAFT. Well, no; if it is a fundamental disequilibrium. And goodness knows, every country is in a fundamental disequilibrium. It exists by hypothesis at the moment. Now, that may mean something 5 years from now, but it doesn't mean anything today.

Mr. WHITE. I am glad you spoke of fundamental disequilibrium, because I had wanted to explain possibly a little more carefully what that term means.

Senator DOWNEY. Mr. Chairman, before Mr. White finishes, if I may make this comment, Mr. White and Senator Taft seem at some previous meeting to have compared equilibrium here to a cart and a horse, if I understand the colloquy.

Mr. WHITE. I didn't. I think it was Mr. Acheson.

Senator DOWNEY. Let me say this: It would look to me as though the equilibrium that is now facing the world might very well be compared to a jigsaw puzzle in which we have many pieces that we have to fit together, and I think the sooner we can get any one of them into place the better we shall work out the whole problem. When we can get in Dumbarton Oaks, that is one piece of the jigsaw puzzle. When we can get petroleum fixed, that is another; aviation, another; food, another; Bretton Woods, another; reciprocal trade agreements, another; and so on. So as far as I am concerned, I am going to take the viewpoint that even though we have to put the tail on the horse before we put on the head, why, let us get in what we can as fast as we can.

Mr. WHITE. That is a splendid analogy, Senator. I am going to use it, with your permission, at the next opportunity, because I think it is much more realistic than the horse-and-cart analogy.

Senator DOWNEY. The Senator from Ohio may like to draw the cart-before-the-horse case. I think it is a more complicated problem, and I think we have to have more elasticity than we had in the past.

Senator BARKLEY. We may hope for it.

Senator TAFT. I think the Senator will hear from a great many expert witnesses who will take pretty much the position I suggest, but I am perfectly willing to leave it until we hear further.

Mr. WHITE. I think he probably could hear—I don't know that he will hear, but he could hear from many more experts that his analogy is an excellent one.

Senator BARKLEY. If I might ask about these so-called stabilizing bilateral agreements with regard to currency, of course it was necessary in this temporary situation for the countries to enter into some

sort of arrangement by which the value of the franc and the pound and the dollar might be understood. Back in World War I the franc was worth—well, I would say around 15 cents, I think they got.

Mr. WHITE. Before, 20 cents when it started.

Senator BARKLEY. Twenty cents first, or 5 francs for a dollar, and it went down to 6 or 7, and now the franc, due to the invasion and the impotence of the French Government, has descended to almost nothing, and there had to be some understanding as to how much a franc was worth in dollars. So they agreed on 50 francs to the dollar. But it so happens that in many instances—it is going on, I suppose, all the time—that those who have more francs than they need particularly, or who have francs they want to get rid of because of lack of confidence in the franc, will give 250 francs for a dollar, or 200. It is a matter of common knowledge—

Mr. WHITE. That is right.

Senator BARKLEY. That, notwithstanding this effort to stabilize the franc, under some circumstances you can get 200 or 250 francs for a dollar.

Now, if it had not been for this effort to stabilize the franc at 2 cents, there isn't any way to tell how low the franc would have gone in the matter of exchange compared to the dollar, and that would be true of all these countries, wouldn't it?

Mr. WHITE. That is a very good point, Senator Barkley, because when the question of the value of the franc came up for discussion our concern was the one that you pointed out: we had to pay, or we felt we had to pay, the soldiers in francs; and the reason for that I'll point out in a minute. It bears on this whole problem along the lines that you have indicated. We had to decide how much we were going to pay our soldiers. After all, Congress states that the soldiers shall receive a certain monthly wage in dollars, but how many francs does that mean? We had to have an understanding of what the soldier was to receive. The French Government said that their rate was going to be 2 cents, so the American soldier receives 50 francs for his dollar. And, incidentally, that wage in francs will be supplemented by other things. It has been supplemented by some, but it will be by more. So that the soldier will be better taken care of than he has been. That is a separate matter, and if your committee is interested in it the Army or Treasury can supply you with further details. However—

Senator McFARLAND. It had to be a supplementary agreement.

Mr. WHITE. I would like to add, Senator, that if we hadn't paid them in francs there was only one alternative, and that was to pay them in dollars. Now, if we paid them in dollars, it would have meant that every soldier would have dollars in his pocket. He would be an individual exchange operator, you see. He would go on the market: "And how much can I get for this in francs?" And nothing would have contributed more to the monetary disruption in France; to depreciation, as you said, of the franc, and to inflation in France, than an open-wide, free exchange between dollars and francs, with the soldier receiving a new supply of dollars monthly. You would find that the franc might probably be lower even than it is on the black market today. It was to prevent that from happening that we agreed to pay our soldiers in francs.

Senator BARKLEY. Well, of course, it is a scandalous situation to have had our soldiers engaging in black market with francs or dollars, either. Of course, all their allotments are paid in dollars to those to whom they are made in this country. The only use that a soldier had for francs in France was to buy something maybe that he wanted to send home, or presents, gifts, or luxuries of one kind or another, because he got his food and clothing. He didn't have to buy that. And while this whole situation, the depreciation of the franc, has skyrocketed prices in France so that you can hardly buy anything for any reasonable amount—I bought a little trinket, a little pair of earrings. It cost 271 francs. Well, in normal times that would be almost as much money as you would pay for a gold trinket of that sort. This was just a cheap thing. Well, of course, none of us has to buy those things, but if we do buy them we have to pay the price.

But it seems to me that there wasn't any way to have avoided some injustice to not only our soldiers but other soldiers who were accepting the franc at 50 per dollar, if he saw fit to buy things that he wanted to buy with the franc. Otherwise, if you paid him in dollars over there he would have been hawking those dollars around all over France, and maybe outside of France, to see how much he could get for them; and that, it seems to me, would have been an impossible situation.

Mr. WHITE. It would, Senator, because one of the consequences of that would have been to so depreciate the franc and to so disrupt the monetary system of France that any government that was in control at that time would have been very greatly weakened and might even have been overthrown. It is important, when a government returns from exile that it gain the confidence of the people and for the people to have confidence in their currency. If we had contributed in any marked degree to a rapid deterioration of the franc it would have meant not only a serious economic situation, but it might have meant a serious political situation at a time, you remember, when we had not yet defeated Germany.

Senator McFARLAND. Yes, but, Mr. White—

Senator MILLIKIN. I have a question.

Mr. WHITE. He has a question first, Senator.

Senator McFARLAND. In fixing the value of a franc, shouldn't you base the exchange rate on the number of francs it takes to purchase goods in relation to the purchase of the same goods in the United States? You should get a fair valuation, not an unfair valuation. You are not deflating the franc, if a franc is actually worth, for instance, 300 to the dollar, by fixing that as the exchange. It is already in that condition, and that is about the value of the franc if you are going to buy something on the market there. Now, we haven't helped values any. The only thing we have done is penalize our boys.

Mr. WHITE. Well, Senator McFarland, the first statement you have made is quite correct, that one of the factors, and an important factor—it is only one of the factors—that goes into the determination of a reasonable rate is, as you described it, the relative purchasing power of currency in a country. There are other factors. But when we say that we didn't want to encourage depreciation we refer to psychological and monetary phenomena which can have disastrous consequences. I can explain further, off the record, by taking a specific case.

(There was colloquy off the record.)

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Yes.

Senator MILLIKIN. I should like to suggest that we can carry this argument of paying our soldier in the currency of the land in which he happens to be—you can carry that too far. In France, for example, they have a very practical way of alleviating the advantage of the dollar, when the dollar has an advantage, in the hands of an American citizen. The merchant simply charges the American citizen twice as much as he does the French citizen, and that is the traditional way of handling those matters, and it works out all right so far as the French are concerned.

Senator BARKLEY. The same thing happened in the last war, although it has been a little worse in this war.

Senator MILLIKIN. The same thing happened during the twenties when we had dollar advantages in France. The merchants simply obviated the advantage by charging the American more.

Senator BARKLEY. Yes.

Senator MILLIKIN. If you wanted to beat that game you had to hire a professional shopper who was a Frenchman to go out and buy your stuff for you.

Mr. WHITE. Then, too, I think, you know, the American soldier naturally picks the best places to buy. He goes to the Rue de Rivoli where the shops are very much like some of the Fifty-seventh Street or Fifth Avenue shops, where prices even to local residents are not low. So that, too, is undoubtedly a factor, as you say.

Senator MILLIKIN. Yes. And the French luxury trades are a very important part of the French economy and the French merchants dealing in French luxuries have always been able to protect themselves very nicely against any advantage that the dollar might have.

Mr. WHITE. You know, off the record, Senator.

(There was colloquy off the record.)

Senator BUTLER. Mr. Chairman, if we are through with this particular point now, I should like to ask one question of Mr. White.

The CHAIRMAN. Certainly.

Senator BUTLER. As I understand it, none of the nations which are supposed ultimately to join this group have acted as yet.

Mr. WHITE. To my knowledge, Senator Butler, none has acted.

Senator BUTLER. But the attitude of the British Government perhaps is rather friendly toward the proposal?

Mr. WHITE. We have definite reason to believe that the present Government is friendly.

Senator BUTLER. Yes.

Mr. WHITE. But they are in the same position as our Congress was prior to its last election.

Senator BUTLER. They are holding an election over there right soon.

Mr. WHITE. Soon.

Senator BUTLER. And one of the parties is the Labor Party, English Labor Party.

Mr. WHITE. That is correct.

Senator BUTLER. And one of their pet projects is Government ownership of the Bank of England.

Mr. WHITE. And some of the large banks, whether they—

Senator BUTLER. Yes. If they should be successful in that, would it be necessary to change any of the provisions in the Bretton Woods agreement?

Mr. WHITE. No sir; because the role which central banks play is that of fiscal agents of the Government; and if the British Government were to own the central banks it would be not much different than in other countries where the central bank is owned by the Government. So it wouldn't require any alteration in the articles of agreement.

Senator BUTLER. Do you think their attitude toward it might be different?

Mr. WHITE. Do you mean the attitude of the Labor government?

Senator BUTLER. Yes.

Mr. WHITE. I don't know. I have confidence in the good sense of the British people.

(There was colloquy off the record.)

The CHAIRMAN. I notice the Senators like to get back to the floor, and I have arranged, and if it is agreeable to the members of the committee, to have our hearings continue at 3 o'clock this afternoon at the District of Columbia room right opposite the floor, and there we will finish—is there anything else to be ask of Dr. White?

Senator TAFT. You mean, do you want to adjourn now?

The CHAIRMAN. I thought then that we might adjourn now until 3 this afternoon. I hope all the Senators will be present.

Senator TOBEY. Will Mr. White continue?

The CHAIRMAN. Mr. White will continue.

Mr. WHITE. Except Mr. Luxford and Mr. O'Connell may want to go ahead on some of the amendments and legal aspects.

Senator TAFT. I have two questions more, I think, or two slight lines to follow.

The CHAIRMAN. All right. Supposing we try that.

Senator TAFT. Do you want to start now?

The CHAIRMAN. Very well.

Senator TAFT. Mr. White, I have tried to go through here to see in what respect the United States Government was limited and what things actually tie our hands in the future, and the first thing I get, section 4-2—

Mr. WHITE. What article, Senator?

Senator TAFT. Article IV, section 2. We bind ourselves not to depreciate our dollar more than 10 percent, as I understand it; is that correct?

Mr. WHITE. We are subject to the same restrictions.

Senator TAFT. Unless there is some fundamental disequilibrium, which is not likely to occur.

Mr. WHITE. That is right.

Senator TAFT. Secondly, we have to maintain—we either have to buy and sell gold or we have to regulate all exchange transactions within a small fraction of the figure that is fixed.

Mr. WHITE. I would like to correct my earlier statement. We agree not to alter our currency value at all, but we have authority to alter it 10 percent. Your second statement is correct, as I understand it.

Senator TAFT. Then article IV, section 7, is a provision that has not been commented on, by which the value of gold may be changed. [Reading:]

Notwithstanding the provisions of section 5-b of this article, the fund, by a majority of the total voting power, may make uniform proportionate changes in the par values of the currencies of all members, provided each such change is approved by every member which has 10 percent or more of the total of the quotas.

That means, I take it, that the fund board may change the whole value of gold. They may raise all currencies at once or depreciate all currencies at once in terms of gold, if they wish to do so.

Mr. WHITE. Only, that in the United States——

Senator TAFT. We have a veto power?

Mr. WHITE. That is right.

Senator TAFT. But if it is done leaving us hanging in the air, there is almost a compulsion on us to do the same thing, isn't there?

Mr. WHITE. No; I wouldn't think so.

Senator TAFT. If all the currency in the world is depreciated overnight, do you think we could successfully stand out against an effort to change our currency?

Mr. WHITE. The first thing you spoke of could be done only with our approval. The purposes of the provision, I think, would clarify the matter very materially.

Senator TAFT. Incidentally, it stands to reason that it cannot be done without the action of Congress.

Mr. WHITE. That is correct, Senator Taft; but I will tell you what the purpose of that is if you are interested in it.

Senator TAFT. What is that?

Mr. WHITE. There has been controversy among economists, as you have in all other scientific fields, in the last generation, about whether there is enough gold or too much gold; whether the world is producing enough gold to support the expanding population and expanding trade; or whether the world is producing too much gold and thus promoting steady inflation. Some think there is too much being produced. Others think too little. Speaking for the Treasury, we think the problem is academic.

Senator TAFT. I agree with you. You don't think it makes much difference?

Mr. WHITE. Well, I wouldn't put it that way, Senator. I would say that the rate of the production of gold which we foresee in the foreseeable future does not significantly affect the problem. What some people are afraid of is that some scientist will in his secret laboratory discover a cheap way of producing gold, such as, for example, the process of shooting one atom off of lead, thereby getting gold. Gold has even been made out of sea water, at a terrific expense, but they fear technological processes may be developed so that somebody may discover how to make gold very cheaply. If that is the case, there ought to be some protective clause which would make it possible to simultaneously alter the value of gold without changing the exchange-rate structure. It is all in the realm of the highly speculative developments of science in the future.

Personally, I am not much concerned about the possibility, but should it happen in the future there is machinery by which the Congress of the United States could approve a change. If, on the other

hand, it is felt there is too little gold produced—we do not feel that is so, either—machinery is provided to raise the value of gold, but I think most people who work in this field feel—in fact, I know only very few who do not feel the question is rather academic in the foreseeable years.

Senator TAFT. It seems to me, except for the fact that we have the veto power—

Mr. WHITE. That is why we put that power in.

Senator TAFT. It seems to me that is the most inflationary provision possible; if we could suddenly raise the value of gold to \$150 now instead of \$35, it seems to me that contemplates something beyond any common sense.

Mr. WHITE. That is why we insisted on the veto power.

Senator TAFT. My chief reliance is on the veto power. I don't think Congress would do it.

Mr. WHITE. You don't feel badly because we protected our interests in that matter so completely?

Senator TAFT. No; I don't.

Mr. WHITE. That is why it is in, because we felt it was most unwise otherwise.

Senator MILLIKIN. I should like to ask why we are worrying ourselves for fear that someone is liable to knock an atom off of lead.

Mr. WHITE. I am not worrying, Senator.

Senator MILLIKIN. What if someone invents a faster printing press?

Mr. WHITE. We would use fewer presses and save some money.

Senator TAFT. Mr. White, article VI, section 2, and article VI, section 1, seem to me to impose a rather—

Mr. WHITE. That is what page?

Senator TAFT. Page 12. To impose a good deal of restriction. [Reading:]

A member may not make net use of the fund's resources to meet a large or sustained outflow of capital, and the fund may request a member to exercise controls to prevent such use of the resources of the fund. If, after receiving such a request, a member fails to exercise appropriate control, the fund may declare the member ineligible to use the resources of the fund.

Then you have section 2 also dealing with it, and section 3 controls capital transfers. Wouldn't that article require us to put a general restriction on the transfer of exchange and regulate all exchange in order to know what is capital and what is not capital?

Mr. WHITE. No, Senator. This has reference only to countries that are coming to the fund for assistance. May I cite an illustration which would clarify that point?

Let us assume that country X is coming to the fund to buy dollars; and one of the reasons why it needs so many dollars, why there is constant pressure on its currency is because there is a flight of capital from that country. People are losing confidence in it. Speculators anticipate an exchange profit, and they are getting out of that currency into dollars or sterling. That is what we call a flight of capital.

Now, the fund is not in any sense set up for the purpose of promoting a flight of capital. That kind of a flight of capital does not do anyone any good except the speculator. It is bad for the country. It is disruptive of economies in general. So the fund says to that particu-

lar country: "You are coming to the fund to buy dollars or francs or sterling, or whatever it may be, and the reason why you need all that is not for trade, not to pay for goods which you are buying, but to finance speculative dealings or flights of currency. You will have to do something about that, or you cannot get more foreign exchange from the fund.

Now, one of the things that you can do, one of the things that most countries do—that all countries do now—is to put restrictions on capital exports by requiring permits to purchase exchange. It isn't anything we would do. It is something that a particular country might have to do if it wanted to continue to buy currency from the fund.

Senator TAFT. But we might want to do it. I am just talking now about what might happen.

Mr. WHITE. If our investors want to invest abroad, I doubt very much that we would put any restrictions on them. We would not be coming to the fund, in any case, until our reserves were a lot lower.

Senator TAFT. You haven't been too anxious to let the South American countries take gold out of the United States.

Mr. WHITE. Oh, we have never given the slightest interference, with one exception, Argentina, and that exception—I guess this is all right on the record.

The CHAIRMAN. Yes.

Mr. WHITE. The reason for that has been political, not economic.

Senator TAFT. I understand that. I understood you discouraged it.

Mr. WHITE. You are quite correct, Senator. For political reasons.

Senator TAFT. Just one more question. Lord Keynes said:

Not merely as a feature of the transition, but as a permanent arrangement the plan accords to every member government the expressed right to control all capital movements. What used to be a heresy is now endorsed as orthodox. In my own judgment, countries which avail themselves of this right may find it necessary to scrutinize all transactions, so as to prevent evasion of capital regulations. Provided that the innocent, current transactions are let through, there is nothing in the plan to prevent this. In fact, it is encouraged.

Mr. WHITE. Correct. As you know, those countries have those regulations right now.

Senator TAFT. I notice in sections 8 and 9 of the bill you provide that whenever a request is made by the fund to the United States as a member to furnish data under article VIII, section 5, the President may, through any agency he may designate, require any person to furnish such information as the President may determine to be essential to comply with such request. The President may then—if the person hasn't given any information relating to any foreign transaction, he may be put in jail or subpena may be issued, and so forth. Of course, those are provisions for secrecy, but it seems to me we are saying, in effect, in this fund we are going to control all foreign exchange transactions and give the President complete power to require any information from anybody about any transaction having to do with foreign trade.

Mr. WHITE. No, Senator; that was not our intention, nor do I think that anything in the act would justify that conclusion.

Senator TAFT. I think the members ought to read section 9 of the act. I think it is a pretty radical provision, and it gives complete discretion to the President, I think, to determine whether it is essential or not.

Mr. WHITE. If your committee is interested in that—and they may well be, Mr. Chairman—with your permission, if it is agreeable to Senator Taft, I would like to have one of our able lawyers discuss the implications and meaning of that section.

Senator TAFT. We might do that this afternoon. May I ask to have inserted in the record the address of Lord Keynes to the House of Lords on May 23, 1944, to which I have referred a number of times, and I think it would be wise to have it on the record.

Mr. WHITE. And would also be a compliment to Lord Keynes.

Senator TAFT. This is a photostatic copy of the House of Lords record.

The CHAIRMAN. Very well.

Mr. WHITE. What is the date of that?

Senator TAFT. May 23, 1944.

(The document referred to is as follows:)

ADDRESS OF LORD KEYNES BEFORE THE HOUSE OF LORDS ON MAY 23, 1944

My Lords, it is almost exactly a year since the proposals for a Clearing Union were discussed in your Lordship's House. I hope to persuade your Lordships that the year has not been ill-spent. There were, it is true, certain features of elegance, clarity, and logic in the Clearing Union plan which have disappeared. And this, by me at least, is to be much regretted. As a result, however, there is no longer any need for a new-fangled international monetary unit. Your Lordships will remember how little any of us liked the names proposed—bancor, unitas, dolphin, bezant, daric, and heaven knows what. Some of your Lordships were good enough to join in the search for something better. I recall a story of a country parish in the last century where they were accustomed to give their children Biblical names—Amos, Ezekiel, Obediah, and so forth. Needing a name for a dog, after a long and vain search of the Scriptures they called the dog "Moreover." We hit no such happy solution, with the result that it has been the dog that died. The loss of the dog we need not too much regret, though I still think that it was a more thoroughbred animal than what has now come out from a mixed marriage of ideas. Yet, perhaps, as sometimes occurs, this dog of mixed origin is a sturdier and more serviceable animal and will prove not less loyal and faithful to the purposes for which it has been bred.

I commend the new plan to your Lordships as being, in some important respects (to which I will return later), a considerable improvement on either of its parents. I like this new plan and I believe that it will work to our advantage. Your Lordships will not wish me to enter into too much technical detail. I can occupy the time available by examining the major benefits this country may hope to gain from the plan, and whether there are adequate safeguards against possible disadvantages. We shall emerge from this war, having won a more solid victory over our enemies, a more enduring friendship from our allies, and a deeper respect from the world at large, than perhaps at any time in our history. The victory, the friendship, and the respect will have been won, because, in spite of faint-hearted preparations, we have sacrificed every precaution for the future in the interests of immediate strength with a fanatical single-mindedness which has had few parallels. But the full price of this has still to be paid. I wish that this was more generally appreciated in the country than it is. In thus waging the war without counting the ultimate cost we—and we alone of the United Nations—have burdened ourselves with a weight of deferred indebtedness to other countries beneath which we shall stagger. We have already given to the common cause all, and more than all, that we can afford. It follows that we must examine any financial plan to make sure that it will help us to carry our burdens and not add to them. No one is more deeply convinced of this than I am. I make no complaint, therefore, that those to whom the details of the scheme are new and difficult, should scrutinize them with anxious concern.

What, then, are these major advantages that I hope from the plan to the advantage of this country? First, it is clearly recognized and agreed that, during the postwar transitional period of uncertain duration, we are entitled to retain any of those wartime restrictions, and special arrangements with the sterling area and others which are helpful to us, without being open to the charge of acting

contrary to any general engagements into which we have entered. Having this assurance, we can make our plans for the most difficult days which will follow the war, knowing where we stand and without risk of giving grounds of offense. This is a great gain—and one of the respects in which the new plan is much superior to either of its predecessors, which did not clearly set forth any similar safeguards.

Second, when this period is over and we are again strong enough to live year by year on our own resources, we can look forward to trading in a world of national currencies which are interconvertible. For a great commercial Nation like ourselves this is indispensable for full prosperity. Sterling itself, in due course, must obviously become, once again, generally convertible. For, without this, London must necessarily lose its international position, and the arrangements in particular of the sterling area would fall to pieces. To suppose that a system of bi-lateral and barter agreements, with no one who owns sterling knowing just what he can do with it—to suppose that this is the best way of encouraging the dominions to center their financial systems on London, seems to me pretty near frenzy. As a technique of little Englandism, adopted as a last resort when all else has failed us, with this small country driven to autarchy, keeping itself in a harsh and unfriendly world, it might make more sense. But those who talk this way, in the expectation that the rest of the Commonwealth will throw in their lot on these lines and cut their free commercial relations with the rest of the world, can have very little idea how this Empire has grown or by what means it can be sustained.

So far from an international plan endangering the long tradition, by which most Empire countries, and many other countries, too, have centered their financial systems in London, the plan is, in my judgment, an indispensable means of maintaining this tradition. With our own resources so greatly impaired and encumbered, it is only if sterling is firmly placed in an international setting that the necessary confidence in it can be sustained. Indeed, even during the transitional period, it will be our policy, I hope, steadily to develop the field within which sterling is freely available as rapidly as we can manage. Now, if our own goal is, as it surely must be, the general interconvertibility of sterling with other currencies, it must obviously be to our trading advantage that the same obtains elsewhere, so that we can sell our exports in one country and freely spend the proceeds in any other. It is a great gain to us, in particular, that other countries in the world should agree to refrain from those discriminatory exchange practices which we ourselves have never adopted in times of peace but from which in the recent past our traders have suffered greatly at the hands of others. My noble friend, Lord Addison, has asked whether such an arrangement could be operated in such a way that certain markets might be closed to British exports. I can firmly assure him that one of the monetary proposals will do so, provided that if we find ourselves with currencies in a foreign country which we do not choose to spend in that country, we can then freely remit them somewhere else to buy goods in another country. There is no compulsion on us, and if we choose to come to a particular bargain in the country where we have resources, then that is entirely at our discretion.

Third, the wheels of trade are to be oiled by what is, in effect, a great addition to the world's stock of monetary reserves, distributed, moreover, in a reasonable way. The quotas are not so large as under the Clearing Union, and Lord Addison drew attention to that. But they are substantial and can be increased subsequently if the need is shown. The aggregate for the world is put provisionally at £2,500,000,000. Our own share of this—for ourselves and the Crown Colonies which, I may mention, are treated for all purposes as a part of the British monetary system (in itself a useful acknowledgment)—is £325,000,000, a sum which may easily double, or more than double, the reserves which we shall otherwise hold at the end of the transitional period. The separate quotas of the rest of the sterling area will make a further large addition to this. Who is so confident of the future that he will wish to throw away so comfortable a supplementary aid in time of trouble? Do the critics think it preferable, if the winds of the trade cycle blow, to diminish our demand for imports by increasing unemployment at home, rather than meet the emergency out of this fund which will be expressly provided for such temporary purposes?

I emphasize that such is the purpose of the quotas. They are not intended as daily food for us or any other country to live upon during the reconstruction or afterwards. Provision for that belongs to another chapter of international co-operation, upon which we shall embark shortly unless you discourage us unduly about this one. The quotas for drawing on the fund's resources are an iron ration to tide over temporary emergencies of one kind or another. Perhaps this

is the best reply I can make to Lord Addison's doubts whether our quota is large enough. It is obviously not large enough for us to live upon during the reconstruction period. But this is not its purpose. Pending further experience, it is, in my judgment, large enough for the purposes for which it is intended.

There is another advantage to which I would draw your Lordships' special attention. A proper share of responsibility for maintaining equilibrium in the balance of international payments is squarely placed on the creditor countries. This is one of the major improvements in the new plan. The Americans, who are the most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the interwar years, namely, the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing. Under clause VI of the plan a country engages itself, in effect, to prevent such a situation from arising again, by promising, should it fail, to release other countries from any obligation to take its exports, or, if taken, to pay for them. I cannot imagine that this sanction would ever be allowed to come into effect. If by no other means, than by lending, the creditor country will always have to find a way to square the account on imperative grounds of its own self-interest. For it will no longer be entitled to square the account by squeezing gold out of the rest of us. Here we have a voluntary undertaking, genuinely offered in the spirit both of a good neighbor and, I should add, of enlightened self-interest, not to allow a repetition of a chain of events which between the wars did more than any other single factor to destroy the world's economic balance and to prepare a seedbed for foul growths. This is a tremendous extension of international cooperation to good ends. I pray your Lordships to pay heed to its importance.

Fifth, the plan sets up an international institution with substantial rights and duties to preserve orderly arrangements in matters such as exchange rates which are two-ended and affect both parties alike, which can also serve as a place of regular discussion between responsible authorities to find ways to escape those many unforeseeable dangers which the future holds. The noble lord, Lord Addison, asks how the fund is to be managed. Admittedly, this is not yet worked out in the necessary detail and it was right that he should stress the point. But three points which may help him are fairly clear. This is an organization between governments, in which central banks only appear as the instrument and agent of their government. The voting power of the British Commonwealth and that of the United States are expected to be approximately equal. The management will be in three tiers, a body of expert, whole-time officials who will be responsible for the routine; a small board of management which will make all decisions of policy subject to any overriding instructions from the assembly; an assembly of all the member governments, meeting less often and retaining a supervisory, but not an executive, control. That is perhaps even a little better than appears.

Here are five advantages of major importance. The proposals go far beyond what, even a short time ago, anyone could have conceived of as a possible basis of general international agreement. What alternative is open to us which gives comparable aid, or better, more hopeful opportunities for the future? I have considerable confidence that something very like this plan will be in fact adopted, if only on account of the plain demerits of the alternative of rejection. You can talk against this plan, so long as it is a matter of talking—saying in the same breath that it goes too far and that it does not go far enough; that is to rigid to be safe and that it is too loose to be worth anything. But it would require great foolhardiness to reject it, much more foolhardiness than is to be found in this wise, intuitive country.

Therefore, for these manifold and substantial benefits I commend the monetary proposals to your Lordships. Nevertheless, before you will give them your confidence, you will wish to consider whether, in return, we are surrendering anything which is vital for the ordering of our domestic affairs in the manner we intend for the future. My lords, the experience of the years before the war has led most of us, though some of us late in the day, to certain firm conclusions. Three, in particular, are highly relevant to this discussion. We are determined that in future the external value of sterling shall conform to its internal value as set by our own domestic policies and not the other way round. Secondly, we intend to retain control of our domestic rate of interest, so that we can keep it as low as suits our own purposes, without interference from the ebb and flow of international capital movements or flights of hot money. Thirdly, whilst we intend to prevent inflation at home, we will not accept deflation at the dictate of

influences from outside. In other words, we abjure the instruments of bank rate and credit contraction operating through the increase of unemployment as a means of forcing our domestic economy into line with external factors.

Have those responsible for the monetary proposals been sufficiently careful to preserve these principles from the possibility of interference? I hope your lordships will trust me not to have turned my back on all I have fought for. To establish those three principles which I have just stated has been my main task for the last 20 years. Sometimes almost alone, in popular articles in the press, in pamphlets, in dozens of letters to the Times, in textbooks, in enormous and obscure treatises I have spent my strength to persuade my countrymen and the world at large to change their traditional doctrines and, by taking better thought, to remove the curse of unemployment. Was it not I, when many of today's iconoclasts were still worshippers of the calf, who wrote that "Gold is a barbarous relic"? Am I so faithless, so forgetful, so senile that at the very moment of the triumph of these ideas when, with gathering momentum, governments, Parliaments, banks, the press, the public, and even economists have at last accepted the new doctrines, I go off to help forge new chains to hold us fast in the old dungeon? I trust, my lords, that you will not believe it.

Let me take first the less prominent of the two issues which arise in this connection. Namely, our power to control the domestic rate of interest so as to secure a cheap money. Not merely as a feature of the transition, but as a permanent arrangement, the plan accords to every member Government the explicit right to control all capital movements. What used to be a heresy is now endorsed as orthodox. In my own judgment, countries which avail themselves of this right may find it necessary to scrutinize all transactions, so as to prevent evasion of capital regulations. Provided that the innocent, current transactions are let through, there is nothing in the plan to prevent this. In fact, it is encouraged. It follows that our right to control the domestic capital market is secured on firmer foundations than ever before, and is formally accepted as a proper part of agreed international arrangements.

The question, however, which has recently been given chief prominence is whether we are in any sense returning to the disabilities of the former gold standard, relief from which we have rightly learned to prize so highly. If I have any authority to pronounce on which is and which is not the essence and meaning of a gold standard, I should say that this plan is the exact opposite of it. The plan in its relation to gold is, indeed, very close to proposals which I advocated in vain as the right alternative, when I was bitterly opposing this country's return to gold. The gold standard, as I understand it, means a system under which the external value of a national currency is rigidly tied to a fixed quantity of gold which can only honorably be broken under force majeure; and it involves a financial policy which compels the internal value of the domestic currency to conform to this external value as fixed in terms of gold. On the other hand, the use of gold merely as a convenient common denominator by means of which the relative values of national currencies—these being free to change—are expressed from time to time, is obviously quite another matter.

My noble friend, Lord Addison, asks who fixes the value of gold. If he means, as I assume he does, the sterling value of gold, it is we, ourselves, who fix it initially in consultation with the fund; and this value is subject to change at any time on our initiative, changes in excess of 10 percent requiring the approval of the fund, which must not withhold approval if our domestic equilibrium requires it. There must be some price of gold; and so long as gold is used as a monetary reserve it is most advisable that the current rates of exchange and the relative values of gold in different currencies should correspond. The only alternative to this would be the complete demonetization of gold. I am not aware that anyone has proposed that. For it is only common sense as things are today to continue to make use of gold and its prestige as a means of settling international accounts. To demonetize gold would obviously be highly objectionable to the British Commonwealth and to Russia as the main producers, and to the United States and the western allies as the main holders of it. Surely no one disputes that. On the other hand, in this country we have already dethroned gold as the fixed standard of value. The plan not merely confirms the dethronement but approves it by expressly providing that it is the duty of the fund to alter the gold value of any currency if it is shown that this will be serviceable to equilibrium.

In fact, the plan introduces in this respect an epoch-making innovation in an international instrument, the object of which is to lay down sound and orthodox principles, for instead of maintaining the principle that the internal value of a

national currency should conform to a prescribed *de jure* external value, it provides that its external value should be altered if necessary so as to conform to whatever *de facto* internal value results from domestic policies, which themselves shall be immune from criticism by the fund. Indeed, it is made the duty of the fund to approve changes which will have this effect. That is why I say that these proposals are the exact opposite of the gold standard. They lay down by international agreement the essence of the new doctrine, far removed from the old orthodoxy. If they do so in terms as inoffensive as possible to the former faith, need we complain?

No, my Lords, in recommending these proposals I do not blot a page already written. I am trying to help write a new page. Public opinion is now converted to a new model, and I believe a much improved model, of domestic policy. That battle is all but won. Yet a not less difficult task still remains, namely, to organize an international setting within which the new domestic policies can occupy a comfortable place. Therefore, it is above all as providing an international framework for the new ideas and the new techniques associated with the policy of full employment that these proposals are not least to be welcomed.

Last week my noble friend, Lord Bennett, asked what assumptions the experts might be making about other phases of international agreement. I do not believe that the soundness of these foundations depends very much on the details of the superstructure. If the rest of the issues to be discussed are wisely settled, the task of the monetary fund will be rendered easier. But if we gain less assistance from other measures that we now hope, an agreed machinery of adjustment on the monetary side will be all the more necessary. I am certain that this is not a case of putting the cart before the horse. I think it most unlikely that fuller knowledge about future commercial policy would in itself make it necessary to alter any clause whatever in the proposals now before your Lordships' House. But if the noble Viscount meant that these proposals need supplementing in other directions, no one could agree with him more than I do. In particular, it is urgent that we should seek agreement about setting up an international investment institution to provide funds for reconstruction and afterward. It is precisely because there is so much to do in the way of international collaboration in the economic field that it would be so disastrous to discourage this first attempt, or to meet it in a carping, suspicious, or cynical mood.

The noble Lord, Lord Addison, has called the attention of your Lordships to the striking statement made by Mr. Hull in connection with the National Foreign Trade Week in the United States, and I am very glad that he did so. This statement is important as showing that the policy of the United States Administration on various issues of political and economic preparation forms a connected whole. I am certain that the people of this country are of the same mind as Mr. Hull, and I have complete confidence that he on his side will seek to implement the details with disinterestedness and generosity. If the experts of the American and British Treasuries have pursued the monetary discussions with more ardor, with a clearer purpose and, I think, with more success so far than has yet proved possible with other associated matters, need we restrain them? If, however, there is a general feeling, as I think that there is, that discussion on other matters should be expedited, so that we may have a complete picture before us, I hope that your Lordships will enforce this conclusion in no uncertain terms. I myself have never supposed that in the final outcome the monetary proposals should stand by themselves.

It is on this note of emphasizing the importance of furthering all genuine efforts directed toward international agreement in the economic field that I should wish to end my contribution to this debate. The proposals which are before your Lordships are the result of the collaboration of many minds and the fruit of the collective wisdom of the experts of many nations. I have spent many days and weeks in the past year in the company of experts of this country, of the Dominions, of our European Allies, and of the United States; and, in the light of some past experience I affirm that these discussions have been without exception a model of what such gatherings should be—objective, understanding, without waste of time or expense of temper. I dare to speak for the much abused so-called experts. I even venture sometimes to prefer them, without intending any disrespect, to politicians. The common love of truth, bred of a scientific habit of mind, is the closest of bonds between the representatives of divers nations.

I wish I could draw back the veil of anonymity and give their due to the individuals of the most notable group with which I have ever been associated,

covering half the nations of the world, who from prolonged and difficult consultations, each with their own interests to protect, have emerged, as we all of us know and feel in our hearts, a band of brothers. I should like to pay a particular tribute to the representatives of the United States Treasury and the State Department and the Federal Reserve Board in Washington, whose genuine and ready consideration for the difficulties of others, and whose idealistic and unflagging pursuit of a better international order, made possible so great a measure of agreement. I at any rate have come out from a year thus spent greatly encouraged, encouraged beyond all previous hope and expectation, about the possibility of just and honorable and practical economic arrangements between nations.

Do not discourage us. Perhaps we are laying the first brick, though it may be a colorless one, in a great edifice. If, indeed, it is our purpose to draw back from international cooperation and to pursue an altogether different order of ideas, the sooner that this is made clear the better; but that, I believe, is the policy of only a small minority, and for my part I am convinced that we cannot, on those terms, remain a great power and the mother of a commonwealth. If, on the other hand, such is not our purpose, let us clear our minds of excessive doubts and suspicions and go forward cautiously by all means, but with the intention of reaching agreement.

Senator TOBEY. Has the Government removed the ban on gold production yet?

Mr. WHITE. I understand they are just in the process of doing so. I don't know how far they have gone, but the restrictions have been in the use of machinery for gold mining and the use of material. Do you know, Ed?

(Conferring with assistant.)

The WPB is lifting them.

Senator TAFT. Mr. Chairman, I have asked tomorrow morning to have representatives of the New York State Bankers Association appear.

The CHAIRMAN. We are going on with the witnesses tomorrow at 10:30.

Gentlemen, I hope we will all be over at the Capitol Building at 3 o'clock in the District of Columbia room, 3 o'clock today.

(The following agreement was later submitted for the record:)

PROTOCOL BETWEEN THE GOVERNMENT OF THE UNITED KINGDOM AND THE BELGIAN GOVERNMENT REGARDING MUTUAL AID

London, 22nd August 1944

The Government of the United Kingdom of Great Britain and Northern Ireland and the Belgian Government,

Desiring (i) to make fresh arrangements for the attribution of expenditure incurred in the application of the Agreement concluded between the two Governments in London on the 4th June 1942, regarding the organisation and employment of the Belgian Armed Forces, in substitution of the provisions of Article 6 of the aforesaid Agreement, and (ii) in accordance with Article 16 of the agreement representing the arrangements for civil administration and jurisdiction in Belgian territory liberated by an Allied Expeditionary Force, concluded between the Government of the United Kingdom and the Belgian Government on the 18th May 1944, to settle the terms on which funds shall be supplied by the Belgian Government to the Allied Expeditionary Force operating in Metropolitan Belgian territory, and to provide for the attribution of expenditure arising out of the grant of aid by the Belgian Government to the Government of the United Kingdom of Great Britain and Northern Ireland,

Have accordingly agreed as follows:

ARTICLE 1

(i) The Government of the United Kingdom shall not as from the effective date of this Protocol claim reimbursement of the cost of the equipment (including the supply of war material) and of the maintenance by departments or agencies

of the Government of the United Kingdom of the Belgian Armed Forces (comprising land, sea and air forces), but costs relative to goods delivered or services rendered before the effective date of this agreement in respect of such equipment and maintenance shall in the absence of any special arrangements to the contrary be reimbursed by the Belgian Government to the Government of the United Kingdom, in accordance with the Agreement of the 4th June 1942.

(ii) After the termination of this Protocol, the Government of the United Kingdom may require the return of any of the articles supplied under this Article which have not been lost, destroyed, or consumed.

ARTICLE 2

(i) The costs to which the provisions of Article 1 (i) of this Protocol relate are the costs of all types of supplies, stores, equipment and material, and also all services and facilities required for the equipment and maintenance of the Belgian Armed Forces which can most effectively be provided and are provided directly by departments or agencies of the Government of the United Kingdom, including the cost of arrangements for training and transport and of the necessary administrative maintenance and medical services incurred by the aforesaid departments or agencies for the benefit of the Belgian Armed Forces.

(ii) The provisions of Article 1 (i) of the Protocol shall not apply to the pay, allowances, pensions and any other emoluments of members of the Belgian Armed Forces. They shall also not apply to stores, supplies, services and facilities specially furnished to the Belgian Armed Forces, which are not intended for their own use but for civil purposes.

ARTICLE 3

(i) The Belgian Government shall as from the effective date of this Protocol not claim reimbursement of the costs of the reciprocal aid which they are able to supply to the Government of the United Kingdom.

(ii) After the termination of this Protocol, the Belgian Government may require the return of any of the articles supplied under this Article which have not been lost, destroyed or consumed.

ARTICLE 4

(i) The costs to which the provisions of Article 3 (i) of this Protocol relate are the costs of all stores, supplies, services and facilities required by the British Armed Forces for military purposes and which can most effectively be procured in Belgian Metropolitan Territory as well as the costs of civil affairs in Belgian Metropolitan Territory. As far as possible the procurement in Belgian Metropolitan Territory shall be effected either directly by departments or agencies of the Belgian Government or in accordance with specific agreements on the matter.

(ii) The provisions of Article 3 (i) of this Protocol shall not apply to the pay, allowances, pensions and any other emoluments of members of the British Armed Forces.

ARTICLE 5

The Belgian Government hereby agrees to place, either in notes or in the form of credits, at the disposal of the British War Office such funds in Belgian currency as are required in Belgium and in Luxembourg by the British Armed Forces.

ARTICLE 6

A representative of the Banque Nationale de Belgique shall accompany the liberating armies as part of the Belgian Liaison Mission.

ARTICLE 7

On the termination of this Protocol, the British War Office shall hand over to the Belgian Government any such Belgian currency remaining in their possession, and the unused portion of any credits which may have been opened shall be canceled.

ARTICLE 8

(i) Insofar as the funds mentioned in Article 5 are used for the procurement on behalf of the British Armed Forces of stores, supplies, services and facilities

and for civil affairs mentioned in Article 4 of this Protocol, no reimbursement shall be made by the Government of the United Kingdom.

(ii) Insofar as such funds are used for the pay, allowances and other emoluments of the British Armed Forces in Belgium and Luxembourg, the Government of the United Kingdom shall place quarterly to the credit of the Belgian Government in London the sterling equivalent of the sum so used calculated at the official rate of exchange current when the Belgian francs are used.

ARTICLE 9

In order that the satisfaction of the local requirements of the British Armed Forces may have the least possible disruptive effect on the economy of Belgium, the British military authorities and the Belgian authorities will consult together, whenever operations permit, as to the stores and supplies which British Army procurement agencies and individual officers and men are permitted to obtain locally. The British military authorities will place such restrictions as are agreed to be necessary on purchases, whether by agencies or troops.

The Government of the United Kingdom undertake to replace, or to refund in sterling the cost of any articles requisitioned or purchased with francs by the British Armed Forces, which require replacement from abroad. This does not apply to component parts or component material.

ARTICLE 11

The Government of the United Kingdom and the Belgian Government shall consult together with regard to the detailed application of this Protocol. Likewise any difficulty which may arise as to the interpretation and application of this Protocol, and any doubt which may arise as to the nature of the stores, supplies, services and facilities covered by the provisions of Articles 1 (i) and (3) (i) or as to the extent to which these stores, supplies, services and facilities shall be furnished shall be resolved by consultation between the contracting Governments.

ARTICLE 12

The provisions of Articles 1 and 2 of this Protocol replace as from the effective date of this Protocol the provisions of Article 6 of the aforesaid agreement of the 4th June, 1942, insofar as concerns the costs to which Article 1 of this Protocol relates. The provisions of Article 6 of the agreement of the 4th June, 1942, shall, however, continue to apply in respect of any other costs incurred by any department or agency of the Government of the United Kingdom in connection with the application of that agreement.

ARTICLE 13

The effective date of this Protocol shall be the 1st June, 1944.

ARTICLE 14

This Protocol shall remain in force until six months after the general suspension of hostilities with Germany, except that as from the date of the general suspension of such hostilities the provisions of Article 2 shall only apply to the continued maintenance of the then existing units or formations of Belgian Forces and of personnel of those Forces serving with units or formations of the Forces of the United Kingdom. Within two months of the general suspension of hostilities with Germany the contracting Governments will consult together as regards the arrangements to be made after the termination of the present Protocol.

In witness whereof the undersigned, duly authorized by their respective Governments, have signed the present Protocol and have affixed thereto their seals.

Done in London, in duplicate, on the 22nd day of August, 1944.

(L. S.) ANTHONY EDEN.
(L. S.) P. H. SPAAK.

AFTERNOON SESSION

(Whereupon, at 12 m., a recess was taken until 3 p. m., of the same day.)

The committee reconvened at 3 p. m., upon the expiration of the recess.

**STATEMENT OF HARRY D. WHITE, ASSISTANT SECRETARY OF THE
TREASURY—Resumed**

The CHAIRMAN. We will continue the hearing. Dr. White, I think Senator Taft has another question he wants to propound to you.

Mr. WHITE. I will do my best to answer it.

Senator TAFT. I was dealing with what is the meaning of article XI. I had some difficulty understanding it. I have no intention to suggest a criticism of it. That is the one with relation to nonmember countries.

The CHAIRMAN. What is the page number?

Senator TAFT. Page 21. How does that bind us? What are the obligations under that article with relation to nonmember countries?

Mr. WHITE. There are three. The first one refers to an undertaking not to permit any transactions with nonmember countries or with persons in nonmember territories which would be contrary to the provisions of this agreement or the purposes of the fund. It is to give the fund authority in rather broad terms to determine whether transactions are being permitted between a member and a nonmember country which are detrimental to the interests of the member countries.

Senator TAFT. What could they be? If there is some nation that is not in the fund why shouldn't we make any arrangements we think we want to make? I don't understand the reason for that restriction.

Mr. WHITE. Well, it arose in this fashion: We didn't know what the nonmember countries would be, and it might be possible for member countries to make arrangements with nonmember countries which would have the effect of putting other member countries at a disadvantage. It was deemed desirable to have a broad clause in there which would protect the member countries from any undertaking or arrangement by a member country with nonmember countries. If that paragraph were not in there, if that protective clause were not there, there would be no protection that member countries would have against the dealings of a member country with nonmember countries; and since we don't know how many nonmember countries there may be, if any, it was deemed desirable in general to have that protective clause.

Senator TAFT. I don't understand what it is that you can do with a nonmember that would upset the fund to the extent of letting the fund tell us what kind of an arrangement we can make with a nonmember country.

Mr. WHITE. Well, there is a certain type of exchange transaction—Mr. Bernstein, would you want to explain a transaction that might have that effect, as an example?

Mr. BERNSTEIN. The purpose of that first provision, as Mr. White indicates, is to prevent a country violating the purposes of the agreement by going into a nonmember country to do it. For example, members are supposed to keep their currencies stable. Suppose the exchange authorities of a country went to Switzerland and there sold its currency at way below the levels that have been established under the fund. That would have the effect of undermining the stability of the currency which the agreement is intended to facilitate. So this provision is designed to prevent the authorities of a country from

going into a nonmember country and doing there what presumably the fund does not permit.

Mr. WHITE. Suppose England sold sterling at a discount in this nonmember country.

Senator TAFT. I don't see what difference it makes to them if they sell sterling, if it is a nonmember country England doesn't have to recognize them.

Mr. BERNSTEIN. It would give Switzerland sterling at a low rate which would give an advantage to the British exporter to Switzerland.

Mr. WHITE. There are also other factors. The provision is a sort of a catch-all protective clause rather than aimed at any particular business transaction.

Senator TAFT. It is suggested to me that you are setting up this fund board as kind of a regulator of the world, people who are nonmembers as well as members, or of members dealing with nonmembers.

Mr. WHITE. Well, the intent was rather the latter, so that there would not be a loophole in the arrangements contemplated in the fund such as would be created by business dealings of nonmember countries over which the fund would have no control.

Senator BUTLER. How do you figure there will be any nonmembers?

Mr. WHITE. Well, we don't know. For example, Germany and Japan. It may be that Germany and Japan might constitute very serious competitors if they were outside the arrangements; they might resort to all kinds of devices in a few years, and if they did that there would be no way in which the fund could have control over them, and this clause provides that. It would mean that they could do business with member countries only on the basis of the principles that apply to all member countries. Since there would be mostly member countries that they would do business with it protects other members against any possible action on the part of Germany and Japan. Then, we don't know now what other countries might be nonmembers because none of the neutrals was invited to the Conference, and none of the enemy countries. That includes quite a list.

Senator BUTLER. Is there any provision in here that prevents the resident of one country from trading automobiles to the resident of another country if they want to?

Mr. WHITE. Not by the usual methods of trade. I wouldn't think so.

Senator BUTLER. There has been lots of bartering.

Mr. WHITE. Oh, there could still be. Do you mean if somebody had an automobile and wanted to swap it for something?

Senator BUTLER. No; I mean shipload lots.

Mr. WHITE. It depends. If they did it through the kind of currency devices which were employed in the 1930's, that would be excluded; yes.

Senator TAFT. It has been suggested to me by someone that under this agreement they could do away with the so-called sanitary regulations of the United States on beef from the Argentine and South America. I could not quite see how that could be done, but I thought I would ask you the question. Could the fund in any way take the position that our sanitary laws against South American beef were unreasonable and were an evasion of the law?

Mr. WHITE. I don't see how it could, Senator, because the position we take ourselves with respect to that law is that it is a sanitary law

and how the fund could take any position with respect to that is not clear to me.

Senator TAFT. I couldn't think of any unless there was some claim that the thing was being used as a subterfuge for discriminatory tariff restrictions.

Mr. WHITE. I have heard that said in this country. I think Congress would not pay any attention to any statement of that kind and I cannot see the fund stepping into an area of that kind. I imagine the American representative would object.

Senator TAFT. I rather agree with you. I don't see how that could be done.

Senator FULBRIGHT. They couldn't do it any more than they could under these quotas that are set for reciprocal trade agreements. We set quotas on certain things and the others we let in under a low tariff, but I thought this was only relating to exchange.

Mr. WHITE. I think in all fairness, Senator Fulbright, that the fund might say, for example, that the quotas are set so low—in other words, you are allowing so few goods to go in that it is not permitting other countries to sell enough goods and that would be the subject of a report if dollars became scarce. They might say—

Senator FULBRIGHT. Do you mean to say that is one of the reasons for scarce currency?

Mr. WHITE. That is right.

Senator FULBRIGHT. That would not mean we had to do anything about it?

Mr. WHITE. No; they could only do it if the dollar were a scarce currency and that was really the cause, but when you go into the determination of whether or not one of our laws regarding sanitation is in fact a sanitary regulation, I think they would be ill advised to say anything like that and I would doubt very much if they would.

Senator TAFT. There might possibly be a dispute, but there would not be much they could do about it.

Mr. WHITE. I think that Congress would pay no attention to it.

Senator BUTLER. Would your general counsel want to say something on that?

Mr. JOSEPH J. O'CONNELL, general counsel, Treasury Department. I don't think I could add a great deal. I think in the first place it would be highly improbable that the fund would consider taking any such position, and if they did it is equally true they would be powerless to do anything other than make a report to this Government and this Government would be free to take such action as it saw fit.

Senator TAFT. Of course, we would be free, but if we didn't do something about the things that they recommended they could practically put an end to our exports.

Senator MILLIKIN. Well, what are the disciplinary measures that the fund can take against a country?

Mr. WHITE. There aren't any they can take against us unless we come to the fund for assistance, which we are not likely to do. If we did come to the fund for assistance they could say, "You can do what you please. You are a sovereign power, but if you want to get assistance it seems to us you will have to try to stop whatever is causing you to need assistance, because you are imposing a great burden on the fund."

Senator MILLIKIN. So that in that sense you could exercise rather rigid powers in directions other than purely monetary directions?

Mr. WHITE. Not on us, and the only extent to which the fund could impose it on other countries would be on countries that were coming to the fund for assistance where the fund could definitely show that the course such countries were pursuing was having adverse consequences on that country and other countries.

Senator MILLIKIN. Let us assume that country X is preventing imports of cattle through a fictitious claim of hoof and mouth disease, and the fund suggests it is getting itself into a state of imbalance, I believe you called it, through practices of this kind. Unless you quit, you cannot come here for exchange.

Mr. WHITE. I hardly think that would happen because any single instance of that kind would have very little effect on the total payments. I doubt very much whether that would be the situation that the fund would consider. The kind of a situation which the fund might consider would be that of a tariff policy which a country is pursuing which was an important cause of keeping other countries in imbalance. If the country were coming to the fund for assistance then the fund might say to it, "You are pursuing a policy of too freely subsidizing exports or making imports too cheap, or you are pursuing an inflationary policy the result of which is making it impossible for you to sell goods abroad, or you have certain legislation which is discouraging foreign capital from coming in and encouraging the withdrawal of foreign capital. Because you are doing that you find it necessary to come to the fund for a lot of exchange. There is nothing in the picture that leads us to believe that your situation is going to improve. You cannot keep coming to the fund indefinitely, so you had better make some changes. We would be glad to suggest changes, but unless there are some changes made in your program you cannot have further access to the fund, because the fund's help isn't doing you any good; our help is not correcting the situation which is responsible for it and our giving you time is not helping you because you are not utilizing the time to eliminate the cause."

The fund could say that.

Senator TAFT. Mr. White, I wanted to get clear the exact relation of these special notes or I O U's, or whatever they are that are provided for in the fund. If the fund takes from us say, a billion dollars in I O U's, what do we get back from the fund?

Mr. WHITE. If the fund takes from us—the United States?

Senator TAFT. Yes. There is a provision for substituting—

Mr. WHITE. That is right. Page 28? Is that what you refer to? No; it is page 4, section 5—that is article III, section 5, substitution of securities for currency.

Senator TAFT. Yes. You say, "The fund shall accept from any member in place of any part of the member's currency which in the judgment of the fund is not needed for its operations, notes, or similar obligations issued by the member or the depository designated by the member under article XIII, section 2, which shall be nonnegotiable, noninterest bearing, and payable at their par value on demand by crediting the account of the fund in the designated depository." What do you get back, if we put that in? Do you get gold back, or currency only?

Mr. WHITE. The United States, having to put in two billion and three-quarters, puts in some gold, 600 millions of gold, and 2,100 millions in a deposit with the Federal Reserve Bank of New York in the name of the fund, if that were the depository that was selected. Instead of raising that amount of dollars through loans and paying interest on it we substitute Treasury non-interest-bearing, nonnegotiable I O U's in the depository. They would remain in that form with the fund, until in the judgment of the fund, it needed some more dollars, in which case some of those notes would be withdrawn and we would put dollars in in their place.

Senator TAFT. Those notes are not in addition to the total fund stated in the provisions?

Mr. WHITE. No. The reason for that provision was to make it unnecessary for a country whose currency is not in imminent demand to have to borrow and pay interest. When the fund wants currency it will be there, but when it is not needed we didn't think we wanted to pay interest. Other countries didn't either, so we have provided for this substitute.

Senator TAFT. Of course, if you have to sell that in the world, it is much harder to sell than currency.

Mr. WHITE. Well, we do not intend to sell it in the world. What you would attempt to sell would not be the I O U's. It would be the balances to which the I O U's would be converted, the currency which they put on deposit.

Senator TAFT. These notes are authorized on page 9 of the bill.

For the purpose of keeping to a minimum the cost to the United States of participation in the fund and the bank, the Secretary of the Treasury * * * is authorized and directed to issue special notes of the United States from time to time at par and to deliver such notes to the fund and the bank in exchange for dollars to the extent permitted by the respective articles of agreement. The special notes provided for in this subsection shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended—

and so forth. Is that authority in addition to the right to issue \$4,125,000,000, at the top of page 9?

Mr. WHITE. Perhaps Mr. Luxford can answer that.

STATEMENT OF ANSEL F. LUXFORD, ASSISTANT TO THE SECRETARY, TREASURY DEPARTMENT, WASHINGTON, D. C.

Mr. LUXFORD. The way that works is that our obligation under the fund agreement is to pay the total amount into the fund on the day that the fund demands it. That is, when we accept membership, when the fund gets ready for operations, our obligation is to pay 600 million in gold plus the balance in a dollar deposit at the New York Federal Reserve Bank or whatever Federal Reserve bank you want to select, and to pay the whole thing in cash on the line.

Then the United States has the privilege under this section 5 which you have referred to of article III, of saying, "You have no need for that amount of currency at this time so we are going to substitute demand notes, non-interest-bearing notes, for such portion of this dollar deposit as is not necessary for your current operations." You have already paid down the cash authorized under section 8 (b) of the bill. Then under section 8 (c) you have authority to get the cash back and pay in lieu of it, demand notes until such time as the fund needs

further dollars, at which point they would hand us some of the notes and say, "Give us back dollars," and we in turn would go back and use our authority under section 8 (b) of the bill. But the limit specified of \$4,125,000,000 is the ceiling.

Senator TAFT. That is the ceiling which includes (c)?

Mr. LUXFORD. That is right. There is no further burden—

Senator TAFT. So that you may authorize these things under the Second Liberty Loan Act again?

Mr. LUXFORD. That is right.

Senator TAFT. That it is cumulative is not your interpretation of it.

Mr. LUXFORD. No.

Senator TAFT. You think that is perfectly clear and doesn't need any amendment to make it clear?

Mr. LUXFORD. No. We went through that very thoroughly with the House Legislative Council.

Senator TAFT. What about the business of borrowing money? The fund is authorized to borrow money?

Mr. LUXFORD. Yes.

Senator TAFT. Where is that?

Mr. WHITE. Article VII.

The CHAIRMAN. Where?

Mr. LUXFORD. Article VII, section 2, page 14.

Senator TAFT. The question that was asked me was whether you can go out and borrow—the fund could go out and borrow from the Federal Reserve banks. In the first place, whether the Federal Reserve banks have power to loan the fund money under their general powers.

Mr. LUXFORD. We have discussed that informally with the Federal Reserve Board. They are doubtful they have authority, but I call your attention to the fact that under the act which is before you for consideration there is an express limitation on any borrowing of funds from the United States without the approval of Congress.

Senator TAFT. Where is that in the bill?

Mr. LUXFORD. Section V, page 7. Certain acts not to be taken without authorization. Now, if you will look at item (e) [reading]:

Make any loan to the fund or the bank—

Senator TAFT. That is all right as far as it goes.

Mr. LUXFORD continuing:

Shall on behalf of the United States—

Senator TAFT. But the Federal Reserve Board is not necessarily on behalf of the United States, is it?

Mr. LUXFORD. I am not sure whether it is or it isn't. I think you are better judges of that than I am, and I wouldn't want to speak for the Federal Reserve on that.

Senator TAFT. The stock is owned by the banks, not the Government. Presumably there would be no prohibition here against private banks or Federal Reserve banks making loans.

Mr. LUXFORD. I think the difficulty in their mind is that they do not have authority under their own act.

Senator TAFT. I think there is a question about that, but I wondered without any action by Congress they could step out and borrow money in the United States for dollars.

Mr. LUXFORD. That is not prohibited. With our permission they may.

Senator TAFT. Well, where is your permission?

Mr. LUXFORD. In the articles of agreement, that same section we were just reading, section 2 (i) [reading]:

The fund may, if it deems such action appropriate to replenish its holdings of any member's currency, purpose to the member that, on terms and conditions agreed between the fund and the member, the latter lend its currency to the fund or that, with the approval of the member, the fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the fund or to approve the borrowing of its currency by the fund from any other source.

The United States has full power over the making of a loan, whether it is from the United States or from any person within the United States.

Senator TAFT. What occurred to me was you might have an amendment to section 5 that would make it clear that they could not borrow at all in the United States, borrow dollars, without the approval of Congress. You say that the Government cannot make any loans to them without the approval of Congress.

Mr. LUXFORD. That is right.

Senator TAFT. It might be provided that this power to borrow dollars around the world could not be done without the approval of Congress. I haven't followed it through. I am just asking whether that would be a reasonable provision.

Mr. LUXFORD. This provision is quite in harmony with the same provision, or a similar provision, in the bank where you leave it to the Government of the United States to decide whether or not dollars may be borrowed. Just as in the bank you have no requirement that Congress approve each loan. After all, the bank is in the business of borrowing money.

Senator TAFT. Would it be your idea we are committing ourselves up to \$2,750,000,000 and no more, and if we are going to have more dollars put in there by anybody, the Federal Reserve banks, or anybody else, that Congress ought to authorize the limit?

Mr. LUXFORD. That is clear from the agreement itself, that the United States has the absolute say-so on whether there is one further dollar loaned to the fund. That is the provision I have just read to you. No member shall be under any obligation to make such loans to the fund or to approve the borrowing of its currency by the fund from any other sources. I don't see how you could say it more explicitly.

Senator TAFT. I don't see how you could say it more explicitly except to say that the American member of the Board can authorize it.

Mr. LUXFORD. No; he has to do that with the Council, if you will look at the language in section 4, page 6, line 18. That is the National Advisory Council on International Monetary and Financial Problems. That Council is composed of the Secretary of the Treasury as chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank of Washington.

Now, they have the power to give the consent of the United States when there is any question of borrowing dollars and I will give you

the precise provision that covers it. If you will look on page 4, subdivision 4, line 18.

Senator TAFT (reading) :

Whenever under the articles of agreements—

Mr. LUXFORD. That is it.

Senator TAFT (reading) :

Whenever, under the articles of agreement of the fund of the articles of agreement of the bank, the approval, consent, or agreement of the United States is required before an act may be done by the respective institutions, the decision as to whether such approval, consent or agreement, shall be given or refused shall (to the extent such decision is not prohibited by section 5 of this act) be made by the Council, under the general direction of the President.

Mr. LUXFORD. That is right. In other words, that power is not vested in our Executive Director, but in the United States. The power is vested in this Council.

Senator TAFT. I see. But not in Congress.

Mr. LUXFORD. That is right.

Mr. WHITE. Not in Congress except with respect to Government loans.

Senator TAFT. However, you have investigated the question of whether the Federal Reserve bank had power to make these loans?

Mr. LUXFORD. Yes.

Senator TAFT. Additional loans?

Mr. LUXFORD. That is right.

Senator TAFT. Mr. White, the House bill has two provisions here, section 13 and 14:

The Governor and Executive Director of the bank appointed by the United States are thereby directed to obtain promptly an official interpretation by the Bank as to its authority to make or guarantee loans for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans.

This is the bank—

If the bank does not interpret its powers to include the making or guaranteeing of such loans, the Governor of the bank representing the United States is hereby directed to propose promptly and support an amendment to the articles of agreement for the purpose of explicitly authorizing the bank, after consultation with the fund, to make or guarantee such loans. The President is hereby authorized and directed to accept an amendment to that effect on behalf of the United States.

If that is a valid amendment, why don't we make it, instead of proposing it as a minority member which proposal may be turned down by the Directors of the bank?

Mr. WHITE. That has quite a history. You will remember it was the view of the Treasury as stated before the House committee, that the bank already has that power, but there were others who felt it was not sufficiently explicit and so this amendment was incorporated. There is no doubt in our minds that (a) the powers exist and (b) the amendment would be acceptable to all countries.

The reason why we felt it most unwise to incorporate it as an amendment is that once we amended the agreement then we would open the door to amendments to the agreement by all the countries. It was felt

that that process would cause delay beyond the point where you could get it through this year. If we would put in that amendment, then some other country would put in another amendment and so forth and so forth. We wanted to avoid amending the agreement. There is no doubt in our minds that the interpretation referred to earlier would be wholly acceptable. We know it is already authorized because this very point was the subject of discussion in various committee meetings prior to Bretton Woods and at Bretton Woods.

As a matter of fact, Senator, we had a statement in the bank proposal, that they could make loans for stabilization purposes, but we thought it was desirable to replace that with another phrase which would take care of stabilization loans and loans for monetary reconstruction. We thought we included that in the phrase "except in special circumstances." So that there is no doubt in our minds that this is the interpretation that was given to the powers of the bank by all countries.

Senator TAFT. Well, in the Mexican Treaty, for instance, we put a lot of reservations—interpretative reservations. I mean, we simply wrote in—we said this thing in our opinion means so and so. Why cannot we do the same thing with the fund? If there is some doubt about its meaning, why cannot we say what its meaning is according to us, so that the other nations may understand what we think it means?

Mr. O'CONNELL. That is what we have done here, Senator.

Senator TAFT. No, no. You have suggested an amendment. If they say, "No," we are out unless we get a majority of the others to go along. We have only 30 percent of the voting power—or 27 or 28 percent.

Mr. WHITE. As I say, Senator, there is no question whatsoever in our minds that this interpretation will be agreed to. It is not a question of assuming other countries will feel that way. We know they do, because of our earlier discussions.

Senator TAFT. I am not particularly interested in this question. I am interested in this rather extraordinary form by which we ask them their opinion of what it means; if they say it means something else we suggest an amendment. Maybe they won't agree to the amendment. It seems to me the way to do it is to say what we want and let them take it or leave it if we think it is important. I don't say that this is necessarily important. I don't particularly care about the Bank power on these particular questions.

Mr. LUXFORD. Senator, there is one difficulty that was not so important in the Mexican Treaty because there we were dealing with only one country. It was much easier to say to Mexico that this means so and so. But here we are dealing with 44 countries. Where you have 44 countries and each of them begins to write in its own interpretations—or if you want to call them amendments—some of them will be amendments whether those we write are amendments or not—the net result will be you will have 44 legislative bodies instructing their delegates to go back and get amendments in this language or that language and it becomes almost impossible to try to adjust those things.

Senator TAFT. In agreeing to this fund there were a lot of reservations made by other nations which appear in this Final Act and Related Documents.

Mr. LUXFORD. Those reservations are not part of the agreement in any sense. What you are called upon to decide is whether the United States is prepared to accept the agreement without those reservations. Those countries, it is true, if they wanted to, could say, "We are going to accept," and again repeat that reservation. "So our acceptance is contingent upon that language being placed in the agreement," and their position at that point is that they have not accepted the agreement and they ultimately will have to make the decision as to whether they are willing to go in without those reservations.

Senator TAFT. Then it cannot be said that 44 nations met at Bretton Woods and agreed to this, because you say they made reservations.

Mr. LUXFORD. We have never said that 44 nations agreed to these agreements. Their representative did agree that the agreement they would submit to their country is the agreement set forth here. Now, their delegations said, "We do not like certain of these provisions." There were several of them, you will see by the record.

Senator TAFT. There were very important ones; Iran, Union of South Africa, Union of Soviet Socialist Republics, France, and a kind of an ambiguous statement by the British. I don't suppose it is quite a reservation, but the others are pretty clear reservations as to certain features of the agreement.

Mr. LUXFORD. That is right. They were saying, "We would have preferred it this way." Now, the decision they have to make is whether they are still going to insist on that. If they do, they have not got themselves in a position to accept the agreement.

Senator TAFT. Here is another one. This is the Australian one. What did you understand that to mean?

The Australian delegation considered that the right to withdraw should be protected from being meaningless—

Mr. LUXFORD. What they are referring to specifically is that in the bank agreement there is a stipulation that membership in the bank shall be limited to those members of the fund who wish to accept membership. Now, the Australians objected to that on the ground that they might not want to go into the fund. As you can see from the reservations they have inserted and from the debate, the Australians wanted a great deal more flexibility in the rate-of-exchange provisions. They wanted further guaranties on access to the fund. In other words, they would have preferred that condition. They would have liked to be able to say, "We will take membership in the bank without necessarily accepting membership in the fund." But the way the documents are drafted you have to be a member of the fund in order to accept membership in the bank.

Senator TAFT. They talk of other international institutions. Is there a broader term—

Mr. LUXFORD. No. It is—

Mr. WHITE. Senator, in section 1 of article II there is a very brief statement, stating that the original members of the bank shall be those members of the International Monetary Fund which accept membership in the bank. In other words, if they are not members of the fund, they cannot become members of the bank. The reason for that, as sug-

gested by Mr. Luxford, was that we have more, we believe, to gain by the fund than other countries have. Some other countries are reluctant to tie their hands in the way in which they feel the fund does. It restricts their scope of unilateral action. Some of them feel they would be better off without restricting their field of unilateral action. On the other hand, they would like to belong to the bank.

We have taken the position they are not a good credit risk for the bank and acceptable members for the bank unless they do belong to the fund and subscribe to the obligations called for in the fund.

Senator TAFT. There is nothing anywhere, as I understand it, that would justify a requirement that they be also members of the International Labor Office or the International Educational Association, or anything like that.

Mr. WHITE. Definitely not.

Senator TAFT. This Australian thing refers solely to the fact they have to be in the fund in order to be in the bank.

Mr. WHITE. That is right.

Senator MILLIKIN. I am not entirely satisfied with your explanation of the effect of an interpretative reservation. Let us assume it is an interpretative reservation and not an amendment in disguise.

Mr. WHITE. Yes.

Senator MILLIKIN. Do you say that the sole question here is as to whether you agree with this agreement as it is and that you do not have the privilege of making interpretative reservations?

Mr. LUXFORD. All that I had in mind is this: While we might make interpretative reservations, you open the door for 44 other countries to go through the same process. Half of those may be really amendments in disguise and not interpretations, and you get into the question of whether you have any agreement. This form we have adopted certainly makes clear what the United States interpretation was of those documents, just the same as if we had written it in the document, but we say we are not going to try to do this unilaterally. We are not going to impose this interpretation on 44 other nations. We say this is the way we interpret it. We would like to have the fund and bank members make the same interpretations. We are not telling them to make this interpretation. If they don't make the interpretation which is our interpretation, then we are going to introduce an amendment to that effect at once.

Senator MILLIKIN. Now, Senator Taft wants to know what may come of that. Supposing you propose an interpretative reservation that to your mind goes to the vitals of the plan, and that is a true interpretative reservation. You don't have a meeting of the minds unless the other nations accept reservation. If it is an honest reservation, assuming there isn't any conflict over it, and assuming there is a meeting of the minds, there is no difficulty over it because they will accept it. If they do not accept it, and if you leave open an honest difference of opinion on something that is important, you really haven't gotten an agreement, and perhaps you had better have a further conference.

Mr. LUXFORD. We are confident by virtue of the discussion that went on at Bretton Woods on this very provision that this was the interpretation of the Conference on this subject. There is no doubt in our

minds but what it will be accepted, but we didn't want to be, for diplomatic reasons, in the position of saying, "You take this interpretation or else." We think we have achieved exactly that result by saying this is our interpretation, we would like to put it up to the Council to decide whether they agree with us. If they don't, we propose an amendment. The United States Council, in turn, has to report back to Congress, and obviously that is one of the things they could report back if there was failure to accept that interpretative amendment.

Senator MILLIKIN. It depends, then, in the particular case, on whether you want to speculate with something that the fund may decide in the way of an interpretation or whether you want to assure the interpretation by putting it in the form of an interpretative reservation.

As Senator Taft points out, it is speculation the way it is in this bill. Whereas if you state your reservation that must be accepted by all other nations, you have had a meeting of the minds without speculation.

Mr. LUXFORD. What you have to weigh is what you gain by insisting on a unilateral reservation and running the risk that 44 other countries will insert their reservations and then have to go through this whole bargaining process again, as against what in our considered judgment, is a remote possibility that there would ever be any trouble at all about this amendment or about this interpretation.

We feel by virtue of the debate, that it would be accepted at once on this basis. We say that the opportunity there for anything to go wrong is extremely slight. You don't run into the chance of having reservations by 44 other countries and of final agreement as to the ultimate say-so even then.

Senator MILLIKIN. In the last analysis there isn't any one of the 44 countries that is not at liberty to propose changes through interpretative reservations.

Mr. LUXFORD. Or amendments.

Senator MILLIKIN. So even though we abstained from it that does not preclude some other country from indulging in the practice.

Mr. LUXFORD. Yes, but it doesn't invite them to do so. You see, we are the first ones that are acting on this. If we take the lead then they say we might as well get our reservations in, too, because we are going to have some more bargaining.

Mr. WHITE. You spoke of this bargaining power. It is one thing when you have a group of negotiators who represent their governments, but who cannot bind their governments; it is a different thing when you have 30 countries who each have a mandate from their legislative bodies as we would have a mandate from Congress on a certain interpretation. There cannot be any receding from that mandate. There would be no possibility for successful negotiating because each one would come to the table with a mandate from his legislative body.

What you would be doing in effect is to offer a chance for division among the countries, and the danger of that is great for this reason: In every provision here the language was very carefully gone over; was the subject of discussion and debate, and the wording represents,

in many cases, a compromise. If you give the other country a new opportunity to insert its reservations or its interpretations then you would be confronting us with documents which we could not accept because some of their interpretations would not be acceptable to us. Then there would be no room for negotiation or adjustment because each representative would be coming to the conference with a mandate from his legislative body.

Senator MILLIKIN. That may run you into all sorts of trouble because it is an invitation to every other country to follow the same procedure. If that be done then the fund finds itself with the problem of adjudicating 30 or 40 amendments to the agreement and God knows what kind of confusion that may cause in your basic plan.

Senator TAFT. You are going to have a social and economic consulting body set up anyway.

Mr. WHITE. They wouldn't have any power in this matter.

Senator TAFT. This is going to be entirely separate from the United Nations.

Mr. WHITE. I haven't read their final act, but the Economic and Social Council, as it was, and I presume it is not changed in that respect, does have the authority to initiate reports and studies and to coordinate the activities and policies of various international bodies.

Senator TAFT. I suggest this economic business is all one thing. The making of agreements, trade agreements and monetary agreements, and loans, is one problem. As to Czechoslovakia, for instance, we do not have three or four different bureaus out doing different things with Czechoslovakia.

Mr. WHITE. Wouldn't you be willing to accept the statement that they are different aspects of the same problem; different slices of the same pie? I think in going over the agreement your committee and Congress want to make very certain that they know precisely what they are committing us to. It seems to me your questions bring that out clearly. You would hesitate very properly in my judgment to subscribe to a document in which you think you are giving certain commitments only to discover later that there is an agency, a super-duper government which has been created which has authority in the same field that you had no indication of.

Senator TAFT. My objection is that we have a branch here dealing with Czechoslovakia, we have the State Department sitting over here dealing with Czechoslovakia on the trade agreements. We have got a representative on the Economic Council under somebody's head—I don't know whose—dealing with Czechoslovakia about a lot of their economic problems. We are just creating an international bureaucracy, it seems to me, that is not unified.

Mr. WHITE. We tried to meet that in two ways. We tried to meet it in article X, page 21, by the article which states that the fund shall cooperate within the terms of this agreement with any general international organization and with public international organizations having specialized responsibility in related fields; and any arrangements for such cooperation which would involve a modification of any provision of this agreement may be effected only after amendment to this agreement, which means that Congress would have the authority to enter into those arrangements for cooperation.

Then under the Council which is created, there is a proviso in the bill, section 4-a—

In order to coordinate the policies and operations of the representatives of the United States on the fund and the bank and of all agencies of the Government which make or participate in making foreign loans, or which engage in foreign financial, exchange, or monetary transactions, there is hereby established the National Advisory Council on International Monetary and Financial Problems (hereinafter referred to as the "Council").

So there was a desire to meet the need for coordination of the various activities which we think is met by article X of the agreement which imposes that obligation on members, and section 4 of the bill which imposes that obligation on the Americans.

Senator MILLIKIN. Will not the solution of the thing we are discussing now depend somewhat on the exact language of the plan evolved at San Francisco? What is evolved at San Francisco will take the form of a treaty. That treaty will have—will rule the legislation. It will be the supreme law of the land and if the language is broad enough in that treaty to subordinate this plan, it will be subordinated. We cannot sit here and forestall a treaty by ordinary legislation. I believe your counsel will agree with me on that.

Mr. WHITE. Part of what you ask is outside of my knowledge. I do know this: that we were aware of that possibility. Many others at San Francisco were aware of that possibility. We very carefully avoided any language there that would conflict with article X or section 4 of the bill, and other countries did likewise.

Mr. LUXFORD. It is quite right that a treaty would prevail over conflicting domestic laws, but the treaty is being drafted in terms of positive knowledge of these various provisions and in an attempt to coordinate them.

Mr. WHITE. One of the reasons I was there was to take care of that. We left some men to watch it.

Senator MILLIKIN. At the time you left you were satisfied?

Mr. WHITE. At the time I left I was satisfied; that is right. One of my assistants and others cognizant of the problem remained there. I haven't seen the final document.

Senator TAFT. This is supposed to be a National Advisory Council made up of the Secretary of State, the Secretary of the Treasury, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank of Washington. It apparently subjects to that council the American representative on the fund, the American representative on the bank, and the Export-Import Bank; is that correct? It does not subject the Secretary of State from making trade arrangements and it does not subject the American representative on the Social and Economic Council. It occurs to me that in our dealings with a particular nation we ought to have somebody there that determined our whole policy. Now there is nobody but the President, as far as I can see.

Mr. LUXFORD. That is achieved in another way. You are going to have the Secretary of State on this committee. Now, after all, he is going to be conscious of what is being done with trade agreements, also what is being done in the Security Council, because obviously, it will be related to that. So we are not going to have this Council acting in ignorance of what is being done in these other fields.

The men who are going to formulate the policies are on this Council.

Mr. WHITE. To do otherwise, it seems to me, would be to set up a supercouncil that would almost replace your whole Government, because you have commercial policy; you have foreign policy; you have financial policy; you even have sanitary regulations—all dealing with international transactions.

Senator TAFT. In an event, this one under the direction of the Secretary of the Treasury is supposed to be the boss of this outfit; is that it?

Mr. LUXFORD. I wouldn't say boss.

Senator TAFT. I mean they determine the over-all questions of policy.

Mr. LUXFORD. The Council does.

Senator TAFT. Now, going on to this other section, section 14, which is probably more important than section 13, I would like to have your view of that.

The governor and executive director of the fund appointed by the United States are hereby directed to promptly obtain an official interpretation by the fund as to whether its authority to use its resources extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions.

Now, if they say, yes, we have, our authority extends beyond current money stabilizations, then we propose an amendment again to negative such interpretation. Then you have this awkward system that you have in section 13, except here you are more likely to run into trouble, it seems to me.

Mr. WHITE. One of the Congressmen, when it was explained, said that should be pronounced cyclical, so we agreed we would from then on refer to it as cyclical as in cycle. I think one of the dictionaries provides a little support for that choice.

Senator TAFT. What is the purpose anyway?

Mr. WHITE. The purpose of the section is precisely as you indicated. Again there is absolutely no difference of opinion among the American technical representatives, and we are certain none amongst the others, that that was the intent and meaning of the articles of agreement and that therefore is a restatement of it in the bill. It may be reassuring to some members to know there is no question but that that is the interpretation of the fund.

Senator TAFT. Mr. White, let me ask you this question right there: Would you object to taking it out—I mean the word “cyclical”?

Mr. WHITE. Oh! I thought you were referring to the whole thing.

Senator TAFT. No. I am referring to the word “cyclical” first.

Mr. WHITE. Yes, we would object most strenuously to taking that out. To do that would take one of the most important powers of the fund away. The basis of the fund's operations is, very largely at least, cyclical operations. The required repurchase of currency which a country buys from the fund would usually be postponed for a year or two, or might be delayed three or more years. During that cyclical period the country is going to want assistance. If you are going to prohibit the fund from undertaking what we economists call cyclical operations, it would mean the fund would be so handicapped in its operations that I doubt if any major country would agree to it.

Senator TAFT. Now let us go to this Russian business: I mean the \$300,000,000 they can draw down every year. Do you think if this amendment is accepted, we will say, with the word "cyclical" in there, that the Russians then can draw down \$300,000,000 a year even though there is no current exchange problem?

Mr. WHITE. Well, I think there is some misunderstanding about that.

Senator TAFT. Well, I am taking Mr. Brown's statement. He said the Russians, he assumed, would draw down \$300,000,000 a year for capital purchases, to build capital goods or plants and so forth in Russia; and he said he thought that was within the purposes of the act. If you put this in here and say you cannot use the fund "beyond current monetary stabilization operations," it seems to me you rule out the Russian one billion two hundred million.

Mr. WHITE. I am sorry, Senator Taft, that I did not get your point. In the first place, in regard to the Russians drawing down \$400,000,000 a year, that is largely a matter of opinion, but——

Senator TAFT. You mean \$300,000,000 a year.

Mr. WHITE. Whichever would be their quota. My guess on that is that they might do it for a year or so, but that they would not continue to do it. Russian credit is apt to be very good and this would be an expensive method of getting aid. I think they would rather get other forms of assistance. Whether they would utilize their full quota would depend upon other arrangements they could make.

Senator TAFT. I simply took Mr. Brown's statement, and he assumed that. That is, he assumed that inasmuch as the Russians would have no exchange themselves this would be drawn down; and I thought you said you thought that would be perfectly all right because this was something brought about by war and that, therefore, they could draw down this money to make its goods.

Mr. WHITE. I believe that is a correct statement of his remarks, that he thought if they did do it it would be appropriate. But I do not think they would do it because it would be more expensive than other ways in which they could get assistance.

Senator TAFT. Then do you not think they would object violently to this amendment?

Mr. WHITE. To this amendment?

Senator TAFT. Yes.

Mr. WHITE. No. This is quite in accord with their view.

Senator TAFT. Do you mean cyclical is?

Mr. WHITE. Yes; cyclical or emergency.

Senator TAFT. Do you mean "and emergency fluctuations in the balance of payments"?

Mr. WHITE. Yes, sir. It is caused by an emergency; namely, war. Or you might have a drought or a flood.

Senator TAFT. Then, perhaps, you can interpret it this way: That the fund can be used for any purpose.

Mr. WHITE. For any purpose that is appropriate to a stabilization operation. It is to help countries out in periods either of emergency or of seasonal or cyclical difficulties. That is precisely what the stabilization fund is for.

Senator MILLIKIN. What about it being short-term or medium-term or long-term?

Mr. WHITE. Not long-term. We would hardly call a cyclical fluctuation long-term. Cyclical means 3 or 4 or 5 years, the swings of business through a depression.

Senator MILLIKIN. I take it that is not necessarily inherent in the use of the term. For instance, in political philosophy you will see it is claimed we are now seeing the end of the cycle started with the French Revolution.

Mr. WHITE. But you cannot properly use the word out of its context.

Senator MILLIKIN. What does it mean to an economist?

Mr. WHITE. Cycles mean business cycles. There have been many volumes written on the subject; there is a whole library on whether or not a business cycle extends to 8 or 9 years or not more than 4 or 5 years.

Senator TAFT. I thought the big ones ran for about 20 years.

Mr. WHITE. A 20-year arrangement would definitely be regarded as a long-term arrangement, and would definitely be inappropriate for fund operations. A country like Russia would never delay repurchases that long because the interest rate on such an operation would be phenomenal. You understand, the interest rate increases as the term goes on.

Senator MILLIKIN. My suggestion is that the word "cyclical" admits of long-term operations.

Mr. WHITE. Not as it is generally used.

Senator MILLIKIN. But there is nothing in the word that precludes that, is there?

Mr. WHITE. There is to me. For instance, if somebody were to speak of a 20-year loan and say that is a cyclical loan I should doubt very much whether you would find many economists or bankers accepting any such interpretation. And the fund, after all, would decide the length of the term. The provision which calls for repurchase has also the supplementary provision which causes the interest rate to rise. That goes on as long as repurchase is postponed. After you reach 4 percent later on, the fund has the power to set whatever rate it deems necessary. The fund is protected by that provision. If a situation should arise where a country anticipated it would be able to repurchase within 3 or 4 or 5 years, and the fund later decided that a situation was developing which would make that impossible or unwise, then that country should go to the bank for long-term assistance.

Senator TAFT. Is there any provision in the plan whereby that interest penalty could be abated?

Mr. WHITE. It could be altered by a three-fourths vote. We thus have a veto on any change.

Mr. LUXFORD. It could be increased too.

Senator TAFT. Mr. White, I think I have finished with everything I had in mind except the broad question of just what this section calls for.

Mr. WHITE. What is that?

Senator TAFT. When you get through with this thing what it seems to look like—or at least in England they seem to think it has some connection with a return to the gold standard. Lord Keynes says:

If I have any authority to pronounce on what is and what is not the essence and meaning of a gold standard, I should say that this plan is the exact opposite

of it. The plan in its relation to gold is, indeed, very close to proposals which I advocated in vain as the right alternative, when I was bitterly opposing this country's return to gold.

Would you say that this was in any sense a return to a gold standard?

Mr. WHITE. I would say that this has some features of the gold standard. Under the gold standard the parity of currency cannot be altered except by law. You can go from one level to another, as we did and as other countries have done. Under the fund arrangement you cannot alter the parity of currency without the approval of the fund, except for that 10 percent. That is as close to the gold standard as we would be able to get countries to agree. Other countries will not adopt the gold standard.

I think the point Lord Keynes was making was that he was looking at the flexibility, and we are looking at the degree of stability; it is a question of names. For instance, the British call a truck a lorry while we call it a truck. I understand now they are beginning to use the term "truck"; and perhaps some of our boys returning from overseas may begin calling them lorries. But irrespective of what you call it the nature of the fund is clear to us and to them. It assures a greater degree of stability in exchange rates than if each country was able to operate unilaterally; and as you get closer to the gold standard you find countries like Australia objecting, and you find certain individuals in the British Empire objecting.

Senator TART. Mr. Keynes says success or failure depends upon our own domestic policies and not the other way around. Isn't that a very clear description of managed currency having only such relation to gold as you see fit to establish a program?

Mr. WHITE. My hesitation in answering your question lies in your inclusion of the term "managed currency." Managed currency is something which every country has and has had for many years. To find a time when you did not have a managed currency, and I am including the United States, you will have to go back at least a generation or more; so that either with the fund or without it, you have managed currency.

There are degrees of management. You can go a long way and you can go a short way. I think Keynes would be inclined to go a longer way than some of us would. The fact that he takes the position in that article that he wants the external value to conform to the internal value and not the internal value to conform to the external value arises from a controversy which exists in England and other countries. I think their experts fear losing foreign markets by virtue of the fact that the prices of British goods are too high. They have the choice of one of two alternatives: Either they can make their goods stop being so costly to the foreign country by forcing their price level down, or they can leave prices and wages where they are, and lower the parity of their currency to an amount equal to the rise in prices. What Keynes is referring to is the late 1920's when England was losing some of its foreign market, and there was the demand that there be a contraction of prices, that wages be reduced, that social security be cut down, in an attempt to make their goods more attractive to foreign markets.

Keynes' position at that time, and the position today of the bulk of the British and other nations, is that you must not induce unemploy-

ment and depression at home just because you are subscribing to a fetish of a fixed rate of exchange. It is much better not to have depression, unemployment, and a lowering of wages; to leave that alone and lower the gold parity of your currency to compensate for that increase, and you will then be in position to maintain your foreign markets, and you will not do it by putting the home folks through a wringer from which they may never emerge in sound condition. That is what he has in mind.

Senator TAFT. That may be true in a country which depends so largely upon export trade as the English.

Mr. WHITE. Yes, sir.

Senator TAFT. It seems to me that you have a series of managed currencies throughout the world, loosely tied together, because they can go up and down 10 percent.

Mr. WHITE. It is not that; exchanges cannot go up and down 10 percent.

Senator TAFT. I think Keynes accepts the view that he could go out and devalue indefinitely because of the social-security policy you have just been referring to; and you cannot do anything about it.

Mr. WHITE. If he does do that we are not adversely affected. If prices in England were—

Senator TAFT. I am simply saying you are not providing a stable currency, which is the plan of the fund.

Mr. WHITE. I think there is one difference, Senator Taft, which needs clarification. There is confusion, very unfortunate confusion, between the word "stability" and the word "rigidity." Stability does not mean rigidity. Stability does not mean fixed rates. Stability means that degree of flexibility which will not upset the economy, which will not induce major disequilibrium. For instance, I am told that the tower of the Empire State Building in New York sways something like 20 inches in the wind. I imagine any engineer would say that that provides stability; that if you did not provide for that swaying it would be rigid and the tower might topple. It is the same thing with exchange rates. What we are interested in is to avoid disruption and decline in world trade. The way to do that is to have stability and not rigidity. We have tried rigidity in the past and it has broken down.

Senator TAFT. Let us suppose that this fund had been in effect in 1933 when we proceeded to devalue the dollar 40 percent. I assume we could have done so, and that if anybody had objected we would have said that is our internal policy; we have to raise wages and prices. I do not know who wants that as a theory; and I do not think you could say that 40-percent depreciation of the dollar is any more stability than it is rigidity. It is not stability at all, in my opinion. It is what you are trying to get away from, it is instability.

Mr. WHITE. Without going into all the pros and cons of the wisdom of that step at the time—

Senator TAFT. What I should like to have your views on is whether you think we could have done that.

Mr. WHITE. It would be a speculation. I would be inclined to think that we unquestionably could have reduced the gold value of the

dollar, but I doubt whether you could have gone as far as 40 percent. But that is my opinion. Some think we went too far. You will remember that we did not change the value of our dollar until thirty-odd countries did so. That was one of the reasons for President Roosevelt calling a halt to the London Conference, that some of the representatives sent there were going to fix things at the level which prevailed at that time. Other currencies had already depreciated to a very substantial extent, and they were satisfied. They had already got their depreciation. They were leaving us with \$20 an ounce for gold, and they wanted to fix that rate. It is similar it seems to me, as when the fellow who has given you two or three socks in the jaw before you can respond says "Let us stop fighting." We were in danger of being strangled by a \$20 gold rate.

Senator TAFT. If we had done what they proposed we would have greatly increased imports into this country. I suppose that is the theory, and that we would thereby have increased foreign trade.

Mr. WHITE. No. What you would have done would have been to increase unemployment here. And you would have discouraged any price rise; you would have intensified the depression.

Senator TAFT. I do not mean to get into a discussion of this or that possibility, but was using it as an illustration of the fact that in all probability we could have done it under the fund, and as long as that kind of condition exists in the fund I do not think you have stability.

Mr. WHITE. My colleague whispers in my ear and I give voice to it, that I do not think we would ever have reached that point if the fund had been in existence. But it is one of those if questions, and there is no particular value in exploring it.

Senator TAFT. They could not pay their debts.

Mr. WHITE. Let us leave that for future Ph. D.'s.

Senator TAFT. In any event, the dispute as to the gold standard is one more of name than of substance. But it does not seem to afford the stability of the gold standard.

Mr. WHITE. In the judgment of many persons, and there is, of course, a difference of view, it provides greater stability than the gold standard. The mere fact that you go on a gold standard does not mean that you stay there. I brought that chart out to show you that while a lot of countries march up the hill, when they get to the top they slide down again. My friend Kemmerer went around the world establishing gold standards, and every time he was called upon to fix up a monetary system he had a formula, and usually kept to it. When the first serious ill wind came, it broke down. So that merely going back on the gold standard does not correct our troubles. If the currency can remain there, all right. But if conditions favor maintaining the gold standard in some countries, they will not alter their currency values under the International Monetary Fund at all.

Senator TAFT. If they cannot stay on the gold standard then they cannot stay upon the standard you fix here. It cannot be both elastic and stable.

Mr. WHITE. I am not an engineer but I imagine the strongest kind of rod is one that is flexible and not one that does not yield at all.

The CHAIRMAN. That is all very interesting, but if there are no further questions we will conclude for the evening. Does any member of the committee wish to ask Mr. White any further questions?

Senator McFARLAND. I had one question in mind, Mr. Chairman.

The CHAIRMAN. Proceed, Senator McFarland.

Senator McFARLAND. I notice that the United States is prohibited from paying governors and executive directors any salaries. Why was that done?

Mr. WHITE. The intent was to make the fund and bank self-supporting.

Senator McFARLAND. What is there to check them from voting too high salaries for themselves?

Mr. WHITE. They cannot pay the governor. They can pay their full-time executives. Is your question: What would prevent them from voting high salaries?

Mr. LUXFORD. The governors fix the salaries of the executive directors.

Senator McFARLAND. Who pays the governor?

Mr. LUXFORD. They will be paid their actual expenses. That is not a full-time job.

Senator McFARLAND. Won't we pay our own governors?

Mr. LUXFORD. No. Just their transportation and actual expenses.

Senator McFARLAND. The bank will pay?

Mr. LUXFORD. Yes, sir.

Mr. WHITE. The expenses, but no salary.

Senator MILLIKIN. The governors are already under salary.

Mr. WHITE. They might have a salary if they have a connection.

Senator MILLIKIN. I was confusing the governors with the council.

Mr. WHITE. There is much more likelihood they will be underpaid. These are two \$10,000,000,000 institutions. The president of the Federal Reserve Bank of New York gets, I think, about \$45,000 a year. Presidents of most of the big national banks get \$75,000 a year. The presidents of many \$2,000,000,000 corporations get \$150,000 a year. My guess is that what the executive directors of these \$10,000,000,000 institutions will get will be a lot less.

Senator FULBRIGHT. What does the Governor of the Federal Reserve Bank get?

Mr. WHITE. It is \$45,000, I think.

Senator FULBRIGHT. What does Governor Eccles get?

Mr. WHITE. He gets \$15,000 a year, but that is because the Federal Government pays him. Private banks pay more. I hope you will not ask me—but never mind.

Senator FULBRIGHT. What did you start to say?

Mr. WHITE. I have forgotten.

Senator FULBRIGHT. Oh, no. I do not think you have forgotten. Go ahead and tell us what you started to say.

Mr. WHITE. I may remember it later on.

Senator TAFT. There was some suggestion in the House of Representatives that we should put the bank and the fund together, at least to the extent of making the same man the American representative of the fund and of the bank. Is that possible under the bill as now provided or contemplated, or are you opposed to the whole idea?

Mr. WHITE. Suppose you let Mr. Luxford answer that question.

Senator TAFT. All right.

Mr. LUXFORD. In recognition of at least what the House committee felt was the germane part of that matter, namely, to get a higher

degree of coordination on policy, the House committee and the House modified the original bill in this sense: Previously you were to have a governor appointed for each institution. The House bill said if you were to combine the United States governors, so there would be only one governor to represent us, you would get coordination in the institutions you are setting up here. You would then get a high level of coordination in the policies of the two institutions without running into the difficulties that they visualized by having two separate governors. Beyond that there were other reasons for and against doing it. But the House felt that by naming one governor for the two institutions, and by having this coordinating Council, you would then have the necessary degree of coordination. And the Council requirement is that they report back to Congress as to whether or not they are getting that degree of coordination.

Senator MILLIKIN. But not over-all.

Mr. LUXFORD. It assures coordination in American policy, but it does not insure that—

Senator MILLIKIN. But not over-all.

Mr. LUXFORD. Congress will have a report as to whether they are getting coordination.

Mr. WHITE. There is the provision in here also which calls for close coordination with the bank.

Senator MILLIKIN. As I see it, one can come to the fund with one request and a story in support thereof, and then go to the bank with another request and a story in support thereof, and there might never be any coordination between the two, and there might never be the proper and needful relationship.

Mr. WHITE. It was because of the possible danger of that that we included two provisions: One, that the bank and the fund will coordinate their activities, and that the information of each will be available to the other. And also that the council will have both under its jurisdiction. I think you will probably find in fact that the degree of cooperation of these two institutions will be very close indeed. They will also exchange information.

Senator MILLIKIN. It should be especially close if you are going to expand this word "cyclical" into "long-term."

Mr. WHITE. Well, that is quite clear. The bank would hardly undertake any such arrangement without the acquiescence of the fund, and vice versa.

Senator MILLIKIN. But would the fund do something without the bank's acquiescence?

Mr. WHITE. I do not think so.

Mr. LUXFORD. That is where the vice versa comes in.

Mr. WHITE. I think you can visualize such a group as it gets around a table, just as in the case of a board of directors. They would watch this matter very carefully. Judging from our own activities in the Government on matters in which we are interested, we know what others are doing. When this was first envisaged it was thought there might be two branches of the same organization, but it was very quickly seen that the operations of both would suffer if they were put under the same directing head. And there was also this thought in the minds of people who had decided on this arrangement. You see, you can make mistakes in the bank, wrong judgments and deci-

sions, but the "chickens will not come home to roost" for 10, or 15, or 20 years. On the other hand, if you make wrong decisions in the fund you will find out your mistake more quickly, because it will come right before you soon. If you have both the fund and bank in the same institution, there would be a strong temptation for the board of directors to hide any mistakes by making it possible for countries to borrow on long term from the bank but repurchase from the fund, so that the errors would not be so easily discoverable.

The CHAIRMAN. If there is nothing else this afternoon, we will adjourn to meet at 10:30 o'clock tomorrow morning. We are going to have Mr. Bernard E. Finucane.

Senator FULBRIGHT. What was that name, Mr. Chairman?

The CHAIRMAN. Mr. Finucane. I assume that is the proper pronunciation.

Senator TAFT. We are to hear representatives of the New York State Bankers Association. Mr. Bernard E. Finucane is president of the Security Trust Co., Rochester, N. Y. We are also to hear Mr. Diefendorf. And perhaps Mr. Roeg, vice president of W. R. Grace Co., who, if he comes, will be separate from the New York State Bankers' Association.

The CHAIRMAN. These are witnesses of the opposition.

Senator TAFT. I might add that we expect to have John H. Williams, of the Federal Reserve Bank of New York, and Allan Sproul, of the Federal Reserve Bank of New York, who are to be heard on Thursday. And also Merwin K. Hart, and perhaps Mr. Beckhart, though I do not know whether he will come or not.

The CHAIRMAN. Very well. The committee will stand in recess at this time, and we will hear from the opposition tomorrow morning.

(Thereupon, at 5 p. m., Tuesday, June 19, 1945, the committee recessed until 10:30 the following morning.)

BRETTON WOODS AGREEMENTS ACT

WEDNESDAY, JUNE 20, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Tuesday, June 19, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Radcliffe, Downey, Murdock, Fulbright, Tobey, Taft, Butler, Capper, and Millikin.

The CHAIRMAN. The committee will come to order. Our first witness will be Bernard Finucane, president of the Security Trust Co. of Rochester. I have known him since he was a little boy. He is older and wiser now.

STATEMENT OF BERNARD E. FINUCANE, PRESIDENT, SECURITY TRUST CO., ROCHESTER, N. Y.

Mr. FINUCANE. Thank you, Senator. I am older now. I am not so sure about the second part of your statement.

I am here as president of the New York State Bankers Association, and I would like to, if you will permit, give a statement which I have prepared which covers it in very, very brief form, the report which the special committee on international monetary matters of the New York State Bankers Association prepared.

I am very sorry that Mr. Johnston, the chairman of that committee, could not be here, but I will give you, first of all, the names of the members of the committee. Percy H. Johnston was chairman of the committee. He is chairman of the Chemical Bank & Trust Co. of New York.

H. Donald Campbell, president of the Chase National Bank of New York.

Charles H. Diefendorf, president of the Marine Trust Co. of Buffalo.

Myself as president of the Security Trust Co. of Rochester and president of the association.

Mr. D. S. Iglehart, director of the Grace National Bank of New York.

C. George Niebank, president of the Bank of Jamestown, Jamestown, N. Y., then president of the association.

Mr. William C. Potter, chairman of the Guaranty Trust Co. of New York.

Gordon S. Rentischler, chairman of the National City Bank of New York.

George Whitney, president, J. P. Morgan Co.

Those gentlemen were the members of our committee.

Mr. J. H. Riddle was secretary and technical adviser to our committee, and he is with us today, as is Mr. Diefendorf.

Albert L. Muench, secretary of the New York State Bankers Association, acted as associate secretary of the committee.

If I may I would like to read this statement in which I have very, very briefly put in the salient features of our report. I would like to say before I come to this reading, although there may be a slight duplication when I do read, we organized this committee, we gave it a great deal of study, there was a tremendous interest in this undertaking, as there should be in an association of bankers in the State of New York where there are so many large and important banks. My obligation on the committee, really, as incoming president of the association, was to observe that the findings of the committee were really and truly ultimately communicated to the membership and that they expressed the feeling of the membership.

The fundamental thing throughout our deliberations, which was extremely satisfactory to me, was the desire of our committee, which is so much in tune with the desire of the membership of our association, to bend every effort toward the end of international cooperation.

Senator TOXEY. That is, toward the objective, you mean?

Mr. FINUCANE. That is right. Thank you very much for your correction.

Toward the objective of that international cooperation. We principally, of course, want that international cooperation that we become a party to. We want to work, and we hope that the instrumentality will provide a working plan that will actually work and be successful.

So if at points we are critical of the plan, it is merely because we hope that the plan will be effective, whatever the final thing is, to a degree that the objectives will be attained.

Senator TOXEY. May I say as one of the proponents of the Bretton Woods agreement, I have never questioned the attitude or the sincerity of your group or any other group that takes a different point of view. This is a democratic process that is working. There are two sides to every question and we thrash them out and let the facts prove the case. So we respect you as sincere opponents along constructive lines. I am glad to make that suggestion.

Mr. FINUCANE. Thank you, sir.

Mr. Diefendorf and I are glad to appear before you representing the Committee on International Monetary Affairs of the New York State Bankers Association. We also have with us Mr. J. H. Riddle, secretary and technical adviser of that committee. Mr. Diefendorf is president of the Marine Trust Co., of Buffalo, and I am president of the Security Trust Co., of Rochester, N. Y.

As president of the New York State Bankers Association, it is my desire to present to you, in the absence of the chairman of this committee, the report which was written after a long period of study of the Bretton Woods proposals.

I might say that—well, I will go on with the statement.

A number of experts appeared before the committee, including several delegates to the Bretton Woods Conference and experts from the State Department, the Treasury Department, and the Federal Re-

serve System. The period of study and the taking of testimony ran for about 4 months with the result that we have prepared a very careful report for your consideration.

We hope that this report has been and will continue to be helpful to the members of your committee and to the members of the Senate and House generally. It was written with that thought in mind.

Our committee approached the study of the Bretton Woods Proposals with complete objectivity and with full realization of the important role which the United States will play in international affairs in the postwar period. "Whatever differences of opinion may exist as to methods," the committee stated, "there can be no difference as to the necessity for discussion and cooperation in international trade and in monetary and financial matters. We are mindful that the political and economic interests of the United States are bound to those of the rest of the world—"

The stated purposes of the Bretton Woods proposals are of such importance, and their effects, if adopted, would be so far-reaching, that we should have been remiss in our duty had we not approached our task with the determination to bring to it our best efforts. Because of their importance the proposals should not be accepted or rejected on general or superficial grounds. They should not be rejected if they are likely to accomplish their high aims. They should not be accepted if careful consideration leads to the conclusion that they are less likely to further than to jeopardize those objectives.

Now, our conclusions.

The committee was in full agreement with the purposes of the fund, but expressed grave doubt as to whether these purposes could be realized by the adoption of the monetary plan. It concluded that the fund was not a suitable instrumentality for dealing with the tasks that lie immediately ahead. International peace and security, internal stability in each country, and the removal of international trade barriers are the basic problems that demand attention. Until substantial progress has been made in dealing with these fundamentals, real monetary stability cannot be attained.

More specifically the committee concluded:

(1) That the establishment of the fund at this time will not result in the achievement of economic stability or the elimination of exchange controls, but would tend to perpetuate exchange controls and other restrictions on the free movement of trade.

(2) That the safeguards are not adequate to assure the sound use of the fund's resources.

(3) That the fund might not be able to function effectively if the trade balance were to run strongly in favor of the United States and the supply of dollars in the fund were to become scarce.

(4) That the lack of agreement on the interpretation of the fund's provisions raises additional doubts as to the feasibility of the plan.

Senator TAFT. Do you mean a difference between the interpretations of this country and England, for instance?

Mr. FINUCANE. Yes; that would be an example.

(5) That the divergence of conditions in the various countries are so great that the stabilization of each currency must be treated as an individual problem. The committee does not think it possible to develop a workable formula that could be applied to all cases.

As to the International Bank, the committee believes it could play an important role in postwar reconstruction. Through its selective

lending for specific constructive purposes, the Bank would not only serve a long-range end, but its facilities could be brought to bear immediately on the problems of basic economic reconstruction. The committee further concluded that international cooperation in monetary matters could be facilitated by the bank without establishing the particular type of credit facilities provided by the Fund.

Recommendations: The committee recommend for consideration the following—

Senator MILLIKIN. Mr. Chairman, may I interrupt a second? Has the report been made available?

Mr. FINUCANE. Yes, sir.

Senator TAFT. Mr. Finucane, in that connection, we have not been able to locate the report you said was sent down here. Would you be kind enough to send a copy of the report to each member of the committee?

Mr. FINUCANE. Yes, sir; I will be glad to do that. I believe we sent a copy to every member of the House and Senate.

Senator TAFT. No doubt the members let them get lost, so that if you could send another copy to each member of the committee, I would be obliged.

Senator BARKLEY. I don't think we got them.

Senator FULBRIGHT. I got a copy a long time ago.

Senator MILLIKIN. Could we have that rather promptly?

Mr. FINUCANE. Yes, sir.

Senator BARKLEY. It would not be strange if one document out of the thousands we have gotten in the last few months got lost.

Mr. FINUCANE. That which has passed my desk, and I am merely from up-State, has been quite large. The committee recommends briefly, as follows:

(1) That action on the proposal for the International Monetary Fund should be postponed until basic conditions have become sufficiently stable to provide a reasonable chance of its attaining its objective.

Senator TOBEY. Of course, some of us look upon the fund as one of the factors that will make stabilization come a little quicker. That is the other point of view.

Mr. FINUCANE. Yes; of course, I realize that point of view exists, but from our deliberations we came to the other viewpoint.

(2) That the International Bank for Reconstruction and Development be accepted with whatever changes may be desirable—there are certain features of the fund designed to encourage international monetary cooperation that, in modified form, could be transferred to the bank.

(3) That further study and consultation be undertaken to determine how the International Bank might appropriately assume limited stabilization functions, i. e., how and when stabilization loans might be granted, whether this would require additional capital funds for the bank, and how such funds might be provided.

Senator RADCLIFFE. Mr. Finucane, I don't want to bother you with any detailed comparison at this time, but generally speaking you were referring a moment ago to the report of the New York Bankers Association, weren't you?

Mr. FINUCANE. Yes.

Senator RADCLIFFE. Is that substantially in accord with the report of the American Bankers Association?

Mr. FINUCANE. I would say that to a considerable extent it is. We rather wholeheartedly endorse the bank and we have reservations about the fund.

Senator RADCLIFFE. Without asking you to go into details, is there any particular point where there is a difference between the two?

Mr. FINUCANE. I think the New York State Bankers Association calls for postponement of the fund, and I think the ABA calls for elimination of it.

Senator TOBEY. Mr. Finucane, you held up a little book, that little leather-covered book. Would you hold that up so the members of the committee can see it? I call your attention to the fact that has "Bretton Woods" with your name printed on it. Had you submitted your report in that form I guarantee we would have kept it.

Mr. FINUCANE. This was given to the committee by the President for the hard work they put in over a long period. He was so astonished that the members worked so hard he thought they should have a special reward, and this is the reward.

(4) That the Johnson Act be repealed, and that the First World War debts and the lend-lease obligations be promptly and equitably disposed of in such a way that they will not present an obstacle to balanced-trade relations and international monetary stability.

Senator BARKLEY. What is your idea about the promptest and best way to dispose of World War No. 1 debts—forget it?

Mr. FINUCANE. I am afraid I should not express my opinion on that. I am really not well qualified to give you that advice. I wish I were.

Senator BARKLEY. That statement is rather a platitudinous statement that they ought to be disposed of in such a way that they will not interfere with trade. I wondered if they had any specific idea about the manner of their disposal.

Mr. FINUCANE. We certainly haven't in this report, but generally speaking, it is my personal opinion that we have to rely on you gentlemen here.

Senator BARKLEY. We have been trying to make some disposition of those debts for a quarter of a century.

Mr. FINUCANE. Yes; I understand that.

Senator BARKLEY. Some of us have some very definite ideas about whether they are ever going to be collected, and I am one of them. I wondered if you wanted to express an opinion.

Mr. FINUCANE. Personally, I don't think they can or should be collected, as far as I am personally concerned, but I am discussing now the report of the committee, and I think that is a little outside of this. I think you and I are in agreement, personally.

Senator MILLIKIN. Do you think there is even a trading advantage left to us in those loans?

Mr. FINUCANE. Well, I wouldn't like to trade on them very much.

Senator BARKLEY. There isn't very much trading value in a corpse, is there?

Mr. FINUCANE. That is right; and I don't think we should use them to trade on. They are a thing of the past. But I certainly don't feel I am qualified to advise you gentlemen.

Senator TOBEY. If they were in your bank portfolio you would charge them off, wouldn't you?

Mr. FINUCANE. Yes.

Senator MILLIKIN. I should like to say that the undertaker would not agree with the thesis of Senator Barkley.

Senator BARKLEY. They have no permanent trading value even in a corpse.

Senator DOWNEY. Mr. Chairman, Senator Fulbright has made a very valuable suggestion, which is very pertinent right at this point. I would like to have him state it for the record.

Senator FULBRIGHT. Oh, no. No.

Senator MILLIKIN. I think by all means we should insist on it if he has a solution for the payment of the debts. If he has a solution in mind which does the job, and I think we should hear it.

The CHAIRMAN. I think we would all be interested.

Senator FULBRIGHT. Oh, I was just saying that if we could get them canceled and distribute the loss, we might give everybody credit in his income tax for that deduction.

Senator TAFT. May I say there is a bill pending, Senator Fulbright's bill. I think the only hesitation about it was whether there should be some further regulation of the sale to the public of foreign securities than we now maintain in the Securities Exchange Act, before that Johnson Act was completely repealed. I think that is the only thing that has delayed it.

Senator BARKLEY. That is not the only thing that has delayed it.

Senator TAFT. No; of course not. [Laughter.]

Mr. FINUCANE. May I proceed?

The CHAIRMAN. Of course.

Mr. FINUCANE. (5) That, although stabilization of the pound is primarily a British problem, the United States should be ready to cooperate with Britain, if invited to do so, in any study she may undertake to reach a solution of her reconstruction problems.

(6) That steps be taken to carry out the recommendations of the Bretton Woods Conference that the participating governments seek to reach agreement as soon as possible on ways and means to reduce obstacles to international trade.

That, gentlemen, is about the trend that our report took. It is put in as concise form as I was able to do it. We distributed this report to our membership, asked them to study it, and at a meeting of our Council of Administration, which is representative of every geographical section in the State of New York, the findings of the committee were unanimously approved. So that it is truly a representative report of the taking of the New York State Bankers Association.

Mr. Chairman, Mr. Diefendorf is here from Buffalo, and if you will permit, he will go into other details of the report in a more detailed manner than I have in this presentation.

The CHAIRMAN. Very well.

Senator BARKLEY. May I ask a question?

The CHAIRMAN. Surely.

Senator BARKLEY. Your report and your association is favorable to the bank but not to the fund, as I understand it. I haven't had a chance yet to read this report, but that is the general attitude you take?

Mr. FINUCANE. Well, we cannot say we are unfavorable to the fund for all time to come. We just don't think it will work in this early transition stage.

Senator BARKLEY. Of course, these 44 nations met at Bretton Woods and formulated this plan, which includes the bank and the fund. It is true that if we eliminate the fund and only agree to the bank that the nations would have to be called together in another conference, because we couldn't have a unilateral amendment to this plan without calling them back into conference, do you think to have to call a conference again and thrash this whole thing out again, with all the delays and the uncertainties and the vacillation that it would indicate on our part, would it be conducive to the stabilization of currency or the settlement of world economic conditions, or would it be otherwise?

Mr. FINUCANE. Decidedly, I believe, it would be otherwise.

Senator BARKLEY. You don't recommend that course?

Mr. FINUCANE. I certainly do not.

Senator BARKLEY. Isn't it true that the function of the bank, which is a lending agency for long-term credit, does not lend itself to ordinary current and temporary stabilization operations, and wouldn't it be, even if you combined them, you would have to set up a separate division in the bank for stabilization purposes. You could not combine them with your long-term loans, could you?

Mr. FINUCANE. No. I think probably if you combined the fund and the bank you would certainly have to have a separate department in the bank for your short-term stabilization loans.

Senator BARKLEY. They are entirely separate types of operations, aren't they?

Mr. FINUCANE. Well, you see the point in our recommendation here isn't that the fund be done away with, but that the fund be postponed—that the operation of the fund be postponed.

Senator BARKLEY. And while it is postponed, what will happen, what will take place in regard to the stabilization of currency? Who is going to stabilize it? If it is postponed the bank will not have any jurisdiction over that. You will just have the bank making long-term loans and probably helping to make capital investments of a long-term character, but you won't have anybody stabilizing the currencies, unless you depend on each nation to stabilize its currency with some other nation by a bilateral agreement, which would mean that there would be no uniformity or no coordination among the nations all over the world whose currencies may not be stabilized. What is your reaction to that idea?

Mr. FINUCANE. My feeling is that the fund during this transition period would probably be inadequate of itself to stabilize the currency of all of these nations until conditions within these nations, their financial economy and their political situation are straightened out to a considerable degree.

Senator BARKLEY. Even though it might be inadequate it would be more adequate than no fund at all, wouldn't it?

Mr. FINUCANE. No, I don't feel that way personally, that it would be better. I think we would find dollars would be drawn down and you would come into the scarce currency situation. If I might say so, Mr. Diefendorf, I feel, is better qualified to answer those questions than I am. I am really getting a little over into his territory.

Senator BARKLEY. All right. That is all.

Senator TOBEY. One of your conclusions was that the fund restricted the free movement of trade. Do you care to amplify that as to how the fund, if in operation, would restrict free movement of trade?

Mr. FINUCANE. That is No. 3. It states that the fund might not be able to function effectively if the trade balances were to run strongly in favor of the United States and the supply of dollars were to become scarce.

Senator TOBEY. I think in another place you state the fund would restrict the free movement of trade. I just wondered, in that specific charge of your indictment, how it would restrict the free movement of trade.

Mr. FINUCANE. That is No. 1. Because we feel that the establishment of the fund at this time before there is internal stabilization in these countries would continue exchange control or maybe even add to present exchange controls and in that way restrict the free movement of trade.

Senator TOBEY. Is it in your thought at all that the setting up of fund and the participation of 44 nations would in and of itself affect the progress of trade stabilization in this country, the fact they were all together, one for all and all for one in this operation, the significance of an organization in which they all participated, wouldn't that of itself create sentiment and opinion for improvement in building up to where the world is joined together?

Mr. FINUCANE. That would be the ideal. How it would work is another question.

Senator TOBEY. In the face of your statement that that is the ideal thing to do, where the alternative is chaos, isn't it the part of wisdom to make an attempt honestly and sincerely towards some movement like this, to bring some order out of chaos?

Mr. FINUCANE. Yes; definitely so; but it is also so important that the attempt be successful. We feel that later on this fund would have so much greater chances of success than at the present time. And now, if the dollars were drained off and the fund became inactive or became unable to act, then we would have run out of our ability to help or be helpful.

Senator TOBEY. You are familiar with the limitations on withdrawals, 25 percent in any one year and so on?

Mr. FINUCANE. Oh, yes.

Senator TOBEY. Did those things occur to you?

Mr. FINUCANE. Yes.

Senator TOBEY. Then based on the overall picture you still think it should be postponed until the nations themselves are able to stand on their own feet?

Mr. FINUCANE. It should be postponed until we can clearly at least, evaluate the currency of these nations.

Senator TOBEY. Isn't it perfectly natural that men in your profession, and I esteem it most highly, should by attrition have brought into your minds the conservative point of view which is notable in commercial banking, and are prone to feel that today under a world situation which is chaos, in which we are all trying to bring the world back together, that is a factor in influencing you to come to these decisions? That seems to me perfectly natural. Isn't that so?

Mr. FINUCANE. I am sorry to say I don't agree with you. Even though we are bankers we have children in this war. We want to bring the peace as much as the war. I am so impressed with this group of gentlemen who are so much better qualified than I am—I was so impressed with their desire to do something helpful.

Senator TOBEY. That is most commendable, but I also suggest that we sit here as a jury in this matter and the point I make it your organization taking this position and yet over and against that we have such organizations as the C. E. D., we have the bankers in Philadelphia, and we have independent bankers from all over coming in and claiming this thing will work and urging its passage. So we stand here with eminent authorities on both sides differing.

Mr. FINUCANE. Yes, sir. I might say this, although I very definitely don't want to try to tell Mr. Diefendorf's story for him, it is only natural to speak as bankers that that is the very type of loan that the banks make, because they loan with regular safeguards, after investigation and after survey.

Senator TOBEY. They are a little more conservative than you are.

Mr. FINUCANE. The International Bank?

Senator TOBEY. Yes.

Mr. FINUCANE. Yes; I would say so.

Senator TOBEY. Certain limitations as to the loaning power are very conservative—you will agree to that?

Mr. FINUCANE. Yes; I will agree to that. We have said in the report that the borrowing was a little too automatic in the fund, but I do believe that our case would be better stated by Mr. Diefendorf.

Senator TOBEY. Before you go, one more question. Isn't it a fact that you have in your makeup as a banker, a little bit of the spirit of perfection? This is said in all kindness, and it is commendable, I think, that you have the spirit of perfection, haven't you, as a banker?

Mr. FINUCANE. Oh, no; I have to disagree with you there. I like so much the idea that I am human and I cannot be a perfectionist. I would not be a perfectionist if I could. I am scared to death of perfection. I have never had any ambitions along that line.

Senator TOBEY. Well, speaking of perfectionists, I cannot resist telling a little story. It is Senator Barkley's story, but I would like to tell it.

A minister was preaching to his congregation. Finally he said, "Of course, no one has ever seen a perfect man." A little fellow in the back got up and said, "I don't quite agree with you." The minister said, "Well, did you ever see a perfect man?" The little fellow said, "No; but I have heard of one. It was my wife's first husband."

Senator BARKLEY. I won't press you on these matters if you feel Mr. Diefendorf can speak in more detail about them, but you mentioned a while ago that your association believed that this fund ought to be held in abeyance until these countries had stabilized their own currency within their boundaries. We might be able to do that because most everything now seems to be tied to the dollar, but how can these other countries in relation to international trade, which we are seeking to promote as part of the program, how can they get of their own volition and within the vacuum of their own existence stabilize their currencies with respect to international trade?

MR. FINUCANE. They cannot do it the whole distance, but they can stabilize their governments, for instance. They can organize their governments.

Senator BARKLEY. Of course, there is a difference between stabilizing a government and stabilizing currency.

MR. FINUCANE. Well, they tie very closely together.

Senator BARKLEY. They do. What we are really afraid of is that these governments will become more unstable than their currency.

MR. FINUCANE. I think we should have a clear view of what these governments are going to be.

Senator BARKLEY. And in the meantime, what happens, while we are waiting for France and Belgium, which seem to be in some trouble right now, and maybe Italy and China and all those countries when they get through fighting? I suppose you mean some form of government would be established and kept in power which could be relied on year after year?

MR. FINUCANE. Yes.

Senator BARKLEY. How long is it going to be before that can take place and what is going to happen before it does take place?

MR. FINUCANE. It can't take place very quickly.

Senator BARKLEY. You say it can or cannot?

MR. FINUCANE. It cannot; and they cannot go the whole distance without help from us. They probably cannot go half or part of the distance without help from us. Maybe that help has to be given in the form of gifts, but we have to help them some way or another, but we think they should progress a certain distance along the road before we attempt this stabilization fund in order to make the thing ultimately successful.

Senator FULBRIGHT. Mr. Chairman, I would like to ask a question just on one point. In your second point you said safeguards were not adequate to protect the fund. One of the witnesses said here the other day that he thought the fund's resources were better safeguarded than the bank and there was less likelihood of loss to the fund.

His theory was that we have a prior lien on its resources. Would you care to comment on that second point and how do you think we would lose our investment in the fund?

MR. FINUCANE. I would rather not comment on that question except to say we are in disagreement with that opinion.

Senator FULBRIGHT. That is, you don't think it is better protected than the bank?

MR. FINUCANE. No; we do not.

Senator FULBRIGHT. Would you care to say why?

MR. FINUCANE. No; I would rather not get into those things.

Senator TAFT. Mr. Finucane, one question I wanted to ask. I don't quite see why a part of the bank has any separate problem in stabilization. It seems to me—I don't quite see why this board, going to a place like Czechoslovakia, for instance, should not consider the whole situation of Czechoslovakia, consider how much should be loaned, perhaps by the bank, perhaps by the United States, and what restrictions should be removed, as well as stabilization, all at once. I cannot quite see why the same board should not deal with both problems. Aren't they intimately related?

MR. FINUCANE. They are, and our report is in agreement with that point of view.

Senator TAFT. In other words, the problems that arise are individual national problems, and in each case you have three or four things to be solved as to that nation; isn't that true?

Mr. FINUCANE. That is true. That is why we considered consolidation of the governors, at least from our point of view, from the United States' point of view, to be a step in that direction. All I can say is that our report is in agreement with the point of view you have just expressed.

The CHAIRMAN. Are there any other questions?

(There was no response.)

The CHAIRMAN. Thank you very much, Mr. Finucane.

STATEMENT OF CHARLES H. DIEFENDORF, PRESIDENT, MARINE TRUST CO., BUFFALO, N. Y.

The CHAIRMAN. You are the president of the Marine Trust Co., Buffalo?

Mr. DIEFENDORF. Yes, sir. I would like to say, Senator, that I believe implicitly in canceling the old World War I debt. I didn't have a chance to get myself in on that conversation. I am very much in favor of canceling of the World War debt just as quickly as possible, because while I think most everybody today considers that they are canceled, probably as to their effect in the past they probably were a very bad psychological factor on the whole question of stabilization.

The CHAIRMAN. You don't think it ought to be canceled in the income tax?

Mr. DIEFENDORF. The income tax?

The CHAIRMAN. Yes.

Mr. DIEFENDORF. Of course, that would be a very difficult question for me to answer.

Senator BARKLEY. That was a facetious remark in the first place.

Mr. DIEFENDORF. I think from the standpoint of our report the hardest thing, the thing that bothered me most, and I think bothered others, in studying this situation, was the transition period and the possibility of this fund having difficulties in that particular period. I think when we look ahead to the period after the war we certainly can be assured that there is going to be a great amount, a tremendous amount of purchasing in this country by foreign nations. There is going to be a greater demand for goods. There is going to be a one-way movement, very much. The balance is certainly going to be in our favor.

Now, I don't see how a fund that depends for its success on balanced payments internationally can get off to a fair start at a time when that kind of a situation prevails. I am very much bothered over the fact that if we go into the fund at this time without postponing, there will be a great hope in the world over its success, and I am very anxious when we go in that we go in at a time when it has a reasonable chance of success.

I don't like two strikes on it when we start.

Senator BARKLEY. You don't think that there will be any fund unless we go in, do you?

Mr. DIEFENDORF. Well, no; I rather think not. I think everybody is waiting to see what we do.

Senator BARKLEY. For us to say we won't go in it would mean that nobody would go in and there wouldn't be any fund.

Mr. DIEFENDORF. I don't know. Of course, I assume ways could be found to postpone without breaking up the whole situation.

Senator BARKLEY. As long as we are postponing there is nobody going to rush into it. If we postpone, everybody will.

Mr. DIEFENDORF. Yes; that is right. Maybe that would be just as well, if everybody postponed, at least until such time as we had gotten by these difficulties that are coming after this war.

Senator BARKLEY. Might a very much smaller fund be sufficient for purposes of temporary stabilization?

Mr. DIEFENDORF. I have the feeling that may be so, but I don't think that is important if the fund maintains its funds and does not lose them. After all, whether it is large or small, we still have our interest in it, and what we are worried about is whether dollars flow out in a period of unusual conditions and create chaos in the situation.

Senator MURDOCK. Mr. Chairman, may I ask this short question?

The CHAIRMAN. Yes.

Senator MURDOCK. Is there any doubt in your mind but what there is need for a stabilizing agency immediately after the war?

Mr. DIEFENDORF. No; there is no doubt in my mind, and I think that can be taken care of in the bank through stabilization loans. I think it can be taken care of to better effect, perhaps, than in the fund.

Senator MURDOCK. But you do agree, if I understood your answer, that probably never before in the world was there a time which demanded a stabilization agency or fund more than the time right now, or immediately after the war comes to a conclusion?

Mr. DIEFENDORF. For those that need it. I agree with that. On the other hand, I think we have to remember that sometimes we move too fast for stabilization and it doesn't last. That was the effect after the last war.

Senator MURDOCK. Your approach, if I understood you, is this: That rather than decide it on the fund, because of the need for it, you want to decide the question on the chances of success of the fund.

Mr. DIEFENDORF. Right. That is correct.

Senator MURDOCK. You think there are greater chances of success by postponement; is that correct?

Mr. DIEFENDORF. That is correct.

Senator MURDOCK. Isn't that usually—and I say this with all due respect to the banking fraternity—isn't that and hasn't that always been the bankers' approach to these questions?

Mr. DIEFENDORF. Well, Senator, I have only—

Senator MURDOCK. That when you are needed most you are extremely elsewhere?

Mr. DIEFENDORF. I don't think I can agree to that. I have no such ideas myself. I don't know what always has been the bankers' approach. Many things are said about bankers, maybe some of them are true. I am not here to defend bankers or talk about bankers.

Senator MURDOCK. And I am not here to cast any aspersions on bankers, but it seems to me from what we have listened to from the previous witnesses, and from the statement you make now, you agree that there is a terrific need for stabilizing things, for a stabilizing agency or fund, but notwithstanding the great need for that, we should back away from it until success is more assured.

Mr. DIEFENDORF. Well, I think that is a tremendously important thing in the world; that we should be assured of success, if we can be.

Senator BARKLEY. Isn't there any way to assure success without bringing about stabilization, and if that can be brought about sufficiently before we go into the Fund to guarantee its success, will the Fund ever be needed?

Mr. DIEFENDORF. Well, I think the fund is an international arrangement for handling exchange that certainly would be a good one.

Senator BARKLEY. If everybody is going to get stable without it, what is the use of creating it?

Mr. DIEFENDORF. We are not talking about the ideal situation. We are talking about the possibility of arriving at a place where the fund has a better chance of success than it does in the transition period of some year nobody knows how many. We know the situation is difficult for a fund that depends on balances of payments. I would say the same thing about any other plan at this time. I suppose, if we go back to the thirties, why was the gold standard in difficulties? Why did gold flow into this country causing imbalances? Because of all the difficulties in the world. If that can have that effect on the gold situation, why cannot it have the same effect on the dollar situation within the fund?

Senator BARKLEY. Do you believe it would be easier to prevent the flight of the dollar to which you referred a moment ago, with or without this fund? If you say without it, I would like to get your reasons.

Mr. DIEFENDORF. The flight of the dollar?

Senator BARKLEY. Yes. Maybe it was the previous witness. I thought you used that as a reason why in the transition period the fund ought not to be created, because you were afraid the flight of the dollar would be the result.

Mr. DIEFENDORF. I was talking about the fact that dollars would be used to purchase great amounts of goods in this country in that period in order to catch up and it would, of course, come into competition—

Senator BARKLEY. Wouldn't that happen anyway, whether there is a fund or not? How will the absence of the fund contribute to preventing the flight of the dollar?

Mr. DIEFENDORF. I don't think the absence of the fund does. I think the conditions contribute to that situation. I think first we must take care of the questions of tariff and international stabilization.

Senator BARKLEY. Of course, they all dovetail together. We are in controversy over in the Senate right now about tariffs.

Mr. DIEFENDORF. I understand that.

Senator TOBEY. That has been resolved, though—partly resolved.

Senator BARKLEY. I hope so. My idea has been that one of the things that makes this thing needed is the transition period. If we can wait until that is over and everybody gets stable—we understand that water seeks its own level and maybe currencies will seek their own level—after that has gone through a 4- or 5-year process, whatever it happens to be, maybe we won't need it at all.

It seems to me, during the transition period is just when we need it more than any other time.

Mr. DIEFENDORF. Well, I think there is a difference of opinion about that.

Senator BARKLEY. Well, just one more question. I didn't want to interrupt your statement. You mentioned the fact that the bank could do this. The bank couldn't do it under the present agreement?

Mr. Diefendorf. Well, under the amendments that have been put into the bill the bank will take over long-term stabilization loans.

Senator BARKLEY. I mean the bank under the agreement entered into by these 44 nations at Bretton Woods could not engage in the stabilization of currencies.

Mr. Diefendorf. I think that is correct. There is some question about it which they tried to correct in these amendments.

Senator TAFT. May I say that Mr. White testified yesterday that they could definitely under the bank undertake stabilization loans. He said that yesterday afternoon.

Senator BARKLEY. Only to a limited extent. It could not, certainly, cover the field provided for in the fund.

Senator TAFT. Not a general stabilization fund of all 44 nations, no; but the question as to whether they could participate in solving any nation's problem, and could participate also in the stabilization loan is perfectly clear.

Mr. Diefendorf. I think there is a provision in the agreement as to the bank being allowed to make other kinds of loans, other than those specified, under special circumstances.

Senator BARKLEY. If the bank was authorized to do what the Stabilization Fund was authorized to do, it would take a new agreement, wouldn't it?

Mr. Diefendorf. I think that is brought out in the bill in these amendments. As you know, there are certain amendments here that will bring up that whole question.

Senator BARKLEY. These amendments in the bill passed by the House do not require a reassembling of the nations.

Mr. Diefendorf. Of course, that is right, and the answer to that is that we do not know what the outcome of that will be. They are directives to the fund and the bank to do certain things. If they don't do them, we are back where we started, but it raises the question you have talked about, Senator. It raises the question of long-term stabilization loans in the bank. It raises the question of limiting the stabilization operation of the fund to temporary assistance to members, et cetera. It seems to me that this recognizes and admits that the fund may make long-term loans or at least there is a question in somebody's mind whether or not the fund can make long-term loans, and the question, of course, in the bank of the stabilization loans.

Now, having admitted that we are asking for a correction of it—we are not asking for the 44 nations to meet, but we are asking our representative to get an interpretation, and if the interpretation is not as we understand it, we are then asking for an amendment. Nothing is said as to what happens if we don't get the amendment. If we don't get the amendment we are back where we were before with the same question that has been raised and the admission by somebody, whoever put these amendments in, that there is that question involved in the whole picture. I think I am correct in that.

Senator TAFT. Mr. Diefendorf, while you say you think the bank may make stabilization loans, you don't claim they can run the stabili-

zation fund and stabilize at one time 44 currencies, which is something you say cannot be done at all.

Mr. DIEFENDORF. No; they couldn't do that. They could make loans for the purpose of stabilization.

Senator TAFT. To particular nations to help them stabilize?

Mr. DIEFENDORF. That is right under whatever safeguard they wanted to put in.

Senator TAFT. That is what you were thinking ought to be undertaken rather than a Nation-wide effort to stabilize all currencies?

Mr. DIEFENDORF. That is what I think should be done until such time as conditions are different in the next few years.

Senator MILLIKIN. Is that another way of saying you believe in selective stabilization?

Mr. DIEFENDORF. Yes; that is another way of saying it. That is why I say if it is in the bank we could make stabilization loans where we believe they are proper.

Senator MILLIKIN. You don't object to stabilization. Your contention is that there are some thing—some countries that are so disorganized and in such chaotic condition that to say you will stabilize their currency is to say something that is false? That is, if you accumulate these false things far enough you begin to bog down and put a burden on international trade and international relations.

Mr. DIEFENDORF. That is correct, I think.

Now, let me say also that this has never been called officially a stabilization fund. It has been called the Monetary Fund. The question of stabilization is something that we have—I mean we are talking about elimination of controls and exchange controls and all other things in the fund, which we all, of course, are for.

The CHAIRMAN. Whatever you call it.

Mr. DIEFENDORF. But we don't know whether or not—excuse me, Senator, I didn't mean to interrupt you.

The CHAIRMAN. Pardon me.

Mr. DIEFENDORF. Whether we like it or not, there is a period of X number of years in which you are going to have exchange controls anyway. It does not eliminate them wholly.

Senator TAFT. Have you a statement, Mr. Diefendorf?

Mr. DIEFENDORF. No. I have just some notes.

Senator MILLIKIN. Another question, Mr. Chairman, please.

The CHAIRMAN. All right.

Senator MILLIKIN. Even if you did not have the fund, that would not preclude making selective agreements with countries that were worth the risk, would it?

Mr. DIEFENDORF. It certainly would not.

Senator TAFT. As a matter of fact, what do you think as to the English, as to the key character of the settlement with England, and England's difficulties?

Mr. DIEFENDORF. Well, I think that is one of the great problems of the world today and a very hard one to know the answer to. I have the feeling that when we are talking about international settlements and international stabilization, and we are thinking of a country that has some \$12,000,000,000 of debt as a result of the war, that that particular problem ought to be corrected in some way or ought to be dis-

posed of as a part of the international settlements, because I think it is a menace to international settlements or international situations. It is just as much of a menace hanging over the whole question as were our own war debts which have lasted all these years. We now say they were a menace, and I think they were. We would have been far better off had we solved those and corrected that situation earlier. Today England is in that some position. Now, that has a bearing. I don't know what the settlement of those debts will be. I don't think anybody knows, perhaps.

Senator MILLIKIN. Mr. Chairman, may I ask a question?

Mr. CHAIRMAN. Yes.

Senator MILLIKIN. Is this not correct: That if you set up a currency exchange value with a country that is so chaotic that your valuation necessarily must be arbitrary, does that not have the effect of making the entire economy of the country arbitrary so long as that relationship is maintained?

Mr. DIEFENDORF. Well, I want to get this clear. In the event that we are—

Senator MILLIKIN. If you have an arbitrary value on your currency, that necessarily affects the internal economy of the country, does it not?

Mr. DIEFENDORF. I should think so; yes.

Senator MILLIKIN. Does it not follow, if it be arbitrary at the initial point, that it keeps the entire country's economy on an arbitrary basis?

Mr. DIEFENDORF. I would think so.

Senator MILLIKIN. Therefore, unless you can control the entire economy of the country, you cannot in the end maintain your arbitrary monetary valuation?

Mr. DIEFENDORF. I think that is correct. Of course, this whole question of fixing the values of currencies in this fund is going to be a very difficult one, I should think. Presumably it has to be by agreement. With many of the countries in the shape they are in today, I do not know how anybody is going to decide what the currencies are worth; and if they set an arbitrary value, I question whether that value will stand. Of course, the fund will take care of that, I assume, by the measures, the means that have been set up.

Senator RADCLIFFE. If I understand correctly, you feel that the general functioning contemplated by this fund is desirable, but that you think its application at this time is premature.

Mr. DIEFENDORF. That is correct, sir.

Senator RADCLIFFE. And that, of course, is based on the assumption that if there is an interval of time there will be certain changes in conditions which would prepare us for a status when the stabilization might become effective?

Mr. DIEFENDORF. Yes, sir.

Senator RADCLIFFE. And I think you have mentioned the fact that you feel that the International Bank's operations could be something of a factor in that respect.

Mr. DIEFENDORF. That is correct.

Senator RADCLIFFE. Would you care to comment on any other factors which in your opinion might play more or less an active or even a dominant role in preparing us for this status when you think such a fund could become effective?

Mr. DIEFENDORF. Yes. I think that what we are talking about are those things which create lack of confidence and those things which create lack of balance. Now, the lack of balance is created, as far as we are concerned, by the fact that we sell more than we buy; not only that, but in the period of transition we are going to do a great deal more of that. The lack of confidence would be caused by the fact that many nations in the world, as far as we can see now, are going to be some time in establishing stable governments and stable conditions, which is the only basis, I believe, on which you can have any real stabilization.

Senator RADCLIFFE. Well, if the fund is discarded for the time being at least, but the bank is put into operation, do you contemplate any other forms of legislation which you think might be necessary to carry out these purposes, or do you feel that economic processes would more or less adjust themselves without legislation?

Mr. DIEFENDORF. No, I do not.

Senator RADCLIFFE. In other words, have you any legislation in substitution for this fund in case we do not adopt the fund?

Mr. DIEFENDORF. Legislation in substitution for the fund?

Senator RADCLIFFE. Yes; aiming at bringing about a stabilization or better economic international relations or conditions, or whatever may be the general objective.

Mr. DIEFENDORF. Well, I believe that we have brought out that we believe the war debts should be eliminated, of course, and the Johnson Act might be repealed in order that the bank might operate. Of course, we get into questions of tariffs, and that has always been a very difficult political question, but it would seem to me that we have to recognize the fact that if we can bring more goods into this country without hurting our own economy, we should do it. And I do not pretend to be the one to say as to whether that can be done or not. If we cannot, and we are going to continue to operate in the world in which we are going to be selling so much more than we buy, and having only as offsets our invisible imports such as shipping costs, insurance premiums, foreign remittances, travel expenditures, etc. and not large visible imports, then the fund would have very little chance. I think any other form has very little chance of arriving at stabilization until those things are corrected.

Senator TAFT. Mr. Diefendorf, will this fund eliminate exchange restrictions and the other hindrances to trade?

Mr. DIEFENDORF. It certainly does not eliminate exchange controls during the period of from 3 to 5 years; on the contrary, it allows every country to keep them on, and probably rightfully so, for the very reasons that I say that the fund cannot operate: for the reasons that we will be in an unusual and unbalance period after the war.

Senator TAFT. It will actually authorize the imposition of a lot of new exchange restrictions, will it not, in occupied countries?

Mr. DIEFENDORF. Necessarily, that is correct.

Senator TOBEY. That is a fair statement you just made, I think.

Mr. DIEFENDORF. Thank you, sir.

Senator TAFT. Does it eliminate the dangers of competitive devaluation of currencies?

Mr. DIEFENDORF. Well, of course, that is quite a question. It allows the devaluation of currencies to the extent of 10 percent without the consent of the fund. Beyond that point the consent of the fund is required. I think there is probably a difference of opinion as to how far that might go. We have statements out of England where it has been said, I think, by the Chancellor of the Exchequer, that they would of course confer with the fund, but if they didn't get consent they would do it anyway. I think that statement is on record.

Senator TAFT. Well, that statement that says that——

Mr. DIEFENDORF. I do not think these are very vital things, though.

Senator TAFT. The statement that the fund—I think it says that they cannot object on the ground of political policy——

Mr. DIEFENDORF. That is correct.

Senator TAFT. Or something of the sort, to a further devaluation——

Mr. DIEFENDORF. That is correct.

Senator TAFT. On the ground brought about by the government's policies.

Mr. DIEFENDORF. Yes; they cannot object on that ground.

Senator MILLIKIN. Senator, you read the statement of Lord Keynes yesterday, the guts of which was that they will do whatever is necessary to do to protect their own position.

Senator TAFT. Yes; I think Lord Keynes has stated that very clearly.

Mr. DIEFENDORF. That is right. And that was along the same lines as Sir John Anderson, the Chancellor of the Exchequer, made a statement?

Senator TAFT. Will you comment on that?

Mr. DIEFENDORF. A little more concise.

Senator MILLIKIN. A little more elegantly than I have just stated it.

Senator FULBRIGHT. Does that mean that they pay no attention to the agreements of the fund? Is that the implication of this?

Mr. DIEFENDORF. I do not want to make such an implication, Senator. That was the way it read.

Senator FULBRIGHT. That is your interpretation?

Mr. DIEFENDORF. My statement is that if Britain thought it was in their own interests—and I don't know that I disagree with them—if they thought it was in their own interest and nobody was going to agree with them, they probably would go ahead. Perhaps they would get the consent of the fund under those circumstances.

Senator FULBRIGHT. If we assume the nation's won't live up to their agreement, it is obvious that none of these are worth while, but we have to assume that they will perform their agreement; that if they agree to do this they will do it.

Mr. DIEFENDORF. I certainly do not want to accuse any nation of bad faith.

Senator TAFT. My understanding of Lord Keynes's statement was that he interpreted the fund to mean that they could do exactly that, because——

Mr. DIEFENDORF. Because of the provision under which——

Senator TAFT. Which permitted or which says the fund can't interfere with political policy. I didn't see Sir John Anderson's statement, but certainly Keynes's wasn't in defiance of the fund; it was an interpretation of the fund that it permitted them to do that.

Senator RADCLIFFE. That would certainly leave some discretion in the fund; it wouldn't be a matter of arbitrary caprice on the part of some countries to make allocations of this nature in an attempt to get by with it. I mean the fund has some discretion, I would take it, anyhow; does it not?

Mr. DIEFENDORF. That is correct. And I would say, and I made the statement, that I thought probably before you ever got to any such point as that you would find a way to meet it.

Senator FULBRIGHT. Is that around the problem of the fundamental disequilibrium? Is that what you are talking about, Senator Taft?

Senator TAFT. Yes.

Senator FULBRIGHT. I mean that is the problem which is under discussion?

The CHAIRMAN. Are there any other questions?

Senator FULBRIGHT. If you are through, I would like for him to comment on the same point about No. 2, that the safeguards are not adequate to protect the fund's resources. Just how do you feel that it would be dissipated? Assume that the fund would become bankrupt. What would be the process?

Mr. DIEFENDORF. Well, I haven't said that the fund would become bankrupt. I have said that I did not think there were safeguards that would protect the fund against the disequilibrium that I think will prevail in the postwar period, and therefore I think there would be great withdrawals of dollars, on the fund.

Senator FULBRIGHT. We know there would be. That is why we set it up, for the purpose of having withdrawals. But, as I understood, the No. 2 point in the bankers' report as read by Mr. Finucane was that the safeguards are not adequate to protect the fund. In other words, it will bog down, and it will soon come to a point where it ceases to function, and there will be the loss of our investment in it. Is that the proper interpretation of that second point?

Mr. DIEFENDORF. I think that is the point they made; yes.

Senator FULBRIGHT. I would like to have your idea as to how that is going to come about. Just give an example of how that operates, because we have been told different from that, and I wanted to compare the two views.

Mr. DIEFENDORF. The safeguards are in the main, of course, the provision under which you can draw only 25 percent in the year, and I assume that was put in there to protect the fund. I can think of no other reason. The other safeguards are those which have to do with the—can you give me a steer on what those other safeguards are (addressing Mr. J. H. Riddle)?

Senator TAFT. I will read the first one:

The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this agreement;

Mr. DIEFENDORF. That is right. Well, there you have a representation. And of course, we have to remember one thing: The fund allows its use for the purpose of correcting an adverse balance of payments. I think we never want to get confused and think of the fund as making individual loans in this regard or that regard. We are talking about an adverse balance of payments. Now, many things

go into the question of an adverse balance of payments. There is the question of trade, an adverse balance of trade. There may be a capital movement, although there is a prohibition against that. There may be many other things. I think it is very difficult for any fund or any management of any fund to be assured that in that adverse balance of payments is just the current movement. A lot of things—I mean we have always found it difficult at least to tell just what is in an adverse balance. Therefore it seems to me that it is possible that the fund would be drawn on very heavily in this period of—

Senator FULBRIGHT. Well, just a moment.

Mr. DIEFENDORF. Now, when we get to the point of whether or not all the dollars are going out of the fund, I don't know that I am ready to state that that would be the fact. I think it is a possibility. Of course, if all the dollars should go out of the fund, or before all the dollars get out of the fund, they would put into effect the scarce currency provisions against the dollar. Now, that particular provision gives the fund the right at that time to allow sanctions against the dollar: In other words, against our trade. I know that everyone says that is no different than would happen if we didn't have the fund. But we become a party, however, to an arrangement under which that can be put into effect; and, of course, the alternative—

Senator FULBRIGHT. Well, wouldn't you want it to be put into effect?

Mr. DIEFENDORF. Of course, the alternative to that is that we put up more dollars.

Senator FULBRIGHT. We would want it to be put into effect in order to prevent this continued outflow. Somewhere it has got to be balanced, either by loan or default, one or the other, or you would have no fund.

Mr. DIEFENDORF. In the past we have always acted on our own in that connection and have felt that we had freedom of action.

Senator FULBRIGHT. But—

Senator TAFT. In other words, if this fund goes in and people put in restrictions, if this scarcity provision goes in and they put in restrictions, they can put it to an extent where they can't even pay their debts to us, as I read the restrictions on scarce currency.

Mr. DIEFENDORF. Well, there is difference of opinion on that. I think that you could give it that interpretation.

Senator TAFT. Then we are bound; whereas, if there is no fund and somebody begins to do that, we raise thunder with them.

Mr. DIEFENDORF. That is correct.

Senator TAFT. And there are plenty of things we can do to them, so that we can at least secure a selective field throughout the world where we can operate; whereas under this we agree to be indicted by the world, and we invite every nation, and we remove any possibility of our protesting if a nation puts any restriction on the dollar.

Mr. DIEFENDORF. We accept the Keynes principle that the creditor nation is responsible if anything of that kind happens.

Senator TAFT. Yes.

Mr. DIEFENDORF. And that is a new idea.

Senator FULBRIGHT. Now, pursuing that thought a little more, the Senator just mentioned if it was a debt they can put restrictions on paying it. As I understand the fund, they cannot restrict paying what they owe to the fund, because the fund already has it. That is,

they have the currency itself. That was one of the points, that the fund is better protected—its resources are—than the bank, because the bank is just a regular loan, and if they put a restriction on the transfer of the currency to pay it, it just restricts it, but they cannot restrict the payment of what they owe to the fund. Is that your understanding of it?

Mr. DIEFENDORF. I think you were talking about debts outside of the fund.

Senator TAFT. Yes, outside.

Senator FULBRIGHT. Well, it would be the bank debt. The bank is a different debt from the fund—

Senator TAFT. Oh, no; but there may be—

Senator FULBRIGHT. Or any other loan.

Mr. DIEFENDORF. The debt to the bank is purely—I mean there is no debt to the bank in the sense that we think of debts. There is currency deposited in the bank or credit given in currency, and they have that in the particular—whatever particular country draws dollars puts up its own currency against it.

Senator FULBRIGHT. In the bank?

Mr. DIEFENDORF. In the fund.

Senator FULBRIGHT. I am just making the distinction between the bank and the fund. As I understand it, the fund actually has the currency, and it is a superior resource or a superior lien to an ordinary loan of the bank.

Mr. DIEFENDORF. I think that is right. That is correct.

Senator FULBRIGHT. Therefore would you agree that the resources of the fund are better protected than the bank?

Mr. DIEFENDORF. I would not agree that they are better protected, because, in the first place—

Senator FULBRIGHT. That is what I was trying to get your answer to. Why is it weaker and more likely to fold up than the bank?

Mr. DIEFENDORF. I will try to tell you what I think about it. Of course, the bank—when we talk about the resources of the bank being protected, we are talking about how good the loans are that we make.

Senator FULBRIGHT. Yes.

Mr. DIEFENDORF. We are talking about the ability of the country to repay in the currency which it borrowed.

Senator FULBRIGHT. Yes.

Mr. DIEFENDORF. We are talking about a bank which is set up, certainly from the standpoint of the act itself, with all kinds of safeguards and with great care to insist on investigation, and so forth. I think those are very strong provisions in the bank, the strongest that I have—

Senator TAFT. Requiring proof of the adoption of a sound fiscal policy by the Government itself.

Mr. DIEFENDORF. Many things that are very strong, and which would seem to me to safeguard the loans that will be made in the bank. Now, the bank in the main is going to be a guaranteeing bank rather than a lending bank.

Senator FULBRIGHT. Yes.

Mr. DIEFENDORF. Therefore, you not only have the question of the investigation by the bank, but you also have the question of the investigation by those that make the loans. Now, we assume that some

banker in the neighborhood is going to make a loan to XYZ country somewhere abroad. He first investigates the loan, and after he has investigated the loan, and if he wants to take it to the bank, the bank, too, investigates the loan, not only from the standpoint of whether or not it is a particularly good project or a particularly productive project, but also from the standpoint of the chances of repayment and the ability to get exchange with which to pay them. And let us not forget that the question of the repayment of debts to us is a matter of getting dollars to pay us, in most cases, and not just straight default on their ability to raise their own currency.

Now, in the fund we are talking about a fund that has their own currency in it, and it is worth nothing to us unless we use it. We are not going to be using this fund. We are not going to have any adverse balance of payments, and that is the major factor that has to be present before the fund can be used. The United States, as far as any of us can see, has no adverse balances ahead of it.

Senator TART. Well, isn't it true—

Mr. DIEFENDORF. Do I make myself clear, Senator?

Senator FULBRIGHT. Except it doesn't quite go on to the final conclusion as to how this fund will lose its money. I mean, as I understand it, when this country comes in for an advance it always must keep a certain amount with relation to gold. That is, if it depreciates its own currency it has to put more currency in, hasn't it? So—

Mr. DIEFENDORF. Of its own currency; yes.

Senator FULBRIGHT. Of its own, which bears a certain relation to gold; isn't that right?

Mr. DIEFENDORF. That is correct. Now, we are not saying—I haven't said, and I don't know of anybody that has said that the fund would lose its currencies. It has been said that it might be short of dollars and have a lot of other currencies. The question of the value of those currencies is one of the things that we have.

Senator TOBEY. Well, it has been said repeatedly from the very facts of the arrangement that we were giving money away and throwing money away. You certainly do not concur in that statement?

Mr. DIEFENDORF. I certainly do not. But I do not know the value of all the currency that may be in there.

Senator TOBEY. Nobody does yet.

Mr. DIEFENDORF. That is correct.

Senator FULBRIGHT. Because, of course, we have all admitted—that there are difficulties in determining the value of the currencies, and that probably the most difficult problem, in the initial stages, of any, is how to set that; but I assume that surely there are some, at least, New York bankers with enough sense to determine that particular question.

Mr. DIEFENDORF. I would question that.

Senator FULBRIGHT. Don't you think there are, even with the leeway of 10 percent?

Mr. DIEFENDORF. Under the conditions that I think are apt to prevail in the immediate period after this war, I do not think anybody is good enough to do it.

Senator FULBRIGHT. Well, there will be risks; of course, we know that.

Mr. DIEFENDORF. I am not talking about all countries, Senator; I am talking about some countries, of course.

Senator MILLIKIN. Mr. Chairman, may I ask just one question, please?

The CHAIRMAN. Certainly.

Senator MILLIKIN. I would like to probe as to the possible effect of our getting into a scarce dollar position. At that point, as I see it, a virtual embargo is put upon our exports, and we have invited it under the terms of the agreement and under the circumstances that call it forth.

Is it not the effect—would it not be the effect of that to compel those who had been buying from us to find other sources from which to buy, and thus build up a great crop of competitors with things that we have been exporting? Countries have been buying generators from us, automobiles from us, machine tools from us, and they would then be compelled to buy them from Sweden, from Great Britain, from Belgium, and so forth and so on. You are establishing an entirely new channel of trade relationships which in the end might seriously affect our long-term exporting habits.

Mr. DIEFENDORF. Well, that would be the purpose of it, of course, to cause the buying to go elsewhere, because of the fact that that would be the only way you could correct the situation.

Senator MILLIKIN. Yes.

Mr. DIEFENDORF. That, of course, it can be said, I suppose, could happen under any kind of a system. If we are selling so much more than we are purchasing, why, the dollar gets into that position anyway.

Senator MILLIKIN. But it does not happen——

Mr. DIEFENDORF. But we have an alternative, of course, of putting up more dollars.

Senator MILLIKIN. Yes, we can ante up again.

Mr. DIEFENDORF. That is correct.

Senator TAFT. A poker game.

Senator MILLIKIN. Under normal conditions the effect of it does not happen in mass and at once, and you have time and opportunity for adjustments of various kinds which might alleviate your position considerably.

Mr. DIEFENDORF. That would be correct.

Senator TAFT. Well, you suggest that, while \$2,750,000,000 is stated, the conditions are such that it isn't very long before we will be under probably a demand to add to that contribution to the fund?

Mr. DIEFENDORF. Well, I haven't said that.

Senator TAFT. Or lend the fund additional money?

Mr. DIEFENDORF. I have the feeling—of course it would take a long time for it, several years—if you had a steady drain of dollars, it would take several years to come to the point where the fund had no dollars. My own feeling is that psychologically if it continues, if the balance continues to run that way, long before you had gotten to the point where the dollars are out there will be a great many questions about the success of the fund in the minds of many people.

Senator TAFT. And also they can declare currencies scarce before it actually runs out, can't they?

Mr. DIEFENDORF. Well, I don't know that they could. Maybe they can. I would question that they would.

Senator TAFT. Isn't there this very important difference with the fund: That the drafts on the fund are practically automatic, whether a nation is a good risk or not, whether the nation needs money or not, so that a nation like China, with a quota of \$550,000,000, can draw \$137,000,000 every year almost as a matter of course?

Mr. DIEFENDORF. Well, I think there are some safeguards that protect us as to China.

Senator TAFT. Well, what are the safeguards? That is what I would like to know.

Mr. DIEFENDORF. I think that the fund has some discretion in that connection.

Senator TAFT. Well, do you think so?

Mr. DIEFENDORF. On a country like China, for instance, I think there is a provision in there that protects us from a country that has been occupied.

Would you like to comment on that yourself?

Mr. J. H. RIDDLE. Well, there is one provision there that the fund can postpone exchange transactions with a member if the circumstances are such that in the opinion of the fund they would lead to the use of the resources of the fund in a manner contrary to the purposes; and it has been stated by some of these experts that China, for example, is in a terribly chaotic condition. But I think the Senator is entirely right that the fund does set up the presumption—

Mr. DIEFENDORF. That is right.

Mr. RIDDLE (continuing). That these members have a right to borrow, and it is up to the fund to prove that they do not have the right to borrow.

Senator TAFT. That is why all the nations at Bretton Woods were rushing in to get as big a quota as possible in the fund, and as small a quota as possible in the bank, isn't it, because they regarded the fund as a license to draw money down?

Mr. DIEFENDORF. It has been said that that is so. Of course, it seems, when you look at the quotas and the relations, that some of them were based on other things than the questions of trade, I think.

Senator TAFT. What are those?

Mr. DIEFENDORF. Well, for instance, as I remember it, the quota of Russia is within a hundred million of Great Britain's. That certainly can't be based on trade. That must be based on some other consideration.

Senator TAFT. Is their trade—the British trade was 10 or 20 times any international trade Russia ever had.

Mr. DIEFENDORF. That is correct. I believe there was some formula set up for fixing those quotas originally, but I think that for some reasons we got away from that. I think also that is the case between, who is it, France and Holland as against—

Mr. RIDDLE. Well, I think we have pretty well got away from the formulas, and it was a matter of agreement at Bretton Woods.

Mr. DIEFENDORF. Well, I agree with that, but it is outstanding in certain cases. I remember Russia and England as one, and I think it was the Dutch and somebody else.

The CHAIRMAN. The Senators usually eat lunch to start on the floor around 12 o'clock and so I am going to suggest to the Senators, the members of the committee, that we continue this hearing at 2:30

o'clock in the District of Columbia Committee room in the Capitol, so that we shall be near the Senate.

Senator TAFT. Well, if Mr. Diefendorf is perhaps through—

Mr. DIEFENDORF. I have nothing more, and if the Senator would excuse me, why, I would like—

Senator MURDOCK. I would like to ask one question or two, Mr. Chairman.

The CHAIRMAN. Very well.

Mr. DIEFENDORF. I am trying to catch an early train, sir, if I can, but I am at your service, of course, if you want me.

Senator MURDOCK. I propounded this same question to Dr. White, of the Treasury, Mr. Diefendorf, and I would like to have your view, of a banker, on it.

Recently the Senate of the United States, at the request of the Board of Governors of the Federal Reserve System, reduced gold-reserve requirements, as you know, from 40 percent to 25 percent on Federal Reserve notes and Federal Reserve bank deposits. Do you consider such a move on our part as a depreciation of our currency in any sense of the word?

Mr. DIEFENDORF. No; I do not.

Senator MURDOCK. Let me ask this one other question: At the time it was proposed by Governor Eccles it was quite thoroughly agreed by all that there were two remedies; one, the reduction of our reserves, and the other remedy would have been an increase of the price of gold; that either step or either movement would bring about practically the same result. Now, if we had increased the value of gold it would have had an effect, would it not, on our currency?

Mr. DIEFENDORF. I think it would have had a greater effect and would have been—I prefer what was done.

Senator MURDOCK. But you do not feel that that is a depreciation, in any sense, of our currency?

Mr. DIEFENDORF. No, I cannot see that.

Senator MILLIKIN. Mr. Chairman, may I be indulged for just one question?

The CHAIRMAN. Certainly.

Senator MILLIKIN. Probing further the effects of our being declared in a short-dollar position, at that point we would either ante up or we must modify our import policies; is that correct?

Mr. DIEFENDORF. That is correct.

Senator MILLIKIN. If we choose to do nothing, then we must cancel our contribution to the fund, on the same ground that we are canceling our World War I debts; is that not correct? Doesn't it come to that?

Mr. DIEFENDORF. Well, if you chose to do nothing, I assume we would withdraw from the fund, in which we would—

Senator MILLIKIN. Yes. And at that time we would be—

Senator FULBRIGHT. What? Do you mean to say we would lose what we put in if we chose to withdraw?

Mr. DIEFENDORF. I didn't say that.

Senator FULBRIGHT. That is the implication.

Mr. DIEFENDORF. We would withdraw. I had not said that. I said we would withdraw from the fund, and then we would be entitled to that share of the assets that were left, for our particular—

Senator FULBRIGHT. Yes.

Senator MILLIKIN. And then we would consider what the nature of those assets would be at that time.

Mr. DIEFENDORF. That is right. We would, of course, have a large share in perhaps foreign investments and maybe some gold.

Senator MILLIKIN. We would have——

Mr. DIEFENDORF. Foreign currency.

Senator MILLIKIN. Yes. We would have a cut in foreign currencies which might or might not have realizable value.

Mr. DIEFENDORF. Dependent on whether or not we could use them.

Senator MILLIKIN. Yes.

Senator FULBRIGHT. Isn't there one——

Senator MILLIKIN. And the fact that we got into a short-dollar position would show that as of that time we had not achieved the purpose of stabilization and that the world was in quite a state of disbalance economically speaking.

Mr. DIEFENDORF. But the worst effect of it all would be the breakdown of the fund and its terrific effect all over the world. That would be the worst effect, not on the dollars we would lose.

Senator MILLIKIN. We would then have to ante up or break the heart of the world.

Mr. DIEFENDORF. I want to make it clear——

Senator TAFT. Is that a poker term or——

Senator MURDOCK. I would like to have the witness' answer to that question.

Mr. DIEFENDORF. I did answer it, didn't I? I have no feeling about the cost of the fund for if we could accomplish the purposes that are laid out in this fund for a matter of \$2,750,000,000 it would be money well spent. But the real effect of the failure of the fund is the effect on the whole economy of the world if such a thing failed after we ratify it and become part of it.

Senator FULBRIGHT. I want to ask one further question in that connection. Isn't there but one answer to disbalance, whether you have a fund or not, and that is that this country, either through purchase of goods or through travel or in other ways, balance its exports and imports?

Mr. DIEFENDORF. That is my feeling; yes, sir.

Senator FULBRIGHT. Now, during this 25 years it wasn't in balance, and you are anticipating a great imbalance in the next few years, but the only solution has got to be in this country's taking nothing, hasn't it, either in goods or services?

Mr. DIEFENDORF. That is my feeling, sir, but I don't think——

Senator FULBRIGHT. If we do do that, you would say the fund has a fair chance of operating?

Mr. DIEFENDORF. Yes; but I am not sure you are going to do that. That is one of my troubles.

Senator FULBRIGHT. Well, if you don't do it, without the fund you are in very bad shape.

Mr. DIEFENDORF. Well, why not do the first thing first? Why not get the fundamentals in there before you start to do something?

Senator MURDOCK. By that do you mean that we must have political stability throughout the world——

Mr. DIEFENDORF. In certain places.

Senator MURDOCK. Before they enter into some kind of fund?

Mr. DIEFENDORF. Well, I mean we must make good on the question as to whether we are going to buy more abroad.

Senator FULBRIGHT. That is it.

Mr. DIEFENDORF. We are giving lip service to something. We haven't done anything, very much, about it yet.

Senator MURDOCK. But don't you consider that if we assume that the fund will to some degree lend itself to economic stabilization, don't you think that that is conducive to political stabilization?

Mr. DIEFENDORF. Yes; but I don't think the fund lends itself to that kind of stabilization in a period such as we will be in, with all the same things present that were present before.

Senator MURDOCK. Well, but it has never been tried before, and the world has come to chaos without it.

Mr. DIEFENDORF. Well, no fund of this kind has ever been tried before.

Senator MURDOCK. That is what I say. And the world, notwithstanding that fact, has come to chaos.

Mr. DIEFENDORF. Of course, maybe I am incorrect.

Senator MURDOCK. It is in a chaotic condition today, and isn't it about time that we maybe tried something new?

Mr. DIEFENDORF. Well, historically I have always felt that you could forecast better on the things that have happened than you can on the things ahead.

Senator FULBRIGHT. So you can forecast definitely we will end up in the same mess we are in if you don't do anything different, can't you?

Mr. DIEFENDORF. Yes.

Senator TAFT. Mr. Diefendorf, there is one thing I want to suggest: If you had \$2,750,000,000 to dispense in the world to stabilize the world, do you think you could accomplish more by dealing with it directly than by putting it in a fund of this sort? In other words, is it diffused here in places it isn't needed, and unimportant places?

Mr. DIEFENDORF. Well, of course—

Senator TAFT. If you concentrated that money in solving one or two problems—

Mr. DIEFENDORF. When we say if it be diffused, it could be. I don't know that at all. I don't know what \$2,750,000,000 may do in the world. We are talking about lots more than that in the bank, and I think that will do a great deal to carry us over the period that we are talking about.

Senator RADCLIFFE. Mr. Diefendorf, may I ask a question following up what I spoke to you some time ago about the matter being premature: Do you feel conditions are in such a distressed condition now—

Mr. DIEFENDORF. I am thinking more about the future than right now.

Senator RADCLIFFE. Yes; that any such change as has been suggested would be too hazardous? Are you optimistic that those conditions are going to improve if something isn't done?

Mr. DIEFENDORF. I must be optimistic that they are going to improve.

Senator RADCLIFFE. Well, I mean is that optimism just based upon

faith, or does it rest upon certain concrete factors which you have in mind which you think are in operation or which will develop?

Mr. DIEFENDORF. Well, I have questions in my mind. I hope that we are going to attempt to solve these problems. I certainly believe we are going to solve the questions of peace and security. I have that much faith.

As to the questions of whether or not we are going to import much more than we have in the past, that is a hard question to answer, because people change their minds so rapidly over a few years. I think today that most everyone, certainly all of my associates that I talk with, believe in the theory of reducing tariffs, and either—probably preferably by the reciprocal trade method, and certainly labor is on that side, which in the past it was not. I am not so sure of what may happen 5 or 6 years from now, or some given number of years, because it all depends on what the effect is.

There are other questions involved in that. There is the question of whether or not the idea that we are going to maintain a national income of a hundred and forty million dollars or some such amount—which I think would be helpful in the whole question of whether or not we balance this situation and whether we buy more abroad, because certainly with larger incomes in this country we do travel more, we do buy more luxuries, we do a lot of the things that help bring about the kind of a situation which we would like, but I don't know whether that is going to happen.

Senator RADCLIFFE. No. If conditions do not right themselves, and we remain in the present situation, which is certainly a very unhappy one and a very distressed one, for a considerable period of time, do you think it is quite likely that you would be willing to take the plunge later on?

Mr. DIEFENDORF. Into the fund?

Senator RADCLIFFE. Yes.

Mr. DIEFENDORF. Yes; I think I would.

Senator RADCLIFFE. Well, is there any advantage in waiting?

Mr. DIEFENDORF. If all these conditions are what you say.

Senator RADCLIFFE. Well, I mean suppose they do not improve.

Mr. DIEFENDORF. Oh. I didn't understand your question.

Senator RADCLIFFE. Suppose they do not improve.

Mr. DIEFENDORF. No; I would never advocate the fund under those conditions.

Senator RADCLIFFE. You would never go into the fund with conditions existing as they are today?

Mr. DIEFENDORF. And, as I say, with the uncertain conditions just ahead that I think will prevail.

Senator RADCLIFFE. You would rather endure the lot you have?

Mr. DIEFENDORF. Well, I do not think the fund is going to correct that. I think you are giving the idea of the fund doing something which it will never do, and you are going to have failure ahead of you.

Now, then, I want to say here that I do not think we should always think of our solving all the problems ourselves. There is a lot to be solved by somebody else. One of the implications of this fund that always bothers me is that the fault lies with the creditor, with the man who is on that side of the picture.

Senator RADCLIFFE. You say you do not think the fund is going to do the job. Do you think any other factors will do it? If not, there is a pretty pessimistic prospect ahead of us.

Mr. DIEFENDORF. Well, we have solved problems before without a fund. We have found ways to stabilize currency before.

Senator RADCLIFFE. I know, but we usually have something pretty definite and concrete in mind, what we are going to do.

Mr. DIEFENDORF. Well, aren't you being too definite at the wrong time? In my opinion you are.

Senator RADCLIFFE. If you turn down a concrete proposition it is usually desirable to have something concrete in mind and not simply rely upon the abstract hope that something will develop or that processes will readjust themselves.

Mr. DIEFENDORF. Well, perhaps time will tell whether or not we prefer this kind of international arrangement, a fund of this kind, with provisions for devaluing currency, and so forth, as against the gold basis. I wouldn't think either would be good right now.

Senator TAFT. Well, I suggest, Mr. Diefendorf, there is a very definite thing that can be done and that will have to be done whether the fund is put up or not, and that is: Settle the problem with England.

Mr. DIEFENDORF. Certainly.

Senator TAFT. In other words, to stabilize the dollar and the pound on a permanent basis, which can only be done if you probably make some loans to England, help them solve their block sterling balances and set up—and I suggest if you can do that particular one thing you accomplish two-thirds of the purposes of stabilization that are contained in the fund.

Senator RADCLIFFE. Well, wouldn't the fund probably facilitate it?

Senator TAFT. It certainly would not.

Senator RADCLIFFE. It certainly would not militate against any such plan as that.

Senator TAFT. No; but it is just wasted, because the whole question is whether you can start with English stabilization. If you can, you can stabilize two-thirds. If you can't, you can't stabilize anything, and the fund is a complete failure.

Senator RADCLIFFE. And do you think the creation of this fund and its operation would be of no assistance whatever to us in working out a balance with Great Britain?

Senator TAFT. Absolutely no assistance whatsoever, in my opinion.

Senator RADCLIFFE. Well, of course, there may be difference of opinion on that.

Senator TAFT. Well, what Lord Keynes says is right. Lord Keynes says, "Yes; this is an iron ration. This is just an iron ration," this fund. He says so in so many words in his speech: "Yes; we may want to give them a little." In other words, we give them a little bite to eat while we are negotiating.

Senator RADCLIFFE. Well, that is something.

Senator TAFT. But he still takes the position that this is of minor importance to England.

Senator RADCLIFFE. Well, but if it is of minor importance it is of some importance. You said it has no importance whatever. Even if it is only an iron ration, it is something.

Senator TAFT. It is something by lending England the amount of money they can draw down in this fund the first year, which is about \$300,000,000. As far as helping the English situation is concerned, this is just equal to a loan of \$300,000,000. That is what it is equal to.

Senator RADCLIFFE. But even Lord Keynes says it is something.

Senator TAFT. What?

Senator RADCLIFFE. He says it is something.

Senator TAFT. An iron ration.

Senator RADCLIFFE. But that is better than nothing.

The CHAIRMAN. Well, we shall meet at 2:30 in the District of Columbia room in the Capitol.

Mr. DIEFENDORF. Do you want me again, Senator? Do you feel that I should stay over?

Senator TAFT. Mr. Chairman, there is one question I would like to ask Mr. Diefendorf. This report is a very carefully prepared report, and it isn't very long. I think it ought to be part of the record.

The CHAIRMAN. Perhaps we can put it in.

Senator TAFT. There was no long, prepared statement.

Senator RADCLIFFE. Do you want to catch a train?

Mr. DIEFENDORF. Yes.

Senator RADCLIFFE. What time?

Mr. DIEFENDORF. I am trying to catch the 2 o'clock train. I don't think you need me, Senator, any more.

The CHAIRMAN. All right.

Senator RADCLIFFE. We need you, but—

The CHAIRMAN. I don't agree with you in everything.

Mr. DIEFENDORF. I appreciate that. Well, then I may be excused?

Senator TAFT. Well, let us discuss that question later.

The CHAIRMAN. I think so.

The WITNESS. Thank you sir.

(Whereupon at 12.15 p. m., an adjournment was taken until 2:30 p. m. of the same day.)

AFTER RECESS

The committee resumed at 2:30 p. m. in the District of Columbia committee hearing room in the Capitol, upon the expiration of the recess.

The CHAIRMAN. The committee will resume. Is Mr. Palyi here?

Mr. PALYI. Yes, sir.

The CHAIRMAN. Please take that chair at the table opposite the committee reporter.

Mr. PALYI. Certainly.

The CHAIRMAN. We will be glad to hear from you.

STATEMENT OF MELCHIOR PALYI, CONSULTING ECONOMIST, CHICAGO, ILL.

Senator TAFT. Will you please give us first your name, and your qualifications and history?

Mr. PALYI. My name is Melchior Palyi.

Senator TAFT. What is your history and experience in matters of this kind?

Mr. PALYI. I am Hungarian-born, an American citizen, and I studied and taught in different European countries; Hungary, Switzerland, Germany, for almost 25 years. I have been teaching money, banking, and international finance in universities and graduate schools of Germany, Britain, and the United States. My practical experience in the field began in the last war when I was for awhile advisor to the Austro-Hungarian Bank, the central bank of the Hapsburg monarchy. Then I worked for a year in a German bank as foreign-exchange operator. From 1927 to 1933 I was chief economist of the Deutsche Bank, the biggest continental bank, and in the crisis of 1931-33 I was adviser on foreign exchange matters to the Reichsbank.

Senator TAFT. Where was that?

Mr. PALYI. The central bank of Germany.

Senator TAFT. In Berlin?

Mr. PALYI. Yes, sir. I was a sort of dollar-a-year man but did not get the dollar. When Hitler drove me out of the country I went first to Britain and was a guest of the Midland Bank for 9 months, invited to lecture at the University College of Oxford. Then I was invited to this country by the University of Chicago. I taught there, and at Northwestern University, and at the University of Wisconsin. The last few years I have been consulting economist connected with different financial institutions in the Middle West.

Senator TAFT. Will you mention what institutions they are?

Mr. PALYI. The Northern Trust Co. in Chicago, and the Central Life Insurance Co. of Illinois, and quite a number of others, minor ones.

Senator TOBEY. Were you associated with Dr. Schacht?

Mr. PALYI. At the time Schacht was president I was not officially connected with his bank, but I was a very close friend of Schacht's for a while.

The CHAIRMAN. Under Luther?

Mr. PALYI. Yes, sir; I was connected with the Reichsbank under Luther.

Senator TAFT. Did you testify before the Committee on Banking and Currency of the House of Representatives?

Mr. PALYI. Yes, sir.

Senator TAFT. Have you a prepared statement in the way of an over-all statement on this subject that you would like to read to us before questioning?

Mr. PALYI. I have no prepared statement, Senator Taft. The invitation to appear came very suddenly, and I expected to be questioned. But if you wish me to make an introductory statement for discussion I will be very happy to do so.

Senator TAFT. All right.

Mr. PALYI. May I start out by saying that I do not think your job is very enviable here discussing Bretton Woods, nor is my job in doing the same thing, because we are discussing the tail end of a much bigger animal, so to speak.

As I understand the situation, you will be expected to put up something like 6 billion dollars which will be at the disposal of these institutions to lend to foreign countries. And I understand, beyond that there are very large plans pending, such as \$6,000,000,000 to \$12,000,000,000 to Russia, great amounts to Britain, France, and so on.

Whether or not that is true, I do not know, but I do understand that to be the case. The \$6,000,000,000 involved in the Bretton Woods plan is just a small part of the much larger project; and I do not see how we can discuss the stabilization effects of \$6,000,000,000 if you plan to spend sixteen or twenty-six billion dollars altogether.

Senator TAFT. I think you should assume here, first, for the purpose of your testimony, that this plan stands by itself, as if it were the only plan, perhaps supplemented by some Government loans of two or three billion dollars.

Mr. PALYI. If you have in mind Export-Import Bank direct loans, perhaps leaving them out will make things easier for the sake of the discussion. Of course, they are only a minor element and it makes unrealistic a statement about it, leaving out some of the important things in the picture.

If I am to refer to the Bretton Woods plan, the first thing that occurs to me is that it is to be broken up into two parts, very strictly separated—but can they be so separated in fact?—which are discussed in public so much as two entirely different institutions.

Now, from the point of view, not of technicality but of the main purpose—stabilization—I do not see any difference whatsoever between the fund and the bank. As a matter of fact, the two accomplish exactly the same thing. To me they look like this: let us say, for example, that Russia wants to buy from the General Electric Co. some utility equipment, perhaps to the extent of \$100,000,000. Russia could do that under the Bretton Woods plan by two different ways: she can order the equipment from the General Electric Co., and when it comes to paying for that equipment she can go to the fund with the bills, so to speak. Or Russia can go first to the bank and say: "I intend to purchase \$100,000,000,000 worth of equipment from the General Electric Co. Will you please give me the funds for that purpose?"

Now, I do not see what difference, if any, there is from the point of view of stabilization, whether you ask for the money first and then make your purchase, or you buy first and then ask for the money. The stabilizing effect in either case is that the central institution, disregarding technicalities, provides the money. So both institutions serve the same purpose, namely, if I remember the law, that of taking care of the balances of payments. That is exactly what it is, balancing unbalanced margins, in the balances of payments, whether by the fund or by the bank.

Senator TAFT. Do you say you cannot separate temporary shortages from long-term shortages?

Mr. PALYI. There is no such separation. You cannot separate them: I mean, credit for a long period and money for a short period. The distinction between short-term loans and long-term loans comes from our banking practice, which is not applicable here. There is no such distinction here, whether you buy cotton or you buy copper or you buy utility equipment which amortizes itself in 75 years. The fund steps in and pays for it as soon as the buying country does not have the money to pay. The commonly accepted distinction between long-term investment, and short-term investments does not apply here.

I should like somebody to point out the page and paragraph where it is claimed that any such distinction may be found. There is no reference to any difference between the two in the statutes. It would

be of no major consequence if it were, but there is no such distinction. The only thing the fund excludes is something like this: If the Russians would enter the New York Stock Market and buy stock of the General Electric Co. and then make application to the fund for the money to pay for that stock, then the fund could say, "That is no part of our business. That is a capital transaction." Yes; that is excluded. What they mean by capital account is not capital goods but capital rights, such as stocks on an exchange. Therefore, between the fund and the bank I cannot see any distinction. Most of our banker friends are simply misled about the whole thing, as though it would be the same thing, like the distinction between short- and long-term transactions in normal banking.

Senator TAFT. It has been testified here that Russia might under the fund borrow 25 percent of its quota each year to pay for permanent building. That is your view of it also, is it?

Mr. PALYI. Surely. It does not exclude it. You might have theoretically an arbitrary management that would say, "I won't pay your bill except it is a bill for wheat, cotton, copper, or short-term consumer goods." In practice you cannot have a management that will do that.

Senator TAFT. Section XIV of the bill was apparently put in with some idea of stopping that. Have you read that amendment made over in the House?

Mr. PALYI. Yes.

Senator TAFT. Which takes the position that the authority of the fund should not extend—

beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions.

Mr. PALYI. Suppose Russia demands electric utilities to be erected, whatever the cycle in Russia is, or whatever the emergency is—that is, capital goods of a durable nature. And we will say that she does get the long-term credit, but at the time Russia has to pay she has not the money. Of course, she could get it from the fund, according to the statute.

Senator TAFT. Let us suppose that England ran short of pounds, we will say, by paying a part of the debt she owes to India.

Mr. PALYI. That is a different case. That would be a capital account. Well, now, I cannot answer that question so positively. Possibly then that would fall under emergency. I answered you too fast. I apologize on that. It could be construed as a capital transaction. But let us say you purchase a commodity, and how can you say what commodity is short term and another commodity is long term? Suppose Russia buys iron to make utility plants; is the amount of iron purchased long-term or short-term transaction. The whole picture of the fund, if you read through the statute, is that any shortage in international purchasing power arising from what is regarded as normal or regular commercial transactions, such as buying goods, buying goods of one country by another country, should be a normal matter.

Senator TAFT. What is your conclusion there?

Mr. PALYI. My conclusion there is that the bank and the fund are one—that there are no two separate institutions.

Senator TAFT. Are what?

Mr. PALYI. That they are one and the same institution, serving the same purpose. Yes; there are two plans involving a little different technique in each case, and that may have some justification for technical purposes, but I do not see any difference in stabilization effect. And the two have to be judged together.

Senator TAFT. Do you think it would be an effective means of stabilizing?

Mr. PALYI. That is the next question, whether the whole amount is effective.

Senator TAFT. There is the bell. We will have to suspend for awhile to go to the floor of the Senate to vote.

The CHAIRMAN. The committee will stand in recess for a few minutes.

(Thereupon the committee was in recess from 3 to 3:10 p. m.)

AFTER RECESS

Senator TAFT. Mr. Palyi, what is your opinion as to the effectiveness of this fund and bank in achieving stabilization of currencies in the world?

Mr. PALYI. I was just beginning to talk about that before and point out a rather minor detail to eliminate it at the outset, namely, that the bank statutes do not contain any provision in that direction at all. Since the function of the bank is the same as that of the fund, it is possible that people who borrow from the bank do not live up to the provisions of the fund about stabilization of their currency. What the bank statutes say is that members of the bank have to be members also of the fund, but so long as they are members of the fund they can ask for credit and get credit from the bank even so they don't live up to the standards they should live up to according to the provisions of the fund. But now, coming to the fund's provisions, I am afraid I will have to summarize at the outset; what I think about it is that this plan as it stands does not accomplish stabilization. On the contrary, it creates a new unstabilizing force of a very dangerous nature.

The CHAIRMAN. Are you talking about the bank or the fund?

Mr. PALYI. The fund. The bank statutes do not say anything about that. I am speaking now only about the fund, and I am referring to the terms of the fund statutes, the terms in which the statutes deal with the problem of exchange restrictions. Exchange restrictions are not only an evil matter, a result of a lack of stabilization and an interference with the free flow of goods and capital, but actually they are creating instability. Nothing in the world can create more exchange instability than a system of exchange regulation in a major trading country. I don't know whether I ought to go into details about that.

I feel I know something about it, because I was a party to the organizing of the German exchange regulation in 1931, and I saw them grow from a very little beginning into the worst system of strangulating foreign trade that has ever existed, not only German foreign trade but the foreign trade of other countries as well.

Senator TAFT. I think it would be interesting if you would describe what they were, Mr. Palyi.

Mr. PALYI. It began simply with the German banks defaulting on the deposits of foreign banks. They just couldn't pay them. They

had total deposits of 14 billion, and 9 billion belonged to foreign banks. I am speaking now in gold marks, not in dollars. It was just out of the question to pay that out. Nobody would loan Germany any money.

So they fell on the solution which they borrowed from the Russian pattern, to simply say that "the money is not available for the time being," which lead to the standstill agreement, with the banks in default since 1931.

That has been renewed until the war began between Germany and England. That seemed in itself an innocent action. The bankers just had to wait until the Germans were willing to pay little bits this year and next year. But soon they had to forbid the export of capital altogether, because a country which cannot pay debts to foreigners is not a country in good credit standing, and the Germans themselves started to export capital, bringing it to Switzerland and elsewhere. So they had to be prohibited from doing that.

The next thing was that they had to stop the tourists traffic, because it turned out that the tourists were taking the money out of the country which meant that they had to look into everybody's pocket who left the country, open every car and go inside of every railroad train to see whether any money was hidden in there. The result was that they had to put the tourist traffic under the strictest control and limit the amount a tourist might take with him.

Moreover, the consequence was that the longer the system lasted the less the Germans could get credit. In the Deutsche Bank, which I was connected with, we could get \$10,000,000 credit by just sending a telegram. By 1932 we couldn't get \$10,000 credit in the world outside of Germany. We just got no more credit under that system.

Then, the next thing was that foreign trade had to be manipulated, because it turned out that you can export capital in the form of goods, such as selling goods abroad and keeping the export proceeds abroad. So you had to control very strictly who sells what, and what does he do with the proceeds. Then it turned out that you can also export capital by importing goods. That was a very nice trick which some German businessmen developed, buying cotton in the United States, with the permission of the Reichsbank, buying it with Reichsbank gold reserves, and then simply saying, "Don't deliver it to me, just keep it in my name until I come myself and get it."

Then, of course, in order to control that they had to resort to the most extreme authority over what could be bought abroad. The result was, there was no angle of international relations that did not pass under the strictest of control, and there was no more international trade of a normal kind—every trade had to be balanced with an offset, an import with an export. Virtually the whole thing was taken over by the Government, and a vicious system of clearings and payment agreements was developed which was only the logical consequence of the initial proposition.

Now, then, while that was a necessary proposition and was so regarded by everyone, it gets a country into a very bad reputation. Countries which do that are regarded badly behaved in international relations. Unless they do it for a very short period or in very modest fashion, they are just sort of bad boys. Moreover, retaliations follow naturally. The other countries retaliated against these measures by

similar measures or raising tariff or boycott measures. Naturally they didn't tolerate that interference with export and tourist traffic.

Now, what these statutes of the fund do very cleverly, *sub rosa*, so to speak, is to introduce the same methods of foreign-exchange control and make them legitimate, not only tolerable, but sort of desirable. They almost induce countries to introduce foreign-exchange regulations and make them sort of acceptable in good society. They take off the blame from the country which uses those methods. There will be, I am afraid, a situation created that will have a very bad moral effect and which will have very grave economic consequences.

Senator TAFT. Are you referring to article XIV?

Mr. PALYI. I am referring to the whole set of articles. Let me begin with that, Senator. In the first place the fund management can permit in individual cases that foreign-exchange regulations should be introduced. That, of course, depends on management how far it will permit that.

In the second place, under article VI, section 3, that members may exercise such controls as are necessary to regulate international capital movements. Now that paragraph opens up the whole system of foreign-exchange regulations, and I am afraid the authors of this paragraph did not realize what they were doing, because if they had realized it they would have at least put something more into that article to avoid the consequences.

Senator TAFT. What article is that?

Mr. PALYI. Section 3 of article VI on capital transfers. Of course, there is no definition of what a capital transfer is. A capital transfer can be almost anything. You may ship cotton and it is capital transfer if you use it for capital purposes. It is capital invested in some form or shape. I referred to the example of tourist traffic.

Tourist traffic is not a capital movement, but if you want to make capital transfer control effective you have to control tourist movement so as to avoid capital movement taking place through the pockets of tourists. A very authoritative Englishman told me in London this winter that the Bank of England, or the monetary management of Britain, is definitely not going to permit tourists going out of the country, unless they are going to countries which take care of the expenses of the tourists, but not if a foreign exchange problem is involved. In other words, the British will have to enjoy nature and art at home. They cannot travel abroad. How could they maintain the control of capital transfer if they don't keep the money at home in the form of cash in the pockets of the public?

Senator TAFT. Let me read this section 3 and see if I understand it:

Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of the fund in settlement of commitments, except as provided in article VII, section 3-b, and in article XIV, section 2.

Now, it will be said that this language—

but no member may exercise these controls in a manner which will restrict payments for current transactions—

may prevent what you say from being brought about.

Mr. PALYI. No; it doesn't prevent it because there is no definition of the difference between a current transaction and a capital transfer.

As I mentioned, you buy cotton for the purpose of investing your money in cotton. Is that a current transaction or a capital transaction? What about the tourist who takes money in his pocket for the purpose of spending it on the Riviera? Is that a transfer in capital for current or capital purposes? In either case money has to be exchanged against foreign money. If you permit them to do that your whole capital transfer control breaks down. You cannot control effectively capital transfers without controlling the purchase of goods and without controlling tourist movement. Therefore, that language doesn't help any because the language does not give you any definition. Nor does it say who decides about that. Presumably each individual country has a right to decide that matter, but at any rate, there is no power given to the management to put up definitions and determine that Britain is violating this article VI, section 3, if Britain introduces control of tourist traffic and say that nobody can leave the country with more than £10 in his pocket to spend on the Riviera.

Now, that is not the whole story—

Senator FULBRIGHT. In that connection, do you think that on page 36, article XIX-(i) :

Payments for current transactions means payments which are not for the purpose of transferring capital and includes without limitation all payments due in connection with foreign trade and other current business, including services and normal short-term banking and credit facilities—

would cover the situation you are speaking of?

Mr. PALYI. No; that is not a special definition because it says—in the first place under IV, it says, “moderate remittances for family living expenses.” What is a moderate remittance for family living expenses? If J. P. Morgan lives on the Riviera that is a different amount than if I live there.

Senator TOBEY. Einstein says everything is relative. It depends on what your standard of living is.

Mr. PALYI. That is right. Therefore it doesn't define anything. What is moderate? Is £20 for a tourist to take along with him to the Riviera moderate or less than moderate?

Senator TAFT. Less than moderate.

Mr. PALYI. Well, it doesn't say so.

Senator FULBRIGHT. It would be easy to say a million pounds would be more than moderate.

Mr. PALYI. Surely.

Senator FULBRIGHT. How can you be so specific in determining it? I don't think you would like for them to say £100 is all you can take with you.

Mr. PALYI. That is the point. I would say there is no way of determining at all. Therefore, whatever you put in is absolutely arbitrary.

Senator TOBEY. Don't you think that you are straining at gnats and swallowing camels here?

Mr. PALYI. I don't get it.

Senator TOBEY. You would if you ever swallowed a camel. I mean you are picking out little idiosyncrasies in this text and holding them up; aren't you missing the great objective of this proposed plan, both of the bank and of the fund?

Mr. PALYI. Senator, I can go through this whole thing—I am just going from point to point now, and this is one point among five or six.

Senator TOBEY. I see.

Mr. PALYI. I just wanted to point out that on this score, to say the least, there is great danger that all sorts of manipulations and foreign exchange practices will be introduced under the pretext of controlling capital movements. More than that, they will have to be introduced if the control of capital transfer should be made effective, but this is only one point amongst several. If you will permit me to go on I will be very happy to accept your criticism when I get through.

Senator FULBRIGHT. In that connection, I don't think any of us believe we can make an instrument that frees us from the necessity of some judgment in management. We necessarily are going to have to rely upon the reasonable judgment of the management of the fund. I don't think we expect to have it work without that judgment. It will be up to them to make decisions on matters of that kind, whether it is moderate or it isn't.

Senator TAFT. May I interrupt, Senator Fulbright? I don't think you were here at the start of this discussion. The purpose of this whole discussion, as I understood the witness, was to show that the whole fund support, instead of eliminating exchange restrictions, necessarily makes them legitimate and invites countries to increase exchange restrictions rather than to decrease them. That is the point of what the witness was saying before. These are only examples of that point, as I understand it.

Mr. PALYI. Don't misunderstand me, Senator. I am happy to have your questions or remarks while I am speaking, and I would like to remind you I am going over a number of points in this whole picture that impress me as significant. This is only one little item in the picture.

Now, going to the next point, section 4 of article VIII, foreign-held balances.

Senator TAFT. What page is this?

Mr. PALYI. Section 4 of article VIII. If a debtor country owes money and the question of repayment arises. Here is something even more general than the question of capital transfers. It says:

Each member shall buy balances of its currency held by another member if the latter in requesting the purchase represents (1) that the balances to be bought have been recently acquired as a result of current transactions; or (2) that their conversion is needed for making payments for current transaction.

Each member shall buy balances of its own currency, meaning to repay its debt. A dollar balance held by another country is a debt of the United States to another country. In nontechnical language the article deals with the question of repayment of debt, and it does not matter what kind of a debt. All kinds of balances it speaks about. Then a debtor has to repay—I change the language, but it has the same content—first, if the creditor represents that the balances to be bought have been recently acquired as a result of current transactions; if they have been recently acquired. What is recently? No definition anywhere. In other words, a debtor can say this balance was here sometime ago. Therefore I do not have to repurchase that balance. In other words, I don't have to pay on that debt; which is nothing

else than a foreign exchange restriction because it doesn't say I default on the debt forever. I just don't pay for the time being. That is the essence of foreign exchange regulation under another name.

Then it says, "recently acquired as a result of current transactions." That comes again in the distinction between capital transfer and current transactions. If it is capital transfer it does not apply. But what is a capital transfer? In view of the fact that the distinction between capital transfer and current transaction is one of paying a debt or not paying a debt, I don't think I am too technical in asking that somewhere a definition of that ought to be made clear. As a matter of fact, the importance of this is that it is impossible to make any distinction between the two because it depends on the intention underlying each transaction.

Secondly, the debtor has to pay—I am using that vulgar language instead of saying it has to repurchase balances of its own currency if the creditor represents that the conversion of that balance is needed for making payments for current transactions. That means that, if for example, supposing we are the creditor and Greece is the debtor, if Greece owes us a balance in drachma and otherwise doesn't pay, but if we buy Greek tobacco, we can use our balance in drachmas to pay for it and the Greeks cannot say, "No, we do not accept our own drachmas." That they have to accept under any conditions. If we make a payment after we have received their goods—again a current transaction once more as against a capital transfer—then the Greeks have to pay, that is, have to accept their own money in lieu of payment. If we buy something in Greece why should they refuse payment in drachmas? But now comes the really interesting part of section 4—namely, under B.

The obligations under A do not apply at all when—here is the point I would like to emphasize—when the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under article XIV, section 2. Now, that means if a member had its currency under restrictions for some time, or has put it under restrictions because of special circumstances, with the permission of the fund, or without even asking the fund—now, if Greece bought something from the United States while she was under foreign exchange restrictions and the payment matures a year later, then Greece can say, "Oh, no. I am not paying now because I incurred that debt under B-4, while I was under foreign exchange regulations and according to article VIII, section 4-b-2, I don't have to pay."

Now, that is a very funny provision, to my mind. Why should Greece not pay after she has already abolished the foreign exchange regulations? But because she incurred the debt at the time when the foreign exchange regulations were in force, 10 years later she is entitled to say, "I am not paying now because of article so and so."

But that is not all. The further implication of that sentence is this: During the transition period every member is entitled to maintain or even introduce new foreign exchange regulations. Not before somebody enters the fund, but after one. The transition period is not defined exactly as to its length, nor is it said anywhere in the statutes who defines when the transition period ends finally.

Senator TAFT. Five years has been suggested in article XIV, section 4—3 years and then 5 years.

Mr. PALYI. Section 4?

Senator TAFT. Of article XIV.

Mr. PALYI. After 5 years and each year thereafter any member still retaining any restrictions, and so forth, shall consult the fund as to their further retention. The fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this agreement. The member shall be given a suitable time to reply to such representations.

If the fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the fund the member shall be subject to article XV, section 2-a. Therefore, at least for a 5-year period, you have countries regarding themselves as being in the transitional period, and probably for much longer. It is at least a permission to go a long way, but the point is that under section 4 of article VIII, b-2, old debts incurred during this transition period are blocked forever—since this period during which foreign exchange regulations can be maintained is simply indefinite, if the member chooses to do so, and he does not have to pay, even after the exchange regulations have been abolished. In other words, foreign exchange regulations last forever for all debts or obligations incurred the first 5 years, and possibly longer, during the lifetime of the fund itself and, of course, for other obligations incurred previous to the lifetime of the fund. That means a pretty wholesale permission of maintaining permanently foreign exchange regulations with all their consequences and all the economic warfare they create.

These foreign exchange restrictions permitted here do not apply only to capital transfers. They apply to any kind of obligation. If Greece bought cotton during that transition period and didn't pay, she can go on forever not paying. There is nobody to blame her for not paying. She has a perfect right not to pay. There is no question of whether she is able to pay. She can have all of her gold reserve built up; she can be a member in good standing, and default on a cotton loan, contrary to the letter of that loan and contrary to the spirit in which that contract has been undertaken.

Senator FULBRIGHT. What does section 2-c of that article mean?

Mr. PALYI. Which article?

Senator FULBRIGHT. The same one—article VIII, section 2.

Mr. PALYI. It says:

Subject to the provisions—

and so forth—

no member shall without the approval of the fund impose restrictions on the making of payments and transfers for current international transactions.

That is right. Then it goes on in section 4 to modify this for debts already incurred.

Senator FULBRIGHT. Now, the individual traders under this, they will get paid; these are balances of the Nation; isn't that right? Is

there any distinction between the actual people engaging in trade and the Nation—the balance in the central bank?

Mr. PALYI. Of course, there is a distinction if you wish to have a distinction, but it is in the hands of the debtor government to make or not make the distinction. In the case of Russia, there is no distinction at all between individual and government balances.

Senator MILLIKIN. Would you mind tracing through for us a cotton purchase by a Greek purchaser from an Arkansas cotton merchant? I think that might be helpful.

Senator FULBRIGHT. That is what I had in mind.

Senator MILLIKIN. Let's trace that through the private aspects into the bank aspects.

Mr. PALYI. I will trace it through in a transaction which took place in the first 5 years of Greece's entrance into the fund or which has taken place previous to Greece's entrance or whatever period is underlying here.

Now, then, a Greek merchant buys from an American cotton merchant cotton. Assuming that the American gets paid by an American banker, who, in turn, credits a Greek bank, which is a very possible procedure in international trade—in other words, the American cotton merchant has no problem any more. He got paid in dollars. The whole problem is in the hands of the American banker who, in turn, has a balance against Greece. That balance is a private balance owed by a private trader. But Greece has a law, which is perfectly permissible under these statutes, that all foreign claims and all foreign debts have to be delivered to the central bank. In other words, if a Greek has a dollar balance he has to hand it over to his central bank and get credited in Greek drachmas, and if the Greek owes dollars abroad then the central bank pays for him whenever that matures, or is supposed to pay, provided it is a legitimate transaction. That absolves the Greek from the transaction except in drachmas. The Greek pays in drachmas to the central bank. The central bank is now the debtor of the American bank. Now, this is not an imaginary procedure I am describing here. This is the way countries handle those things which have foreign exchange regulations. This is the German technique—I was present in Germany when that was introduced—so as to have full control over all transactions in foreign exchange.

Now that money is owned to the American banker by the Greek central bank. He may not even know it. All he knows is that the Greek bank owes him the money, or he may have been notified, but it is not essential. The debt is no better or worse for that.

Now, then, maturity comes say, a half year, after the transition is over. The American banker has been generous enough to give 2 years' credit to the bank. Then the Greek national bank says, "I am so sorry, but I don't have to pay because I am entitled to the moratorium"—there is no such term in here—"which this article VIII, section 4 under b-2 gives, and I find it necessary with my sincere regrets to refuse payment. You may wait for better times."

Senator TART. Then the law requiring the delivery of balances to a central bank is that an exchange restriction which would be prohibited after this whole thing goes into effect?

Mr. PALYI. No; that is not an exchange restriction, that you have to deliver it. It is just like our gold. We have to deliver all the

gold we have to the Treasury, but that is not an exchange restriction.

Senator MILLIKIN. I should like to suggest that such laws will be necessary under the operations of this fund in order to try to funnel these transactions into central banks, so that control may be had over these established relative values of currency.

Mr. PALYI. If you believe in controls, of course, that is absolutely necessary, but whether you like it or not, it is contrary to the spirit of these statutes to eliminate the freedom of exchanges.

Senator MILLIKIN. Unless each country by its internal laws passes such laws and makes such regulations as will funnel transactions of the type we have mentioned into a central bank, how can this system be maintained?

Mr. PALYI. It could be still maintained, but, of course, there would be much more evasion. Originally, in Germany, if I may refer again to my experience in Germany, we in Germany originally did not have to deliver balances to the central bank. We did not have to report currently all debts we had. But when it came to payment we had to ask for gold or dollar exchange from the central bank.

Then it turned out that all sorts of misuse had been made of that freedom. So as the next step; the central bank says, "from here on you will let me know what you are doing. As a matter of fact, before you do it, you will let me know."

-Senator MILLIKIN. Senator Fulbright, before you came in the witness described for us a very interesting cumulative series of regulations that started from a small initial regulation, in an attempt to try to control these exchange matters.

Senator FULBRIGHT. I still don't understand—section 2 says here that the members shall not do the very thing you have been suggesting they would do. It says they shall not impose those restrictions. On whom? I would take that to be on the traders. It will not be required that they funnel these things through, as you say.

Senator TAFT. There is an exception, article XIV-2, of the first 5 years.

Senator FULBRIGHT. This paragraph refers to the central bank balances that have accumulated, but in this interim, the member itself cannot make the debtor do all these things you have been talking about. You said that the member makes the Greek pay his money into the central bank and so on. I would say that section 2 says the member shall not make the Greek trader do that.

Mr. PALYI. I don't see anything like that, because that is a purely internal measure.

Senator FULBRIGHT. Well, that is a restriction.

Mr. PALYI. No. Just like our law that every American citizen has to deliver his gold. That is an interference with our freedom, but it doesn't affect foreign exchange at all.

Senator TAFT. You say this kind of control follows naturally on exchange restrictions; the existence of exchange restrictions may lead to this control that you speak of?

Mr. PALYI. You may have this control without exchange restrictions. You can very well have a system in which every American who owes money abroad is supposed to register with the Federal Reserve bank or some other institution and say, "I owe so much money to Greek dealers, and here it is."

The Federal Reserve may say, "All right. You owe it to me from here on, and I will deal in your name with the foreign dealer."

Senator FULBRIGHT. You say that is not a restriction?

Mr. PALYI. That is not a restriction because a restriction refers to payments abroad, not at home.

Senator FULBRIGHT. Then your theory is that by such a restriction they will force an accumulation of all of these balances?

Mr. PALYI. As a matter of fact such laws apply in most European countries at the present time. They are in actual use. There is nothing in the fund statute that says that they have to modify their policy when they enter the fund. In England if you wish to owe money you first have to have the permission of the Bank of England to do so.

Senator FULBRIGHT. Suppose you already owe it. What can they do in England?

Mr. PALYI. If you owe it already, you have to have permission of the Bank of England to make payment. The Bank of England has discretion to permit you or not permit you to do it, absolutely. As a rule it won't permit it unless it serves Britain's interest in maintaining England's balance abroad. In other words, if it is a payment they have to make in order to get something from abroad, they will permit it.

Senator FULBRIGHT. It has been suggested that if you do not have this fund you would still have these restrictions.

Mr. PALYI. Very true; but you don't legalize them. I do not advocate—I am still not through with my testimony—I do not advocate the abolition of the fund. What I would advocate is the fund without these restrictions—a fund is necessary in my opinion, some sort of international organization is necessary to carry us through the difficult times we are facing internationally, but not one which, in my opinion, legitimizes, encourages, and actually introduces the very things which it should abolish.

Senator FULBRIGHT. It says that is for the transitional period in order to try to bring about a balance. Is that the excuse for that?

Mr. PALYI. Very true; but in the first place the transitional period is very long and it applies beyond the transitional period for every debt incurred during the transitional period. Moreover, it is not the only paragraph of its kind in this statute. It will also bring up the question of capital transfers, what they are, as against current operations.

Senator FULBRIGHT. No one can tell how long the transitional period should be. If we had the feeling it could be limited to a year; I suppose everybody would agree to that, but we don't know how long it will be.

Mr. PALYI. Very true. I would agree on that, but the point is you create new economic warfare which will make the transitional period much longer. What would be the consequence, if suppose Greece takes advantage of this provision. She never could receive private credits; without private credits operating she never gets over the transitional period. What is the transitional period? It is a period during which one can borrow only from the fund. Once you can borrow on the open market your balance of payments is all right. You don't need any more fund, except, perhaps, in a sudden crisis, war and what

have you. Normally the balance of payment is stabilized by the international bankers, they step in and credit wherever balance of payment shortage exists, believing that that credit will come back next season or next cycle, according to whether short-term or long-term credit. But if you allow such measures which permit a fellow not to repay even when things get better, then, of course, you don't receive any more credit, and equilibrium never will be established.

I went to England this spring. I had hoped when I came back I could indicate to my clients a number of fine investments in England. I came back and I said to them, "For heaven's sake, stay out. How can you invest in a country which is set on never being obliged to repay your capital? Even a permanent investment may have to be liquidated some day. You might need the money, if for no other purpose than to pay your inheritance tax and the British openly say—they do not fool you like some other countries—they tell you very decently that they are not in a position, Bretton Woods or no Bretton Woods, to promise you more than interest or dividend on your money, and that is not absolutely certain. If they get in a jam they may even stop temporarily that payment."

Under those conditions there is no rational possibility of investing money in England unless it is by enthusiasts who like to put their money in something to help other people, but usually that is not sufficient to finance international ventures.

Senator FULBRIGHT. If you don't have the fund you still think we would have to lend money in some other form, do you?

Mr. PALYI. Yes.

Senator FULBRIGHT. What is the disadvantage of lending it in this form?

Mr. PALYI. The disadvantage is putting in a paragraph that they don't have to pay and put it in such fashion as to permit in effect the restrictions involved here. If you lend money under this fund the statute ought to make it clear that you get the money back. If you think you have to make presents, go ahead and make presents, but don't put it in this form.

Senator FULBRIGHT. Do you think that this money that is put into the fund is more likely to be lost or dissipated than money put into the bank?

Mr. PALYI. Well, forecasts for the future, as you know, are very dangerous, because it depends on so many circumstances. That brings me back to my starting point: How can you discuss Bretton Woods when three and one-half billion in the Export-Import Bank are also to be provided and other billions for more governmental credits? If you give them plenty of money outside of the fund, it may work perfectly, so long as money is available.

Senator FULBRIGHT. The discussions had the other day were that the way the fund operates, in the putting in of more of the currency of the operating member, would maintain always a relatively stable amount, relative to the gold in the fund and there was less likelihood of a mutual loss than if you make it a loan through the bank.

Mr. PALYI. Well, you will have the money of the operating member. What I am saying is that—

Senator TART. You may not have the currency. You may have their IO U's.

Mr. PALYI. That is right. They don't have to deposit them in Washington or New York.

Senator FULBRIGHT. You can demand the currency on the I O U any time. They always have that currency. Do you feel that is fairly good currency, in the fund?

Mr. PALYI. No; because they can introduce foreign exchange restrictions.

Senator FULBRIGHT. No; it says you can't.

Senator TAFT. If you are in default for your payments—

Senator FULBRIGHT. The only exception was the complete default by the country, but so long as there isn't a restriction—he said the restriction, which is distinguishable from a complete default.

Mr. PALYI. Here is the permission to do so. Article VIII, section 4, under convertibility. That is what we are talking about, convertibility. That is another name for repayment. That applies to any kind of fund. Each member shall buy balances of its currency held by another member. That does not apply to the balances held by the bank itself. It has to pay back those.

Senator FULBRIGHT. Are we talking about the fund now? In article IX, page 19, section 6, it says:

To the extent necessary to carry out the operations provided for in this agreement, all property and assets of the fund shall be free from restrictions, regulations, controls, and moratoria of any nature.

That seems very broad.

Mr. PALYI. Yes.

Senator FULBRIGHT. It says any restriction of any nature, upon a member of the fund.

Mr. PALYI. To the extent necessary to carry out the operations. What is that extent? That extent is not that you have at any time to give gold or dollars to the fund against the fund's holding of your currency.

Senator FULBRIGHT. You can use the currency at any time for whatever it is worth in that country.

Mr. PALYI. You can go in and buy in that country with the permission of that country.

Senator FULBRIGHT. This says free of any restrictions. Why wouldn't they be free of restrictions?

Mr. PALYI. Excuse me. It says to the extent necessary to carry out the operations. The repurchasing of balances held by a debtor country is not part of carrying out the operations of the fund. The operations of the fund have to do with transactions between members of the fund. The purpose of the operation of the fund is not that the fund itself shall get its money's worth. There are articles dealing with that question. Article XVI deals with that. Emergency provisions, withdrawal from membership, and so forth. A member may default and then for so many years it doesn't have to pay back at all.

If you wish me to do so, I will read those articles. Article XVI. Emergency provisions and liquidation of the fund. Article XV also deals with that, right of members to withdraw, compulsory withdrawal, settlement of accounts with members withdrawing:

When a member withdraws from the fund, normal transactions of the fund in its currency shall cease and settlement of all accounts between it and the fund shall be made with reasonable despatch by agreement between it and the fund.

What is reasonable? The fund may wait 10 years before it gets that money. There is no definition of that. It depends on an agreement:

If agreement is not reached promptly, the provisions of schedule D shall apply to the settlement of accounts.

Schedule D is a schedule of repaying in installments.

Senator DOWNEY. Mr. Chairman, may I ask a question of the Professor here?

Professor, you have recently stated to the committee here that when you went to England you found the British Government was unwilling to guarantee the right of repayment of capital debts incurred by British citizens. Well, now, that being true, of course, it is very plainly the judgment of the British Government there that they won't be able to repay those capital debts.

Mr. PALYI. That is right.

Senator DOWNEY. I think very possibly we can recognize the reasonableness of that viewpoint. That being the attitude of the British Government, then, of course, the British Government would not consent to the elimination of any such restrictions in this agreement, would it? Which you think ought to go in. In other words, your argument here is that there should be certain clauses in this agreement so far as the fund is concerned, that the British and other governments, we will say, could not and would not accept. That would merely bring us to the conclusion, would it not, Professor, that it would be impossible to work out any agreement on this fund that you would think would be the proper kind of an agreement. Is that the conclusion from your testimony?

Mr. PALYI. Well, yes, Senator. Of course, I admit I am no authority on what the British would consent to or not. In fact, I am very much inclined to think, as you say, that they would feel very badly about any such proposal. But, on the other hand, we have a little bargaining power too. They need our credits just as badly as you can imagine, because they are in such a bad position; and, of course, it might hurt temporarily friendly relations if we would put on the screws and would demand conditions which they don't like. I admit that it is a choice, a matter of judgment, whether you prefer that you are generally loved and liked, and you accept the conditions they like, or whether you think that you should put on conditions which are more likely to be helpful to create normal international credit relations and a genuine early restoration of the international balances. It is a matter of choice, and I do not feel competent to tell you what is preferable. It is a matter of judgment entirely.

Senator DOWNEY. Well, I would like to point this out for the sake of the record. This war so far has been costing us six or seven or eight billions of dollars a month, and I do not think that the Senate of the United States or the Government of the United States should be too greatly concerned about risking a comparatively few billion dollars in the International Bank and the International Fund.

Now, I would also like to make this statement. I have to go back to the Senate floor. I think that the Professor undoubtedly very ably and very rightly is indicating difficulties that will develop in the transitional period and thereafter in the way of international commerce and international balances; but I certainly am of the opinion

that the Government of the United States in making agreements and treaties from now on must, of course, involve itself in a certain degree of risk and making of sacrifice.

Senator TAFT. May I ask, though, one question on your comment: Do you see any reason why, if you can't do this right, you should do it now at all, or whether you can't wait until it can be done right or conditions are more normal? This British situation is due to their block balances. They may make an arrangement with other nations, India and—

Mr. PALYI. No, Senator; I don't agree with you on that. I think the conditions won't get any better. The problem will be with us, because it is not a minor or temporary problem. The British balances, wartime balances, are only a small part of it. The British balance of payments is fundamentally upset, and Britain will be the most important single problem in that connection.

But, on the other hand, since you are asking me, and with all deference to the Senator—I don't mean to contradict or take exception to what he says—my own personal feeling on the matter, if you permit me to express it, is that in view of how much we spent another six billions is not immaterial. It is not just a drop in the bucket; I think it is a very important issue, that we shall be economical from here on in view of the terrific national debt we are running. And, moreover, it is not only a question of what we are risking. I would be all for risking a substantial amount for the benefit of international stabilization, but the point I am trying to drive at—as a matter of fact, I haven't even finished yet. There is one more point in that connection I didn't mention yet. The point I am driving at is that this does not accomplish it. We are not just taking a risk, but we take it under conditions which are not necessary, which are unnecessarily risky, to put it this way, which, most likely, won't lead to stabilization. They mean foreign-exchange restrictions as the British plan them, with the result that they can proceed as they wish. Suppose they have a Labor government elected next month in Britain, and suppose that Labor government proceeds on its program. I hope it won't. Programs are not always for being kept, but still they might be. If all the nationalization takes place, and all the expansion of social-security payments in addition to the present ones, and all the full employment and higher standards of living programs are instituted, with the result that Britain's balance of payments will be badly distorted, worse than it is anyway, then a fundamental disequilibrium will exist there. The necessary consequence will be that Britain will apply for exchange restrictions, with the result that we spent so much money on Britain, but we don't get any stabilization. What will we do when the money is exhausted?

That brings me to my last point in connection with foreign-exchange regulations, namely, the point that if scarcity of the fund's holding arises, then every member is entitled to institute foreign-exchange restrictions without limitation. Now, scarcity of the fund's holdings, unless we spend much more than the 3 billions, is bound to arise under the terms of the fund. They are bound to be exhausted in 4 years, if I am anything like a connoisseur of balances of payment. The British deficit alone is estimated now at at least 1½ billion dollars a year, not counting the deficits of many other countries. After that

every country can start on foreign-exchange restrictions without any inhibitions whatsoever. Then we are back where? Where we started. We spent the 2.75 billion dollars, which is, as you say, a comparatively small amount. And what do we do then? Spend another 2.75 billion dollars for another short period? The problem is not whether we risk or not risk. You forgive me, Senator, for discussing these questions openly.

Senator DOWNEY. Professor, I am very anxious to have you; but, of course, as has already been suggested, we live in a world of relativity. We know what the cost of the past 20 and 30 decades has been. If we continue the same kind of government in the world, and lack of international relationship, we will probably have the total destruction of all civilization, and that is one reason why I, at least, am not disturbed over the fact that the United States Government in the next few years is going to hazard a few billions on an attempt to build a better and a more stable world. Assume it does seem that at the end of 5 years we may have further exchange difficulties. And I am very much with you on that. I can see that Great Britain would have great difficulty in allowing her tourists freely to expand the limited exchange that Great Britain would have. I sympathize with Great Britain in that, and I see that difficulty. I see the difficulty in the case of the other nations. But my viewpoint is that with our immense resources of gold and credit and production we well can afford to take what is really an inconsequential item. Why, here we are freely and happily spending—and the distinguished Senator from Ohio I think voted for them all—maybe a hundred billions a year.

Senator MILLIKIN. "Borrowing" is the word. Borrowing.

Senator TAFT. I would say if—

Senator DOWNEY. We are spending; borrowing it from our own citizens.

Senator MILLIKIN. We are borrowing it from our children.

Senator DOWNEY. Oh, Senator!

Senator TAFT. I want to suggest that the moment you apply your war standards and policies to peace periods the country is gone. That is all. My suggestion is that the moment the war ends that is an overwhelming reason that no one could question but that from the time the war ends you must apply an entirely different standard or the country is broke.

Mr. PALYI. Senator, your argument implies, to my mind, if I understand it properly, that there is no third alternative—either we do nothing or we do this. I think we could do a third thing. We could spend as much or more, and we should, if necessary, but under terms which promise with reasonable certainty that the results will be accomplished, which would mean, if necessary, to put a little bit of screws on the British fingers. Maybe they don't like it. That is very bad. I have often seen that debtors don't like terms, especially when they are in the process of being reconstructed or rehabilitated. They often object to the terms of rehabilitation, and Britain is in that position. That is why we should spend money on her. That is the only reason.

Senator TAFT. But your suggestion is that you spend the whole money and don't get anything for it under this particular plan?

Mr. PALYI. That is right. I think the plan is not objectionable except for certain paragraphs in it, especially for that construction

which permits nations to evade their obligations under it, while the whole thing should be construed so as to make them fulfill their obligations. Where do we get if we put in six paragraphs permitting them not to pay under such and such and such conditions? It is not possible to build up a reasonable, genuine credit structure on the basis that whenever there is trouble you just don't pay. We know that people don't pay when they get in trouble. We know that by experience. But we don't put it in every credit contract, "Please don't pay if it gets to a point where your money is a little scarce." [Laughter.]

You will excuse me for making a joke, I don't mean to be facetious on a very serious matter. I just try to exemplify the spirit of it. There is a genuine humanitarian spirit among us to help debtors which I can fully understand, and I can fully understand that you don't deal with a great power like Russia or like Great Britain and France, on terms like you deal normally with an individual debtor. I admit that you have to use much more tact and restraint. But I haven't seen in international affairs—I am a specialized student of international financial affairs—I haven't yet seen a treaty between governments or between private individuals in which such a system of clauses is introduced that they don't have to pay under certain circumstances. It is understood implicitly that you don't pay if you can't. You don't have to say that specifically. This reads as an invitation to wholesale defaulting which should be eliminated from this document. Of course, they won't like it, but that is no reason to do everything they like. After all, we are helping. Even if the amount is not too big for us, it is, after all, a substantial amount, and for them it may be the difference between all kinds of alternatives to get that. We are entitled to some consideration of our own point of view, too, and if I may say in that connection one word about the Russian system—

Senator DOWNEY. Professor, before you go ahead: While I dislike, Mr. Chairman, to divert at all from the very related issue, I just cannot let the comment of the distinguished and beloved Senator from Colorado go uncontradicted. The Senator said that our children will have to be paying the sacrifices for this war. There is no greater fallacy than that existent in the human mind. The only time sacrifices of a war can be made are during that war. It is the boys who live at that time that are dying, wounded. It is the people who live at that time who give up the automobiles and the gasoline and the food and the meat. Now, except to the extent there is a sacrifice of national resources, if we have general employment 25 years from now, we are going to have more automobiles and more rubber and more food and more everything else. We can't be able to make sacrifices at that time.

Now, as to passing the burden of this indebtedness along to our children, our children will also own the bonds and the indebtedness. There are two sides to the indebtedness.

Senator MILLIKIN. But not —

Senator DOWNEY. One is the credit and one is the debit.

Senator MILLIKIN. But not —

Senator DOWNEY. And it happens in this case that the American people own both. Collectively as a government we owe \$300,000,000,000 to our own citizens as individuals.

Senator MILLIKIN. But —

Senator DOWNEY. We both own and owe that debt.

Senator MILLIKIN. But they do not own the debt pro rata.

Senator DOWNEY. No. It will be owned in about the same proportion that people will have to pay income and inheritance taxes, and just about to the same extent that people get back the income from that indebtedness they are going to have pay income taxes for it if the present party remains in power.

Senator TAFT. I don't quite understand. Here are millions——

Senator DOWNEY. Mr. Chairman, I've got to go. We will meet that issue the next time. [Laughter.]

The CHAIRMAN. Let us get back to the Bretton Woods agreement.

Senator DOWNEY. Professor, I have enjoyed your testimony very much.

Senator TAFT. You had one more clause of this? Did you have one more clause?

Senator BUTLER. I have one question.

The CHAIRMAN. Do you want to ask a question?

Senator BUTLER. Yes.

The CHAIRMAN. Certainly.

Senator BUTLER. The professor in his remarks just a moment ago referred to this document as a treaty, didn't you?

Mr. PALYI. No. I spoke of treaties, or I should say "contract"?

Senator BUTLER. You spoke of treaties covering——

Mr. PALYI. I meant contract. Excuse me.

Senator BUTLER. Covers items of exchange like we are covering here in this.

Mr. PALYI. Covering international credits.

Senator BUTLER. Yes; international.

Mr. PALYI. I suppose that is the reference you bring back, Senator.

Senator BUTLER. International credit is usually covered by a treaty between——

Mr. PALYI. Well, not necessarily. It can be just a contract.

Senator FULBRIGHT. An executive agreement. [Laughter.]

Senator TAFT. Did you have one other thing that you called attention to?

Mr. PALYI. Well, just——

Senator TAFT. Which perpetuates and legitimizes exchange——

Mr. PALYI. The last one was the time when the scarcity of fund holdings arises.

Senator TAFT. Oh, yes; that was it.

Mr. PALYI. After that full-fledged foreign exchange restrictions are open to every member; and the likelihood is, as I say, in view of the limited amount in the fund, and is the terrific deficit in some balances of payment, that that element will happen as soon as 4 years after the fund begins operation.

Senator TAFT. You say 4 years. Why 4 years?

Mr. PALYI. If my memory doesn't deceive me, the means of the fund are supposed to be distributed in 4 years' time. In other words, each member country can draw one-fourth of its quota in each year.

Senator TAFT. However, if all the members drew dollars except the United States, they could do it all, draw the dollars of the fund in 2 years.

Mr. PALYI. That is right.

Senator TART. Isn't that correct?

Mr. PALYI. That is right. It could be much shorter, much quicker than 4 years' time.

Senator TART. In fact, it could be in a year and 2 months if the fund were sufficiently prompt in their response.

Mr. PALYI. That is right. I gave them the benefit of doubt.

The last point I would like to bring up in connection with the fund has to do with Russia; rather, I should say, with the question of individual countries entering into the fund. There is nothing in the fund's provisions excluding a country which has a substantial surplus of gold or foreign exchange could not use the fund. For example, it may have a foreign exchange surplus in the form of private holdings and may not want to take them away from the private owners, and therefore nominally its exchange position may be weak, but actually if it would collect the holdings of the citizens, say the dollar holdings, they would become very substantial. And I am thinking especially of France, which has introduced measures to collect the foreign exchange holdings of the citizens, but very ineffective measures so far. Now, then it is possible that a country which we know positively has plenty of dollars or gold and other foreign exchange to pay for its purchases would borrow from the fund to the limit of its quota.

Senator TART. Well, there is nothing to restrict its borrowing, I take it. Russia can borrow, according to Mr. Brown, as I understand, supported by Mr. White—Russia can borrow \$300,000,000 a year and use it to rebuild its factories and power plants with.

Mr. PALYI. For what purpose it is borrowed—on that there is no restriction at all. I pointed that out, that there is no difference between the fund and the bank in that respect.

Senator TART. In spite of the fact they may have gold with which they could have paid for it.

Mr. PALYI. Yes. The point I am driving at now is that they may have a very substantial gold reserve, but because, for example, they put that gold reserve into some other special holding, like Dr. Schacht did—when he didn't want Germany's American and British creditors to know that he had more than 70,000,000,000 marks, he lent the gold to the I. G. Farben, which carried it under diverse assets and drew the gold. It was credited to the Reichsbank on the books of the Chemical Trust, but it wasn't available, and in the books of the Reichsbank there was nothing to show it. Schacht asserted that he can't pay more than what he pays, because he has no more gold.

Such little tricks are easy, and it doesn't need to be a malicious trick as in the Schacht case. It could be perfectly normal. A normal country doesn't force anybody to disclose his gold or foreign assets. It could perfectly take the attitude that, "We are a free country, and everybody may own as much gold as he pleases, but the central bank hasn't any." How can we compel a country to introduce confiscation by force of the foreign exchange holdings of its citizens if that country doesn't want to introduce that measure? There is nothing in this fund to do that.

Senator TART. It is argued, however, Dr. Palyi, that this country has to repay into the fund, has to buy back its currency.

Mr. PALYI. I am speaking of the case that the country wants to buy something abroad, say American machinery, and buys that and can't pay, and goes to the fund and borrows according to its quota.

Senator TAFT. Yes; that is all right. But what I suggested is that thereafter, the next year or so, they are obligated to repay, to buy back their currency if you show that they have in the country reserves of gold and dollars, including private dollars, I think.

Mr. PALYI. No. They can still say, "We don't have it." They don't have to know that there is in the country any other dollars or gold in private holdings.

Senator TAFT. Don't they have to count that?

Mr. PALYI. There is nothing in the statutes which would say every member has to collect all the gold in foreign exchange of its citizens in the central bank.

Senator TAFT. Well, I thought there was something in the act.

Senator TOBEY. It has got to disclose the amount of gold. They definitely have to disclose the amount of gold. That is a condition.

Mr. PALYI. What the central bank and the other authorities have, but not what private citizens possess.

Now, in the case of France, I am thinking about the French Government actually can't even know it all, because a lot of Frenchmen have substantial balances in Switzerland and Spain which the Swiss banks and the Spanish banks don't disclose. France really could, by proper measures of taxation or other inducements, get out of its citizens such balances, but she might prefer to borrow from the fund. In other words, because of the fund's lending mechanism every member is entitled up to its quota to borrow money or to make payments via the fund for any legitimate purchases without regard to the actual foreign exchange position of that country. The case is particularly important with reference to Russia, because in the Russian case the whole idea of stabilizing the ruble is simply meaningless. There is no such thing as rubles in international relation, that we stabilize.

Senator MILLIKIN. Mr. Chairman, may I ask a question, please?

The CHAIRMAN. Certainly.

Senator MILLIKIN. That brings me to this question that I should like to ask you: Do you regard it as practicable or as feasible to achieve a real stabilization between the currencies of countries, on the one hand, that have a free or reasonably free economy and countries, on the other hand, that do not have private capital, that disregard profits motive, and that are completely regimented?

Mr. PALYI. I don't like to generalize, because—

Senator MILLIKIN. That is a very general question, of course.

Mr. PALYI. But I am speaking of the Russian system as it is, as it handles its finance and its monetary system; and presumably some other countries in central Europe will have the same system. Now, under that system the stabilization of the currency in foreign relations is a meaningless term.

Senator MILLIKIN. Yes?

Mr. PALYI. There is no foreign exchange in that country.

Senator MILLIKIN. Now, may I ask you another question: Without mentioning the names of any countries, is there a considerable number of countries, included in those who will participate in the fund, who have a bad reputation for fiscal honesty?

Mr. PALYI. For default on debts?

Senator MILLIKIN. Yes.

Mr. PALYI. Well, Senator, if you don't ask me to name those countries.

Senator MILLIKIN. I don't. I say without naming them. I say I don't want you to name them.

Mr. PALYI. Yes; there are a lot of them.

Senator MILLIKIN. We would have no trouble naming them, but—

Mr. PALYI. No.

Senator MILLIKIN. I think we will all agree that there are many such countries.

Mr. PALYI. Quite a few.

Senator MILLIKIN. And we could all easily name them.

Senator TAFT. The thing that I had in mind, Mr. Palyi, was that your repurchase is based on the monetary reserves that you may have accumulated. Then the monetary reserve is defined in article XIX as being the central holdings net, and to these net holdings shall be added the funds deemed to be official holdings of other official institutions and other banks; and in (c)—XIX (c)—it says the holdings of other official institutions or other banks within its territories may, in any particular case, be deemed by the fund to be official holdings to the extent that they are substantially in excess of working balances; so I suppose you count your other bank reserves but not those owned by individual corporations; is that correct?

Mr. PALYI. That is right; or by individuals.

Senator TAFT. Or by individuals.

Mr. PALYI. What about the French peasant holding gold? France is probably, next to India, the second greatest gold treasuring country in the world, but probably a substantial part of it is in the hands of peasants and similar people, in small quantities distributed. Yet this gold could be gotten out of them with proper taxation measures; or, if they wanted very greatly agricultural machinery, and they have to buy it by all means, they will come out with their gold. But if you have a nice little mechanism by which they can get the agricultural machinery without parting with their beloved gold reserves, then they can keep the gold reserve. That is the way it will most likely work, and the French Government that can under those conditions put the screws on the peasant hasn't yet been born, in my opinion.

Senator TAFT. Also that same question arises in connection with the declaration of the dollar being a scarce currency. The governments might draw all the dollars down, and then their individuals might hold onto their own dollars; may they not, so that the dollar is scarce, but it is only scarce in the fund? Is that a possibility?

Mr. PALYI. The same situation. The Frenchmen may have a neat private dollar reserve, but the French Government may be short of dollars.

Senator TAFT. And might have drawn all the dollars out of the fund they could draw out of it?

Mr. PALYI. The Frenchman who might benefit by this system by buying something in America he needs so badly—consumers' goods or production goods—may be the same Frenchman who holds the dollar reserve in his pocket with which he could buy; but he can get, with the aid of the fund, automatically, the thing he wants without parting with his dollars.

Senator FULBRIGHT. Do you think the fact that these other nations make a contribution will not give them any interest in the preservation of the fund? I mean, they will approach this purely as an opportunity to grab a few dollars and then let it take care of itself? That is, it has been said that each nation making a contribution and regarding this fund as a reserve will be very much interested in preserving it, and therefore they will not approach it in the view of, "Well, here's a kitty that's free, and we just take what we can and then let it go."

Now, if they approach it that way, which is apparently the way you believe they will, then it is, I would say, bound not to work. Is there any incentive you can see in the minds of these various countries to preserve this fund and use it only in an emergency, so to speak?

Mr. PALYI. I don't see any. Maybe there is. After all, that is a matter of judgment as to how their minds will work. But as the fund stands, that is the situation with those quotas or what you call them, that is paid in.

Senator FULBRIGHT. It is the quota.

Mr. PALYI. Contributions?

Senator FULBRIGHT. Yes.

Mr. PALYI. The contribution consists of paper money, except for a very small amount of gold which is really not taken away from them.

Senator FULBRIGHT. Yes.

Mr. PALYI. In case of liquidation, if the whole thing goes broke, they get it back. France's gold contribution is not responsible for dollar scarcity, for example, so they don't lose that under any circumstances, unless somebody buys in France with it and remains a debtor to France. Now, only so far as they are creditors have they an interest so far as the contribution represents only a claim to borrow. They have no interest except to get the most they can get out of it. And I am not trying to insinuate that the members of the fund will come in and get their money and run away as fast as they can. What I am speaking of is that with the construction of the fund, and given human nature, and especially given the fact that these people are in a bad shape, they will borrow because they need to borrow.

Senator FULBRIGHT. Well, but you just gave an example and said that there is all this money, they have dollars, but since they can get it they won't use it. That seems very definitely to imply that they are not going to make use of their own funds; they just look at this fund as a place to get some free money.

Mr. PALYI. That is a special case to which I referred; that of a country that really has the gold reserve but won't use it to repay its debts, or would borrow instead of using it. That special case might occur. I didn't say that they all would do that, or even many would do that, but it might occur. And I especially point out that I don't imply that they would do that maliciously, which is possible; there are malicious people in the world still left over. Suppose they are not malicious; but a situation exists like in France that they may not collect the fund at home although they have it but they don't go to the trouble. They could collect it if they would use very sharp taxation or confiscation measures, or do this or that, but for political reasons they don't choose to do those things and consequently they just let it go.

Senator FULBRIGHT. Yes.

Mr. PALYI. The fund gives them a possibility to get away with that kind of policy, which I hope will be exceptional.

Senator FULBRIGHT. Yes. Of course, it would seem to me that any of them with any wisdom at all would see that if they abused the fund in that way it will suddenly come to an end, and they will have ruined their own credit standing, just as they would if they defaulted on any other loan, if they abuse it.

Mr. PALYI. No, it is not so, because according to the statutes of the fund if you exhausted your quota and couldn't pay, it is just too bad. As a matter of fact, the spirit behind this document, as expressed in the original Keynes program was that if the fund comes to an end, if a scarcity of the crucial currency arises, or of gold, which is the same, then the responsibility is on the creditor: "Why, if you would take enough imports, then there wouldn't be any shortage of your currency. Why doesn't he buy more from foreign countries?" The fallacy in that is the assumption that it depends on us whether we can buy more than we sell, overlooking that the American balance of trade is always favorable whatever foreign trade policy we pursue. Whether we have high tariffs or low tariffs we always have a surplus in the balance of trade because we are such a fortunate country that we product both raw materials and industrial goods and do so at high efficiency. It seems very unfortunate that we are so fortunate, but the consequence is that other countries always have a deficit in their trade balances against us.

Now, according to this idea, this is our fault, as if we could correct it. As a matter of fact the advocates of tariff abolition argue in a fashion which is misleading, in my opinion, because they overlook that if we won't have a tariff our own cost of production would fall and we could export more. Under free trade we might have a bigger export surplus than under the tariff.

Senator FULBRIGHT. I hope that you understand that.

Senator TAFT. Surplus.

Senator FULBRIGHT. We would be better off if we didn't have any at all. [Laughter.]

The CHAIRMAN. Are there any other questions?

Senator TAFT. Mr. Chairman, I would like to ask the witness. He has pointed out the failure to get rid of exchange restrictions; the legitimatizing of exchange restrictions themselves. What about the currency devaluation features of the fund?

Mr. PALYI. I didn't delve with them so much, for two reasons. One is that the fund is pretty specific on that, limiting them to a minimum. There is nothing like the provision that introduces foreign exchange restrictions with regard to introducing devaluation. That is much better taken care of on the whole, and that definitely is a progress. It is perhaps the most valuable aspect of the fund's statute, that it brought up the problem of competitive devaluations and tried to tackle it, except for the case of a concerted devaluation of all countries, which of course would work to the benefit of some countries which need it badly and to the disadvantage of some other, and except for the case of freedom to devalue after the scarcity of the crucial currency has been declared. Otherwise I have very little to quarrel with on that score.

Senator TAFT. Of course, a country has the right to devalue to any extent if there is a substantial disequilibrium created by your internal policies.

Senator MURDOCK. Fundamental disequilibrium.

Mr. PALYI. Quite right. But then the fund has to agree on it, so the fund—

Senator TAFT. Well, the fund doesn't have to agree in such case. They cannot object on that ground.

Mr. PALYI. Well, they may be clever enough to find another ground on which to object. There I would trust the management of the fund, because the whole spirit of the fund is to keep devaluations to the minimum. Maybe I am too optimistic on that score, but I trust the fund's attitude in that respect. However, I like to point out in that connection that the real reason why I don't worry too much about devaluations is not what the fund's statutes say about it but because nobody wants them any more. Devaluations have become very unpopular. The real method of international monetary warfare in the future consists of foreign exchange regulations.

Nobody really wants devaluation. Take the case of France; they just hang on to a ridiculously high valuation of the franc. Why? I don't think I am wrong in assuming that the reason is that devaluations are very dangerous when the monetary system is highly inflated. When we devalued in a deflation, in a depression, then it had the effect of—it had no major effect at home. Either it had no effect immediately or the effect was to raise prices, and that was desirable at the time; but when you have an inflated monetary structure, what will happen to your price system? People don't want new devaluations because they are the signal for prices to run away; and therefore nobody, no responsible financial statesman with whose ideas I am familiar, thinks in terms of bringing them about voluntarily, unless he is forced into new devaluations; and, that seems to be the general spirit of the agreement.

Lord Keynes, the leading advocate of devaluations, now advocates stabilization unless very extraordinary circumstances arise, admitting not more than 10 percent devaluation as a rule. They fear a runaway inflation to break in the markets if they start to monkey—pardon for the unliterary expression—with the gold content of their currency; while on the other hand foreign exchange regulations are invisible. The public does not notice them. The people only notice that the pound or the franc is at such and such a par, but that you can't go outside of the country, and you cannot buy abroad, and things like that, foreign-exchange regulations, don't affect the judgment of the public about the value of the currency and don't drive it into the markets.

The CHAIRMAN. Are there any other questions?

Senator FULBRIGHT. To sum up your principal criticism, it is those paragraphs which do give them permission not to pay under certain circumstances?

Mr. PALYI. Yes.

Senator FULBRIGHT. Would you say, just assuming that those were taken care of—would you think then the fund would serve a useful purpose?

Mr. PALYI. Absolutely, because the implication would be that the debtors have to clear something at home so as not to get into trouble. They would have to clean their houses so far as is necessary or possible to reform. On the other hand, the fund management should have a free hand in controlling them without too radical measures of balancing their budgets.

Senator FULBRIGHT. It could serve a little better purpose, I'll say, than just taking the same amount and lending it to them bilaterally by loans. There is some merit in getting the 44 nations together in agreeing to certain things.

Mr. PALYI. Definitely.

Senator FULBRIGHT. Is that right?

Mr. PALYI. I would agree, definitely. For example, in the case of devaluations I think it is a very useful thing that devaluations are at least stamped as not desirable. That is an important step forward on which the authors of this program ought to be congratulated, especially if you visualize what a sacred cow the freedom to devalue the currency is in some countries, like in Britain.

Senator FULBRIGHT. If you will assume this, we will just assume that we had 6 billion to lend. You would say it is better to at least take part of it and lend it in this fashion and part in the other fashion—

Mr. PALYI. Yes.

Senator FULBRIGHT. Than to put it all in the bank and to lend it all in just straight bilateral loans; is that right?

Mr. PALYI. I don't believe in the bank at all. The bank is nothing else than another stabilization institute without any regulations and limitations.

Senator FULBRIGHT. Well, our bankers think that they can examine these loans, and they much prefer it.

Mr. PALYI. But I am not a banker.

Senator FULBRIGHT. What?

Mr. PALYI. I am not a banker.

Senator FULBRIGHT. Oh. I thought you were a banker.

Mr. PALYI. I was an economist retained by bankers, and I am still, but anybody can retain me as a consultant.

Senator FULBRIGHT. Oh. Well, the fund is far better than the bank?

Mr. PALYI. The fund is the only thing, in my opinion, worth discussion. The bank ought to go up in the fund and be part of it. If you want to do the job, put it in the fund.

Senator FULBRIGHT. I see.

Mr. PALYI. But I started out on that perhaps before you came in, Senator.

Senator FULBRIGHT. You would prefer, if anything, to abolish the bank and take that capital and put it in the fund to make it stronger?

Mr. PALYI. That is right.

Senator TAFT. If it were a perfect—

Mr. PALYI. If this could be corrected.

Senator FULBRIGHT. Yes.

Mr. PALYI. What I pointed out is, I think, the shortcomings of the fund and very bad shortcomings, creating new disequilibriums instead of correcting them.

Senator FULBRIGHT. The principle being that we should make them promise to pay. We give them a legitimate "out" of their promise; is that it?

Mr. PALYI. A legitimate "out" on almost any pretext—almost, if I may exaggerate a little.

The CHAIRMAN. Did you say anybody could engage you? Is that right?

Mr. PALYI. Well, I was sort of joking. I mean to say that I am not sold on banks. As a matter of fact, I have nonbank clients, too.

The CHAIRMAN. I see.

Well, I think we have concluded the hearing for today, haven't we?

Senator TAFT. Of this witness.

Mr. CHAIRMAN. I have here a table prepared by the research assistant to the minority leader, at a good deal of trouble, showing the debts of all the foreign governments to the United States, those which are in default and those which are partially in default, those which are in default as to interest; and I think it might be valuable as part of the record to show the condition.

The CHAIRMAN. Yes. Does that relate to the Government, to our bonds?

Senator TAFT. To our bonds.

The CHAIRMAN. Government bonds?

Senator TAFT. Yes; bonds of the governments that are in default.

The CHAIRMAN. Very well.

(The table submitted by Senator Taft appears on p. 549.)

Senator TAFT. Mr. Chairman, is the counsel for the Treasury here?

Mr. LUXFORD. Yes.

Senator TAFT. I would like to ask a question if I may. It would save some time later.

The CHAIRMAN. Is he here?

Senator TAFT. Yes, he said he was.

Senator MURDOCK. You can sit right there [indicating].

The CHAIRMAN. Mr. Luxford, will you come up here?

STATEMENT OF ANSEL F. LUXFORD, ASSISTANT TO THE SECRETARY, TREASURY DEPARTMENT, WASHINGTON, D. C.

Senator TAFT. In the bill it contained a provision as to the money that is put up in this fund. The Secretary of the Treasury is authorized to use a billion eight of the gold now in the Stabilization Fund.

Mr. LUXFORD. That is right.

Senator TAFT. And he is authorized to pay the balance of \$950,000,000 for the purpose of making these payments. I read at the bottom of page 8 and the top of page 9:

The Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed \$4,125,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that act are extended to include such purpose.

Mr. LUXFORD. That is right.

Senator TAFT. I don't understand what that means or how it can be done that way.

Mr. LUXFORD. Senator, the first precedent for that was in the creation of the Reconstruction Finance Corporation in 1932. Since that date it has been——

Senator TAFT. Well, now what precedent? What did you do there in that case?

Mr. LUXFORD. Just this exact language was employed.

Senator TAFT. Well, what? To provide what?

Mr. LUXFORD. What it provided was that the—

Senator TAFT. For the original capital for the RFC?

Mr. LUXFORD. Yes; to provide capital for the RFC. The instruction to the Secretary of the Treasury by the Congress was, obtain the money by public-debt transaction, which means in effect that he borrows the money and applies the money to this investment. Now, that was originally done for the first time in 1932 with the RFC, and every extension of the RFC's capitalization since that date has been by that purpose.

It has also been used in the capitalization of the Federal Farm Mortgage Corporation, the Federal Deposit Insurance Corporation, the HOLC, the United States Housing Authority, TVA, and the Commodity Credit Corporation.

Senator TAFT. Well, how do you get around the Constitution? The Constitution says no money shall be drawn from the Treasury but in consequence of appropriations made by law, and a regular statement and account of the receipts and expenditures of all public money shall be published from time to time. How can you—

Mr. LUXFORD. I would believe probably that had been raised before, but the answer to that is—

Senator TAFT. I presume so, but what is the answer to it?

Mr. LUXFORD. The answer is that that amounts to an appropriation under the Constitution, because Congress—

Senator TAFT. As a matter of fact it is not an appropriation act. Under the Rules of the House it would have to go to the Appropriations Committee if it were an appropriation. It isn't an appropriation. It is an authorization. I mean I don't see that. That would make this an appropriation bill if that is an appropriation.

Mr. LUXFORD. Well, the answer I am giving you, Senator, is that by a very definite House and Senate practice you have been using this method of financing investments by the United States. The distinguishing feature—you may have more than one way of appropriating, and this procedure has been used where you are investing capital and not making an outright expenditure like payment of salaries.

Senator TAFT. Well, I don't understand that. I don't think it is a proper practice myself. I don't know how we got into it, but it seems to me—

Senator FULBRIGHT. What we do with Commodity Credit, you were discussing the subject like this, don't you remember, in order to avoid them going to appropriation?

Senator TAFT. Well, this question of whether you have a corporation—if you have a corporation, you may say that corporation can borrow money and spend it for certain purposes. That is not a Government obligation then, and that money never goes in the Treasury.

Mr. LUXFORD. It is a Government obligation in the sense that the United States Government guarantees it.

Senator TAFT. Well, it may guarantee it, but the money never goes in the Treasury. This money, you issue U. S. bonds, and you take the money right into the United States Treasury, and the Constitution

says that no money shall be taken out of the Treasury but in consequence of an appropriation made by law.

Mr. LUXFORD. The point is, the obligation of the United States is the same. Under the Commodity Credit Corporation you are guaranteeing that obligation just the same as if it were a U. S. Government bond.

Senator TAFT. Well, if they were the same I would say this would apply to that also, but I don't think it is the same. It only seems to me that it is a way of taking out of your budget what are in fact expenditures of the Government and ought to be included in this annual statement of receipts and expenditures of all public money, and it ought to be listed as an appropriation.

Mr. LUXFORD. Well, certainly this will show up in the daily statement of the Treasury. There will be no concealment of this investment. The point, however, is that you have a tradition starting in 1932 that where you are not really spending money, but you are investing it like in TVA and RFC, you put it into a separate category.

Senator TAFT. I suggest that anything started in 1932 or since then is not a tradition.

Mr. LUXFORD. Well, that is a question.

Senator FULBRIGHT. It is just bad practice; is that it? [Laughter.]

Senator MURDOCK. 1932.

Mr. LUXFORD. That is right.

Senator MURDOCK. Prior to the time the Democratic administration came in.

Mr. LUXFORD. That is right.

Senator MURDOCK. So, if it is a tradition, it is a Republican tradition.

Mr. LUXFORD. It started in 1932.

The CHAIRMAN. Well, the committee will adjourn until tomorrow morning at 10:30, over in the other building.

Senator MURDOCK. Oh, yes, Mr. Chairman.

The CHAIRMAN. Yes. One minute.

Senator MURDOCK. I have again heard from René Leon in New York, who is very anxious to appear before the committee, and advised that he has telegraphed you and I think written you a letter, and I agreed that I would call his desire to your attention, that he still wants to appear.

The CHAIRMAN. Very well.

Senator TAFT. Do you know which side he wants to appear on?

Senator MURDOCK. I don't know. I have no idea.

(Whereupon, at 4:45 p. m., an adjournment was taken until tomorrow, Thursday, June 21, 1945, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

THURSDAY, JUNE 21, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Wednesday, June 20, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Murdock, McFarland, Fulbright, Tobey, Taft, Capper, and Millikin.

The CHAIRMAN. The committee will come to order.

Mr. Sproul, I need not tell you what we are considering now. We will be delighted to hear from you, I am sure.

STATEMENT OF ALLAN SPROUL, PRESIDENT, FEDERAL RESERVE BANK OF NEW YORK, NEW YORK, N. Y.

Mr. SPROUL. Mr. Wagner, I am glad to be here. I think as all of the members of the committee know I am president of the Federal Reserve Bank of New York, and all of my business life has been spent in the Federal Reserve System. It has been a career with me. I have no prepared statement, but I have some notes from which I would like to talk, if I may, before getting down to the questions which you may have.

The CHAIRMAN. Very well.

Mr. SPROUL. These international monetary proposals which have been brought forth in the past 3 years or more have been studied by the Federal Reserve Bank of New York and the directors and officers have expressed their views in three memoranda sent to the Board of Governors of the Federal Reserve System at various stages of the discussion. However, since consideration by the House, and passage of legislation with amendments, the matter has not been formally and officially considered by the bank. Therefore I speak only for myself and nobody speaks through me.

Senator MURDOCK. On that question, Mr. Sproul, it is difficult for me to understand how a man in your position any more than a man in my position can speak individually. I do not mean you should be denied the right to attempt to speak individually but it seems to me that nobody holding the position you do or the position I do can speak individually. Whenever we speak it is just impossible to divorce ourselves from our position and speak as individuals. So, I am quite sure that whatever statement you may make will be construed as a statement coming from you in the position you hold. Don't you agree with me?

Mr. SPROUL. It must come from me in the position I hold but as an individual in the position I hold and not as official representative of my board of directors. I conceive it to be my responsibility on matters of great national interest, in which I perhaps have some competence and of which I have some knowledge, to present my views. If asked by the Congress or a committee of the Congress to present my views, it is my duty to do so. After a proposal becomes law it is my duty to help to carry out whatever function the Federal Reserve System may have under the law, wholeheartedly and enthusiastically.

Senator MURDOCK. Are your views in accord with the board of directors of your bank?

Mr. SPROUL. My views were in accord with the views of the board of directors of my bank up to the time of the House legislation. As I say, we have not formally and officially considered it since then and I cannot speak for all the board of directors of my bank as to whether their views would be in accord with mine.

Senator MURDOCK. That is the largest bank in the System.

Mr. SPROUL. Yes, it is.

Senator MURDOCK. The largest bank in the world, is it not?

Mr. SPROUL. In terms of total assets it is the largest bank in the world.

The CHAIRMAN. Had they taken an attitude on the monetary provisions of this bill?

Mr. SPROUL. Prior to the passage of the House legislation they did prepare the three memoranda I mentioned which were sent to the Board of Governors of the Federal Reserve System.

Senator MURDOCK. Would you say that the attitude you will express this morning is in harmony with the attitude of the Board of Governors of the System?

Mr. SPROUL. No; it is not, I should say.

Senator MURDOCK. Is it in conflict with their views?

Mr. SPROUL. I think it is in conflict with the views of the Board of Governors of the Federal Reserve System as presented in a statement to the House committee and as I understand their views to be from talking with some of them individually.

Senator TOBEY. You appear here as opposing the agreement? Or, what is your position, one of postponement or opposition to the agreement, or to part of the agreement?

Mr. SPROUL. It will develop from what I have to say. I am in opposition to part of the agreements, for postponement of part of the agreements, and for adoption of part of the agreements.

Senator FULBRIGHT. Are you appointed by the Federal Reserve bank?

Mr. SPROUL. I am appointed by the Board of Directors of the Federal Reserve Bank of New York, subject to approval by the Board of Governors of the Federal Reserve System.

Senator FULBRIGHT. It is considered a public institution, the New York bank.

Mr. SPROUL. The New York bank is considered a public institution or at least a quasi-public institution.

Senator MURDOCK. Every share of the stock in the institution is owned privately, isn't it?

Mr. SPROUL. Every share of stock in the institution is owned privately, but there does not adhere to the stock the privileges which

ordinarily adhere to stock. It does not mean control. It is nominal stock ownership which entitles the member bank owners to a dividend but means little else in the way of control or of participation in the final credit policy of the System.

Senator FULBRIGHT. Where do your earnings go, to the private banks or the Government?

Mr. SPROUL. The member banks get 6-percent dividend on paid-in capital stock. We pay our expenses including the dividend and after that the earnings go into surplus and reserves. In liquidation they would go to the Government.

Senator FULBRIGHT. You must be liquidated, then, before any part of it would go to the Government?

Mr. SPROUL. That is the way the law stands now. At one time there was a franchise tax.

I shall try in my testimony to speak only of those things of which I have some knowledge and in which I think I have some competence. I do not know what matters of high policy have been considered along with these proposals other than what has been made public and are involved in this legislation.

My approach to this thing is that there were 3 years of discussion and negotiation preceding Bretton Woods—preceding the Bretton Woods agreement; that these discussions and negotiations were chiefly between the British and Americans; others came in and participated from time to time, but when the 44 nations came together at Bretton Woods it was largely to ratify what had been done. I think it is an exaggeration of the difficulty of holding another conference and securing agreement of the 44 nations to imply that these agreements were hammered out at Bretton Woods. I think the instructions to the United States delegation belie that assumption.

Senator TOBEY. You would agree that in any operation of that magnitude involving so many nations and so many questions, that there must be some spadework and preliminary drafting done, to have a skeleton to work on?

Mr. SPROUL. Oh, yes.

Senator TOBEY. In that respect it is no different from what would be done by any other group, whether it is a bankers' convention or anything else.

Mr. SPROUL. That is right; but my view is that this does not preclude us from having another conference of the nations of the world. The spadework would still be done and could be built upon.

The proposals are that the fund is to take care of short-term discrepancies between balance of payments income and outgo. The original conception was that it would take care of temporary imbalances. More recently, however, it has been discussed also in terms of cyclical shortages, taking up to, say, 10 years to work out. I don't think that was the original conception. I don't know, myself, just how you distinguish at the beginning between cyclical unbalance that may take 8 or 10 years to work out and a long-term loan. I think you get into very difficult water; but in any case that is the province of the fund. The province of the bank is to promote and encourage international investment; to make and guarantee long-term loans.

Now, as to the purposes of these institutions—the general purposes, of course, are set forth in the preamble, but those are generalities to which everyone agrees but which can and may mean different things

to different people. I think they do. I think that too many people allow a yearning for international cooperation, which we all have, to give them assurance in advocating things they don't know much about, because they agree with hopeful preambles.

But aside from these general purposes, to which I think we all agree, although we may have our differing interpretations, what are the most important practical reasons for considering these proposals. The immediate or pressing or practical reasons for the fund are that we are geared to free multilateral trade and that the British and some others have been leaning toward controlled bilateral trade. It is suggested that this country in the immediate postwar years will create and maintain conditions necessary for multilateral trade in a free exchange market, England will undertake, after a transition period of, say, 5 years, during which even exchange controls and bilateral currency arrangements are permitted, to join in a free multilateral trading system, if she then thinks the conditions are right. I think that is the question of interest; in considering this International Monetary Fund proposal, are we going to get a multilateral free trading world.

The immediate practical reason for the bank proposal relates to the fact that the balance of payments to the United States has been out of balance in past years in the sense that we have exported more goods and services than we imported; we have not lent money abroad steadily and substantially to balance the accounts, and at times we have tended to draw in the world's gold. It would be better for us to encourage and regularize foreign lending so as to reconstruct and develop foreign countries, to promote the growth of international trade, and, eventually, to balance our accounts by importing goods and services instead of gold.

As the principal lender, we might say, "Why set up an international bank to lend our money for us?" I think the joint and several guaranty of the members of the bank is some protection to us, though, and we need some sort of international financial institution to serve as a place of consultation, discussion, and development.

The rest of what I have to say is centered on the fund, because the bank seems to have become almost noncontroversial.

The CHAIRMAN. You are for it?

Mr. SPROUL. Yes. The main question about the fund, assuming that the idea has merit, is: Can it and will it work, or can we make it work in the transition period during the first years after the war, and is it a good bargain for the United States? I don't think it will work or can be made to work as intended because I don't think the conditions will be right. I think some other things will have to be done first, some other developments will have to take place. I don't think any international monetary system which involves the disciplines necessary for an international system will work in the immediate period after the war without exchange control, as is admitted by the fund, and I don't think the fund and exchange control belong in the game room.

The fund is essentially a long-term mechanism to iron out temporary unbalance in international financial accounts. If the idea has validity, the soundness of its loans would not depend on the purpose for which they are made but upon their magnitude and upon the general balance-of-payments position of the borrowing countries.

In the transition period the assumption on which it must be based, that there would be normal swings in the balance of payments, just

won't hold good. For many countries, for a considerable number of years—3, 4, or 5—there is going to have to be a good deal of rehabilitation and belt-tightening before they have any chance of getting back into a state even approaching equilibrium, and to where they could participate properly, as I see it, in the International Monetary Fund. Even in the longer term, of course, unless there is a steady and adequate flow of long-term investments, which would in part be helped out by the proposed bank, and unless there is a minimum degree of domestic stability in the principal industrial or commercial nations, the fund will not work.

No international monetary system, in my opinion, whether it is the gold standard or the fund or what have you, will work and survive in a long period of depression such as we had in the 1930's, when the most important countries of the world are suffering from a severe depression.

My approach, then, is that I would be willing to work further on the idea of the fund to see if it can be developed for longer-term use, but I consider it a disservice to international cooperation to launch it in the transition period. I don't think it can work out properly. Despite the efforts to protect it, I think it is likely to become a catch-all for the inadequacies of other transition arrangements. If the needs of nations are not met by other means, I think there will be an irresistible tendency to use the international currency reserves provided by the fund, which in any case are the most readily available. I think that would lead to new distortions and eventual break-down, a new maldistribution of reserves, and international friction and recrimination which would seriously affect the cause of international cooperation.

In addition to the fact I don't think it will work or can be made to work in the transition period, the proposed fund agreement, as far as I am concerned, has other draw-backs from the standpoint of the United States as an international compact. I think it submerges the idea of two-sided international adjustment of an unbalanced position and tends to put too great emphasis on the responsibility of the creditor country, which in this case would be the United States, for corrective adjustments, and it also puts too great emphasis on the use of exchange depreciation by the debtor country. We have article IV of the fund agreement, which makes devaluation of currency little more than a question of consulting with the fund before devaluing. There is the question as to what is fundamental disequilibrium which cannot be challenged if it develops because of the political and social domestic policies of the country concerned. That leaves you in a position in which a country can take domestic action which will bring about what must be considered a fundamental disequilibrium and then be free to devalue its currency if that seems to advance its interests.

Coupled with article IV we have article VII, the scarce currency provisions, which, if it were brought into operation by international agreement entered into in advance, puts on the United States the responsibility of having brought about an unbalanced international position and the responsibility for correcting it. I think in the past the gold standard has erred on the side of requiring too great adjustment, perhaps, on the part of a debtor country and too little on the part of a creditor, but I think these proposals go too far in the other direction and require too great adjustment on the part of the creditor and too little on the part of the debtor.

Secondly, I think adoption of the fund may facilitate the avoidance or postponement of solution of more difficult problems, such as agreement on international trade policy and the problem of the pound sterling and the British balance of payments, both of which are necessary to exchange stabilization.

Thirdly, I think the fund may require the permanent use of exchange controls to implement the control of capital movements and the repurchase provisions of the fund. I think the Monetary Fund agreement may institutionalize exchange controls and make them a permanent part of our machinery of international relations.

Fourth, on the positive side the agreements as they now stand sanction exchange control, multiple currency practices, and clearing agreements for the transition period, say, for 5 years or up to 5 years. Negatively, I believe, they may be held to sanction internationally and indefinitely discriminatory trade arrangements and other discrimination, excepting only currency discrimination. If this is a combined monetary convention and commercial convention, or more of a trade convention than a monetary convention, as some of its proponents have suggested, and the quotas are merely "sugar" or "bait," to get other nations of the world to come in, then I think its accomplishments are much too modest and we haven't gotten nearly enough.

I think the fund has mechanical defects growing out of the fact it is composed of a miscellany of 44 currencies, not all of which are usable internationally. There will be a discrepancy between the demand as represented by the 44 quotas and the supply as represented by the few internationally usable currencies, principally the United States dollar.

In all these circumstances I am unable to see why we must save the fund without the dotting of an i or the crossing of a t. We are told that unless the fund is retained there will have to be another conference and that rejection of any part of the output of the last Conference would jeopardize international cooperation in all fields and set us back on the road toward isolation and other nations on the road to economic warfare.

In my opinion, we can demonstrate our international good faith and responsibility in other ways than by ratifying all of the Bretton Woods agreements. We can demonstrate it by entering into international political arrangements such as are envisaged at San Francisco. We can demonstrate it, I think, by authorizing participation in the bank with suggestions for enlarging its powers. We can demonstrate it by asking for further study of the fund and its operations with report as to whether and when it should be set up, having in mind the requirements for its successful operation, such as international trade and commodity agreements and solution of the British balance-of-payments problem. If that sort of action would require another conference in order to salvage what is good in Bretton Woods, I think it could be suggested by Congress, quickly convened, and in my opinion quickly reach an agreement. The spadework has all been done during the past 2 or 3 years, and an agreement by a few of the principal countries would find ready acceptance by the rest.

In order to preserve those functions of the fund which have immediate use, the bank plan could be strengthened and broadened. I would suggest the removal of the two clauses which make membership in the bank dependent upon membership in the fund. I would suggest a provision for initial determination of exchange rates in

consultation with the bank, and for further consultation before subsequent alterations.

I would suggest a provision for consideration by the bank of removal of exchange controls, discriminatory currency arrangements, multiple currency practices, and the avoidance of competitive rate changes.

I would suggest a provision for the collection by the bank of statistical information on trade, monetary reserves, and so forth, and for communicating the views of the bank to its members.

I would suggest a provision for longer term stabilization loans, selective and controlled loans, involving no need for the adoption of loose international monetary principles, the complicated repurchase provisions of the fund agreement, and the scarce currency clause. That authority for stabilization loans by the bank, I think, is something that will be needed in the transition period; it either left out by oversight or else it was left hanging on three obscure words in the bank proposals, "in special circumstances." This left a question in the minds of many of us as to whether what seemed to be the only kind of stabilization loan which really will be needed and be of practical use in the transition period, was going to be provided by either the fund or the bank. General purpose stabilization loans to help restore a whole economy are what will be needed in the early stages.

Finally, I think consideration should be given to a modest increase in the capital of the bank, in view of the assumption of the stabilization loan function which I suggest.

If these things are done and the Bank proposal adopted, this country should then attack the British problem as an absolutely essential prerequisite to currency stabilization. Unless we clear the decks with the British, I think any stabilization we have will be a mirage, whether we have the bank or the fund or both.

That, in my opinion, includes finally wiping out the debts of the last war, a liberal definitive settlement of lend-lease obligations, agreement and perhaps help on a program of liquidating the blocked sterling balances, and agreement and help on meeting the deficit in the balance of payments in the immediate postwar years.

If we don't do these things, I think Britain is going to embrace or be forced into bilateral trading arrangements and clearing agreements. I don't think the Monetary Fund comes anywhere near meeting that problem. And we have to remember, I think, that the fund does not include renunciation of commercial measures of economic warfare, only currency measures. I think the fund agreement is really powerless if countries are at liberty to bypass it by arrangements affecting not the payments but the actual movement of goods.

Senator TOBEY. You are familiar with the fact that at San Francisco an economic council has been set up and these matters come within the purview of that council?

Mr. SPROUL. Yes.

Senator TOBEY. That is a healthy sign, isn't it?

Mr. SPROUL. Yes; I think it is. But my point is that in the Bretton Woods proposal arrangements affecting payments; but the actual movements of goods are not covered, and therefore, we are not really dealing with the reality. That goes for Russia as well as for Great Britain or any other country. In Great Britain Mr. Churchill has recently stated in a manifesto of the Conservative Party that Great Britain will not give up its rights to safeguard its balance of payments

by whatever means are necessary, and I think that represents British opinion.

Therefore, I say: Why do we not revert to article VII of the lend-lease agreement with Great Britain and discuss these problems in the terms and spirit of that agreement and see if we cannot work out a more thorough settlement of the British problem—which I think is a prerequisite to any sensible approach to international currency stabilization. I think we are tossing in some of our chips before the game begins, and at the same time we are jeopardizing our chances of doing a successful cooperative job.

The CHAIRMAN. Are there any questions?

Senator TOBEY. Yes. Mr. Sproul, you have stated very frankly you are here representing Mr. Sproul alone. Of course, I know you are a doctor or a specialist. You come forth in the democratic process and give your testimony as you have done. We all know that doctors disagree and certainly bankers disagree. I assume you know Mr. Ralph E. Flanders, president of the Federal Reserve Bank of Boston; Mr. Alfred H. Williams, president of the Federal Reserve Bank of Philadelphia; Mr. Ray M. Bidney, president of the Federal Reserve Bank of Cleveland; Mr. Hugh Leach, president of the Federal Reserve Bank of Richmond; Mr. W. S. McLarin, president of the Federal Reserve Bank of Atlanta; Mr. C. S. Young, president of the Federal Reserve Bank of Chicago; Mr. Chester Davis, president of the Federal Reserve Bank of St. Louis; Mr. Peyton, president of the Federal Reserve Bank of Minneapolis; Mr. H. G. Leedy, president of the Federal Reserve Bank of Kansas City; Mr. R. R. Gilbert, president of the Federal Reserve Bank of Dallas? You know them all, do you not?

Mr. SPROUL. Yes; I do.

Senator TOBEY. They are all in favor of the Bretton Woods agreement; you know that?

Mr. SPROUL. I only know that in the sense that Mr. Flanders, Mr. Williams, and Mr. Davis are in favor of the agreement. As to the others, they may or may not be.

Senator TOBEY. I can give you their testimony; they all favor the adoption of the fund.

Senator TAFT. Without amendment?

Senator TOBEY. As it passed the House. You appear before us not only as against the fund but you also favor or ask for a postponement of it; is that correct? Is that the tenor of your remarks?

Mr. SPROUL. Yes.

Senator TOBEY. You are acquainted with Prof. Oliver Sprague and his viewpoint?

Mr. SPROUL. Yes.

Senator TOBEY. Do you look upon him as an eminent authority on currency matters?

Mr. SPROUL. Yes.

Senator TOBEY. May I read a statement that Mr. Sprague made the other day in contradistinction to your view, with all due respect to you:

Now, if we are going to have disordered exchange and bilateral clearing arrangements, I think there are very few so-called productive foreign loans which are in any certain sense really secure.

That is my reason for regarding it as essential that we have some hope, through some such device as the fund, that we may have a reasonably orderly development in the monetary arrangements between countries with a minimum of restrictions upon transfers and a minimum of bilateral and other special arrangements between countries.

If you do not have the fund, if you were to establish the bank only, then I should imagine that most countries would take the view that the only course proper for them was to develop one and another of the various kinds of bilateral commercial special arrangements which were devised in large part by my old friend, Schacht of the Reichsbank. That kind of thing was developed in a very extensive way in the thirties and the conditions are not unfavorable to the persistence of dealings of that kind by countries that find it, for one reason or another, exceedingly difficult to pay for even essential imports.

* * * Without the fund, my forecast would be the development of so many bilateral restrictive arrangements that the utility of the bank would be very much diminished.

You don't concur in that?

Mr. SPROUL. I don't concur in that; no. I think that during the transition period it is admitted by the fund we are going to have orderly currency arrangements brought about not by the fund but by exchange control. We are going to have bilateral and clearing agreements. They are in its terms permitted by the fund. We are not going to be able to avoid these various arrangements which Mr. Sprague speaks of during the transition period. The Schachtian devices are abuses of that sort of arrangement which need not of themselves be wholly destructive. I think they can be and may be. I think it is an improvement upon them to have multilateral trading, but they need not be of themselves wholly and continuously destructive if they are not abused as Germany abused them.

Senator TART. May I ask one question there?

Senator TOBEY. Yes.

Senator TART. In other words, while you agree with Mr. Sprague that these things ought to be removed, you think the fund won't remove them?

Mr. SPROUL. It will not remove them, and it admits it will not remove them for the transition period.

Senator TOBEY. Now, as to the matter of postponement, again referring to Mr. Sprague, who has been adviser to the Federal Reserve Board, the Bank of England, and the United States Treasury, and in contradistinction to your contention that the fund should be postponed, I read as follows Mr. Sprague's viewpoint on that:

I do not accept that (the suggestion that the fund be delayed 3 to 5 years) because in the meantime I should fear a good many undesirable developments would take place which may not take place if we establish the fund. * * * I see no likelihood * * * that an orderly exchange relationship would be developed by simply waiting.

* * * It seems to me you are asking to create a situation which is so nice and comfortable, and you need such good equilibrium that the fund would be pretty nearly surplusage, and I should think the bank might be also * * *. Policies will be determined in this period while we are making some further investigations, and I think these policies will be of a kind which will make it perhaps impossible for the fund to function well or for the bank to issue very many securities that are consistent with safety.

You cannot wait while the house is burning down. You have to use what instrumentalities you can in the hope that they will serve.

Just try to imagine yourself in the situation of the more distressed countries if this is more or less indefinitely postponed. It seems to me very clear that that postponement would have an influence in the determination of policies away from well-ordered relationships, all around the world.

So, I say we have eminent authorities like Sprague and we have the presidents of the Federal Reserve banks. We have their testimony before us. We sit here as a jury and weigh the evidence and in a sense decide the case on the preponderance of the evidence. Now, the preponderance of the evidence is all in favor of the adoption by the Senate of the bank and the fund as it passed the House,

based on the expert testimony of members of the Federal Reserve banks and on other expert testimony. Is that a fair statement?

Mr. SPROUL. I think it is an exaggerated statement.

Senator TOBEY. On what lack of evidence is it based?

Mr. SPROUL. Well, with all due respect to my colleagues in the Federal Reserve System, the Federal Reserve banks of the other districts are not so closely concerned with the international operations of the Federal Reserve System as the Federal Reserve Bank of New York, and I think they would be the first to admit, many of them, that they are not experts in matters of the sort we are discussing here.

With respect to Mr. Sprague's quotation which you read last, I think that the kind of international arrangements, which he fears, can develop under the fund as well as without the fund. But if they develop under the fund, they develop with international sanction and approval and when we come to the end of the transition period and some country, Great Britain, perhaps, says, "We are sorry, but our situation won't permit us to enter into a free multilateral trade arrangement;" we will have to go on with these agreements, which have sanctioned it in advance, the things he sees happening outside of the fund." I say currency stabilization during the transition period is going to be maintained by exchange controls in any case, not by the fund.

Senator TOBEY. As to the relative importance of the presidents of the other banks in contradistinction to the largest bank in the world, which is your bank, the fact remains these men would not hold these positions if they were run-of-mill financiers. They are experts in their line, and they spoke and gave their testimony as such. You are approaching this thing as a banker, as you should, backed by all the conservatism and good judgment that you have acquired by years of experience. We are not approaching it from that standpoint primarily. We are approaching this thing because we see the world prostrate. We see that the alternative to doing something is doing nothing, and doing nothing is chaos, in our judgment. So we have the option of putting 2 or 3 billions into this fund or doing nothing and having chaos. According to the press, we spent \$8,000,000,000 in the first 22 days of the Okinawa campaign. We put that yardstick over against the fund and we see the whole amount of the fund is less in dollars alone than the cost of the war for 22 days. If we can afford to spend \$8,000,000,000 every 30 days to kill men and maim them for life and to destroy so much of the world, in God's name can't we afford to take a chance on trying to bring peace to the world?

Mr. SPROUL. I appear not as a banker but as a central banker. There is quite a distinction. I have no years of conservatism behind me. I have years of trying to improve and develop and liberalize the functioning of the domestic and international banking machinery. I think the question of what we are expending every day on the war as compared to the cost of this agreement has nothing to do with the case, really, Senator. I am not particularly concerned, myself, about the cost of these arrangements. Under the gold standard we committed ourselves to give way or to sell our goods and services in return for gold for which we did not have any particular use, in unlimited amounts. I am not particularly concerned about the cost of these proposals if we are going to get our money's worth or anywhere near it in improved international relations.

Senator TOBEY. That is what concerns us.

Mr. SPROUL. That is what concerns you and that is what concerns me.

Senator MURDOCK. What did you mean, Mr. Sproul, earlier in your testimony when you mentioned what I thought was a very significant factor in leading you to arrive at your conclusion—that becoming a part of Bretton Woods was not a good bargain for the United States? Would you briefly tell us what you mean by a good bargain?

Mr. SPROUL. I tried to develop that. I think a good bargain for the United States would be one which carried in itself the seeds of a likely solution of the difficulty of creating a world of multilateral trade, on the desirability of which we are agreed, and some of the rest of the world is not; at least some countries lean toward bilateral trade. I think we should not allow ourselves to have a rose pinned on us for all the adjustments which are to be made, in case of international imbalance, as the principal creditor country. I think we ought to receive, for all the contributions we make to the fund and the bank, returns from the other countries in the way of concessions with respect to their currency policies and their trade policies which will give us hope of leading to this world of multilateral trade we are all trying to reach.

Senator MURDOCK. You do think that ultimately this international arrangement is a goal to which we should work?

Mr. SPROUL. I do. I think the goal of multilateral trade internationally is the goal which from the standpoint of this country and I think from the standpoint of the whole world is the goal toward which we should work. I think the bank can contribute materially in leading us toward that goal, but I don't think the fund can, at least during the transition period.

Senator MURDOCK. You want to postpone, as I understand it, and make no international economic arrangement at this time?

Mr. SPROUL. No. I want to make international economic arrangements. I want to set up the bank now with expanded power. I want more definite arrangements between ourselves and the British, as the two greatest international trading nations, so that international arrangements, particularly international currency arrangements, will later have a fair chance of working.

Senator MURDOCK. So you do, if I understand you, take the position that economic stability, international economic stability, should go hand in hand with political stability?

Mr. SPROUL. Yes; I do. I think that international currency stability requires international economic stability; that if the underlying economic situation is not present, your currency stability won't mean anything.

Senator MURDOCK. Don't you think stability of international currency would be very conducive to international political stability?

Mr. SPROUL. I think we are going to have international currency stability, in terms of exchange rates, maintained by exchange controls for a number of years, as is contemplated in the fund. That is where you will get your immediate currency stability, in terms of exchange rates. The kind of stabilization loans which will be needed before these exchange controls can be relaxed and the international stabilization loans of general character and somewhat longer term, which I suggest be made by the bank, and at a later stage when exchange controls may be removed will there be proper use and need for the short-term loans which the fund is expected to provide.

Senator FULBRIGHT. I don't quite understand the great distinction between the bank and the fund because several witnesses have said while these advances from the fund are really just loans like any other loans—we had a great argument whether they should be called a loan or not—in a real sense it seems to me they are a loan for a special purpose with some distinction in the length of time. If that is true, I don't see why you think that even though it will not solve all the problems it might not make some contribution to the problem. What is the essential evil in the fund, if it is just another type of lending institution?

Mr. SPROUL. Because the type of loan which it is set up to provide, as I understand it, is not the type of loan which will be needed or can be properly or effectively used in the transition period.

Senator FULBRIGHT. Well, you want that function to be given to the bank. Is there any idea in your mind that the bank will be run more efficiently than the fund?

Mr. SPROUL. I think the kind of loans I am talking about which are long-term stabilization loans to help a country to restore its whole economy can be better made by the bank where each loan is considered on its merits and in terms of the whole situation of the country rather than by a currency exchange arrangement such as the fund is supposed to be. Freedom of access to a currency pool does not, I think, accord with the situation we have to meet, on the one hand, and, on the other hand, there may be limitations on the amount of that freedom of access from year to year which I have in mind would make it impossible for the fund to meet that kind of situation.

Senator FULBRIGHT. You think that loans by the bank could be made and as one of the conditions they would demand in order to get a loan, they would give up competitive depreciation, for example. Do you think that could be done by a loan under the bank just as well as under this arrangement?

Mr. SPROUL. I think the bank could have in its charter the requirement of renunciation of discriminatory practices just as early as it is possible to ask for this under the fund. They do not have to renounce immediately under the fund.

Senator FULBRIGHT. No; not for the first 5 years and possibly under certain conditions for a longer term, but it still seems to me that in general you think this function could be performed but you would prefer that it would be by one organization. Is that an essential and important difference, whether they have two organizations to perform two functions or one to perform two functions?

Mr. SPROUL. I think there would be some advantage in having one organization in this area. But I think there are two different functions to be performed here, and if one of them is to be performed by the fund, it is not the kind of function we need in the immediate transition period and it involves us in making concessions to the abnormal transition needs of other countries and in sanctioning international trade agreements which in the purview of our general experience and our requirements I think are undesirable.

Senator FULBRIGHT. Well, a concession is always undesirable but if we get anything of value in return, of course that is a bargain. You don't think we would get anything of value in return?

Mr. SPROUL. I don't think we would get nearly enough.

Senator FULBRIGHT. You said I think among other things we could rely on San Francisco and some of those things. You really don't believe San Francisco would be effective if that is the only thing we had in international relations?

Mr. SPROUL. No. I say at this stage, to demonstrate our desire to cooperate and our responsibility in the international field we do not have to do everything at once. We do not have to adopt everything that is put up to us just as it is put up to us.

Senator FULBRIGHT. Do you feel this thing would have any effect upon the determination of the policies of some of these countries, as to whether or not they can afford to pursue private trading or whether they must accept the system that is followed by Russia?

Mr. SPROUL. I don't think so myself. I don't think that what is considered here or what is included in these arrangements will be the determining factor as to whether they must follow one system or another.

Senator FULBRIGHT. I would say part of your idea is that the world is in such bad shape that this would be ineffective. If it is in that bad shape and we do nothing, it seems to me that is a great temptation, perhaps a necessity, for them to accept the communistic system.

Mr. SPROUL. Of course, I don't suggest we do nothing. I think I suggest that we do the thing which will be effective and useful in the transition period. One is the proposed international bank and two is some sort of an arrangement in settlement or a concordat with Great Britain.

Senator FULBRIGHT. This won't exclude a concordat with Great Britain. I would assume that even though the fund and the bank is accepted there still would be further special loans or some sort of a definite arrangement with Great Britain because of the very reasons you suggest. I don't think this excludes that.

Mr. SPROUL. It does not in its terms but I should be fearful myself, with the impression that has been generated that this fund and bank will take care of the financial difficulties of the postwar world, that the opposition to additional aid to Great Britain which is always ready to express itself, would be much more forcible than if we did not adhere to an ineffective fund that was supposed to do the job.

Senator FULBRIGHT. Well, I don't know if anybody feels that this is all that should be done; I haven't seen much evidence of that. This is just one of the several things.

Mr. SPROUL. Well, the impression I have gotten is that the public is thinking of this or is receiving publicity to lead it to think in terms of this as the settlement of the international financial problem.

Senator MURDOCK. You do know, however, that England is entering into arrangements with countries, say, Sweden and other countries, at this very time?

Mr. SPROUL. They have entered into bilateral arrangements with other countries.

Senator MURDOCK. Doesn't that rather discount the statement you have made that the fund is supposed to do the job?

Mr. SPROUL. I think it illustrates their feeling that the fund won't do the job or that it may not do the job for them. If the fund is not adopted they will have some other arrangements, but in any case, I think they are going to depend during the transition period largely on bilateral arrangements to protect their position.

Senator MURDOCK. In their bilateral agreements with Sweden and I assume with other countries they do refer to the International Fund and agree to make any amendments necessary to make the bilateral arrangement or agreement conform to the international arrangement.

Mr. SPROUL. That is very easy, because for the transition period the international arrangement does not prohibit the kind of bilateral agreements they are entering into.

Senator MURDOCK. Then don't we come right back to the point that Senator Fulbright has developed, that the mere entrance into the fund does not deprive them of these bilateral agreements or other arrangements that any countries may want to enter into, so far as they are not in violation of the international arrangement?

Mr. SPROUL. I think that is so but we are hoping eventually to get away from bilateral arrangements and agreements and the fact they are not prohibited by the fund I don't think contributes to that.

Senator MURDOCK. No; I think that the fund very wisely did not prohibit them.

Mr. SPROUL. I don't think it could have in the immediate postwar period.

Senator MURDOCK. I doubt that too but certainly if they are not prohibited and we can have the international arrangement along with whatever bilateral arrangements are necessary then it is difficult for me to see why we should postpone the international arrangement. I cannot see why it is going to be difficult or why it is going to be harmful to the normal relations that would go on if we did not have the fund, as long as it does not preclude them.

Mr. SPROUL. I tried to point out when I discussed it earlier what I thought some of those difficulties were.

Senator MURDOCK. Well, I admit my question is rather argumentative.

Senator FULBRIGHT. I have this feeling and I think it is fairly common: That the movements you have suggested are the traditional movements that were utilized in the past 20 or 25 years. There is a general feeling not only in the financial but in the political field that we have tried that system and look at the trouble we are in. Now you are suggesting the traditional tried way. It is tried. I don't attribute this trouble all to this, but there is a feeling that we must do something a little different from what we have done before. Now none of us, or at least I am not qualified to say this is the only way, but at least it is a venture along a new approach to this problem. There is a tendency to say we must take a chance. We know what has happened under the old system of trading, both in economics and diplomacy. We have to do something different or we can anticipate a repetition of the same experiences. Don't you have some feeling of that sort?

Mr. SPROUL. I have. That is why I suggest that we ought to adhere to the bank with the expanded powers I suggested to provide an international meeting place, an international forum, a place for international consultation on matters which are not wholly domestic matters but which have international aspects and which would be able to give the kind of assistance to foreign countries to reestablish themselves which I think will be needed in the immediate postwar period.

Senator FULBRIGHT. There isn't anything about the bank, as I can

see it—it is just the traditional system there, which they will follow in much the same way it has always been done. It is simply a guaranty, as I understand it, the same as if you were a private banker, you investigate a loan and you agree to make it. The principal function of the bank is to say we will guarantee the loan.

Mr. SPROUL. Well, the novelty of that is that it is an international system, a place where all the countries of the world would come together and discuss these problems of international currency and lending and borrowing, and treat them as international problems as well as domestic problems. That is what we haven't had before.

Senator FULBRIGHT. Would you say if this fund had a reasonable chance of eliminating the practice of competitive depreciation, that that alone would be worth anything, if it did that and nothing else?

Mr. SPROUL. Yes; I think that would be worth something.

Senator FULBRIGHT. You don't know how much—you don't know whether it is worth this much?

Mr. SPROUL. No. I think the value of competitive depreciation depends on the particular circumstances and the particular countries. I think used widely as a weapon of international economic warfare, of course, it is undesirable and destructive, and in the end ineffective.

Senator MURDOCK. Mr. Chairman, may I ask this question: The success of the bank would depend, would it not, Mr. Sproul, largely on the good faith of the nations participating in the banking arrangements?

Mr. SPROUL. That would be a good part of the success of the bank, particularly if it had these added powers which I have suggested, relating to consultation and discussion and information, but its success as a lending institution would depend also on the capacity of its management and the care with which the loans were made.

Senator MURDOCK. But the good faith of the participating nations is certainly an important factor, is it not?

Mr. SPROUL. It is an important factor in any of these international arrangements.

Senator MURDOCK. I would assume so, although I am not a banker. If that is true, then isn't the statement made by Churchill, which I thought you considered very significant, just as applicable to the bank as it would be to the fund?

Mr. SPROUL. The bank does not now try to set up these international monetary principles which the fund tries to set up.

Senator MURDOCK. I know that.

Mr. SPROUL. But even there Mr. Churchill is only saying Great Britain will do what it is now permitted to do by the fund. I say to adopt a set of international monetary principles in the present state of the world means that you have to accept what I would consider the least common denominator in international monetary principles and I think that is an undesirable thing to do.

Senator MURDOCK. But if it wasn't for the present state of the world, if everything was fine and no disequilibrium existed, there would be no need at all for any international arrangement, would there? Isn't that the very reason we investigated the thing and the majority of the people are willing and anxious to go into it, I think, is because of the very state of the world at the present time.

Mr. SPROUL. Well, we never have a state of perfect equilibrium in the world. We will always have the need for some sort of temporary

lending and borrowing to avoid the necessity for more drastic action as a result of temporary unbalance. We never have a state—it is unlikely we would ever have a state of perfect equilibrium.

Senator MURDOCK. Well, we have never had a state of disequilibrium like we are faced with today.

Mr. SPROUL. But when we have a state of disequilibrium such as we are faced with today, an institution which is designed merely to offset temporarily relatively small imbalances is not the kind of an institution which can meet the situation, and in trying to give the impression that it is going to meet it, I think we give away too much to get something which won't do the job.

Senator MURDOCK. Of course, that is merely your opinion that it won't do the job.

Mr. SPROUL. That is right.

Senator MURDOCK. It has never been tried.

Senator FULBRIGHT. We run exactly that same risk with San Francisco. There are many people who will think when we sign that charter, everything is done; but of course it is not done, as you know. It is just merely a beginning. But if your reasoning were applied to San Francisco you would say because of the possible disappointment which I am sure will be generally in existence in this country, we had better not sign it at all, it is going to mislead people. You could argue that way. It certainly is not going to solve all the problems of the peace just because we sign that charter. Yet we feel the necessity for signing it and making it work to the best of our ability and our wisdom. If we are really wise you would grant it might have some success. Don't you think the same reasoning would apply to Bretton Woods?

Mr. SPROUL. I think it would be very difficult for the fund to have any success in doing what it is supposed to do in the transition period. Of course, I am not suggesting an abandonment of the whole idea. I think, in terms of your comparison with San Francisco, the acceptance of the bank with enlarged powers is the measure of acceptance of what has been proposed. I think also there is some difference, though it may be slight, between international political arrangements and international financial arrangements. I think you can afford to go a little closer to the heart of the matter in the way you work out financial arrangements and in the order of precedence than you can in the political arrangements.

Senator TOBEY. Referring to the quotation from Mr. Churchill, is your interpretation there that Mr. Churchill through that statement implied that if Britain adopted the agreements when they are submitted to her Parliament, that Britain at her own sweet will, at any time she felt it was to her best interests, would flaunt those provisions and cast them aside and go her own way independently of the other countries?

Mr. SPROUL. I don't think she would flaunt the provisions but I think under the provisions as they now stand it is within her discretion and if she cannot accommodate herself to a multilateral free trading world she can, and it is admitted by the fund, take these other measures, during the transition period, and non-currency measures for all time, as far as the fund specifically says anything about it.

Senator TOBEY. Granted that Britain did come across with the other nations and the whole thing was ratified and went into effect, isn't it

your judgment that Britain would measure up to and follow the principles of the agreement?

Mr. SPROUL. I think she would try to but I think you can set up standards which a country may find it impossible to live up to and then it must embrace other defenses.

Senator TOBEY. When that time would come, under the consultation features of the agreement, she would talk things over and see what could be done. That is one of the valuable provisions, the consultative feature.

Mr. SPROUL. I think that is a valuable provision.

Senator TOBEY. That is worth retaining whatever we do, isn't it?

Mr. SPROUL. I think it is.

Senator TAFT. Mr. Sproul, as you point out, the fund itself is to blame if the British interpretation is something that is authorized by the fund. No doubt you are familiar with Lord Keynes' statement on this matter of the International Monetary Fund before the House of Lords on May 23, 1944. In it he said:

First, it is clearly recognized and agreed that, during the postwar transitional period of uncertain duration, we are entitled to retain any of those wartime restrictions and special arrangements with the sterling area and others which are helpful to us, without being open to the charge of acting contrary to any general arrangements into which we have entered.

I think that is still their position.

Mr. SPROUL. I think that is still their position.

Senator TAFT. And that is in effect what Mr. Churchill was saying.

Mr. SPROUL. I think he was saying the same thing in different words, and it is no violation of what they have agreed to to say it.

The CHAIRMAN. Well, thank you. I suppose, as a summary, you are for the bank now? You are for the bank?

Mr. SPROUL. Yes.

The CHAIRMAN. And on the question of the fund you are really not against it, but you desire a postponement of it; isn't that your attitude?

Mr. SPROUL. I would like to have the idea of the fund further studied and developed so that it could be organized and put into operation when the time comes when such a fund would have a reasonable chance of success.

The CHAIRMAN. You did not say that you were absolutely against the fund, as some others have said?

Mr. SPROUL. I am against it at the present time. I don't know whether I would be against it 2 or 3 years from now.

The CHAIRMAN. Exactly. Thank you very much, Mr. Sproul.

Mr. SPROUL. You are welcome.

Senator MILLIKIN. I would like to ask Mr. Sproul a question.

The CHAIRMAN. Certainly.

Senator MILLIKIN. It has been suggested that through the operation of this fund communism might be confined. Have you heard any suggestions that, if this fund became effective, Russia would withdraw her communistic activities in Finland, Lithuania, Latvia, Estonia, Poland, Eastern Germany, Czechoslovakia, Bulgaria, Rumania, Yugoslavia?

Mr. SPROUL. No; I have not. I haven't heard the fund discussed in connection with communism at all.

Senator MILLIKIN. I did not raise the question.

STATEMENT OF JOHN H. WILLIAMS, VICE PRESIDENT, FEDERAL RESERVE BANK, NEW YORK, N. Y.

The CHAIRMAN. Mr. Williams, you are a member of the Federal Reserve, one of the directors of the Federal Reserve bank, aren't you?

Mr. WILLIAMS. No; I am a vice president of the Federal Reserve Bank of New York.

The CHAIRMAN. Oh, a vice president of that?

Mr. WILLIAMS. Yes. Also a professor of economics at Harvard. I don't know in what capacity I am here. I would like to repeat what Mr. Sproul said. I am speaking only for myself as an individual.

The CHAIRMAN. Senator Taft suggested that you be invited to come here.

Senator TAFT. Yes; I asked that Mr. Williams be called, and I would like him, if he would, to state his experience in matters of this kind, in his present position that he occupies.

Mr. WILLIAMS. I have been interested in this subject ever since I was a graduate student at Harvard. I specialized in international monetary economics, wrote my doctor's thesis in that field. I went to Argentina to study their problem of the eighties and nineties to get some light on the workings of international monetary forces, and I have been interested—I have been a specialist in that subject matter ever since.

Senator TOBEY. Mr. Williams, I am interested in this. You spoke of the thesis you wrote, and we have all had that experience one time or another. This is entirely aside from the subject, but if you took that thesis you wrote then, on which you received your degree, and put it alongside of modern conditions and economics, would it about be apropos and apply? Would you change very much in it or would you make considerable changes in it?

Mr. WILLIAMS. Well, I haven't looked at it for some time. [Laughter.]

Senator TOBEY. Is that your answer?

Mr. WILLIAMS. No; I think much of it would be applicable. In other words, I think the historical study of these problems is essential. We need perspective on the problem. Problems are not so new as we are apt to think they are.

I think I might mention that I was one of the two American delegates on the agenda committee of the world conference of 1933, and I made two trips to Geneva in 1932-33, that winter, to draw up the agenda. I do not think perhaps it is necessary to say that I have always been for international cooperation.

Senator TAFT. You are now a professor at Harvard?

Mr. WILLIAMS. I am still a professor and also a dean at Harvard.

Senator TAFT. And also connected with the New York Federal Reserve Bank?

Mr. WILLIAMS. Also connected, in charge of this research department, as vice president.

Senator TAFT. Mr. Williams, is it fair to ask if you were invited to be a delegate at Bretton Woods?

Mr. WILLIAMS. I wasn't invite to be a delegate. I wasn't directly invited to attend in any capacity, but I was informed indirectly that

they would be glad to have me attend if I would stay within the President's instructions to the delegates.

Senator TAFT. And that was, to conform, to support the basis of the experts' report?

Mr. WILLIAMS. To support the experts' report. And I declined to do so, because I had fault to find with the experts' report and wanted to continue to be free to think about the problem.

Senator TAFT. I see. Do you wish to make a statement, Mr. Williams, or do you want to be questioned?

Mr. WILLIAMS. I might submit for the record the last little paper I wrote on this subject, the paper which I delivered in April at the meeting of the Academy of Political Science. I have been writing about this matter really from the beginning. I began with the publication of the Keynes and White plans in April of 1943 and continued to follow the whole discussion here and abroad and the developments of the negotiations, and at each significant stage I have written a new paper. This is the last one. It is shorter than the others, and I think it brings perhaps into better focus what I really think about the problem.

Senator TAFT. How long is it, Mr. Williams?

Mr. WILLIAMS. It is not very long.

The CHAIRMAN. Would you like to put it into the record?

Senator TAFT. Yes. Mr. Chairman, I ask that it be made a part of the record.

The CHAIRMAN. Yes.

Senator TAFT. It is only about 10 pages, small pages.

(The paper submitted by Mr. Williams is as follows:)

THE BRETTON WOODS AGREEMENTS

By JOHN H. WILLIAMS, dean, Graduate School of Public Administration, Harvard University

(An address before the Academy of Political Science at the semiannual meeting on "world organization—economic, political, and social", April 4-5, 1945)

I

In my Foreign Affairs paper last fall,¹ I suggested adoption of the bank, with modifications designed to permit it to perform some of the purposes of the Monetary Fund during the transition period from war to peace, and postponement for the present of a decision on the fund. As the debate has developed in recent months, this has appeared to be the central issue. There has been general endorsement of the bank but a widespread difference of views about the fund.

When the debate about the fund began with the publication of the original Keynes and White plans in April 1943, I thought that the main question was whether we should approach the problem in terms of a general international monetary organization, as those plans proposed, or should begin with the major countries whose currencies are the chief means of international payment and whose policies and circumstances will have a predominant effect upon the character of postwar international trade and currency relations. After Bretton Woods, I believed that a solution should be sought so far as possible within the framework of that agreement, but, as I have listened in recent months to the discussion here and abroad and watched developments, I have become convinced, even more than before, that the question whether and when we should adopt the fund should depend primarily upon what is done, outside the fund, toward solving England's special problems.

¹ "International Monetary Plans: After Bretton Woods," *Foreign Affairs*, October 1944. This and a number of earlier papers are included in my book, *Postwar Monetary Plans and Other Essays* (New York, 2d ed., 1945).

Before proceeding further with this question, I shall review briefly some of the more general issues around which the debate on the fund has revolved.

The fund is intended primarily as an agency of long-run monetary management. It is intended to give all member countries access to a common fund of currencies in order to meet the short-term fluctuations in their international position. The basic assumption for the successful operation of such a fund is that there should be a tendency for international transactions to equalize, apart from short-term fluctuations, so that the fund would not become lopsided, with some nations in the position of chronic debtors and others of chronic creditors in the fund. Whether such an even-balance position could be maintained would depend partly upon the circumstances under which the fund had to operate and partly upon the principles and policies of adjustment pursued by the fund.

One of the early questions raised about the fund by myself and others was whether in the abnormal conditions of the period of transition from war to peace the expectation of an even-balance position could be realized. It was in response to this criticism that the provision was introduced into the fund agreement prohibiting the use of the fund for expenditures for relief, reconstruction, and the liquidation of war balances. Actual avoidance in practice, however, of such use would be more difficult than its formal prohibition, which still leaves the question whether the fund would not in fact be a catch-all for inadequacies in the transitional arrangements. Nations would not know in advance just what they were using the fund for. They would only know their over-all situation and would come to the fund to cover any deficits that might arise. I still feel strongly that to put the fund into effect during the transition period would involve the risk of wrecking it because of the unusual character of the conditions that it would have to confront.

A growing awareness of this danger, coupled, I think, with an awareness of the inadequacies of the fund provisions regarding the methods of international adjustment whereby the fund is to be maintained on an even keel, even under more normal conditions, seems to me to be responsible for a number of the suggestions that have been made about protecting the fund. Treasury officials have said in their testimony that care would need to be exercised in putting the fund into operation, that member countries would have to convince the governing body of the fund that they were in proper condition to begin using it, and that it would probably take a year or two after adoption to bring the fund into operation.

Much of the discussion of the fund has centered on the question whether members would have an automatic right to use it. The advocates of the fund have stressed the fact that it provides for a graduated rate of interest and that the right to use it would normally be limited to 25 percent a year of a nation's quota. Bankers and other critics of the fund have questioned whether these and other safeguards now in the fund agreement are sufficient. A fear of misuse of the fund has been a principal reason for suggesting that the bank should be specifically empowered to make longer term stabilization loans.

I have never sympathized with the idea that the way to protect the fund is to make it operate like a bank. Critics of this general line of suggestion seem to me quite right in maintaining that this type of restriction on the use of the fund will only undermine its usefulness. If the fund is to operate as a common pool of foreign exchange resources, equivalent to gold, there must be the same freedom of access and of use as pertains to gold itself. To guard against possible misuses of the fund by measures which undermine its essential logic seems to me a wrong approach. My own suggestion of a postponement of adoption of the fund rests, in part, on the ground that the conditions of the transition period will not be suitable for it. To succeed at all, the fund would need a trial under favorable circumstances. It seems to me better to wait until those circumstances have been achieved rather than to circumscribe the fund with restrictions that deny its character.

A second major criticism which I have made relates to the technical or mechanical character of the fund. As now designed, the fund would be composed of a miscellany of 44 national currencies, most of which are not used as international means of payment. Under the conditions of the immediate postwar period, and perhaps for a long period to come, it cannot even be assumed that the pound will be an internationally usable currency except within the sterling

area and under the special bilateral currency agreements which England is now in process of arranging, particularly with the countries of western Europe. Thus, as a practical matter, we may be confronted with a large discrepancy between the demand for exchange as represented by the quotas of the member countries and the American obligation to supply dollars, which is limited to \$2,750,000,000. This discrepancy will be aggravated by the fact that member countries coming to the fund for a means of international payment will put up their currencies and obtain dollars which will be paid out of the fund; whereas, since this country does not, for the most part make its international payments by buying other currencies, there will be no way in which, in the normal operations of the fund, we can replace these dollars. What this means is that, even when we have an even balance of payments, there will be a tendency for dollars to seep out of the fund. This is too technical a question to discuss further in this paper, but I do want to point out that, though there have been a number of official replies to critics, this point has been ignored, and we have been presented instead with a discussion of whether or not there is likely to be a scarcity of dollars in the general market, such as occurred during the interwar period. To quote Dr. Harry White's paper in *Foreign Affairs*, January 1945: "Such a shortage, if it develops, will not be because of the fund but in spite of the fund. * * * The fund cannot create a shortage of dollars." My point was expressly that the fund mechanism could create a shortage of dollars in the fund.²

I have not been able to find a solution of this difficulty which seems to me workable. Keynes' clearing union would have avoided it by making the obligation to supply dollars or any other desired currency equal to the aggregate size of his clearing union. But I do not think it is practicable now to raise so large a question, and it seems reasonably certain that the clearing union would encounter greater objection in this country than the fund. The repurchase provisions of the fund agreement do not seem to provide an adequate solution of the problem, if we assume, as is evidently implied and intended by the interest charge and other provisions of the fund agreement, that it will be the countries without adequate exchange resources that will use the fund. In any event it ought to be made clear that the recapture of dollars would require the maintenance of the machinery of exchange control, not merely for the transition period but permanently, and for current account transactions as well as for capital transactions.

A third set of questions relates to the provisions for exchange-rate variation and the methods of international trade adjustment. It should be on these, rather than upon the restrictions on the use of the fund that success or failure of the whole experiment should depend. I shall not attempt to add anything in this short paper to what I have previously said about the problem of international adjustment. I have always favored liberal provisions about exchange-rate variation, but on the assumption that this would be the rare, rather than the usual, method of international trade adjustment. I have been disturbed throughout the discussion by the great, and apparently growing, divergence of American and British public opinion on this point. It relates closely to what I shall say later about the British problem.

Unless we can find more common ground than has thus far appeared, I would rather proceed on the postwar problems of adjustment case by case without rules, because I am afraid we will descend into legalism, each country setting forth its own interpretations of the provisions and then defending them on legalistic ground. We shall need economic analysis of the most objective and thorough kind rather than attempts to fence and hide behind forms of words.

One aspect of the problem of international adjustment on which I have especially insisted is that, in our search for relieving the harshness which the gold standard has at times entailed, the principle of two-sided international adjustment must not become submerged. As a method of international adjustment, a system which is the "exact opposite" of the gold standard, as Keynes has characterized the present agreement, seems to me meaningless. The phrase often used, that we will permit exchange-rate variation but not competitive depreciation, also means to me very little. I cannot see any escape from the

²I have seen two papers which address themselves to the question I raised. See A. F. Bourneuf, Professor Williams and the Fund, *American Economic Review*, vol. 34, December 1944, pp. 840-47, and W. A. Brown, Jr., The Repurchase Provisions of the Proposed International Monetary Fund, *American Economic Review*, vol. 35, March 1945, pp. 111-20. Neither, in my opinion, sees the problem I had in mind, but I cannot discuss them here.

necessity for two-sided cost-price adjustments, in most circumstances, if we are to have anything that deserves to be called an international system. Exchange-rate variation does not provide an escape from price adjustments but changes their impact. It becomes a question of how much of the adjustment is to be borne by the internal economy of a country and how much is to be forced upon others. If we look objectively at the interwar experience, we must recognize not only that the gold standard had a deflationary effect on some countries adhering to it, and notably on England in 1925-31,³ but also that currency depreciation had a deflationary effect on the outside world, resulting in a vicious circle of depreciation in one country after another; the most striking example was the British depreciation of 1931 which deflated prices throughout the world. The problem is a difficult one. The attempt to escape into a system of exchange controls and bilateral trade was really an attempt to run away from both the gold standard and variable exchange rates.

One thing that has most troubled me during the entire course of the discussions has been the reiterated insistence by the British that the responsibility for international trade adjustment rests on the creditor country. I cannot avoid the conclusion that, taken against the background of this British discussion, the fact that the negotiation with regard to principles of adjustment resulted finally in the removal from the document of all references to two-sided adjustment and the high-lighting of the one case of a possible dollar shortage means quite specifically that if we do not prevent a dollar shortage that fact will be taken to mean we have not discharged our responsibility, and have therefore given the rest of the world carte blanche to resume exchange control and trade discrimination as before. It is not that I wish to run away from this responsibility. It is only that I think it will not work unless there is a clear understanding that the responsibility must be shared. There is no action which a surplus country might take which does not have its counterpart for the deficit countries, whether it be in the sphere of price changes, trade changes, foreign investment, or any other method of adjustment that might be explored. Recognition of this fact is the only reasonable basis on which to proceed.

III

This brings me back to the British problem. From the beginning, I have felt that England's situation in the postwar world will have a decisive effect upon whether the world moves toward multilateral trade with reasonably free and stable currencies or toward bilateral trade and currency arrangements. As time passes, the gravity of England's problem and its implications for the future become only more clear. It is not merely, or perhaps mainly, that England has now hanging over her an accumulation of over \$12,000,000,000 of international war indebtedness, growing at the rate of several billions dollars a year. There is the further fact that her current account balance in the postwar years will show a large annual deficit, owing to the loss of foreign assets, of foreign markets, of shipping, her need of sustained high imports for the transition period, and the probable requirement of some interest payment on the accumulated debt. England's current account deficit has been variously estimated at from \$1,200,000,000 to as high as \$2,000,000,000 a year in the immediate postwar period. How rapidly it will be corrected is a matter of conjecture.

Much emphasis has been laid in British comment on the necessity for maintaining full employment in both England and this country. The first effect of full employment in England would probably be seen in her imports; there have been estimates that at full employment her imports might exceed the prewar level by as much as 50 percent. The effect of full employment in this country must be divided into the direct and indirect effects. The direct effect on British exports would be slight since our imports from Britain amount to a small fraction of her exports. I have seen estimates which suggest that even the indirect effects, through Britain's trade with third countries, would probably not remove more than half of her current account deficit. Britain's problem is that her exports must rise much more than in proportion to the general growth of production and trade throughout the world, even on optimistic assumptions about world trade and employment.

It is not difficult to see how England's problem complicates the general problem of international trade adjustment. Next to the desirability of an expansion of

³ England's experience really proved little, since, as all are agreed, the great mistake was in the overvaluation of the pound.

American imports, toward which high employment in this country would provide the chief impetus, the point most often made is that we can achieve international trade and currency adjustment through American foreign investment. This point is always included in the British statements so constantly repeated that a creditor nation need never have a larger surplus than it wants to have; it can always invest its foreign exchange surplus abroad, as England did in the nineteenth century, and in this way a dollar shortage could be avoided.⁴ But it seems to me very doubtful whether in her special circumstances during the post-war period England would really welcome this method of adjustment if, as would almost inevitably be the case, our foreign investment were accompanied by a great expansion of our exports. Again, I am led back to the conclusion that in such a complicated problem no one nation should put itself in the position of appearing to assume the sole responsibility.

IV

It is essential to an understanding of the Bretton Woods agreement to appreciate the fact that it is primarily the result of a long process of negotiation between the British and American experts, subsequently adhered to by the delegates of 44 countries at Bretton Woods. The gist of the agreement is that if this country will create and maintain the conditions necessary for multilateral trade in a reasonably free exchange market. England will undertake, after a transition period of 3 to 5 years during which exchange control and bilateral currency arrangements are permitted, to relinquish her controls and join a multilateral exchange system. The agreement, however, carefully states that, even after the 5-year period, the member country itself shall be the judge of whether the conditions are right for relaxing its controls. In weighing the adoption of the fund, the essential question is whether there is a fair prospect that this bargain can be consummated.

Since the Bretton Woods Conference, England has been negotiating a series of bilateral currency agreements. The one with Belgium last October has been followed recently by agreements with Sweden and with France, and others are said to be in process of negotiation. Meanwhile, as the recent arrangement with Egypt indicates, the controls within the sterling area are being tightened, and its supply of dollars rigidly controlled. These facts, taken together with what I have said about the extreme difficulty of England's position, her large war debt, and even more important her large annual deficit on current account, carry a strong presumption that during the transition years England will be moving further toward, rather than away from, a system of bilateral trade and currency agreements and will find herself under compulsion to intensify, rather than relax, her exchange controls.

Contemplation of this prospect has led me to wonder whether the transition from the transition period will not prove to be the really crucial problem. A set of vested interests and a network of discriminatory trade and currency practices will have grown up which it may prove very difficult to break down. Against these we would have the moral compulsions of the fund agreement. But with the responsibility resting on us to avoid a dollar shortage, and the further implied responsibility which runs all through the British comment that we must maintain full employment as a necessary condition of the successful operation of the fund agreement, it might be far from clear where the moral responsibility for failure lay. Meanwhile, in a world comprising a fully managed economy like that of Russia, a centrally planned economy in England, if anything like the Beveridge model should be adopted, and some kind of modified free enterprise system in this country, there will be much room for honest doubt as to whether a system of multilateral trade and free exchange is any longer workable.

As I said in beginning this paper, I have been impressed from the outset of the debate with the necessity of attempting to create the conditions under which this country and England can embark upon multilateral trade with reasonably free and stable exchange rates. If this could be done, the task of general international monetary and trade organization would not be difficult. If it is not done, I am becoming only more convinced, as time passes and the situation develops, that the approach in terms of a general world monetary organization will fail. Perhaps among people genuinely concerned for the future of international cooperation

⁴ This, of course, refers to a general dollar shortage in the market, not to the special shortage in the fund which I discussed previously.

the issue boils down to a question whether adoption of the monetary fund, with whatever defects it may have, would not compel us to face up to the logic of its implications and to take the steps, outside the fund, which are necessary for its eventual success, or whether, as I believe, it is necessary to face up to the situation in advance. If England is to find an escape from the road down which she appears to be heading, if she is to avoid the temptation of making a virtue of her bad situation and using blocked sterling balances to develop her trade connections bilaterally, she must have help during the transition period from countries—and especially from this country—which are genuinely interested in multilateral trade and stable exchange rates.

The situation calls for heroic measures, going far beyond anything that the fund or the bank could legitimately undertake. I have suggested the continuance of lend-lease for the transition period, but this now appears to be politically impracticable. I sometimes wonder whether the main effect of the Bretton Woods debate has not been to shift the emphasis from the concrete problem, on the solution of which the success of the Bretton Woods agreement must depend, to more formal and abstract solutions which will give us a comfortable feeling of cooperation without the actuality. Perhaps the most unfortunate aspect of the discussion has been that in the heat of debate these two approaches have come to be regarded as alternatives, whereas what we need in the end is both. Some of the Bretton Woods delegates have made disparaging remarks about any form of direct aid to England, and the trend of the hearings before the House committee has been such as to suggest that if the Bretton Woods agreements are adopted, there will be no direct aid—at any rate not in the form of lend-lease or in the form of a credit on terms which England could afford to accept.

v

My preference, therefore, is to adopt the bank with some changes and to postpone the fund until more favorable conditions have been developed for its operation. Among these conditions, I would list, first, a thorough exploration with the British Government of possible methods of dealing with her problem along other than bilateral trade and currency lines. I would list, second, a thorough exploration of the problems of commercial policy. There is now in Congress a bill to continue the Reciprocal Trade Agreements Act, which expires in June, with an important new provision that the power to decrease tariff rates should be by 50 percent from the rates in effect at the beginning of this year, rather than, as heretofore, from the rates in effect in 1934. I strongly favor the renewal of the act with this all-important provision. Following its adoption, we should discuss the possibilities of reciprocal trade agreements with England and in this connection explore particularly her attitude toward the most-favored-nation clause. The fact has been emphasized in British comment on Bretton Woods that that agreement binds England only to renounce exchange restrictions, after 5 years, and says nothing about bilateral trade agreements. The implication is that agreement on commercial policy will be a far more serious matter. One suggestion frequently made is that before entering into agreements about trade England would want to have more assurance about our full employment policy; and resolution VII of the Bretton Woods agreements, calling for cooperation on internal full employment policies, has been much emphasized as a necessary preliminary to agreements on trade. Nothing would be more futile than to sign the Bretton Woods agreement looking toward the eventual elimination of exchange restrictions while leaving the door open to the accomplishment of the same purposes through quotas and other forms of trade restrictions. Clarification of Britain's own problem and of what we can do to help solve it should go far toward providing the conditions under which we can agree to relax both currency and trade restrictions.

As to the bank, there are two functions which it could perform in the transition period, in addition to the making or guaranteeing of loans for specific projects of reconstruction or development. In his testimony before the House committee, Dr. White suggested that it might be necessary for the fund to make loans running up to 8 years. This clearly contemplates something more than merely evening up the short-term fluctuations in the balances of payments of the member countries. I agree that there will be need for longer-term loans which cannot be stated in the form of specific projects and whose general purpose would be to rehabilitate countries and restore their powers of production and of export to the point where the countries would be in proper condition for engaging in the

shorter-term operations contemplated by the fund.⁸ For such a purpose the bank would be a much more suitable instrument than the fund. It is on these grounds that this kind of amendment of the bank agreement has been suggested by the American Bankers Association and the Committee for Economic Development. For the reasons I have given earlier, I would postpone adoption of the fund to the end of the transition period and rely for exchange stability in the interval upon exchange control, the bank, newly mined gold, and the \$20,000,000,000 of gold and dollar balances which are now owned by foreign countries and are fairly widely distributed round the world.

The second function that the bank might well perform during this interval is to serve as a center of consultation and cooperation on exchange rates. This is a point that needs to be emphasized because in the minds of some advocates of the fund its value lies not so much in actual credit operations as in the fact that it would be an agency of cooperation on exchange rates and on other monetary matters. I can see no reason why, until operations by the fund are actually begun, this function could not be performed equally well by the bank. The fact that the bank would not be subject to a set of monetary principles, such as are provided in the fund agreement, would in the circumstances be an advantage rather than a disadvantage. It would mean, as I suggested earlier, proceeding from ease to ease on the merits and would avoid the danger of a descent into legalism.

VI

There remains the question whether we have any longer any freedom to discuss the Bretton Woods agreements on their individual merits, or must make an all-or-nothing decision here and now. There are many who feel that the fact that, in what we hope will be a series of major political and economic steps toward postwar international cooperation, the Bretton Woods agreements are the first to reach the stage of legislative decision gives them a significance that goes beyond their own intrinsic merits or importance. Bretton Woods is the key to San Francisco; Bretton Woods is the first step away from economic warfare; the issue is isolationism versus Bretton Woods; a further conference on monetary plans must at all costs be avoided. These are some of the statements being made in support of prompt and complete acceptance.

I have some sympathy with this view but think it is exaggerated. We are embarking upon a great and difficult experiment in a field in which, up to now, the record has been one of failure. We must not content ourselves with the forms of cooperation if there are honest grounds for doubting that they embrace the substance. The procedure I have suggested would, I believe, promote rather than impair international cooperation; it would hasten, rather than delay, the achievement, as distinct from the formulation, of our aims. The worst bargain we could make, but unfortunately as matters now stand perhaps the easiest, would be to adopt promptly the Bretton Woods agreements in toto but be left with the discriminatory trade and exchange practices and without the bases for genuine cooperative efforts. The essential question is whether we should delay the fund and in the interval find a solution of the British problem or whether we should adopt the fund in the hope that we will understand clearly that a solution of that problem must be found, outside the fund but by methods that are consistent with it. I am afraid, human nature being what it is, that if we leave the matter in the latter way we will not do the job. Our only hope of success is to face the problem squarely now.

Mr. WILLIAMS. I might begin by summarizing it so that you will have my views.

Senator TAFT. Yes.

Senator TOBEY. You haven't copies enough to give us each one here, have you? With you, I mean?

Mr. WILLIAMS. I didn't bring enough copies, but I could do it at lunch.

Senator TOBEY. I wish you would see that we each get a copy furnished the committee.

Mr. WILLIAMS. Yes; I would be glad to.

Senator TAFT. Furnish the committee with copies.

⁸ Perhaps the best analogy is with the "League Loans" after the last war.

Mr. WILLIAMS. Yes; I would be very glad to do that.

I think I can go through most of this from memory. As I say, I followed the negotiations all along with the greatest interest, because this is a subject which is very dear to my heart, really, and any criticisms I have to offer are not intended to impede international co-operation in any way; just the contrary. I felt, when the discussion began with the publication of those two plans, the British plan and our own, that the main question was whether we should approach this problem in terms of a general international monetary organization or whether we should begin with the major countries whose policies and circumstances will have a dominant effect on the character of postwar trade and currency relations and whose currencies are the chief means of international payments. So I felt, and announced in my first paper, that that was the question, and that I leaned toward beginning with the relations between this country and England as the proper starting point.

Now, after the Bretton Woods meeting I felt under a good deal of pressure, as I think we have all felt, to try to work out a solution within that framework even though I hadn't preferred that approach, and I have tried hard to do that. It seemed to me clear that the Bank was acceptable. I had some doubts at the very beginning even about that. My difficulty was how we could have an international bank with only one big lender.

Senator MILLIKIN. With only one what?

Mr. WILLIAMS. With only one big lender. But the Bretton Woods draft on the bank I think was probably the most notable achievement of the Conference, and it cleared up my doubts. I could see after that that it was desirable to internationalize the responsibility, especially the guaranty function, and in that way share the risk, and I have become very enthusiastic about the bank. I would like to see its powers enlarged in various ways. That I think is a thoroughly feasible instrument and a great achievement for our experts, for all the experts that worked on it.

But I continued to have doubts about the fund, and as I have watched the situation develop and listened to the discussion here and in England I have become only more persuaded that the adoption of this fund should be made contingent on a solution of the British problem. I think that is the central postwar problem. I am very much interested in the suggestion that we should go ahead after adoption of the fund to work out a solution of the British problem. Perhaps the whole debate boils down to that question of whether we will now realize the implications of the fund agreement and proceed to live up to them by entering into negotiations with Britain, but I am skeptical of what we shall achieve if we do things in that order, frankly.

Now, perhaps I had better put this English problem on one side, and we will come back and discuss it more at length. Coming to the fund itself, I have found three main kinds of difficulties with it. The first is that it is not suited to the transition period, and I do not believe it was ever intended for those conditions.

I should like to say something about the history of that. The first draft of the American plan that I saw required that exchange controls be removed within 1 year. Now, I didn't think that was feasible, and

in one of my early articles I contended that we would have to continue exchange controls for the transition period. But it seemed clear to me, from reading that draft, that the American position on the matter was that, since we were going to have the fund, why of course we wouldn't have the exchange controls. The fund was going to be another method of achieving orderly currency arrangements. And with that I agree. These are alternative methods. But it seemed to me that in the conditions of the transition period it would not be possible for the fund to achieve orderly currency arrangements, and that we had better admit that and try to work our way out of our difficult situation into a more normal situation to which the fund would be suited. It was a case of either or, and I think that was the position of the American experts: they said, "We will have the fund, not the exchange controls." Then they discovered that we had to continue the exchange controls, but by this time they had become wedded to the idea of the fund anyway, even from the beginning.

Now, that, I think, is a fundamental error of analysis.

I would like to develop that for a moment. What is the purpose of the fund? I think we all agree it is to even out the fluctuations in the balance of payments. On the assumption of free exchange transactions the fluctuations do occur; whether for seasonal or cyclical or other reasons, we know they do. And we have said we need a common pool of currencies to which all nations can have access, to even out those fluctuations.

Now, if you have exchange control, then there shouldn't be a deficit in any country's balance of payments, by a deliberate process a nation can create if it likes. That would amount to a deliberate act of borrowing from the fund. That is not the same thing at all, as using the fund to smooth out the variations that occur under the conditions of free exchange.

Now, that is a very hard analytical point with which I feel sure the experts in the beginning would have agreed, and this is indicated by the fact that they called for the abolition of exchange controls within 1 year, but then they found that wasn't feasible. They were right in that judgment. I said all along it would not be feasible; we would have to rely on the exchange controls. But it followed in my mind, from that decision to continue the exchange controls, that we shouldn't use the fund too in that period, you see. It just isn't appropriate to do so.

Now, that is the point on that, the main point, and it leads me to the conclusion that this agreement should be amended to read that the member countries shall not use the resources of the fund until they remove exchange control on current transactions. Of course, the control of the capital transactions, everybody seems to agree, is in a different category. I might speak about that later, but I do not want to mix up the discussion at this point. I would definitely recommend, and it would be in accordance, I think, with the original conception, American conception, of the fund, that we do not use the fund so long as we have the exchange controls, because the use of the fund under those conditions would have a different significance, would amount to a deliberate act of borrowing, for whatever purpose.

Do I make that point clear?

Senator TART. Yes, entirely so.

Mr. WILLIAMS. I don't see the answer to that. I have never heard the answer to it. There have been official replies to critics, but they have in my judgment amounted in part, at any rate, to putting up straw men and knocking them down.

Senator TAFT. And in effect, then, this is a loan fund of \$2,750,000, 000 which in the transition period will presumably be drawn down rather quickly; is that correct?

Mr. WILLIAMS. It could be drawn down by whatever nation wished so to operate its exchange control as to incur a deficit.

Senator TAFT. How about a nation like Russia that really has no exchange problem?

Mr. WILLIAMS. Well, strictly speaking a nation like Russia doesn't belong in this agreement, because Russia doesn't have fluctuations in its balance of payments for the same reasons that we do, Russia doesn't have free exchange, doesn't have a free economy, and any condition that obtains in her balance of payments is presumably deliberate.

Senator TAFT. So that as far as Russia is concerned the \$1,200,000 that they can draw from the fund is just a loan, for all practical purposes?

Mr. WILLIAMS. I think it has to be regarded as a loan. The use of this fund, Monetary Fund, a common pool of currencies, assumes that all the nations using it are engaging in trade with each other consisting of individual transactions which are cleared freely through the market without any controls. Now, of course that is not the Russian system, and so, strictly speaking, Russia does not belong in this kind of a fund.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. It follows in logic that any other country that adopts the Russian system does not belong in the fund?

Mr. WILLIAMS. That follows in logic, yes.

Senator MILLIKIN. Does it follow in logic that any country that has totalitarianism or where the whole economy is regimented, where there is no such thing as a free competitive flow of business—that such a country does not belong?

Mr. WILLIAMS. It does follow in logic.

Senator FULBRIGHT. Well, in that—

Mr. WILLIAMS. This is a system for the free-exchange countries. It doesn't have any meaning otherwise; it doesn't make any sense otherwise.

Senator FULBRIGHT. It is assumed, I think, generally that loans are going to be necessary from this country to other nations. If this is just a specialized method of making loans, why then is it particularly objectionable, assuming that it is just another way of loaning money?

Mr. WILLIAMS. Well, of course, in the strict theory of this subject, as our own experts have many times insisted, these transfers shouldn't be called loans. They are really equivalent to gold movement between countries.

Senator MURDOCK. To what?

Mr. WILLIAMS. They shouldn't be called loans strictly.

Senator MURDOCK. And they are equivalent to?

Mr. WILLIAMS. They are equivalent to a movement of money between countries.

Senator MURDOCK. Oh.

Mr. WILLIAMS. To movement of gold.

Senator TAFT. Both Mr. White and Mr. Brown, however, pretty well got around to admitting they were loans, for practical purposes, as the fund is set up.

Mr. WILLIAMS. They have been given the appearance of loans, I think, for the reason that there was a growing feeling among the experts that this agreement didn't have any teeth in it; it didn't have any powers of international adjustment such as we speak of ordinarily with respect to a gold standard or any kind of an international monetary standard, and therefore they thought it necessary to put a different kind of teeth in, such as you would apply to a loan: For example, a rate of interest and an annual quota: That the members can't draw down beyond 25 percent of their quota in any one year. That sort of thing. This attempts to accomplish in a different way—really a banking way—what ought really to be accomplished not in that way at all—for the fund isn't a bank—but through some powers of international adjustment.

The CHAIRMAN. Mr. Williams, do you mind? I have to go to the floor for a few moments. I hope you go right on, and I am sorry to miss even so much, but I will be back very soon, and will read what you have stated.

Senator FULBRIGHT. Well, as I understood you a moment ago, you said for practical purposes, particularly with regard to Russia, this is a loan; that is about what it is?

Mr. WILLIAMS. That is right. Therefore—

Senator FULBRIGHT. Well, now, why is it objectionable to make a loan in this way, peculiarly objectionable? Is it just because you do not think it is fitting because it is a misnomer, or is there any inherent danger?

What I have in mind is, we were told by one expert that actually these loans are better secured than—there is a greater—there is a certain priority for the assets—than in the bank in case of difficulties. Of course, the only chance, as I said, of a loss of the loan would be a complete failure of the country. They could not tie these funds up by restrictions. In a sense, then, just treated as a loan, is there anything inherently evil about this method of making the loan, if we want to approach it that way?

Mr. WILLIAMS. Well, I am not taking any position on what might be called the political aspect. It might be necessary to have Russia in to make this thing acceptable generally. But I think we ought to call things by their right names and put them in their right categories. There is a difference between a bank and a fund. That's all.

Senator FULBRIGHT. Well, I believe that is preferable, but even thought there may be—we will assume there are—some other reasons for calling it by this name, it is essentially an unsound method of making a loan?

Mr. WILLIAMS. Yes.

Senator FULBRIGHT. Is it going to fail as a loaning institution?

Mr. WILLIAMS. Yes; it is an unsound method in this connection: Having regard to the purpose of the International Fund, to give a nation whose trade is not free, you see, who doesn't therefore have the

problem for which the fund is intended—to give that nation access to that fund is a mistake.

Senator TAFT. Well, isn't it true, Mr. Williams, also, that these loans are more or less automatic? That is, each of the nations with a quota has a right to a much larger extent to draw funds than were they to come and ask for a loan.

Mr. WILLIAMS. That is right. This gives Russia an automatic right.

Senator FULBRIGHT. Well, now, on that—

Mr. WILLIAMS. Now, I believe that the access to this fund should be automatic. I haven't questioned that. I have questioned the desirability of having an automatic fund in the transition period. But, given the appropriate circumstances, I think access to the fund should be automatic but should be governed by what we call the principles of international adjustment. I don't know how much you want me to go into those.

Senator FULBRIGHT. Now, as for its being automatic, I understood that the way it was set up the interest rate is appreciably higher on a loan from this fund than in the ordinary course of business from the bank, and that they wouldn't use it for that purpose if they didn't have to. In other words, they would go make a loan for a lower interest rate.

Mr. WILLIAMS. My preference is that there should be no rate of interest.

Senator FULBRIGHT. There should be none at all?

Mr. WILLIAMS. Yes.

Senator MURDOCK. I believe that the committee would be very much interested in your going into this question of international adjustments to some extent. Is that the opinion of the committee?

Senator FULBRIGHT. I would be.

Mr. WILLIAMS. Well, when we speak of it—

Senator MILLIKIN. Mr. Chairman, might I interrupt for just a moment?

The CHAIRMAN. Certainly.

Senator MILLIKIN. Would it be a correct variant of your theme to say that you should not make loans to achieve an unbalance in foreign exchange, rather than to achieve stabilization?

Mr. WILLIAMS. Yes; certainly the purpose ought to be stabilization. If you do it for any other purpose, you are misusing the fund.

Senator FULBRIGHT. Well, its long-term purpose—you will, I assume, agree with Mr. Sproul that if we could get past the transitional period this idea is not too bad. I mean it might be an acceptable method, assuming we got through the next 4 or 5 years; is that right?

Mr. WILLIAMS. Yes. I have always regarded this idea as an evolution, a growth, out of the stabilization of the leading currencies. That is what it essentially depends on. If we could work out the conditions of multilateral trade and free exchange for this country and England, there would not be much difficulty about extending them to the rest of the world. If you don't do that, if you adopt the mechanism of the fund and the governing body and everything else and don't create the conditions for multilateral trade under free exchange for these two leading countries, then you are going to fail; and that I

think we should clearly see, whether we believe, as I do, that you ought to deal with the English problem first, or believe as some others do, that we had better set up the machinery first and then deal with the British problem.

Senator FULBRIGHT. Why not deal with them at the same time? That is, I assume that the negotiations are even going on now as to what they are going to be able to borrow and what arrangements they will make.

Mr. WILLIAMS. Well, I am very much interested in that, and I hear gossip about it. I don't really know anything.

Senator FULBRIGHT. Would you say, if that was successfully done, then that would cure part of your objection to the fund?

Mr. WILLIAMS. It would, yes. It becomes a question of procedure, in my mind. I asked the British delegates what they were planning to do with respect to their own problem. I asked Keynes that.

Senator FULBRIGHT. Yes?

Mr. WILLIAMS. And he said that they hadn't really got to it yet. He quoted one of their statesmen saying that friends wouldn't let them down. I had got no impression whatever that they were really prepared to sit down with us on that particular problem, which I think is essential.

Senator TAFT. Mr. Williams, do you happen to know whether the British are out making bilateral agreements with other countries throughout the world?

Mr. WILLIAMS. Yes.

Senator TAFT. We have had evidence here of a Swedish monetary agreement.

Mr. WILLIAMS. That is right.

Senator TAFT. And a French monetary agreement.

Mr. WILLIAMS. That is right. Now, in a way these are simply resumptions of some earlier agreements. You remember in '39-40 England entered into bilateral currency agreements, as I recall it, with France, Belgium, and Holland, and it seemed then a desirable thing to do. I sympathized with it, and I am not unsympathetic even now to what I see them doing. I think their main purpose is to try to promote trade between their countries, and it doesn't necessarily mean that they are eventually going down a different road, but—

Senator MILLIKIN. Mr. Chairman.

Mr. WILLIAMS. I am afraid that if they continue in this way, their position being so bad, these arrangements will get fastened on them and that, regardless of what may be their present intentions, a whole network of vested interests, special trade relations, will grow up, and that the really difficult problem for us will be the transition from the transition period. We now have a comfortable feeling that that is 5 years off. A great many things are permissible now that we say are not going to be permissible later, but when we get to the transition from the transition period what kind of a state is the world going to be in? As I see it, England is going to go more and more into these bilateral currency and trade agreements, not from any want of good faith, but under the pressure of her economic necessity.

Senator TAFT. And under the express authorization of the fund.

Mr. WILLIAMS. Under the express authorization of the fund.

Senator MURDOCK. Well, but don't you consider that the fund itself, to some degree at least, will be a deterrent to these bilateral agreements?

Mr. WILLIAMS. Well, it is meant to be, certainly. I don't really think it would be because it is all out of proportion to the size of the problem. I do not know how much the British mean to use the fund. I have heard some of the delegates say they don't want to use it at all; they would hope they wouldn't use it.

Senator MURDOCK. You mean that it is too small?

Mr. WILLIAMS. It is really too small for their problem. It illustrates very well the difference between the over-all international approach and a specific approach. If we were approaching the English problem, we would think in some magnitudes appropriate to that problem; but when we just include that problem in with a lot of other problems in a grand scheme, then it would be out of order for the fund—or the bank either, for that matter—to do anything of appropriate magnitude for the concrete problem.

Do I make that clear?

Senator FULBRIGHT. Could you suggest, fairly briefly—I know it is a complicated subject—your ideas as to what should be done with our relations with Britain aside from the fund, as to how we would approach the solution of that problem?

Mr. WILLIAMS. Well, let me first say briefly what the British problem is. England has been losing ground in international trade for a long time. It goes back to beyond the First World War. Then she used to have a surplus in her balance of payments of something like a billion dollars a year which she invested abroad. That got cut down, as a result of the first war and the loss of markets, to a small annual deficit which she was financing by a gradual disposal of her international assets. That was her position at the beginning of this war.

Now, in this war, of course, she attempted in the beginning to pay her way by using her gold and liquidating her foreign assets. Inevitably in the course of the war she lost her export markets. She had to conserve all her resources for the war. She bought heavily from nations all around the world. She financed the war for India and Egypt, and so on. It is a splendid effort. I am not being critical. She deserves, of course, the thanks of all of us. But the result of it all is that England has now a war debt, debts that have accumulated on her as the result of all this buying from abroad and financing military expenditures for some other countries, which Keynes at Bretton Woods said would be 12 billions by the end of last year.

Senator FULBRIGHT. Those are external debts?

Mr. WILLIAMS. External debt, and which Mr. Boothby more recently has estimated as 16 billions by the end of the war. I don't know just what he means by "the end of the war," but it is accumulating at the rate of several billion dollars a year, so 16 billions doesn't seem to me to be too high.

This war debt might be handled in one way or another—first of all the British may cut it down by negotiation, and be quite right in doing so, in my opinion, with countries like India and Egypt. But, in addition to that and worse than that, England will have a deficit in her

current balance of payments because of the loss of her foreign investments, the loss of her markets, the loss of shipping, her needs for imports in the transition period, some interest on this war debt. She will surely have a large current deficit, and I have seen estimates that ran all the way from \$1,200,000,000 to \$2,000,000,000 a year.

Now, that is the really difficult problem for England. How is she going to make headway against that deficit? If nothing is done, she will have the very difficult choice between tightening her belt further—and to me that isn't conceivable—or incurring further debt until in some way she can expand her exports enough to remove this deficit. That is England's problem, and I regard it as just as difficult as any problem we had after the last war: the reparations problem, for example; the inter-Allied debt. It is of that order of magnitude.

Now, here is our principal partner in the multilateral-trade, free-exchange world. Here she is, and she is in this shape, and we are expecting her to restore multilateral trade and exchange after a breathing spell of 5 years during which she has got to go on with these bilateral practices—she has got to make a virtue of her bad situation and try in every way she can to build up her trade, through putting pressure on her creditors to buy from her rather than somewhere else. That is what it amounts to.

The English and ourselves talk a lot about the establishment of full employment. They say you must have full employment or these plans won't work, and I certainly agree that it is very desirable for us to have high employment. But it won't solve the British problem. The first effect of full employment in England would certainly be to increase her imports. I have seen estimates that indicate that her imports would have to rise by as much as 50 percent beyond prewar. In other words, that makes her problem that much worse. That is how difficult it is.

Then, the direct effect of full employment here on British trade, would be very slight because her exports to us are only a small fraction, something like 10 percent or under, of her total exports. So it would have to be the indirect effect of full employment, here on the trade of other countries from which England would indirectly benefit; and I have seen estimates that that couldn't remove more than half of the British deficit. Her problem is that she has got to increase her exports relative to her imports much more than in proportion to the general growth of trade and production throughout the world, even on very optimistic assumptions about the growth of trade. That is her problem and it is an extremely difficult one.

Senator TAFT. On the other hand, in competition with us, the exports in which they compete with us, they will be able to undersell us very considerably, won't they?

Mr. WILLIAMS. Well, I don't know.

Senator TAFT. Won't they have to in order to export?

Mr. WILLIAMS. They will have to in order to export. It may degenerate into a trade war. I would just like to say this about the relations of our exports: When the British asked us for help—I mean not direct help, but the kind of help that might be expected to come from the general international arrangement—they always

stressed two main points. One is that we must have high employment here because that would expand our imports, and I agree that that would be the best single aid that we could give to the rest of the world, to have high employment here, and whether we have these plans or not, I fully agree with that.

Then, they always say, the other way is for us to invest abroad. They say that because they did it a good deal in the nineteenth century. They left their surpluses abroad as additional investment. They ask us to do that. I have heard the British experts go through this over and over again. They like to make it appear that the solution of this problem of international equilibrium is really simple if the creditor nation will only do its duty and invest its surplus abroad.

Well, now, the first question to ask the British is: Do you really mean that? If it means, as I think it must, the great growth of American exports, do you really want us to go forth making large investments abroad, and of course paying them in the form of exports? It seems that what is needed is that we should expand our international investment and somehow work it around the corner so that the British would get the exports that should accompany investments, rather than that we should. That is a problem in international trade adjustment that I can't solve. There isn't any theory on the subject of how you do that. So when you put it up to the British, "Do you really mean what you say?" I doubt, if they were being candid about it, if you would get an affirmative answer. So it becomes a kind of a cliché. The theory says that you can balance the balance by foreign investment, but that is a general answer, and you are applying it to a specific condition which I'm afraid it won't fit. Now, that is a very real difficulty.

Senator FULBRIGHT. You do not have any answer to it, really; is that it?

Mr. WILLIAMS. Well, I am leading up to it.

Senator FULBRIGHT. Oh.

Mr. WILLIAMS. I do want to point out how difficult it is to find the solution—

Senator FULBRIGHT. I can see that.

Mr. WILLIAMS. Before I try to say what it might be, I would like to go back for a moment to the conditions in the interwar period. I have often dwelt on those conditions in my mind, and I have written papers about them. I think there never was a greater tangle than that interwar period. There was a tendency on the part of the rest of the world to lay the blame for everything that happened on us during that period. We were the big, strong power. We were becoming the great creditor. Therefore it was our responsibility to see that everything worked out right.

Now, we did make some mistakes. I didn't approve of the increase of our tariff duties, frankly, in that period. I thought that was a mistake, and we incurred a great deal of recrimination on that point, and I think rightly, but I will say that the rest of the world was doing the same thing. The world was asking Germany to make reparations payments and raised their tariff walls against them. Even England went in for protection. They were all doing it. So that what we were doing was only the same thing as the rest. Also, I

believe that this particular factor was much overemphasized, that it had less effect on the situation than they would have us believe.

But look at the rest of what we did. They say you must invest abroad. Well, we did invest abroad during the twenties. I don't think we did it wisely, but it just shows that you have got to do something more than just say "Invest abroad." Much of that investment I think was mistaken. And so I have grown skeptical of foreign investments as a broad and general formula for a solution of this problem. I think it is overemphasized.

Now, in the twenties we reduced our interest rate after conference with the leading central bankers of the world in 1927. We tried to push the gold out that was coming in. We were attracting the world's gold. We tried to push it out. We succeeded for a little while, and then we had the stock-market boom, I think partly in response to those abnormally low rates of interest, and before we were through with that the gold was all back again. There was a persistent tendency toward gold inflow. I notice some of the experts, Treasury experts, have said it was only in the period '34-'38 you really had a dollar scarcity. I would say you had a tendency to have it throughout the period, but that it was interrupted by one thing and another, such as our action in 1927, in trying to push the gold out and again in '31, when England's going off gold drew gold out of this country. But later the tendency set in again remorselessly.

Now, I don't know what you can do about that problem. I'm afraid the fact is that there is a bias in the world in favor of American exports, a kind of cumulative advantage that I think England has had in her time, say, in the nineteenth century. With our methods of mass production and the kinds of goods we are capable of turning out, perhaps particularly the consumer durable goods which everybody likes to have, the world just tends to buy more from us than it can afford to, and I think they asked us—well, to invest the surplus. Now, that gets to be very mechanical. What is the difference between an involuntary investment like that and blocked exchange? The first thing you know you can't collect on anything, the investment has not been productively applied, and it is no real solution of the problem. I am only trying to suggest that the problem is very hard. That is all.

Now, coming to the English problem, I do not see anything that we can do, as a first approach to the problem, except to offer England a credit on the lowest possible terms. As a matter of fact, I favor extension of lend-lease to the problem for the transition period, which I regard as a continuation of the war, but that I think is not politically practicable. I would do the nearest possible thing to it. England cannot afford to be burdened, and we shouldn't want her to be, but the solution of this general problem at which Bretton Woods is aimed lies precisely in the solution of the British problem. If we do that, there will be no real difficulty. I would then assent to the fund. I have various kinds of technical reservations, which I should like to tell you something about, but I would sweep them all aside and say, "Yes; now I think this will work." But it does depend on the solution of this problem, and the straight-out question is: Do we mean to

solve it or not; or are we fencing around here and comforting ourselves with the forms of cooperation which do not contain the actuality?

I find myself often in an awkward position. People say, "You must be hard-boiled or cynical or something about this. You are in a minority." I have often heard the reference to the weight of authority. I am in the minority, no question about it. When a question like this arises the majority of men of good will are for it. That includes many, most, of the experts. And, frankly, most of the experts haven't really studied the problem, including some of the great authorities. I don't mean to say that the official experts haven't studied the problem. They certainly have. But many of the men who might come down here and give an opinion on this problem haven't really studied it. However, that is an aside. But I say I am in a minority.

But the question is this: I want a solution that will work, and we are here dealing in a field in which the record has been one of failure after failure after failure. The problem is difficult. I don't think we should approach this by saying, "Now, we have to agree on this. It may have some imperfection, but we have had a meeting of minds on it, and now we mustn't change it in any way." If it does not contain the substance of cooperation, then it ought to be changed. We ought not to be content with the form if we think it won't work.

Now, that is my gospel on it, and I have never been more sincere in my life.

Senator FULBRIGHT. Do you think it is worth while, or very important, I should say—do you think it is very important to this country that we do solve the British question?

Mr. WILLIAMS. Oh, I think it is.

Senator FULBRIGHT. Can we afford not to hardly?

Mr. WILLIAMS. I don't think we can.

Senator FULBRIGHT. It has much more than financial implications, doesn't it?

Mr. WILLIAMS. It does. I think it goes to the root of the whole large question, what kind of economic and political world we are going to have after this war.

Senator FULBRIGHT. That is it.

Mr. WILLIAMS. We are going to have a very badly mixed-up world. We are going to have some fully managed economies like the Russians. We may have in England a centrally planned economy if Sir William Beveridge's plan or something of the sort should some day be adopted. I don't know about that. Even if it isn't adopted, England will certainly be much further along the road of governmental planning and controls than she was before the war. England wants to do a lot of bulk purchasing internationally, have the Government buy in bulk rather than have individuals buy. Well I need not go into the Beveridge plan.

Then we will have some kind of modified free-enterprise system, I suppose. Now, there will be many people—I have found them already, perfectly sincere and intelligent, well-informed people—who will say, "This multilateral word of free exchange that you talk about is an idle dream. It can't work in the postwar world, and we are just going to gradually find it out."

Now, I don't know whether it will work or not. That is a question in my mind too. But it certainly won't work unless we create the basic conditions for it; and one of those, and I think the chief, will

be England's situation. If England finds herself forced to trade bilaterally and to continue that and get deeper into it, as I am sure she will over the next 5 years unless we do something about it, then your Bretton Woods agreement will be another international failure.

Senator MILLIKIN. Have you ever estimated the size of the credit that you believe is necessary so far as Great Britain is concerned?

Mr. WILLIAMS. Well, I have heard figures of 3 to 5 billion dollars talked about. I myself think that \$3,000,000,000 would go a long way, as we have to suppose that the most intelligent and purposeful management of both this country and England is really trying to solve this problem, and I think that \$3,000,000,000 would go a long way. Unfortunately in the heat of debate about this question some of the delegates at Bretton Woods disparaged this approach.

Senator MILLIKIN. The credit approach?

Mr. WILLIAMS. The credit approach. They said it meant doing something specially for England and letting the rest of the world go hang. And that was the leading British delegate who said that, which I think is—

Senator FULBRIGHT. You mean the British disparaged?

Mr. WILLIAMS. Yes. I can't explain that except by pride of authorship.

Senator MILLIKIN. What important areas of the world do not find themselves in either the dollar area or the sterling area?

Mr. WILLIAMS. Well, I couldn't answer that offhand. I don't know really. The sterling area is a much more definite thing than the dollar area. The dollar area I think is a kind of sphere of influence economically and financially, but not a definite mechanism.

Senator MILLIKIN. Is there any currency that you might say has an area of important influence other than the dollar or sterling areas?

Mr. WILLIAMS. I don't really think so. There might be. We used to speak of the franc and the marc as being international currencies, but more minor—

Senator MILLIKIN. Yes.

Mr. WILLIAMS. Than the dollar and the sterling. And I asked the director of the British Exchange Control if he would name me some internationally used currencies other than the dollar and the pound, and he thought for awhile, and he said, "The Indian rupee around the British Ocean, and the Argentine peso in its neighborhood," and I thought that was very illuminating.

Senator MILLIKIN. So if you bring those two currencies into reasonable adjustment with each other, the rest of it sort of goes as the hair with the hide, does it not?

Mr. WILLIAMS. It has to. The significance of an internationally usable currency I think cannot be too much insisted upon. I have dwelt on this so much, but I think one needs to, one has to. The answer that I have heard is that the trade between England and the United States, the direct trade, is small in relation to the total trade of the world, but that just isn't any answer at all. That isn't the point. The point is that these currencies are used in trade generally, and, of course, the trade of these nations with all the other nations is very important. That is the significant fact.

Senator TART. Mr. Williams, in a settlement, I suppose, to make 3 billions a sufficient credit, it would imply a general almost simultaneous settlement with all of their creditors. The extent—you men-

tioned loans permanent on some payment perhaps. It would have to be a question of a general settlement like England, wouldn't it, with all of their creditors at once?

Mr. WILLIAMS. I think it would be very desirable to have it as part of a general settlement. The problem is in two parts: What are they going to do about their war debt, and how are we to finance their current deficits? Now, if the war-debt problem isn't settled, and you go on financing the current deficits, then you don't know—to the extent that you alleviate England's problem, you don't know to what extent her creditors might take advantage of the fact that her current situation was being improved. So I think it ought to be a general settlement.

Senator TAFT. As long as those conditions exist, it seems to me that the English attempts to pay the debt or alleviate that would simply upset the fund. I mean a very slight thing might upset the whole balance of sterling and, of course, require drafts from the fund for support of sterling, wouldn't it?

Mr. WILLIAMS. Of course, I do think—

Senator TAFT. Can you separate entirely capital debts like that and current transactions?

Mr. WILLIAMS. No; I don't think you can. They flow into each other. I do think it would be desirable to get this problem solved before you attempt to operate the fund, so there wouldn't be any complications arising between them.

Well, now that is what I think about the British problem. I don't know that I can add anything to it really. It is the world's most serious problem, and it is the chief obstacle to the success of this plan, and if the problem isn't solved we are due for a failure.

Senator MILLIKIN. Isn't the heart of the whole thing to keep the dollars sound?

Mr. WILLIAMS. Yes; to keep the dollar sound and keep the pound sound.

Senator MILLIKIN. And does that not carry with it the proposition that as soon as we can we must balance our Budget? In other words, if we go on with a deficit ourselves, we will certainly have the problem here that you refer to in Great Britain.

Mr. WILLIAMS. Well, I think it is much more complicated than that. I don't believe that an unbalanced budget is inconsistent with a stable currency. Perhaps in an earlier period of history it was.

Senator MILLIKIN. A continuous, increasing unbalanced budget?

Mr. WILLIAMS. Well, I don't favor a continuous unbalanced budget, for many reasons. It very likely would be impossible to maintain a stable currency, but that would be only one of the reasons.

Senator MILLIKIN. Yes.

Mr. WILLIAMS. But I don't believe that we should insist on a balanced budget as a necessary condition of entering into currency arrangements.

Senator MILLIKIN. Oh, no. I was not proposing that. I was simply suggesting that in the long term, unless we bring our own budget into balance, we will be having the same problem that Great Britain has.

Mr. WILLIAMS. Yes; I think so. An indefinitely unbalanced budget I don't think is workable, unless the increase in the debt is small in relation to the increase of national income.

Senator MURDOCK. May I ask this question, Mr. Chairman?

The CHAIRMAN. Yes, sir.

Senator MURDOCK. When you talk of a "sound dollar" referred to by Senator Millikin, do you—I will put it this way: Of necessity must there be a gold base in order to have a sound dollar?

Mr. WILLIAMS. I don't think so.

Senator MURDOCK. You don't think that is necessary?

Senator FULBRIGHT. That is the wrong answer, Senator Murdock. [Laughter.]

Senator MURDOCK. You are in agreement, then, I assume, with Governor Eccles of the Federal Reserve System?

Mr. WILLIAMS. I am not quite sure what he thinks on this particular matter. I am sure what I think.

Senator MURDOCK. He thinks that gold is not at all necessary—

Mr. WILLIAMS. I don't think it is.

Senator MURDOCK. To a sound currency.

Mr. WILLIAMS. I think under modern conditions even the gold standard is a different thing from gold. One can set up a standard which he calls the gold standard and not have any gold in it at all, and yet it would be what we essentially mean by a gold standard, if you have fixity of exchange rates and a flow of currency from country to country, for example, through the use of the fund with no gold in it, or the use of Keynes' clearing union; and if that international money transfer affects bank reserves and bank deposits in the way that a gold flow would, then you have all the essentials for a gold standard without any gold.

Senator MURDOCK. Do you go on the—

Senator TAFT. May I quote Mr. Eccles and see whether he agrees? Mr. Eccles reduced the gold back of the Federal Reserve notes from 40 percent to 25 percent. Mr. Eccles said that he saw no necessity for any gold reserve and that the volume—he was willing to fix 25 percent as a concession to an outworn prejudice. I remember his language.

Mr. WILLIAMS. I agree with him.

Senator TAFT. You agree with that. I wanted to know.

[Laughter.]

Mr. WILLIAMS. I remember when we were all discussing the Bank Act of 1935. On suggestion I made in discussing the Bank Act of 1935 was that the gold reserve behind the Federal Reserve note be removed. That is unnecessary.

Senator MURDOCK. Well, may I ask this question: Do you think that there must be a common denominator in the form of gold if an international fund such as we are discussing is to be successful?

Mr. WILLIAMS. Well, I do not think so. You might approach the problem another way: If you have gold and it has been the international monetary unit, what advantages do you see in giving it up? That is a different question. I believe in evolution, not revolution. I don't see any reason why we ought to give up gold as an international money if we can find effective ways of using it. The thing is to make the system work. The difficulty isn't with the gold; the gold is all right. It has some advantages. One very large advantage is that a lot of people believe in it. That is important.

Senator MURDOCK. It is very important.

Mr. WILLIAMS. It is very important.

The CHAIRMAN. Of psychological importance.

Senator MURDOCK. I want to get all the gold I can out of the banks.

Mr. WILLIAMS. People will accept gold in payment when they won't accept other things. Now, that is just so. But it is a different question when you ask do I think you could set up a monetary system without gold. I think the answer is "yes," except under more primitive conditions. It is an evolution, really, to the point where you don't need gold.

Senator MILLIKIN. I should like to suggest that the individual not only likes gold, but recent testimony has shown that those nations that have dollar balances here are in a very big hurry to have them turned into gold.

Mr. WILLIAMS. That is right.

Senator MILLIKIN. I should like to ask this: If you do not believe that a sound dollar requires a gold reserve, does it require a sound printing press?

Senator MURDOCK. A sound what, Senator?

Senator MILLIKIN. Printing press. [Laughter.]

Mr. WILLIAMS. I don't know what the word "sound" means.

Senator MILLIKIN. Well, one that will work rapidly and gush out lots of paper money.

Senator FULBRIGHT. One point about that loan; you think that there should be a loan from our Government directly to the British Government?

Mr. WILLIAMS. Well, I would think in a case like this that it should be.

Senator FULBRIGHT. Yes.

Mr. WILLIAMS. It isn't a commercial risk, a financial risk, in the ordinary sense. I would like to come as closely as possible to calling it a gift.

Senator FULBRIGHT. Would you say that the 3 billion you estimate would really solve it, or should that be just an annual advance?

Mr. WILLIAMS. Well, I think it should have some relation to the size of the current deficit and the prospective behavior of that deficit. I would think that with successful, efficient management we ought to expect the British current deficit to become smaller. It ought to taper off. And I would have that in mind. Now, you see—

Senator TAFT. You don't mean, though, 3 billion as an annual—

Mr. WILLIAMS. No, no.

Senator TAFT. You mean 3 billion might—

Mr. WILLIAMS. As a total.

Senator TAFT. You think might solve the problem for the present, recognizing that 3 or 4 years from now that deficit might—the balance of trade might not be cured?

Mr. WILLIAMS. That is right. I think it would be very helpful. No one can say whether it would solve the problem entirely. I think it would be very helpful.

Senator FULBRIGHT. You said that it should approach a gift. Would you venture to say this: That we would be better off economically if we did make it a gift, rather than not do anything at all?

Mr. WILLIAMS. Under conditions, I would say "Yes."

Senator FULBRIGHT. It would be a good investment for the maintenance of our own economy and the world's if we did make it?

Mr. WILLIAMS. I would say yes, under conditions.

Senator TAFT. Mr. Williams, I am interested in the figure's size, because I think in a way the size of our future loaning is one of the things that is the main point. It is, after all, a question of degree. I think we all recognize we must help. If the British problem were solved by \$3,000,000,000, would you say that the problem of the other countries of the world could be taken care of with substantially lower sums?

In a country like Czechoslovakia would a figure like a hundred million dollars go a pretty long way in starting them off again?

Mr. WILLIAMS. Yes; I think so, because I think in many cases what they need is to get started so they can work their way out of their situation. In many cases the problem isn't the same as that of Great Britain, a nation that has gone through a great revolutionary change in its balance of payments. It is, I think, more a question of getting nations started, but I don't know how one can tell in advance just how much it would cost.

Senator TAFT. What I really have in mind was that I have at times used this same figure, 3 billion to the British, and I thought that about 3 billion more for all the rest of the world would take care of—well, we could be fairly well said to have started things going again.

Mr. WILLIAMS. Yes; I certainly think it would help a great deal. But, as I see it, we need the bank and also probably the Export-Import Bank to deal with many of these questions as they come along. One cannot make a blueprint of the whole thing here and now. But the English problem is, I think, one that we can see with sufficient definiteness so that we might say there is one we have to deal with here and now as soon as possible. I would, however, if I were negotiating this with the British, want to explore with them their commercial policies.

One hold-back I have on the Bretton Woods Agreement is that, as I think Mr. Sproul says, it isn't good bargaining procedure. Now, international agreements are bargains. It is give and take. Everybody comes in with some conception of his difficulties, and you sit down and try to iron them out. I often wonder what we have left to bargain with.

Here I think I've got to go into two matters, article IV and article VII. Now, these were both the result of prolonged negotiation. I wasn't there, and I don't know the story precisely, but I think one can see in general what happened from just reading the successive versions. The British were naturally very much concerned about their position, their international position and their internal policies, and they wanted protection to go ahead and work out their own salvation. They didn't want to enter into an international agreement that would seriously threaten their freedom on internal policy or even on external policy; and with that position I sympathize because their problem is so difficult. It is quite understandable that the British experts should express very strongly that point of view.

Well, now, they worked it out. It grew by little and little till it got to the point where I feel sure that any competent British expert could come before the governing body of the fund and make a com-

pletely convincing case in favor of whatever actions Britain might wish to take. It is completely sewed up. There is this "fundamental disequilibrium." The fund must recognize it. I don't much doubt, when England came to the fund, that it would have something that would deserve to be called a "fundamental disequilibrium."

Now, this fundamental disequilibrium could arise from internal causes: domestic social and political measures. So it could. Now, the fund could not refuse to recognize it on that ground. That to me is a complete protection to the British. I wouldn't say that the fund would have no influence whatever there. They can talk it over with the British—that is certainly desirable, but no major step that the British really wanted to take could be refused them, as I read this. Now, that is one thing. They are completely protected on their exchange position by article IV.

Now, what is there other main worry? Well, the other main worry is that the dollar might get scarce. They want to be protected against that too. How do they protect against that when it happens? Why, by methods of exchange control. And so they have written in a provision whereby this currency is declared scarce; and when it is declared scarce, then the member countries are given freedom to exercise the exchange controls. So that is a complete equipment for the British. They have got what they want on exchange rate variation, and they have got a protection against a scarce dollar: they can resort to exchange control. I don't know what more they could ask for except that in the beginning they wanted a very much larger fund; and perhaps had it been a much larger fund, which I, however, didn't approve of, they wouldn't have been so insistent on these two points. These are alternatives, you see, to a large fund. A large fund gives you lots of leeway; but if it is a small fund and your part of it is only a fraction of that, then you have got to be more careful about your control over your exchange rate and over your right to control exchange transactions.

Now, there is the picture as I see it. That is what the British experts went out to do, and they did it completely. Now, what is wrong with it? Well, I think that what is wrong with it is that it represents a bad sharing of the responsibility. It is an expression of the British contention throughout the negotiations that it is the function of the creditor to make international adjustments. Now, I just don't think that is so. The adjustments must be shared, the responsibility for them. There is no action you can mention that a creditor country might take that doesn't have its counterpart for the deficit country. That is the only sound principle, both economically and morally and psychologically, on which to proceed.

As it is now, they have got us in a box, on almost anything that might happen. They are free to vary their exchange rates in any reasonable circumstances in which they might want to do so; and they are free, in case we don't make the dollar available adequately, to resort to exchange controls. There is complete protection of their position; and I don't see in the circumstances anything that we could do about it except to shoulder the blame, make the difficult decision whether to make more dollars available even though that might not seem to us at the time the wise decision or the right remedy for the situation. We would have the hard choice between doing that or accepting the

responsibility for throwing the world back into the system of trade and currency discriminations which we are trying to get away from. It just isn't a good basis on which to proceed. We wouldn't carry enough weight in that kind of argument. That is the way I feel about it.

Now, to give that more point, let me tie the two together, article IV and article VII. It is a purely hypothetical case. Suppose that as a result of British internal policies—social security, public works, or whatever—that British costs should rise and that in consequence of this rise of costs her exports should diminish and her imports should increase and thus her balance-of-payments position become adverse. Now, since I have wanted to work the theoretical point out, I want this to happen in a fairly large way, and the British to insist upon it. Now, suppose that as a result of that, dollar scarcity should develop, as I think it well could. It is not only the direct effects; it is indirect. It is that same point I was making about the effect of full employment here, direct and indirect.

This is another similar point, the rise in British costs having direct and indirect effects on trade. Now, the dollar is the internationally usable currency, and so all these effects would tend to concentrate on the dollar. Now see the absurd position—I am pushing this far to get the case—see the absurd position that we would be in: Because of policies which the British are pursuing, the dollar becomes scarce. We then make the hard choice between making the dollar available, thus financing whatever they want to do, or of having the fund declare the dollar scarce and letting the nations go back to exchange control. That doesn't put us in a good bargaining position. And when I say "bargaining," I don't mean in any selfish sense, that we are in this to get something out of it for ourselves; I mean from the standpoint of making it work, there isn't a sufficient sharing of the obligations and responsibilities in that kind of arrangement.

Now, it seems perfectly clear to me that the British thought all this out with the greatest care and they set these down as their terms; and when the joint statement of April '44, in which they first came out, appeared, they were welcomed in the British press as a triumph for realism and common sense; at last we had come through with what they had to have. I remember a piece in the Manchester Guardian that said:

Yes; we have freedom. We have freedom to get out of this thing any time we want to. We have freedom to vary our exchange rates. We have freedom to exercise exchange controls whenever any nation is declared an under-importer, whenever its currency is scarce.

And then it said:

But let us not have too many freedoms—too much freedom—because, after all, we want this thing to work internationally.

And I question whether we really have here the makings of an international system.

Now, you know what Keynes said about it, and I have heard it said in apology since that we must remember the British climate, very dubious whether they want to take this thing or not, and so he had to overstate his case; but he called this the precise opposite of the gold standard. No international system could be the precise opposite of the gold standard; that would mean it wasn't an international system at all.

Senator TAFT. He says almost that, in his further language.

Mr. WILLIAMS. But when you put this case together you can see what the British were trying to do under the guise of an international agreement: they were trying to get a maximum of national freedom. Now, perhaps, in the circumstances of these days and having in mind England's very great difficulties, that's the most you can get, but I question whether it is enough. What it suggested to me at once was: Well, this isn't the appropriate time to try to work out principles on the Monetary Fund. I would rather go ahead with the fund without any principles and work it out from case to case, in consultation, talk it over with no principles to fence with.

Senator TAFT. Then the board would have discussions whether they made a loan, whether they permitted a transaction or not.

Mr. WILLIAMS. They would have discussion, and of course they would have to tie back into their own Governments on many questions. I really think we would be better off if we could delete those articles. But certainly if it were I—and I hope you believe me that I have been concerned for international cooperation these many years—if it were I, I never would sign that article VII. I would delete that.

Senator TAFT. Mr. Williams, what is your—

Mr. WILLIAMS. May I make one further point about article VII? There is a clause in there toward the end of the article which says that this article shall prevail over all preexisting agreements. That is meant to cut under all the Hull trade agreements. Has that been brought out in the discussion?

Senator TAFT. No; it has not, and my attention was called to it, but I—that is section 5, article VII.

Mr. WILLIAMS. Section 5.

Senator TAFT. On page 15.

Mr. WILLIAMS. I have got a different printing, I guess, of this. [reading:]

SEC. 5. Effect of other international agreements on restrictions. Members agree not to invoke the obligations of any engagements entered into with other members prior to this agreement in such a manner as will prevent the operation of the provisions of this article.

In other words, that gives this scarce-currencies article the right-of-way over any and all American trade agreements which may prohibit discriminatory trade or currency practices. This is a very, very sweeping provision. I think that ought to be brought out as clearly as possible.

Senator TAFT. That is, you will not invoke—even though they have agreed to give us the same treatment as they are giving other countries on these various things, in consideration of our having reduced our tariff for something they want to send into the United States, they may repudiate that agreement and impose exchange restrictions on use that were not imposed on anyone else.

Mr. WILLIAMS. That is right.

Now, further on this article VII, on the scarce currencies if I—if you want—if you are tired of listening to me—

Senator MILLIKIN. No; no.

The CHAIRMAN. Very interesting.

Mr. WILLIAMS. There is a point, a technical point, that has never been cleared up in my mind and which, frankly, I think was dodged

for quite a long while, though I have recently seen an article by Mr. Bernstein which is the best thing on it I have seen, but doesn't, in my judgment, dispose of the point. This is the technical flaw in the fund, which bears directly on this matter of scarce currencies, and it grows out of the difference between an internationally used currency and other currencies. This fund is a miscellany of 44 currencies, most of which are not used in international trade.

The CHAIRMAN. What do you mean by that? What do you mean by "not used"?

Senator TAFT. Internationally.

Mr. WILLIAMS. That they are not used as a means of payment.

The CHAIRMAN. Oh, I see.

Mr. WILLIAMS. When you make payments in international trade, you don't use these other currencies.

The CHAIRMAN. Yes.

Mr. WILLIAMS. You principally use the dollar or the pound.

The CHAIRMAN. Yes.

Mr. WILLIAMS. Now, in the conditions of the postwar world, for the reasons that we have been over, it is highly dubious whether the pound can be called an international currency. It will be a sterling-area currency. It will be a currency used in bilateral currency agreements and probably won't be available, broadly speaking, for general international multilateral trade. It comes down pretty much to the dollar.

Now, there is a discrepancy between the demand for exchange and the supply in this case. The demand consists of all the quotas, 8,800,000,000. The supply consists of what you can use to make payment. Most of the currencies you can't use. It comes down mostly to the dollar. So the discrepancy is between 8,800,000,000 and 2.75, which is our quota; or, to be more correct, it is between 6.05, leaving ours out, the demand for currency, and the supply of that currency, which is 2.75.

Now, there is a discrepancy to start with. That wouldn't have been true of Keynes' clearing union, because the obligation to make payment resting on every country was equal to the size of the clearing union. There couldn't be that discrepancy. But this fund is an arrangement of limited commitments all put together to make a whole.

Now, here precisely is the difficulty that I have tried to raise. When foreign countries use the fund, they will put up their currencies with the fund and draw down dollars from the fund. Those dollars will then be paid out of the fund to whomever needs to be paid: the creditor in the case, they will pay. Now, that does not reverse itself, because when we buy from abroad we don't buy foreign currencies. We pay in our currency. We make dollars available to the foreign exporter. That is really the meaning of an international money and an international money market. The international money center make payment in its own money, and then those balances are used in payment, you see, the other way around, when they buy from us.

Now, there is a fundamental discrepancy in the fund, in the mechanics of the fund. It is not a two-way affair. When they buy from us, they put up their currencies, and they draw down dollars. When we buy from them, we do not put up our currency and draw down

theirs. We make our currency available to them outside the fund in the market. Now, this isn't a question of policy, as Mr. Bernstein suggests, but of the organization and practice of the foreign exchange market.

Senator FULBRIGHT. On that point, I thought they were supposed at a certain period—or perhaps uncertain period—to repurchase their currency——

Mr. WILLIAMS. That is right.

Senator FULBRIGHT. With the dollars that they get directly, outside the fund.

Mr. WILLIAMS. Now, the repurchase provisions, I would say, are put in there primarily for this reason—I mean the growing recognition of this problem gave rise to the repurchase provisions. These provisions attempt to recapture these currencies that go out of the fund by requiring nations that have been using the fund, that are indebted to the fund, to repurchase their currencies out of their reserves; or if they have had any expansion of their reserves, they must use part of it to repurchase from the fund. It is quite a complicated set of provisions.

I have no criticism of the repurchase provisions. I think they are all right. I think they do what they are meant to do, provided that the countries are in debt to the fund, have been using it. The difficulty, however, is that the nations that would use the fund presumably would be countries that didn't have adequate exchange resources, and they wouldn't have any resources wherewith to repurchase their currencies from the fund. If they did, they wouldn't go to the fund in the first place.

Senator FULBRIGHT. Well, now, I think seasonally that might vary. I would have thought sometimes they wouldn't have it, and later they would.

Mr. WILLIAMS. It could be that sometimes they wouldn't have it, and later they would; but if you just make the assumption that on balance of everything there would be a tendency for what we might call the exchange-poor countries to use the fund more than the exchange-rich countries, then you have my case, and I don't see what could be done about it.

The best answer to it, I think, is that there is a provision in the fund agreement that nations wanting another currency for gold, must offer that gold to the fund. Now that, I think, does mean that the fund could replenish its dollars if it had an adequate supply of gold, and this adequate supply of gold it could pretty well get in this way. That is the best answer that I can see. But what it means, if you analyze it, I think, is that if the United States general over-all position in the exchange market is such that we are having a gold inflow, as we had in the interwar period, then there won't be any scarcity of dollars in the fund. In other words, if there was a dollar scarcity in the general market, a disequilibrium indicated by an inflow of gold into the United States, then my particular technical difficulty wouldn't appear. But this, of course, would be no solution, since a general dollar scarcity is what we must avoid.

Senator TAFT. Mr. Williams, on this repayment business, what assurance is there that dollars may not be short in the fund while in-

dividuals and corporations in these various countries have dollars? I don't see that.

Mr. WILLIAMS. I don't think there is any assurance.

Senator TAFT. You mean you don't count their dollars in counting the country's monetary reserves, as I see it.

Mr. WILLIAMS. No.

Senator TAFT. Unless they have a law requiring them to turn dollars over, why, then dollars may be scarce in the fund when they are not scarce in other places.

Mr. WILLIAMS. I have seen it suggested that the foreign-exchange resources of countries are pretty well official now, so that this problem of seepage into private hands wouldn't really mean anything. The answer to that is that this is a condition of exchange control. In order to control the exchange, you may corral all the exchange so that you know where it is and so it becomes official. But the purpose of this agreement is to do away with exchange controls; and so, just in the process of relaxing the exchange controls, the balances which previously had been official would become nonofficial; and it says in the document here that banks and traders must be allowed to have adequate working balances of foreign exchange, so I would suppose that that would be a technical difficulty encountered in the process of relaxing the exchange controls, that the dollars would flow away into the private hands. Then the only way to get them back would be to reimpose the exchange control.

Senator TAFT. Mr. Williams, I don't want to keep you indefinitely, but would you care to sum up your conclusions as to Mr. Sproul's suggestion that certain features of the fund be incorporated in the bank, and we just do with the bank, or an alternative suggestion that we simply postpone action on the fund for several years until these other difficulties are cleared up; or what is your own idea? What would you do, if you had to do it yourself, without political questions being involved?

Mr. WILLIAMS. I would like to answer the question. I should not be concerned with probabilities and political considerations, but I would like to give my own answer first.

The CHAIRMAN. That is what we want.

Mr. WILLIAMS. And then I would like to make some suggestions in between, if you think that would be at all helpful.

First, I would defer decision on the fund until we have a solution of the British problem. When we have something about which we and the British can agree as a workable arrangement with respect to the British deficit and with respect to commercial policies, I would say, "A basis has now been laid for the fund." I think that might improve the fund a good deal, if we worked it through again in that new atmosphere.

That is my principal reason for not wanting to have the fund here and now, as is. I think we would have a better agreement if we did it under those conditions. If that were done, and the fund were deferred for that purpose, I would want to expand the powers of the bank by an express authorization to the bank to make the longer-term stabilization loans. I think I was the first one to suggest this, and it has been taken by the ABA and the Committee for Economic Development. I understand, however, that many of the official ex-

perts feel it is already in there in the phrase "in special circumstances." I believe there was a history—as I have heard, anyway—of negotiation about it, and I would say that it got whittled down to a few not too definite words, as it is now. It would be very desirable to bring this out and give express authorization. To my mind those loans will be more important in the transition period than anything the fund could do. That is the nature of the transition period, the nature of the need in that period. Then I would have the bank serve as a center of consultation and cooperation on exchange rates until such time as the fund is set up. I see no difficulty with that. The fact that the bank would not have a set of monetary principles would, in the circumstances, I think, be an advantage.

I have been criticizing the monetary principles anyway, and I think we could write better ones later on. I would rather go ahead without them for the present.

Now, that is my position. If I had the power, that is what I would do in the interest of international cooperation. But if I could not do that—may I make some other suggestion?

Senator TAFT. Certainly. Go ahead.

Mr. WILLIAMS. It would be possible to adopt this fund and defer its operation until the end of the transition period. You could set it up, have it serve as a center of consultation, study, analysis, and cooperation, but suspend any use of the fund to the end of the transition period; and you could make it conditional upon an arrangement with respect to British problems. If you were to do that, I think it would give every evidence of good faith on our part and put us in a much stronger position to accomplish something in the transition period, not just leave it to hope and a prayer that after this is done we will all act in the light of it.

The CHAIRMAN. When is the transition period?

Mr. WILLIAMS. I do not know exactly, but I would say it was from 3 to 5 years.

Senator TAFT. Article XIV provides that it will begin at 3 years and end at 5 years.

Mr. WILLIAMS. Now, may I make some further suggestions which are more in the nature of compromise?

Senator TAFT. Yes. Go ahead and do so.

Mr. WILLIAMS. Another thing you could do is to set up the fund and provide that its resources may be used only by those countries which remove their exchange controls on current accounts.

I stated in the beginning of my testimony that as a matter of economic analysis it makes no sense for countries to have both exchange control and access to the fund. I do not need to go over that point again, I take it. If you are controlling your balance of payments by exchange control you cannot have a deficit, except as a deliberate act of borrowing, and the fund is not for that purpose.

And then, perhaps finally, I would not accept both article IV and article VII in their present form. I would accept article IV, I think, which goes a long way, and which would depend upon the spirit in which it was operated. But as nations now are in the world, with their great fears of the future, their fears both of their own problems and ours, I do not think it is realistic to suppose you could get anything

more than article IV; but, as I have said, I would not accept article IV and article VII. I do not see any reason to do so. Why give Britain freedom in regard to exchange rates and at the same time freedom in regard to exchange control whenever the dollar is scarce and when the reason for the scarcity might be their own policy.

Senator FULBRIGHT. It seemed to me in your discussion of the fund, in the latter part, just a moment ago, there was some slight inconsistency. For instance, on the one hand you thought it exceedingly important that we give them \$3,000,000,000, that it was important to a continuation of our economy to do that. And then in the fund you feel that we have given them too much. It seems to me there is a slight inconsistency there.

Mr. WILLIAMS. I do not think so at all.

Senator FULBRIGHT. In other words, you seem to think we have not been hard enough in the fund, but on the other hand, you are willing to be liberal so far as loans are concerned.

Mr. WILLIAMS. It is not a question of liberality but a question of using things for their own purposes. I do not know just the proper term to use there, but the monetary fund is to be used for certain purposes. We have the whole history and theory of international monetary organization and policy making behind us when we talk about this, and we have some idea what it is for. We should use it for its proper purpose and not confuse that with a loan a nation might make to build up its productive capacity; we should not confuse it with some financial arrangement designed to get a nation out of its special and peculiar difficulties. Let us do these things separately so we will know why we are doing them.

Senator FULBRIGHT. Your criticism of the fund was not of Britain getting too much but simply that it did not promote its effectiveness?

Mr. WILLIAMS. That is it.

Senator FULBRIGHT. It is not that they have not gotten everything they wanted.

Mr. WILLIAMS. I have never criticized the fund on the ground that it is too large. That has been one line of criticism, that it is costing us too much. I would not care if it cost us twice as much if it would work.

The CHAIRMAN. Is that all, Senator Fulbright?

Senator FULBRIGHT. Yes; that is all I care to ask.

The CHAIRMAN. Thank you very much, Mr. Williams.

Mr. WILLIAMS. Do you wish me to send to the committee a supply of this article?

Senator TAFT. Yes. I think there are 18 members of the committee, and I suggest that you might send to the clerk of the committee 20 copies.

Mr. WILLIAMS. Very well. I will do so. There has already been one submitted for the record.

The CHAIRMAN. Just give it to the committee reporter.

You might send to each one of us a copy, because I want to read it.

The committee will now stand in recess and will meet here again at 3 o'clock.

(Thereupon, at 1:20 p. m., Thursday, June 21, 1945, the committee recessed until 3 p. m. the same day.)

AFTER RECESS

The committee resumed at 3 p. m. upon the expiration of the recess. The CHAIRMAN. The committee will come to order. We will hear Mr. De Vegh, a consulting economist in New York.

**STATEMENT OF IMRIE DE VEGH, CONSULTING ECONOMIST,
NEW YORK CITY**

Senator TAFT. Suppose you give your name and address to the committee reporter for the benefit of the record, Mr. De Vegh.

Mr. DE VEGH. My name is Imrie De Vegh. I am a consulting economist in New York City, and have been for the last 2 years. Prior to that I was with the War Production Board as assistant to Mr. Charles E. Wilson, and before that for 10 years I was associated with an investment counsel firm in Boston and New York, Scudder, Stevens & Clark. My principal responsibility was general economic analysis of world conditions. Before I became their economist I was in charge of their foreign research and foreign business that the firm conducted.

Now, with respect to Bretton Woods—

Senator TAFT. Let me interrupt to ask you if you have lived in England.

Mr. DE VEGH. That is right. I had my graduate work as economist in Trinity College in England.

Senator TAFT. How about Canada?

Mr. DE VEGH. Canada has been one of my special studies and responsibilities. I wrote a book in 1938 which I think is still the only book on the subject *The Pound Sterling—A Study of the Balance of Payments of the Sterling Area*. And in 1940 I wrote a study, which I believe also is about the only one on the subject, on the subject of the relationship of imports to national income in Canada and in the United States.

Senator TAFT. Just before you start out on your general statement let me say this: We have had reference to the sterling area. What countries are included in the sterling area?

Mr. DE VEGH. Strictly speaking, the sterling area is the area of the countries that hold their monetary reserves in the form of sterling balances, in London.

Senator TAFT. What countries are they?

Mr. DE VEGH. Well, the area has changed. Some countries have gone in and some countries have dropped out.

The CHAIRMAN. What do you say it is now?

Mr. DE VEGH. At the present time, in view of British exchange control, it really is not anything more than the countries in the sterling pool, so-called. That is to say, areas which have agreed to convert into sterling whatever dollars and other hard currencies they might obtain through their own contracts, and I believe those are essentially British Empire countries and Egypt.

Senator TAFT. Then at the present moment it is a rather narrow field.

Mr. DE VEGH. A much narrower field than formerly. The fixed sterling field today is the sterling pool. Nobody voluntarily would get his monetary reserves within the power of another country's exchange control.

The CHAIRMAN. Are you an economist for any banks of New York?

Mr. DE VEGH. No, sir.

The CHAIRMAN. Or any banks in any other city?

Mr. DE VEGH. I have no banking connections, no bank clients whatever.

Senator TAFT. Mr. Chairman, I was afraid you might say we had only bankers and bank economists, and was trying to change that.

The CHAIRMAN. All right.

Senator TAFT. Go ahead, Mr. De Vegh, and tell us your views on the Bretton Woods agreements.

Mr. DE VEGH. If I might start out by a generalization, I should like to say that the idealism of the supporters of Bretton Woods commands very great respect. I would like also to add that the amendments proposed in the House bill are helpful and valuable. So I shall address myself principally to what I think is the fundamental weakness of the approach, namely, a view of the future that I think is unduly optimistic. This view of the future is not affected by the amendments in the House bill, but the amendments are worthy of brief comment if I may be allowed to make them.

Senator TAFT. Go right ahead.

Mr. DE VEGH. With respect to the House bill, I should like to take up the relatively minor point of section 4 which establishes the National Advisory Council on International Monetary and Financial Problems. I think that such a council is very necessary. But I think it might be more practical to have it on the Under Secretary level rather than on the Cabinet level. This is a very minor comment and is not any criticism of the bill. I think usually these committees function more effectively if they are not in the hands of top Cabinet officers who cannot give all the time required to their really effective operations.

The second point in connection with the council is that it does not mention the broad regulation of trade and tariff problems. Yet international monetary and currency transactions are merely the outward cover, as it were, to the underlying trade transactions, commercial transactions, as well as purchases of merchandise, or of underlying investment transactions, loan transactions of all kinds.

The currency mechanism is the essential mechanism to make things flow easily, but you have to have the things to flow in order to be able to ease the flow. Therefore it would seem very important that the monetary and currency and financial arrangements we made should be very closely linked to the trade arrangements we make with foreign nations.

Senator TAFT. Not only reciprocal trade agreements but in general commercial agreements.

Mr. DE VEGH. Indeed, yes. Also agreements of very wide scope, I mean. For instance, there will presumably sooner or later be authorized international commodity agreements, possibly international supervision of cartels, and other measures to regulate the flow of international transactions. And all these belong to the same general framework, and they all have to be coordinated, and that is why I respectfully submit that this council might be advantageously widened.

Then, with respect to the final section of the bill, the amendments, I have some slight difficulty in seeing the distinction of line 19 on page 14, between "emergency fluctuations in the balance of payments" and

other purposes for which the International Monetary Fund was established. That is a matter where my understanding of the bill is defective. In other words, I do not quite see what this means, what this covers that is distinct from other passages in sections 13 and 14.

Senator TAFT. This is the suggestion that we have: that the fund's resources should not extend beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions. Do you say you do not understand what that means?

Mr. DE VEGH. What I meant was particularly how emergency fluctuations—oh, I see. Emergency fluctuations being a part of current monetary stabilization operations is covered by this provision but not others.

Senator TAFT. The suggestion is that this is not a limitation at all; that the words "seasonal, cyclical, and emergency fluctuations" are so broad that as a practical matter, even if they make the amendment, it does not limit the fund's power.

Mr. DE VEGH. That is my point. I was not quite clear how far the limitation was intended to go, because practically everything can be construed as an emergency fluctuation.

The CHAIRMAN. I see Senator Millikin just taking a seat at the table, and will say to him that we have had up the word "cyclical" just as he arrived.

Senator MILLIKIN. Very good. I will be glad to hear what the witness has to say about the word.

Mr. DE VEGH. Now to turn to the fundamental question of the policy aspects, I mean the economic policy aspects, my belief is that the fund is based on extremely optimistic assumptions with regard to organization of the postwar world, and that it, therefore, requires a favorable break of practically every kind, or on practically every account, in order to be able to operate successfully.

I think that a relatively free flow of international investment is a prerequisite to the fund's ability to function and not the consequence of having established the fund. A reciprocal trade agreements act is merely the first step, and that will have to be followed by many others, both here and abroad, if the fund is to live up to expectations. So far there is little evidence to indicate that foreign countries are able to go along in the abandonment of controls, of restrictions, of trade monopolies, even assuming that they have the will to abandon these restrictions and controls, which is not certain in every case.

By sponsoring Bretton Woods we have assumed responsibility for making it work, come what may, before we have any evidence that we can make it work. In fact, under conditions where the ability to make it work in very many instances does not even depend upon us.

The Second World War has caused very great institutional changes in the world; also very great shifts in world distribution of economic power. Consequently there has been a change in flow of world trade. How the flow of world trade will reorient itself after the war, we do not know. But merely the elimination of Germany and central Europe from the network of world trade means of reorganization of the whole flow.

There is an admirable publication of the League of Nations, entitled "Network of World Trade," which analyzes the flow of multilateral

trade during the 1920's and 1930's. It is really the best source book that could be hoped for on this very difficult subject. If we look at its figures, look at the structure of world trade that it shows, we will find how great the reorientation will be that follows from the extraordinarily great political changes and the changes in relative economic influence that this war has caused.

I think the most important thing with respect to the International Monetary Fund is to create a condition under which it can function; and there is the difficulty that the fund has been constructed by hindsight; that it was built at a time when the outlines of the postwar world were not clear is a major handicap.

The fund is well adapted to cope with the difficulties of the early 1930's under the type of economic framework, trade and payment relationships that existed at that time. But I do not believe it can seriously be said that it follows that it is going to be able to function under the conditions of the postwar world.

I should now like to take up in some detail the sterling problem that Dr. John Williams discussed here this morning, but before we go into that, which is a complicated problem, I should like to state what I hoped would have been a better means of solving those difficulties. And that might have been to seek agreements of a very comprehensive kind with countries that share our ideologies and methods of doing business, taking up both sympathetically and cooperatively with them the problems we share and the economic relationships we have with them, and building a network of agreements resting on mutual understanding and cooperation, and fitted to the individual problems of each one of those friendly nations, rather than blanketing them all in one big piece.

I testified before the Committee on Banking and Currency of the House of Representatives on the predecessor bill, and there submitted that the first thing to do is to wait with the fund until conditions are favorable for it; and that the second thing to do is to restrict the use of the fund during the transition period by permitting countries only to use a fraction of their quota—and I mean in the fund not in the bank—during the transition period.

I think Dr. John Williams' suggestion made here this morning, that countries with exchange control should not have access to the fund, is probably more practicable, because there is no reason why a country without exchange restrictions should not benefit from the fund rather promptly.

This is the substance of what I have to say on the subject of the act, and if the chairman will permit me I should now like to take up the question of the pound sterling, or any other questions you may have in mind.

Senator TART. You say each country should be approached in a comprehensive way. Are the problems of the different countries materially different?

Mr. DE VEGH. That is my point.

Senator TART. Can you give us an example?

Mr. DE VEGH. For instance, with the most flagrant example, of course, is Russia, whose problems are completely different from other countries, other examples might be referred to. Russia deals through government monopolies. There is no exchange market. There is no such thing as unbalance.

Senator TAFT. There is no problem with Russia except how much money we may want to loan to them.

Mr. DE VEGH. Yes, sir. There is vast scope for long-term reconstruction loans but not a scope for anything else.

Senator TAFT. What about France?

Mr. DE VEGH. In the case of France it is the general belief that the French Government is in a good gold position, and that their principal problem is that of transportation and of starting their industries. They need long-term loans to obtain inventories for the French economy to start up again, to replace machinery taken away or destroyed during the war.

Senator TAFT. Once machinery is started in France is there any reason to believe they will not balance their payments?

Mr. DE VEGH. It is believed they will be able to do it. But that depends upon the armament expense they may wish to retain after the war.

Senator TAFT. The British problem is entirely different. Did you want to go into that?

Mr. DE VEGH. If I have your permission to do that.

Senator MILLIKIN. Let me interpose by asking a question right there: Is it your view that the Russian situation will carry over to what may be called the Russian satellite nations?

Mr. DE VEGH. We do not know what the condition there will be.

Senator MILLIKIN. If they should turn into completely managed economics, your view would prevail.

Mr. DE VEGH. Yes, sir.

Senator MILLIKIN. I assume at some time during the course of your discussion you will meet the argument that if we are to have the fund limited to countries having similar ideologies to our own, that that might be considered as a hostile economic act against other countries.

Mr. DE VEGH. That is a difficult question. I was not thinking so much of political ideologies as of economic ideals and methods of operation. But the position that underlies this whole fund proposal is that countries will behave more or less alike in the foreign exchange markets. Obviously a country where there is only one dealer in exchange is much different. I mean, no investors and traders doing an active business involving foreign exchange transactions. But the question whether such a network of agreements—or, let us say even an international monetary fund, restricted to countries with free foreign exchange arrangements—is to be construed as a hostile act, partly depends upon the position the other countries take, and how far we go and how open-handed we are with them. It seems to me if the Russians say they need long-term loans, as they undoubtedly do for reconstruction, and that they are willing to cooperate in international organization, they will have made one type of case that has nothing to do with the operations of the International Monetary Fund.

Senator MILLIKIN. An arrangement such as you mention would not preclude economic relations with Russia.

Mr. DE VEGH. No, indeed. It would eliminate one aspect of this fund which is dangerous, not so much because of its subterfuge aspects, namely, that a long-term loan is camouflaged as a short-term loan, but also if the Russians do draw out 1.2 billion dollars, the total dollar supply of the fund is substantially reduced, and all other countries will only have 1.55 billion dollars available for their requirements.

In other words, anything the Russians draw out and keep, reduces the potential dollar supply to England, Australia, or any other country, and does to some extent permanently impair the ability of the fund to fulfill its functions. It is not desirable to freeze up the fund like that.

Senator TAFT. In other words, a part of this \$2,750,000,000 is wasted so far as its availability is concerned.

Mr. DE VEGH. Yes, sir.

Senator TAFT. Go ahead.

Mr. DE VEGH. In the case of England, the great difficulty is that England herself is now the smallest of the three great powers. Her steel capacity is only between fifteen and twenty million tons a year as compared to ours, which is between ninety and one hundred million tons a year, I believe. In other words, there is a great disproportion between the three great powers in terms of industrial resources, and also in population resources, and yet England carries the bulk of the defense burden of the entire British Empire. That empire is extremely far-flung. It circles the globe. It requires a very large defense establishment. The entire economic burden of that defense establishment falls on a relatively narrow base, and on the population of England itself.

Well, I believe I misspoke myself back there. When I said the entire burden I meant to say the bulk of the burden, because obviously the dominions contribute in a significant way, and India also makes contributions to her own defense. Moreover, the British Government has promised the people of England a higher standard of living. Anybody who knows conditions that existed in depressed English industrial areas, knows that this promise was necessary and will have to be kept. The effect of the Beveridge plan, or even of the British Government's white paper on employment, if put into effect, and future armament burdens that England will have to bear, will mean some increase in total imports into England, above prewar levels. How much we do not know, but certainly an increase of 25 percent, or possibly one-third, would be a conservative figure, assuming multilateral trade and free international payments.

Now, inasmuch as sterling has depreciated since before the war, and world prices have risen, this means a very large increase in England's total import requirements as compared to the postwar level. If I may put in the record the League of Nations' figures showing the United Kingdom's exports and imports before the war, they were as follows:

In 1938 the total imports of the United Kingdom were 4.2 billion dollars, and the total exports were 2.3 billion dollars. Thirty-five percent of the exports went to Europe, and 32 percent of the imports came from Europe. This means that the United Kingdom will have to replace 35 percent of her exports, a large part of which will have gone by the disappearance of Germany, and the curtain that has descended over eastern Europe, and we do not know when it will lift.

Senator TAFT. Mr. Morgenthau said the elimination of Germany's foreign trade would make no difference.

Mr. DE VEGH. I do not know whether Mr. Morgenthau is familiar with the League of Nations' figures, but I think this analysis of Europe's trade and of the network of world trade, makes that position difficult to defend. But I do not know. I have not discussed this point with any Treasury officials.

Senator TAFT. What about Japanese trade?

Mr. DE VEGH. I think, of course, that the disappearance of Japanese trade will also make a difference. These are questions of reorientation. I am merely saying that England will have to reorient her trade. A large part of her export market has disappeared, and her import requirements have not decreased proportionately. Her import requirements are bigger than they have ever been before.

In other words, of course the argument can be carried further and it can be maintained that with the disappearance of Germany and Japan from export markets, England will have new export opportunities that were not open to her before in areas in which the German and Japanese have competed with her. But of course the United States will still be a competitor in these export markets. So that it is very difficult to say with any certainty that the English will be able to replace the exports they have lost to Europe. On the other hand, there isn't the shadow of a doubt about the increase in their import requirements that will come after the war. So that it is very possible to show a substantial increase in the English import deficit which has been her greatest problem during the 10 years before the war—in fact, during the whole inter-war period. This great deficit has been at the rate of approximately \$2,000,000,000—it exceeded \$2,000,000,000 in 1937. It exceeded \$2,000,000,000 in 1931—\$2,000,000,000 yearly, that is, and it might very easily be of substantially greater magnitude after the war under free exchange and multilateral trade conditions.

Now, the sterling pool is a very rigid framework and extremely onerous to its members. It means that British India, should she achieve a dollar surplus in her transactions with the outside world, has to transfer that dollar surplus to the Bank of England and accept sterling instead. There has been a great deal of trouble on that score. The people of British India have objected time after time. We see newspaper reports that American exporters to British India object to their inevitable exclusion from the India market that results. I think we ought to see beyond these complaints. This is not a matter of complaints and acting upon complaints. This is a matter of seeing what can be done to create conditions in which England will not be forced by circumstances to stick to an exchange control and a rigidly exclusive sterling control and separate agreements with individual nations.

Now, I think that the measures to that end have to be extremely drastic if they are to accomplish anything at all. I certainly don't think \$425,000,000 for 4 years, which is the English borrowing power under the fund, is worth anything to them in terms of the immensity of their difficulties. I don't believe that they are going to make any major concessions and in actual fact—

Senator TAFT. Just a correction—that is \$325,000,000.

Mr. DE VEGH. I beg your pardon. My arithmetic was wrong.

Senator TAFT. One quarter of a billion three.

Mr. DE VEGH. That is right, sir. I am sorry.

So I wonder whether loans or gifts are going to make a great deal of difference. Canada has been giving England mutual aid which is the equivalent of lend-lease, eight or nine hundred million dollars a year, or even a billion dollars net, I think. I think the actual figures were about a billion dollars as a national gift in 1942 and approxi-

mately eight or nine hundred million dollars each year for mutual aid in 1943 and 1944. This, in spite of the enormous Canadian Air Force expenditures in England. I believe the Canadian Air Force paid for everything they bought in England. So that there was a very heavy supply of Canadian dollars in England. I believe that this year the mutual aid will be still a very heavy amount, possibly not as much as nine hundred million but still well over a half billion. Our lend-lease, of course, we will continue, and it has to continue.

The English are in great difficulty. I believe that there won't be a solution to the English problem as long as the armament needs of England remain as great as they are at present. In other words, unless we are willing to undertake vast expenditures for the protection of the British Empire, unless we are willing to go much further in cooperation with England than anybody has seriously suggested so far, England will not be able to abide by any of the rather optimistic rules that have been set up in the International Monetary Fund.

Senator TAFT. Your conclusion is that the fund won't work then, as far as England is concerned?

Mr. DE VEGH. That is exactly correct and that is why I believe it won't work for all practical purposes anywhere because out of the three great powers of the world there is only one who can afford it.

Senator TAYLOR. Mr. De Vegh, suppose we did go into this as a gamble, what would we stand to lose if it didn't work?

Mr. DE VEGH. I think the subscription is 2.75 billion—2¾ billion dollars.

Senator TAYLOR. We could lose all of our money?

Mr. DE VEGH. I think what we will put into the fund will represent for all practical purposes an export subsidy. We could say about all we would rescue from it will be a paper claim on other nations that we will not want to enforce, because obviously if we try to enforce that claim we would cause very much trouble, much more trouble than if we finally just let it ride and say, "Oh, well, after all, the fund is not broke—on paper—the fund cannot go broke because instead of this 2.75 billion dollars there will be an assortment of other currencies in it." From the viewpoint, however, of effective operations, the moment the dollar becomes scarce currency the whole purpose of the fund will have been defeated, because the moment it becomes scarce currency every country is entitled to impose restrictions against dollars.

Senator TAFT. Unless we put up another 2¾ billion.

Mr. DE VEGH. Unless we put up more money or unless the Export-Import Bank or some other agency makes loans to other countries for the purpose of not making the dollar a scarce currency. In other words, the fund can be kept solvent by large-scale lending outside of the fund.

Senator FULBRIGHT. What do you think of Dr. Williams' suggestion of a \$3,000,000,000 loan to England?

Mr. DE VEGH. I think it is too small.

Senator FULBRIGHT. What would you think it should be?

Mr. DE VEGH. I think it should not be a loan. It should be some assumption by the United States of the burdens that the English are now carrying.

Senator FULBRIGHT. In what form would you assume them?

Mr. DE VEGH. If I had my way, I would assume some of their defense expenditures, take over some of their bases. That would immediately add to our dollars abroad.

Senator McFARLAND. What kind of bases: some of the airfields?

Mr. DE VEGH. I don't think the airfields cost enough money. I think that the naval establishment—

Senator McFARLAND. They would not be willing to give them up anyway.

Mr. DE VEGH. That of course is another problem. In other words, we cannot have it both ways and that is really the root of the difficulty, that if the English refused to admit that they are insolvent on a multilateral basis and say that the only thing that matters is that they are solvent if they control everything and impose restrictions on everything, then this whole thing makes no sense at all anyway.

Senator TAYLOR. You are suggesting we assume responsibility for the protection of the British Empire?

Mr. DE VEGH. No, sir. That is a matter of high policy I certainly am incompetent to advise on. What I am suggesting is that unless some such financial commitment is undertaken, regardless of what the political fate of colonial populations and so forth may be, the English will not be able to afford multilateral trade and payments. I am quite sure that the English would be extremely adverse to any suggestion that they should surrender any part of the Empire or turn over the defense of any part of the Empire to us.

Senator McFARLAND. What defense did you have in mind?

Mr. DE VEGH. I was submitting that this defense expenditure that they are incurring in maintaining large military establishments in the Near East and in the Far East, that the defense expenditures they are incurring by having a large fleet in the Atlantic, represents so large a burden on their budgets that they are going to be in perpetual difficulties unless they collect all the dollars of the entire Empire if necessary by force.

Senator McFARLAND. Do you think we should take over part of their fleet?

Mr. DE VEGH. Whether the English are willing to let us undertake these large defense expenditures on their behalf is an open question. I personally think it is very likely that they will say that they will defend their own Empire. They will thank us very much for the suggestion and go their own way. But if they do that, then there is absolutely no hope of multilateral trade without exchange control. That is the point I am trying to bring out. In other words, there is an absolutely fundamental conflict between the Beveridge plan and the large British armaments on the one side, and the provisions of multilateral trade agreements on the other. The only thing—a Beveridge plan big enough and a big army can only go together with exchange control and bilateral payments and agreements.

Senator MILLIKIN. Mr. Chairman, some light might be thrown on this view by taking the reverse of your situation. The British have claimed that their budget has always been burdened by their assuming our defense in the Atlantic, by making it unnecessary for us to maintain a two-ocean Navy. That is the reverse of your proposition.

Mr. DE VEGH. Thank you, sir. That is quite right.

Senator FULBRIGHT. I don't see the distinction between doing that and making a loan.

Senator MILLIKIN. Oh, I am not supporting the doctor's thesis.

Senator TAFT. Don't you come down to this, that the only way we can obtain this stabilized currency throughout the world, in which we may have an interest or not, is in effect by subsidizing England? Is that your opinion?

Mr. DE VEGH. That is my opinion.

Senator TAFT. One way or the other, whether we take over their fleet or pay them to keep their fleet.

Mr. DE VEGH. That is right. Thank you, Senator. And that is also why I think that the loan alone is not a sufficient help, because a loan is a one-time transaction, whereas their deficit is going to mount up year after year after year unless they control it by exchange control. In other words, we would find after we loaned them \$3,000,000,000, in another 2 or 3 years they will need another \$3,000,000,000, and the loan system will go on indefinitely. In other words, in either case, the alternative is permanent lend-lease.

The CHAIRMAN. Are there any other questions?

(There was no response.)

The CHAIRMAN. Thank you very much, Mr. De Vegh.

Mr. Hart is our next witness. Mr. Hart, are we ever going to agree on any matter?

Mr. HART. I hope so.

The CHAIRMAN. We never seem to be able to agree on anything.

STATEMENT OF MERWIN K. HART, PRESIDENT OF NATIONAL ECONOMIC COUNCIL, NEW YORK, N. Y.

Mr. HART. I would like for my associate to sit by me and at the conclusion of my remarks—

The CHAIRMAN. Mr. Greaves, you mean?

Mr. HART. Mr. Percy Greaves, who is doing some special work for the National Economic Council.

The CHAIRMAN. What is the National Economic Council?

Mr. HART. The National Economic Council is a membership corporation with some 1,500 members in different parts of the country, in fact all parts of the country. It is a cross section, I think, of the country's life. We have in our membership people in all walks of life, all activities, or very nearly all of them, and we are interested in the promotion of what we consider to be the American system as it has existed with changes from time to time to meet changing conditions.

Sometime ago Secretary Morgenthau, in his closing address to the Bretton Woods Conference, stated in the following words the need he saw for the International Monetary Fund:

First, there must be a reasonably stable standard of international exchange to which all countries can adhere without sacrificing the freedom of action necessary to meet their internal economic problems.

* * * The International Monetary Fund agreed upon at Bretton Woods will help remedy this situation.

I do not appear here as an expert. My knowledge of banking has been largely limited to what one can absorb from membership for

25 years on the board of directors of a national bank in a moderate sized city. So I speak from a layman's standpoint.

The vast majority of Americans are laymen with respect to banking but as laymen they are affected by whether these proposals are or are not approved. Some of the most important provisions in these proposals are not wholly connected with banking but go far afield. Therefore it seems to me this is very much a matter on which laymen should be heard.

Reduced to laymen's language, the need which Mr. Morgenthau says must be met boils down to the fact that since World War I, the currencies of most important commercial countries have been unstabilized. Nobody has known what the currency of one country might be worth the next day. Nobody denies that a reasonably stable standard of international exchange is desirable. But national sovereignty and internal economic stability should not be sacrificed to give foreign trade an exaggerated importance. Nor should we hazard our own stability in the effort to effect stabilization in other countries.

But, when we turn to these proposals, we find that although only one malady has been diagnosed, the treatment prescribed extends to a wide range of others, real or alleged.

Whatever plan is approved by the United States will be almost wholly for the benefit of other countries. They are the ones that are in need rather than we ourselves. We are the great creditor country of the world. In spite of having spent probably more than all other belligerents—both Allied and enemy—put together, yet, in our wealth, our initiative, practical imagination and resourcefulness, we are still incomparably the strongest Nation in the world.

All these other nations in varying degrees need our help. We are willing, as we always have been in the past, to help; I agreed with Mr. Williams this morning as to the degree of help we have extended in the past 20 years; but in considering any measure that will extend help, there is no reason why the United States should subject its fortunes or any of its freedoms to the tender mercies of any other nation or combination of nations.

I oppose the International Monetary Fund because:

1. It goes into matters that are little related to stabilization, parts of it seeming clearly designed to promote certain ideas about social welfare;

2. It seems in places needlessly complex. Its meaning is often obscure. It has the earmarks of concealing important purposes and meanings;

3. These proposals in effect set up a superstate to which all nations including the United States will become subject. Their adoption might lead to the impairment of the economic and political independence of the United States. While provision is made for withdrawal, yet the withdrawal of the United States would wreck the project;

4. The proposals are in certain respects gravely misleading in that they do not actually do what they purport to do.

5. The proposals have been promoted by misrepresentation and their support has been aroused by fraud;

6. The proposals have been promoted by the Treasury and State Departments through illegal use of the taxpayer's money.

1. The proposals go into matters that are little related to stabilization.

No. 2 of the six purposes is:

To facilitate the expansion and balanced growth of international trade and to contribute thereby to the promotion and maintenance of high levels of employment and real income, and to the development of the productive resources of all members as primary objectives of economic policy.

Since dollars may be borrowed, or whatever the term may be, for this purpose, it is clear that all member nations thereby have the right to demand our dollars for any and all pump-priming or cradle-to-grave schemes claimed to be necessary to facilitate trade and promote employment. Everywhere political parties in power will demand our dollars to satisfy pressure groups and keep themselves in power. We would become guarantors of every impoverished nation's WPA, Beveridge plan, or other social experimentation. We might even find ourselves financing armament programs set up to maintain "high levels of employment."

Lord Keynes, in recommending the Bretton Woods proposals to the House of Lords, said, on May 23, 1944:

I am trying to write a new page * * * to organize an international setting within which the new domestic policies can occupy a comfortable place. Therefore, it is above all as providing an international framework for the new ideas and the new techniques associated with the policy of full employment that these proposals are not the least to be welcomed.

In fact, the Australian delegation made a reservation that the fund placed—

too little emphasis on the promotion and maintenance of high levels of employment, and too much emphasis on the promotion of exchange stability * * *

The PAC, in an attractive little pamphlet entitled "Bretton Woods Is No Mystery"—one of the many publications by which busy Americans have assumed they were learning all about the proposed agreement, and I may say admirably written said:

As a matter of fact, anyone who has troubled to read the objectives and the general principles of Bretton Woods knows that they are easier to understand than the recipe for apple pie or the rules of gin rummy.

That disposes of that in very neat fashion. But observe he says to read the objectives and the general principles. I myself found those very easy reading, but I confess I found anything approaching an understanding from a reading of the document, which is the proposals themselves, to be very difficult.

This statement, of course, is misleading, though no more so than many others that have emanated from other sources. The net effect, and probably the purpose, was to lure millions of persons into a belief that, as an article in Collier's magazine of June 2, put it, the issue was "Bretton Woods or World War III."

I certainly recommend a reading of this article, which is breezy, light, delightful, fine reading for a summer afternoon. Incidentally it contains a number of misstatements. But it is characteristic of much of the stuff that has been published in the past few months.

I personally think it is a fair assumption that many Members of the House of Representatives were similarly lured. One Representative told me that probably not 20 out of the total House membership had ever read these proposals. Another of them mentioned a number that

was so much lower than that that I would hesitate to repeat it, but he seemed to be sincere. Another said that perhaps 50 or 75 had done so. Clearly a large part of the House voted for the proposals, relying upon Mr. White.

2. The proposals seem in places needlessly complex. Their meaning is often obscure. They have the earmarks of concealing important purposes and meanings.

Purpose No. 3 is:

To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

Does the fund do this? Article IV, section 5, states that when a member wants to lower its currency's par value by up to 10 percent, "the fund shall raise no objections." If a devaluation of more than 10 percent is desired—

the fund may either concur or object * * * The fund shall concur * * * if it is satisfied the change is necessary to correct a fundamental disequilibrium.

Mr. Leon Fraser, when he testified before the House a few days before his untimely death said he didn't understand what that meant.

It shall not object to a proposed change because of the domestic, social, or political policies of the member proposing the change.

As Dr. Harry D. White, Assistant Secretary of the Treasury, sees it:

The fund * * * cannot be placed in the position of judging such policies of its members. It could not forbid countries to undertake social security programs or other social measures on the ground that such measures may jeopardize a given parity. Englishmen have not forgotten that in the sterling crisis of 1931 social services were cut in the attempt to maintain the fixed sterling parity.

The prime purpose of the proposals, therefore, would appear to be to sustain "social services" and give an honorable status to social and political policies, no matter how unsound or how unbalanced the budget. This is the exact opposite of "exchange stability."

If we turn to the Declaration of Independence and the Constitution of the United States, which documents were certainly drawn with great intellectual honesty, we find that practically every word of both of them is completely clear—or was, at least at that time. Naturally, as new conditions developed, impossible for the founding fathers to foresee, the Constitution needed interpretation. But, originally, clarity was there. There was a clear meeting of the minds.

But, when we turn to the present Articles of Agreement for the International Monetary Fund, we find that they are very far from clear. In fact, it takes an intense degree of concentration to gain even a fair understanding of the proposals. Part of this is due to the technical nature of the subject. Much of the lack of clearness is due to the fact that there was not full meeting of the minds. Lord Keynes says the proposals are the exact opposite of the gold standard. Dean Acheson says:

It has been said in the United States that they resemble the gold standard.

And a wide variety of opinions have been expressed all up and down the scale. Some were quoted here, I think this morning.

Mr. Boothby, Member of Parliament, and chairman of the Monetary committee in Parliament, has lamented (in a letter to the New York Times, March 14) that precisely opposite interpretations are being

put on important clauses, in Britain and America, and he added nothing could be more deleterious to the cause of Anglo-American agreement than that the two countries should sign an agreement, each thinking it was signing something different. There seems reason to believe that many of the passages conceal important purposes and meanings that are by no means encompassed in the objective of currency stabilization.

For instance, the average intelligent man would read all of the six purposes without realizing that the proponents of the measures were intending this agreement to play an important part in world social revolution. Yet, what else can Mr. Morgenthau have in mind when he says in his closing address:

This monetary agreement is but one step in the broad program of international action necessary for the shaping of a free future.

I cannot think that the future with all of that international organization would be very free.

Lord Keynes' original plan (not greatly dissimilar to the pending proposals) stated that it—

might become the pivot of the future economic government of the world. Without it other more desirable elements will find themselves impeded and unsupported. With it they will fall into their places as parts of an ordered scheme.

3. These proposals set up a superstate to which all nations including the United States will become subject. They place vast control in a ruling clique whose interests would be very different from those of the United States. Their adoption might lead to the impairment of both the economic and political independence of the United States. While provision is made for withdrawal, yet the withdrawal of the United States would wreck the project and create bitterness and ill will toward the United States throughout the world.

The United States puts in about 31 percent of the roughly \$8,800,000,000 that will be put into the fund by the 44 countries represented at Bretton Woods. Of the American contribution, 25 percent will be in gold and 75 percent in American currency. Other countries will be able to make their payments, provided their gold supply is low (and it is quite low with many of these countries) through paying 10 percent of their "net official holdings of gold and United States dollars"; and the balance of the payments to be made by these other countries will be paid in the currency of the respective countries. With respect to many countries that currency, of course, may not without our backing have full value.

But the currency of the United States is considered the equivalent of gold when it has gone beyond the borders of the United States. For the United States is compelled by existing law to redeem in gold any of its currency that is used in international transactions.

The proposals would, in effect, give each nation the right to exchange its currency for the currency of any other nation that is a member of the fund. Thus, when any country desires to purchase goods in the United States, it has only to take its currency to the fund and receive in exchange, on a parity basis previously agreed upon, United States dollars.

It seems likely the heavy demand will be for United States dollars. There will be, at the start, about \$2,100,000,000 of United States dollars in the fund. It is likely that these dollars will be quickly used

up. If only Russia, the British Empire, and China used their borrowing rights to the full, the fund would be without dollars in the thirteenth month. And, since the fund may waive any of the conditions prescribed, it could happen much sooner. Dollars will then become what the fund describes as "a scarce currency."

A League of Nations authority and a proponent of the proposals, Ragnar Nurkse, recently had this to say about this stage:

The Bretton Woods scheme is not strictly confined to monetary policy * * * If the dollar were to become a scarce currency under the fund arrangement, the rationing of dollars which would then come into operation would discriminate against the exports of the United States. Such rationing would, for example, divert Britain's demand for cotton from the United States to, say, Brazil, even if cotton were cheaper in the United States; and, it would similarly divert Brazil's purchases of automobiles from the United States to England, even if automobiles were cheaper in the United States. In sum, it would divert the effective demand of the outside world away from the United States' products * * *

The CHAIRMAN. Merwin, I am afraid we have got to go in and vote. We will come back just as soon as we can.

(Whereupon there was a recess pending the return of the committee members from the Senate floor.)

Senator TAFT. On page 9, were you?

Mr. HART. Page 9, yes, the middle of the page.

Senator TAYLOR. Mr. Chairman.

The CHAIRMAN. Yes.

Senator TAYLOR. I wasn't here when Mr. Hart started his testimony. Whom does he represent?

Whom do you represent, Mr. Hart?

Mr. HART. The National Economic Council.

Senator TAYLOR. The National Economic Council. For my own information I would like to ask you, Mr. Hart: At the time the 40-hour week bill was being considered, you were opposed to that?

Mr. HART. Yes; we were opposed. That is to say, we presented arguments showing up that side of it.

Senator TAYLOR. You were also opposed to unemployment insurance?

Mr. HART. Yes; that is a long story, Senator.

Senator TAYLOR. Well, we don't need to bother with the story. You were opposed to the Child Labor Act?

Mr. HART. Just a moment there. I would like to qualify that, Senator. I was not opposed to unemployment insurance. I was in favor of unemployment insurance by the life-insurance companies, and we worked up a plan with two of the life-insurance companies, the larger ones, whereby they agreed to write that kind of insurance, provided a law were passed authorizing them to do it; and we drafted a bill, and it was passed by both houses of the legislature; and at the time Mr. Roosevelt, who was the Governor, told me he was thoroughly for it; and, however, it was vetoed by him, before the 10 days was over. So that we were very much in favor of insurance covering that, but I believed it could be done better just as old-age insurance and pension insurance was being written at that time, and still is, in large volumes by the life-insurance companies.

Senator TAYLOR. You would rather have had it done by private insurance companies than through the Government?

Mr. HART. Well, of course, those big companies, you can hardly call them private companies. Those big mutual companies, they are vast masses of people, many, many million together, really insuring one another, and I thought that was more economical, and I still think so as a matter of fact.

Senator TAYLOR. I remember reading in the papers at one time a statement which I understood was made by you—I remember reading the statement; I have forgotten the author—but did you make the statement that all those on relief should be disfranchised?

Mr. HART. That is right.

Senator TAYLOR. They should not have the right to vote?

Mr. HART. That is right. Along with quite a few other people I held that view.

Senator TAYLOR. Did you ever make this statement—

Mr. HART. May I just add this: The reason is that, if they are not disfranchised temporarily, they constitute a force that is, I believe, bringing a pressure to bear upon legislators which puts the legislators at a great disadvantage in determining what ought to be done.

Senator TAYLOR. I read your reasons at the time I read the statement.

Did you ever make this statement, Mr. Hart:

If you see any organization containing the word "Democracy," it is probably directly or indirectly affiliated with the Communist Party. It is time to brush aside this word "Democracy" with its connotations.

Did you make that statement?

Mr. HART. I made that statement in a speech at Princeton, and it can be proved, because many of the organizations such as the American League for Peace and Democracy and the Church League for Industrial Democracy, and all that, have been formally found by the Committee on Un-American Activities of the House to be Communist-affiliated.

Senator TAYLOR. I see.

Mr. HART. And I say most of them. I don't say all of them. But I think you would find on inspection of the record that that is borne out.

Senator TAYLOR. And in testifying before the Senate Committee on Education and Labor, did you make the statement that the Wagner Act was of the labor agitator, by the labor agitator, and for the labor agitator?

Mr. HART. I don't recall that I did, Senator. That I don't recall.

Senator TAYLOR. You have been very friendly to the Franco government in Spain and urged recognition of the Franco regime?

Mr. HART. Yes, Senator. After visiting Spain purely on my own, and not as the guest of the Spanish Government, as has been alleged against me, and after seeing conditions there, I came back to this country; and, in common with a number of other people, including two former Ambassadors to Spain, Mr. McLaughlin and Mr. Hammond, and others including Ellery Sedgwick, the editor of the Atlantic Monthly, I have recommended certain things. I stated certain conclusions:

First, that Franco was going to win. I was satisfied of that from what I could see in Spain.

Second, that if he did win he could govern Spain effectively. I was satisfied of that because of the order that I found in Spain. And, incidentally, Walter Lippmann and various others were asserting at the time that he could not do so.

Third, that if he won he would make no concessions whatever to Germany or Italy in the way of bases or any other concessions.

Senator TAYLOR. Well, you are——

Mr. HART. And that has been completely borne out.

And, in the fourth place, that if there were a European war he would do the utmost and probably be successful in keeping Spain out of the war on the Axis side.

And all those things have come about, and on account of that I recommended to our State Department that they continue to recognize—continue to deal with the Franco government. Now, they have done just exactly that. All of those things have been borne out. In taking that stand I said I did not approve the Franco government, and I frankly said so, as far as we were concerned, but it seemed to me that it was probably the best that could be got in Spain at the present time. And, as I say, the conditions have been borne out; and, if you recall the speech of Mr. Churchill in Parliament on May 24, 1944, you will recall he gave great space to the help that Spain and the Franco government had been to the Allies in the landing on north Africa.

Senator TAYLOR. We also had dealings with Darlan and Petain and others, and we have admitted Argentina into the San Francisco Conference, for that matter.

Mr. HART. But I am pointing out that the handling of—treatment of the Franco government—and I had no brief for Franco. I never met him in my life, never had any contact with him, but it worked out just about as I had thought it would and said it would, and apparently the State Department was satisfied with that too.

Senator TAYLOR. And you are now opposed to Bretton Woods?

Mr. HART. Yes, sir.

Senator TAYLOR. Yes, sir. That's all.

Mr. HART. Starting in on page 9, Senator:

Thus, it will be seen that our entire domestic economy might soon be at the mercy of the fund. Once our currency were permitted to be declared "scarce," our dollars would be rationed and controlled. Which means that our foreign trade would be rationed by other nations.

The fund could control the question of who got our good dollars for what Lord Keynes has whimsically called the fund's "superior note-paper" I O U's. We would actually need the fund's approval to spend our own dollars abroad. The fund could tell us whether or not we could spend our own dollars to import coffee, sugar, rubber, and so forth. If the fund so permitted, it could tell us when, where, and how much we could spend. Their borrowing wishes would come before our import needs. Other nations with questionable currencies could control the economic affairs of the United States.

Now, the above is qualified by the statement that if we did not wish to submit to these controls, we could either buy imports we did not need, or we could lend more money. Thus, for instance, it is conceivable that we might be forced to go back to buying our rubber from the Dutch and Malayan plantations; and thus, in effect, our new synthetic rubber plants would, at least temporarily, be worthless.

Thus, by a continued borrowing and use of our dollars, these other countries in the fund would, in effect, direct our economy. Those in agricultural and industrial pursuits would be at their mercy.

The conclusion, it seems to me, is inescapable that what this fund would set up is a superstate. To be sure, the proposals provide for any nation to withdraw; but, if the United States were to withdraw, it would leave the other nations of the world in worse position than they are today. Other nations could then gang up on us with results that might be serious.

It is obvious from the above, and this point was made this morning, that under this "scarce currency" sanction, our tariffs and trade agreements, with their most-favored-nation clauses, would become meaningless.

Article IX of the proposals states that the fund has the capacity, among other things, to—

acquire and dispose of movable and immovable property.

It is also provided that—

the fund, its assets, property, income, and its operations and transactions shall be immune from all taxation and from all customs duties.

Therefore, there will be nothing to prevent the fund from dumping any "movable property," that is, goods or commodities of any nature, behind our tariff wall, and—so long as we remain members of the fund—compelling us to pay for them.

Senator TAFT. That is an interpretation of that section that I doubt, Mr. Hart. The question was raised as to what that article IX means.

Mr. HART. Senator, the provision exempting the fund from all kinds of duties of every nature, taxes of every nature, including import duties, must be there for a purpose; and it is so definite that it can acquire and dispose of movable and immovable property. You have it in this whole—

Senator TAFT. It is a very broad section, I agree, and I wanted to ask Mr. White what it did mean. The fund, as I understand it, does not actually conduct business, though. It doesn't sell property.

Mr. GREAVES. May I interject, Senator?

Senator TAFT. Yes, Mr. Greaves.

Mr. GREAVES. It says, as he has quoted, that they may acquire and dispose of movable and immovable property; and it also says, in article V, section 4:

The fund shall also take into consideration a member's willingness to pledge as collateral security gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

And as collateral security they could secure any commodity under the sun.

Senator TAFT. Certainly I would agree that article IX is very broad, but I supposed it was simply for the purpose of enabling them to have a building and furniture and a place that wouldn't be subject to taxation: a kind of diplomatic immunity such as ambassadors of foreign countries would have.

Mr. HART. But supposing the fund executive director should choose to interpret it this way, there would be no appeal from their decision.

Senator TAFT. Well, I suppose there would be an appeal to the American courts, if those American courts would interpret the question of what was an immunity from taxation.

Mr. HART. Well, as I understand it, no judicial process can issue in connection with this thing at all.

Senator TAFT. Is it immune?

Mr. HART. It is immune from judicial process.

Mr. GREAVES. Immune—

from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceeding or by the terms of any contract.

Section 3, article IX.

Senator MILLIKIN. Mr. Chairman, may I interject and suggest there is precedent for money being secured by immovable property. At one time in France they secured their French money with seized estates.

Senator TAFT. Well, I agree it is very broad. At least the section should be considered.

Mr. HART. Of course, much would depend upon the viewpoint of those who were administering it. If they were conservative, they perhaps would interpret it in a limited way; but if they would happen not to be, they would interpret it more broadly. Lord Keynes—

Senator TAFT. Some of the cattle people were afraid that under this you could set aside the health regulations. This is the section that they thought might permit the importation of cattle in spite of the hoof-and-mouth disease restrictions, but I don't know whether it is capable of such an interpretation.

Mr. GREAVES. If they foreclosed on any of their assets that were kept as collateral security, they might bring them to this country as the headquarters of the fund and dispose of them here, and there would be no tariff duty levied.

Senator TAFT. Well, we will ask the Treasury what they think of it.

Mr. HART. Lord Keynes seems to have confirmed this, when he wrote the London Times (issue of August 24, 1944) that there is nothing in the proposals to stop—

our—

that, is, Britain—

requiring a country from which we import to take in return a stipulated quantity of our exports.

So, if the Senate adopts these Bretton Woods proposals, one of the results will be that our tariffs will no longer be subject to congressional debate, but will be a matter for the fund to decide; and, in that decision, of course, we shall have a 28 percent vote.

The proposals are in certain respects misleading, in that they do not actually do what they purport to do.

For instance, purpose No. 4 is, in part—

the elimination of foreign exchange restrictions which hamper the growth of foreign trade.

As a matter of fact, the proposals themselves impose many exchange restrictions. Article IV specifies "maximum and minimum rates for exchange transactions":

Each member undertakes through appropriate measures * * * to permit within its territories exchange transactions * * * only within the limits prescribed.

Article VI states—and I may say these next three lines are not quite quoted correctly, but by reference to article VI it can be found.

The fund may request a member to exercise controls to prevent use of the resources of the fund to meet a large or sustained outflow of capital.

Another quotation:

Members may exercise such controls as are necessary to regulate international capital movements.

Lord Keynes has admitted that to make this effective would require—

the machinery of exchange control for all transactions, even though a general permission is given to all remittances in respect to current trade.

And Representative Smith, of Ohio, has pointed out in the House that—

To effectively prevent outward movement of capital requires total control of all international transactions whatsoever, censorship of mails, telegrams, telephone calls, cablegrams. Foreign travel must be restricted. Persons wishing to travel abroad must be searched. Restrictions on exports through licensing must be required.

If it be said that—

Senator MILLIKIN. Mr. Chairman. Will you permit a short interruption that is somewhat off the point?

Mr. HART. Surely.

Senator MILLIKIN. Before we close the hearings I should appreciate it very much if the representatives of the Treasury will give us their views on whether there is a constitutional delegation of power to this international agency with respect to the provisions of the Constitution that puts in Congress the power to regulate commerce with foreign nations, and that puts in Congress the power to coin money and to regulate the value thereof, of our own coin and of foreign coin; and also whether or not this should be a treaty arrangement. I don't believe we have had a discussion of that on the Senate side.

The CHAIRMAN. You don't mean tonight?

Senator MILLIKIN. Oh, no.

The CHAIRMAN. You mean before we close?

Senator MILLIKIN. Before we close.

Senator McFARLAND. Do you want that from the Attorney General?

Senator MILLIKIN. Well, that would suit me much better. I won't say much better, but it would suit me just as well.

The CHAIRMAN. We will try and provide it.

Senator MILLIKIN. I think that would be a very good thing.

The CHAIRMAN. Yes. Very well.

Senator MURDOCK. I don't believe the Attorney General would render such an opinion to a congressional committee. I think he has taken that position two or three times, that his opinions are to the executive.

Senator MILLIKIN. I shouldn't think there would be any objection on behalf of the attorneys for the Treasury.

The CHAIRMAN. I am sure they will be quite willing to.

Senator MURDOCK. I just make that observation in light of my experience, because I know on several questions that have been submitted to the Attorney General by congressional committees that he has invariably taken that position.

Senator MILLIKIN. I am sorry for the interruption.

Mr. HART. If it be said that of course the fund would not go so far as this, it is sufficient answer to say that it would have the power to do so. Experience of recent years shows that not only other peoples, but our own, will suffer a good deal of regulation before making effective protest. But here this supergovernment is a law unto itself. There is no appeal from any of its decisions. It is immune from judicial process of every nature.

Since the United States will have only a 28-percent vote, though supplying most of the real money, all policy-making might easily fall presently, or even at the very beginning, into the hands of men and nations whose ideology is totally at variance with American tradition and experience. It is almost certain that the staff, which we can be sure would be a huge one, would consist largely of leftwingers. American citizens—

Senator TAYLOR. What makes you think that, Mr. Hart? Why do you draw that conclusion?

Mr. HART. Well, Senator, because in some of our own bureaus there is a great tendency in that direction. Certainly in the OWI there is.

Senator TAYLOR. Would you say that Stettinius is a left-winger?

Mr. HART. Well, no; I am not going to characterize any particular individual, but Stettinius would have nothing to do with the appointment of these people. We take part in the formation of this organization, and Britain and Russia would have a large say, along with other countries, in the appointment of the executive director. The executive director might conceivably be a Russian.

Senator TAYLOR. He would probably be a left-winger in that case, wouldn't he?

Mr. HART. He might even be a left-winger; yes, but he wouldn't have to come from Russia in order to be of that type of mind.

Senator MURDOCK. Do you take the position, because all governments don't conform to our ideology, that by reason of that we should refuse to cooperate with them in any financial or economic arrangement?

Mr. HART. Senator, we have done a lot of cooperating in the past.

Senator MURDOCK. Well, I understand that.

Mr. HART. I don't want to see this country refuse.

Senator MURDOCK. I understand that, but do you take the position that because of the fact that they don't all conform to our ideology that by reason of that we should refuse to cooperate or join any corporate arrangement such as this?

Mr. HART. No; but I do think we ought not to put our vital interests in the hands of a group a majority of which is very likely to be of that type of mind, and that is just exactly what it seems to me we are doing here. Let us cooperate—

Senator MURDOCK. Yes; I am convinced by listening to this article of yours that that is pretty much your idea.

Mr. HART. Yes, sir; it is.

Senator TAFT. Well, I think it is undoubtedly right, Mr. Hart, I don't mind saying. I think an international body of this kind is more than likely to be made largely of Communists.

Senator TAYLOR. Well, Argentina——

Senator TAFT. Much more likely than any American organization. I don't think there is any question about it. Obviously the world is largely Communist, and obviously they will be largely represented, much more than in any American organization.

Senator MURDOCK. Is that any reason—let us assume that they are. Is that any reason why we should refuse to enter into any cooperation with the rest of the world?

Senator TAFT. It is a reason why we should not give anybody of that kind power over American economy and American individuals; yes. A very good reason. It may be balanced by some other important considerations, but unless those considerations are awfully important I think it is a direct reason why no international body should have any jurisdiction over the domestic policies of the United States.

Senator MURDOCK. Would you stay out of this International Bank and International Fund arrangement on that basis?

Senator TAFT. Would I? Yes; that is one reason. I have very many other reasons, but that is one reason.

Senator TAYLOR. Well, the same thing, then, might apply to the United Nations organization. The President of the Council might be a Russian.

Senator TAFT. Surely. I don't think, though, that in that case we are giving them power over the domestic affairs of the United States; I think we are only giving them power over the international relations of the United States, and in that I am willing to go much further.

Senator TAYLOR. What about the International Court of Justice?

Senator TAFT. The same thing. I am willing to submit our concerns as to international relations to such a body; but when the question is raised here, in other words, whether we are not giving power now to an international body over our domestic affairs to a very considerable extent, certainly over the power to change the value of the dollar and over a great many other powers which are directly related to our affairs, to our domestic policies, that is the line of distinction that I would draw.

Mr. HART. Senator, if you meant would I refuse to deal with other countries because they were Communist, absolutely not. I believe in dealing with Soviet Russia, dealing with any other country with whom it is of mutual interest to deal. I just don't want to put our interests in their hands.

Senator MCFARLAND. We have 28 percent of the voting power in here; is that right?

Mr. HART. I understand so, Senator.

Mr. GREAVES. At the beginning.

Senator MCFARLAND. Is it your idea that we in the United States will contribute to this leftwinger business of yours?

Mr. HART. I don't understand.

Senator MCFARLAND. Is it your idea that we, by our vote, will vote for leftwingers to control this fund?

Mr. HART. Well, let's assume we don't.

Senator MCFARLAND. Well, first I would like——

Mr. HART. And I will assume we don't.

Senator McFARLAND. Well, I want to find out why you make that statement.

Mr. HART. Well, because—

Senator McFARLAND. Is it because of a fear of what we will do, or because of a fear of what others will do?

Mr. HART. For fear of what others will do. What we do is our own business.

Senator McFARLAND. Do you fear that Great Britain will vote that way?

Mr. HART. Yes; I fear. I think there is a grave chance of it, not while Churchill is there, but Churchill won't be there indefinitely.

Senator MURDOCK. Are you afraid of Eden?

Mr. HART. Well, I don't know about Eden. I would say there would be perhaps more chance of Mr. Eden leaning in that direction than Mr. Churchill. But supposing Mr. Harold Laski became Prime Minister of Great Britain. Which is in the realm of possibility, I wouldn't want him deciding the vital issues of this country. I don't think you would either, Senator.

Senator MURDOCK. No; but I am not so apprehensive about it, of course, as you are. This country can't stand off here aloof and just say, "hands off" on everything simply because some other part of the world may be communistic. I am not afraid of democracy, as it seems that you are. I think that democracy can go into any organization and probably hold its own anywhere.

Mr. HART. Well, to me, Senator, the word "democracy" is a very much abused word. I consider that this country is a republic.

Senator MURDOCK. Well, now, I will agree with you.

Mr. HART. It is a democratic republic and I think—Senator Murdock.

Senator MURDOCK. I don't want to get into that discussion. I will agree with you that it is a republic, and my position is that this Republic can very well afford to go into such an organization and take a chance. If we are unwilling to take a chance, if we just stand back and say, "Oh, they might have something to do with our internal affairs," well, we'll have something to do with their internal affairs if that's the case.

Mr. HART. I don't think that is so.

Senator TAFT. I think there is a real distinction, though, Senator Murdock. I mean, now the bank, after all, we put out money in, and somebody loans it to somebody, but it has no power to make regulations affecting the internal affairs of this country at all; whereas this fund board does or can make regulations which materially affect what we do about controlling our exchange; controlling capital movements in and out of the United States. That is a distinction, I mean, I am suggesting between the two.

Oh, I think you ought to sit down with the Communists and everybody else on any international body and discuss international affairs.

Senator MURDOCK. We have a voting power on a pro rata basis with the contribution we made to the fund. I think that that is sufficient protection.

Mr. HART. But this money is mostly ours, most of the real money.

Senator MURDOCK. I understand that, and the voting power is mostly ours.

Mr. HART. Oh, I can't see that.

Senator TAFT. More than half the money is ours, and only 28 per cent of the voting power.

Senator MURDOCK. No; I think we put a third of the money into the fund.

Mr. GRAVES. Twenty-seven percent.

Mr. HART. Senator, I think if our friend Joe Stalin were a member of the United States, and things were reversed, he never would vote for this. Neither would Mr. Churchill.

Senator MURDOCK. I doubt that, too, but I don't want to follow all the time; I would like to see my country step out as it has, lead the world into cooperative efforts to keep away from the chaos that now exists.

Mr. HART. Well, whether they are cooperative or not I think I want to see—I know I want to see the country lead the world into productive results and real results, and not results that are just made up largely of glittering phrases. I think there is an awful lot of that about this. I recall glancing through the testimony of the other side of the Senate hearing here when Mr. Morgenthau said something about the religious atmosphere that pervaded the Bretton Woods Conference. I don't think the Russians ever wasted 1 minute's time thinking about the religious atmosphere. They were there for very practical reasons, just as we should have been, too.

Senator MURDOCK. Well, they have been in this war for very practical reasons, too.

Senator TAYLOR. I think the Russians are giving a great deal of thought to religious matters these days, for practical reasons, too.

Mr. HART. Well, I think, according to Mr. David J. Dullin. I have very grave doubts. Possibly for very practical matters in passing.

Senator McFARLAND. Well, I don't see, Mr. Chairman, that religion has much to do with this matter.

Senator TAFT. A little off the line, I think.

The CHAIRMAN. Yes.

Senator TAFT. As it is pretty late.

Senator McFARLAND. If we get the testimony we will adjourn.

Senator TAFT. I am willing to keep still if the others will.

Mr. HART. American citizens and, I am sure, members of both Houses of Congress, also, have had their experience with certain types of bureaucrats that tend to be arbitrary. They pretend to know more than the Congress or any of the people. They tend to look down on the people—and on Congress, too.

How much more might we expect that the bureaucrats of the International Monetary Fund would look down on the interests of the people, and, indeed, of those nations whose ideologies differed from theirs.

Senator TAYLOR. Well, I move to intercede and intervene again here, Mr. Chairman. My experience with bureaucrats has not been that they look down on the people. The ones I have been coming in contact with I believe are hard working, conscientious servants of the people. I just want to make that observation.

Mr. HART. Many, many are, Senator; I certainly would agree with that. But I think there have been hearings before congressional or senatorial committees where the attitude shown by the representatives

of the administrative departments was anything but one of cooperation with the congressional or senatorial representatives.

The CHAIRMAN. Are you talking about the Dies committee now? You mean the Dies committee now, don't you?

Mr. HART. Well, I can submit a list of several instances of that, Senator, I think.

Senator TAFT. Well, you could go back to the Agricultural Committee a month ago when they heard—what is his name?

Mr. HART. That was the one I was thinking of.

Senator TAFT. The meat.

Mr. HART. The meat packing crowd were here.

Senator TAFT. Your opinion represents the opinion of every member of the Agricultural Committee.

Mr. HART. That is what I had in mind, Senator.

The proposals have been promoted by misrepresentation and by fraud upon the American people.

I have spoken of the PAC pamphlet which seeks to give the impression that a reading of the objectives and the general principles of the Bretton Woods agreement is sufficient to give a good working knowledge of what it is all about. This same idea has permeated much of the publicity put out by our Treasury Department, and by the hundred-odd communistic and left-wing organizations, magazines, newspapers, and various other publications that seem to be unanimously lined up in support of the proposals.

Even some business corporations have been using their stockholders' money (and that of the taxpayers) to propagandize the Bretton Woods proposals. A Delaware corporation known as the International Latex Corporation last April published a two-column advertisement featuring Bretton Woods as "Preventing Future Wars." It says Bretton Woods

Calls for a monetary stabilization fund to stabilize the nations' currencies in their relations one with another, and to provide for an orderly adjustment of those relations through joint action.

Well, who would not be for that? The only difficulty is, as I have shown, that this statement does not disclose what the proposals really do. No wonder this advertisement urges Congress to ratify "without delay."

Incidentally, a number of concerns have published these advertisements. They are all of them concerns that are in the higher brackets of income taxes. They no doubt deduct these before taxes; so the result is that taxpayers' money is used for this purpose, and the Government is defrauded of it.

Senator TAYLOR. Well, why do you think these corporations would be in favor of Bretton Woods? Do they want to turn the country over to Communists; do they?

Mr. HART. Well, I'll say this, Senator: the president of this International Latex Corporation is a very extreme "liberal."

Senator TAYLOR. Well, there is a difference, though, between a liberal and a Communist.

Mr. HART. Well, a "liberal" with quotation marks, if you please.

Senator TAFT. Well, and born in Russia.

Mr. HART. Yes; he was born in Russia.

In this connection an editorial in the New York Herald Tribune of June 8, entitled "The Bretton Woods Vote," contained the following:

This newspaper—thoroughly disapproves of the high-pressure propaganda methods used by the Treasury in its campaign for this specific legislation, and it feels that the case made before the (House) Banking Committee against adopting the fund in its present form at this time was completely unanswerable.

Now, it is due the Tribune to say that in answer the editorial went on to say they thought the House voted right. However, how they reached that conclusion I do not see.

And lastly, the proposals have been promoted by the State and Treasury Departments through illegal use of the taxpayers' money.

And I quote here section 201 of the United States Criminal Code, which I am sure is familiar to all of you. I won't take the time to read it.

The purpose of this criminal statute is a salutary one—to prevent precisely what is taking place with respect to Bretton Woods. Naturally, Government administrative officials know a great deal about legislation which they, or some of them, have themselves drafted. Congress clearly considered it to be against the best interests of the American people for these officials to propagandize the people on issues before Congress.

Yet, on the Bretton Woods matter, these administrative officials appear to have outdone themselves—they have been shameless in the lengths to which they have gone.

Senator TAYLOR. You say there is a statute against the Government propagandizing anybody about anything?

Mr. HART. There is.

Senator TAYLOR. How about all these advertisements for war bonds?

Mr. GREAVES. It is about things before Congress.

Mr. HART. Things before Congress, pending measures before Congress.

Well, this is the act, section 201 of the Criminal Code:

No part of the money appropriated by any act shall, in the absence of express authorization by Congress, be used directly or indirectly to pay for any personal service, advertisement, telegram, telephone, letter printed or written matter, or other devices intended or designed to influence in any manner a member of Congress, to favor or oppose by vote or otherwise, any legislation or appropriation by Congress, either before or after the introduction of any bill or resolution proposing such legislation or appropriation.

And yet that came up on the floor of the House and was referred to there.

Mr. GREAVES. Of the Senate.

Mr. HART. Of the Senate. And this Government propaganda accounts, without any doubt for the large volume of letters, favorable to the proposals, that have been received from all parts of the country by Senators and Congressmen. It is an unfair and it's an unwise and a very ill advised thing to allow to go on. If this Congress, after holding hearings, questioning witnesses, isn't capable of deciding itself, why, then it is too bad that our country is just all wrong. But there is this propaganda for which taxpayers' money is being used, to force these measures through, and it smells—really it does—from the standpoint of the average citizen who knows anything about what is going on.

Now, I have not discussed the bank because its very existence seems to depend upon the approval of the fund. As it is phrased at present, at least, many aspects of the proposed bank appear to be good.

The thought arises in my mind: Why can't we use the Bank for International Settlements, which is still in existence, and, as the late Leon Fraser, for 3 years its vice president and for 2 years its president, told the House committee, "has a very experienced and competent force, particularly in matters of this character."

Why, it may be asked, did the House of Representatives approve the proposals with only 18 dissenting votes?

This would seem, under ordinary circumstances, a fair question. Frankly I think one of the reasons is that most of the Representatives never read the proposals. I have questioned a number of them since the vote was taken, and the estimates I have received as to the number who had probably read them was very low.

I think we put our finger close to the truth in saying the overwhelming propaganda carried on in the United States, much of it by alien-minded persons if not by aliens, and a vast amount of it conducted illegally by the State and Treasury Departments, has conveyed the impression and has been intended to convey it, that the whole story was told in the statement of the objectives and that the rest of the proposals was unimportant detail.

Senator MURDOCK. Of the Members of the House that you have interviewed, were they supporters or did they oppose the Bretton Woods?

Mr. HART. Some of them, they were for it, and some against it.

Senator TAYLOR. Then, it does not seem the propaganda makes much difference on the part of Congress. They don't read the bills anyhow.

Mr. GREAVES. Pardon me, Senator, but I would say the very opposite, if the majority of the mail is such as one of them—one Congressman has already put it in the Record that he had to be absent on the day of the vote, but that if he were present he would have voted for it, not because he thought it would accomplish the objectives but because he thought the American people thought that they were ready to support the rest of the world; and the public in many respects are for it because they only know of the principles and objectives; they do not know of the details.

Mr. HART. Why, Senator, when Mr. Clayton, Assistant Secretary of State, was before the House committee, he was one of those that worked on the principles, he did expert work, and he was an expert witness for the State Department itself on behalf of the bill, and they drew out of him, on page 277 of the House hearings, that he never had read the bill—the proposals.

If I may continue with my statement:

In the next place, these Congressmen, so far as I can observe, decided, pressed as they are by innumerable duties, that they would depend upon the recommendation of both President Roosevelt and President Truman who, I am forced to say, in all probability did not have time to study the proposals themselves, and depended upon Dr. White. I don't believe for a moment the President would have time to read those. I don't think any person of even good intelligence could read those things intelligently and really understand them inside of 2 solid days. It would probably take more.

I do not wish to reflect upon experts—they are necessary on technical matters. I have no doubt that on paper, at least, the experts have worked out a very fine-looking piece of machinery, complicated though it may be. But this machinery is far more elaborate than that necessary to stabilize currency and remove exchange restrictions.

Experts are all right on technical matters, as I say, but I do not want the work of Washington and Jefferson and the other founding fathers of this Government tinkered with—tinkered, perhaps, out of existence by so-called experts.

I believe the Senate of the United States should not pay too much attention to the vote in the House. With all due respect to the House of Representatives, the Senate is the real deliberative body which under our Constitution should deal with foreign affairs. No treaty, requiring a two-thirds vote of the Senate, has been more important to our people than these proposals. I respectfully submit that they can hardly have the attention they deserve from this committee before the projected summer recess.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. Is it your contention, Mr. Hart, that this is in substance a treaty?

Mr. HART. I don't see the slightest difference between this and a treaty.

Senator MILLIKIN. Have you given any thought as to whether there is an unconstitutional delegation to the international body of control over our commerce, of control of the value of our money, and of foreign money?

Mr. HART. Well, I think the question would be there, Senator, whether the provision that treaties made and approved by the Senate become the law of the land—of course, this is not approved by the Senate in a two-thirds vote.

Senator MILLIKIN. This is not a treaty. I mean it is not put up to us as a treaty.

Mr. HART. It is not put up as a treaty. In other words, possibly the fact that it does not receive the two-thirds vote—if it does not—of the Senate may easily be raised some day.

Senator MILLIKIN. Well, even if it was a two-thirds vote, and it was not put up as a treaty, and we passed it by even a unanimous vote, that would not make it a treaty.

Mr. HART. I think that is right.

Senator MILLIKIN. You have developed that when we get to a short dollar position then foreign countries have control over our exports.

Mr. HART. Right.

Senator MILLIKIN. Well, that is control over our commerce.

Mr. HART. Certainly.

Senator MILLIKIN. The Constitution lodges that power in Congress.

Mr. HART. Certainly.

Senator MILLIKIN. It might be all right to delegate that to somebody within the United States, some official organism of this country. It seems to me a very large question is raised when we talk about delegating it to an international body where we have a minority interest.

Mr. HART. I would say that is correct.

Senator MILLIKIN. And the same goes for the value of our money and the value of foreign money, which is a power also lodged in Congress; and to my mind the same questions are raised. I think they are very serious questions.

Senator TAFT. I agree with you, Senator.

Mr. HART. Certain of the "experts" who devised this scheme were very far from having their feet on the ground—at least as far as the United States is concerned. The two authors of the scheme appear to have been Lord Keynes and Dr. Harry D. White.

Now, Lord Keynes' duty is to look after Britain first, and he does it with conspicuous success. There is no reason to suppose that he is interested in the preservation of the American system. There is no reason why he should have the slightest interest in it.

Lord Keynes has been very honest in telling Britain of his satisfaction over these proposals. In an address before the House of Lords on May 23, 1944 (printed on page A1774, April 4, 1945, of the Congressional Record) in which he disclosed an apparent knowledge of what the so-called Bretton Woods Conference was going to do, he said:

It follows that we must examine any financial plan to make sure that it will help us to carry our burdens and not add to them.

And it seems to me that that is precisely the view, the idea, that this committee should go on; that we should examine this or any other financial plan to make sure that it will help us carry our burdens and not add to them because we certainly have got some awful burdens to carry for a long time to come.

And then Mr. Keynes proceeds to examine these proposals and finds that for Britain they are very, very good. He is judging them solely because of their effect on Britain. He is thoroughly nationalistic. He disclosed in this speech that the Americans have been very, very generous in what they have given up in their acquiescence in them.

Now I think it is a fact that Lord Keynes himself, as the author of the so-called International Clearing Union, was really the author of the principal ideas contained in the proposals. They were supposed to be tempered by less drastic proposals of which Dr. Harry D. White, Assistant to the Secretary of the Treasury, is the author. Dr. White's autobiographical sketch in *Who's Who in America* occupies just six lines. It simply describes him as an economist, and tells the offices he has held, and gives his address. It tells nothing of his background. And I have not been able to find out anything of his background. And yet, Dr. White is apparently the American authority upon whom two Presidents, the Secretary of the Treasury, and the House of Representatives have relied.

It is pointed out that many bankers favor the proposed International Bank, though fewer of them favor the fund. The late Leon Fraser, perhaps the best informed banker in America on international banking, told the House committee only a few days before his untimely death, that, while he approved the bank, and was in accord with many of the declared objectives of the fund, yet he disapproved of the fund proposals. Pressed by Representative Patman to state how he would vote if the fund could not be separated from the bank, Mr. Fraser replied (p. 443, House hearings) that "with very deep re-

gret" he would vote against the proposals. Mr. Fraser described himself as an internationalist.

One reason that many bankers favor the International Bank is not hard to see. The guarantee by the bank of private international loans is by its very nature a subsidy. The bankers did not plan this scheme, but to an extent they would be the innocent beneficiaries.

Gentlemen, if the Senate of the United States adopts these proposals, it will, in my opinion, have committed the United States to one more step toward a world collectivism. This collectivism will destroy the very principles that have made the United States so strong and great that she has been able not only to fight the present war but to see her European allies through to victory. Passage of these would make the wealth of the United States the pawn of other nations.

As a distinguished San Francisco lawyer (see Congressional Record, p. A1768), Mr. John Francis Neylan, said recently:

It is conservative to assert that this measure constitutes the greatest surrender of resources and economic advantages by any nation in the history of the world, and signalizes the inauguration of a plan under which a prodigally generous United States puts itself at the mercy of its debtors.

Through American imagination, resourcefulness, and energy our people have reached a supreme leadership among the nations, with a vastly higher standard of living. Our course should be to lend aid to the nations needing aid so that they, by following our methods and our ideals and our example, may share the high standards we have enjoyed. But the adoption of these proposals will tend to reduce us to their levels.

A news item that appeared in the Herald Tribune of Friday, June 15, may give a clue to the plan in the minds of those who appear to be engineering the commitment of the United States to these international plans. In a speech from London, J. J. Llewellyn, British Food Minister, states, in a review of the world food problem to the 2-day Emergency Food Conference then meeting in London—that was last week—that "a substantial part of liberated Europe's food requirements will be met if the problem of 'collection and distribution' is solved." The meat supplies, he said, show an "overwhelming deficit," but he explained that in the cases of sugar, fats, and oils, the three major food countries have accepted the principle of parity, which will cut all consumption to a common level, and will succeed in a large measure in balancing world supplies against world needs.

If this statement of the Minister as reported be true, then without any apparent authority from this Congress someone has committed the United States to the cutting of all consumption to a common level—for I assume that the United States is one of "the three major food countries." If without such constitutional authority we have been committed to this, to what lengths will international bureaucrats go with American interests and the welfare of the American people if these Bretton Woods proposals are adopted?

I urge this committee to study most carefully these proposals, for if adopted in anything like their present form they will, I believe, in the future, be seen to have been a betrayal of the American people.

Now, Senator, if Mr. Greaves could speak very briefly.

The CHAIRMAN. Well, how brief?

Mr. HART. Five minutes.

The CHAIRMAN. All right.

**STATEMENT OF PERCY L. GREAVES, JR., CONSULTANT ECONOMIST
FOR NATIONAL ECONOMIC COUNCIL, NEW YORK, N. Y.**

Mr. GREAVES. I asked Mr. Hart to ask this because I have a few things here on the bank, which I don't think has had as much attention.

The bank is set up to make direct loans for productive purposes. It also encourages private investors to do likewise by guaranteeing repayment of approved loans. It is thus intended to help restore war-torn economies and build new plants in the less developed countries.

Like the fund, it will get its cash from the members. Subscription quotas were set at the Bretton Woods Conference. The United States quota is \$3,175,000,000 or about 35 percent of the \$9,100,000,000 total. The American quota is almost $2\frac{1}{2}$ times the next largest, \$1,300,000,000 for Great Britain.

The subscriptions to the bank's capital are divided into two parts:

1. 20 percent to provide cash for direct loans.
2. 80 percent to make up losses on guaranteed private loans.

The 80 percent will be payable as needed but not more than 5 percent in any 3 months. It will be payable at the option of the member in gold, United States dollars, or the currency needed to satisfy the debt. All losses incurred by the bank on guaranteed private loans will therefore be shared in the same proportion as the subscription quotas. This 80 percent is a contingency subscription. It will not go into effect unless and until there are losses from guaranteed private loans.

The 20 percent is to be made available for direct bank loans as soon as it is needed. Two percent will be payable in gold or United States dollars and the other 18 percent in the member's currency. The United States will thus supply more than 84 percent of the lendable funds, gold and/or United States dollars.

Members that suffered from enemy hostilities would have a right to postpone 25 percent of their gold and/or dollar contribution for 5 years. If this right were fully exercised, the United States' contribution of the lendable funds would rise to above 87 percent.

We would have a 31.4 percent vote in the management of the bank. As in the fund, we would appoint 1 of the 44 members of the Board of Governors and 1 of the 12 executive directors.

Unlike the fund, the bank loans would not be a right but would be made only after an investigation and a report. The bank would also guarantee all private investors, such as commercial and investment banks, against losses on approved loans. This 100 percent guaranty is twice the 50 percent guaranty granted when GI's are the borrowers. This guaranty is in effect a subsidy to private lenders. Naturally, bankers endorse it. And there has therefore been less opposition to the bank than to the fund.

Total direct and guaranteed loans may never exceed the unimpaired subscribed capital. When the loan is not to a government or a central bank, the member in which the project is located must pass on and guarantee the loan.

This opens the door to all kinds of political chicanery. Within the management of the bank itself, the result can and may become a

logrolling pork barrel. A 51 percent voting majority would have to be obtained to pass on each member project. The temptation would be for the borrowers to get together and logroll. The borrowers would have full power to set all the terms of the loans. Nations which did not go along would get no loans. It is possible that meetings might result in the creation of ill will rather than the desired good will.

Within each country, the proposals would make the administration in power the dispenser of credit. In each country, there would be a premium on political pull and a damper on private initiative. Loans could be extended, modified, or foreclosed as the administration desired. Each administration would be given a powerful instrument with which to control or nationalize its industries. Liberty, including the right to work where and when one pleases, would effectively be destroyed in peacetime.

Borrowing members could also use the fund to subsidize competitors of American industry both within their borders and in the world markets, particularly if the credit terms were set at below private-market rates. Economic warfare, which has in the past been primarily between private individuals would then be primarily between governments. Every major financial transaction might well become a diplomatic crisis.

How such banks may grow in size and power can be well illustrated by the Reconstruction Finance Corporation. This was originally started with a capital of only \$325,000,000. Its lending authority was limited to railroads and financial institutions for a 1-year "emergency" period. It has since authorized loans totaling \$45,000,000,000, and as Mr. Jesse Jones has testified:

We can lend anything that we think we should * * * any amount, any length of time, any rate of interest * * * and to anybody that we feel is entitled to the loan.

It should also be remembered that this bank would be set up in a world that has been conditioned not to repay international obligations. It is generally expected that World War I debts will be canceled. It is unlikely that lend-lease transactions will ever be balanced. The atmosphere that Uncle Sam is a good rich neighbor will not encourage repayments which might result in deflationary hardships.

The Bank of International Settlements is already in existence. It would be far wiser to continue it rather than set up a new bank. It should be given every power to encourage private loans and investments on a business basis rather than a political motive. Inter-governmental debts have never resulted in creating a lasting peace and good will. Business transactions which have been profitable for all parties have frequently resulted in lasting friendship and increased prosperity.

Thank you.

The CHAIRMAN. We meet tomorrow at 10:30, and Saturday.

Senator TAFT. Well, I think we can get through tomorrow, since the Senate isn't meeting, Mr. Chairman. I think there are about four or five witnesses, and if we sit morning and afternoon I think we will get through all right.

The CHAIRMAN. Then on Monday—

Senator MURDOCK. Mr. Chairman, I think we have got some witnesses coming to testify on the hard-money base of this thing, and I doubt whether they will be here Saturday.

The CHAIRMAN. When will they be here?

Senator TAFT. Will they be here tomorrow?

Senator MURDOCK. I don't understand so.

Senator TAFT. Well, that is the first time I have known about that, but anything that you, Senator Murdock, want, I am sure the chairman will grant.

The CHAIRMAN. Well, anything Senator wants I will grant.

Senator TAFT. But I hope we can get through next week early.

The CHAIRMAN. Yes. Well, we meet on Monday, too, at 10:30, with Mr. Burgess.

Senator TAFT. Yes. The A. B. A. will be here.

Mr. HART. Thank you very much, Senator.

Mr. GREAVES. Thank you.

The CHAIRMAN. Don't mention it.

(Whereupon, at 6 p. m., an adjournment was taken until tomorrow, Friday, June 22, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

FRIDAY, JUNE 22, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY.
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Thursday, June 21, 1945, in room 301, Senate Office Building, Senator George L. Radcliffe presiding.

Present: Senators Radcliffe, McFarland, Fulbright, Taft, and Millikin.

SENATOR RADCLIFFE. The committee will come to order, please. Senator Wagner is not able to be here this morning and has requested me to read a letter, which I am going to do, and then we will hear from the witnesses. This is the letter [reading]:

HON. ROBERT F. WAGNER,

*Chairman, Committee on Banking and Currency,
United States Senate, Washington, D. C.*

DEAR SENATOR: As chairman of the research committee of the Committee for Economic Development, I appreciate this opportunity to present our views on the Bretton Woods agreement for the hearings before this committee.

The Committee for Economic Development is composed of businessmen who are studying the important aspects of the problem of attaining and maintaining a high level of productive employment in this country. In this study we are associated with an advisory board of social scientists of national and international reputation, for the most part economists, and are assisted by a competent staff.

An important part of our work has been to investigate the part to be played by foreign trade in supporting a high level of productive employment in this country. Particular attention was naturally given to the Bretton Woods proposals. After months of consideration we concluded that the bank provided for would be most useful for our national purposes, but that the fund as originally proposed carried with it certain dangers which greatly diminished its usefulness, and in fact might become dangerous.

My associate, Mr. Harry Sherman, has told you that we feel that the amendments made in the House have in a very large measure strengthened the weak spots in the legislation, so that we now have no hesitation in urging the adoption of the amended measure.

For my part in this written testimony I wish to present to your committee some thoughts on what seem to us to be a number of misconceptions and misapprehensions concerning the bill as it now stands.

One of the objections is arithmetically false, yet it persists. It is assumed by some that we put up more than one-half the sum. Our 2.75 billion dollars is less than a third of the 8.8 billion dollars total, so is nowhere near one-half.

Of the largest part of the remainder—for instance, the Canadian dollar, the British pound, the French franc, and the currencies of other mature countries—we can be assured that they will retain high values in international trade if such trade is to exist at all.

If we are wise in our other policies we will have a generally balanced trade and will not ourselves be vulnerable to raids on our currency.

A somewhat similar misapprehension is to the effect that borrowing countries are in control of the fund's resources and lending power. Approximately 28

percent of the aggregate votes would be cast by representatives of this country. Aside from the extreme unlikelihood of debtor countries "ganging up" on creditor countries, there is provision for increased voting power for creditors in all voting on use of fund's resources.

It has been asserted that we will have to police exchange markets to prevent transactions at rates below the par values of foreign currencies. This is untrue. We have no obligation for foreign currency stability beyond buying and selling gold at a fixed price.

A great merit of the agreement is that it puts an obligation on each country to prevent a depreciation of its currency in terms of the dollar. Only if such maintenance involved serious internal distress, and then only by gradual and controlled means, can a nation depreciate its currency without subjecting itself to suspension from the use of the fund and eventual withdrawal.

Signatory countries must remove wartime currency restrictions as soon as possible and may not impose new controls without the approval of the fund.

This whole area of agreement on exchange policy is a new and necessary approach to stable fundamentals for international trade. It gives a foundation on which businessmen and statesmen can confidently build.

In particular it is the only means which has been proposed whereby the other great factor in world-wide trade, Great Britain, can safely gear her policy into a general agreement instead of pursuing particular and unilateral interests, which would in all probability be contrary to our own.

Much else might be said on other objections, but all that have come to my attention, at least, simmer down to misapprehension.

My own greatest apprehension is that our own country may continue to be the real bad actor in world trade. Should we continue our traditional policy of trying to sell without buying, cheating ourselves and losing our shirts in the process, dollars will continue to be short and we will continue to complain about and be suspicious of "debtor countries" who are made so by our folly rather than their own.

There are signs, however, that we are losing our adolescent innocence in these matters, and that we will soon be able to hold our own in world trade. When that time comes, both we and the nations with whom we trade will profit from our new and more sensible practices, and from the benefits which both the bank and the fund will provide.

RALPH E. FLANDERS.

Senator Wagner also asked me to read several paragraphs from another statement, which paragraphs I will read, and then I will turn the complete statement over to the committee reporter to be made in full a part of the record.

Senator TAFT. Senator Radcliffe, as I understand it, you only intend to read some three paragraphs of Mr. Scherman's statement, but you want the entire statement placed in the record?

Senator RADCLIFFE. Yes; this entire statement will become a part of the record. [Reading parts of statement:]

May I identify myself as Harry Scherman, a member of the research committee of the Committee for Economic Development, invited by your chairman to present this written statement with regards to the Bretton Woods agreements.

In its first statement about the Bretton Woods agreements, published 3 months ago, our research committee set forth what it considered should be the basic principles of international monetary collaboration.

One of them was as follows: "Loans should be truly loans, currency transactions should be currency transactions, and gifts should be gifts."

If this common-sense policy is not scrupulously followed, you invite misunderstanding, bitterness, and conflict among nations. Any effort at monetary collaboration would be badly handicapped from the beginning, and its success made highly doubtful.

The bill which your committee is considering does observe this basic principle. Indeed, it seems to be wholly inspired by that principle. Consequently, we are for it.

Not necessarily in its exact wording. Just as discussion before the House Banking and Currency Committee resulted in some extremely valuable changes in the original bill, so the discussion here may reveal that the operations of the two great instrumentalities being set up, the fund and the bank, may be strength-

ened in some minor particulars. But we regard the broad provisions of the bill as excellent, and we hope they will be approved by this committee and will pass the Senate unchanged.

The bill follows very closely the broad recommendations made by us, and this being so, we are in a good position to testify as to what it accomplishes.

The substance of our recommendations before the House committee was this: that there should be a clarification of the functions to be performed by both the fund and the bank beyond the possibility of misunderstanding by any member nation or any responsible individual.

It may be of help to review, briefly, just how far this clarification of functions is achieved in the present bill, and what it will involve in the daily operations of these two institutions.

First, as to the bank. The original text of the Bretton Woods agreements could have been read to mean—and undoubtedly was taken by many people to mean—that the bank would only make or guarantee loans for specific projects of reconstruction and development. But how about stabilization loans to governments, to protect monetary reserves in some transitory period of weakness? And how about the type of assistance which Dr. John Williams described as “general purpose loans”—again straight governmental borrowing—to help restore the economic status of some countries ravaged by the war?

Both these two types of assistance would be true loans, and according to the basic principle set up should not be handled as anything but loans—not as gifts and not as currency transactions. What was to be the function of the bank with respect to such assistance?

Our committee discovered, in its study, that Treasury and Federal Reserve Board and State Department officials all regarded such advances as actually coming within the province of the bank, under a “special circumstance” clause dealing with the bank’s powers. The clause was general and vague. Our committee recommended that the power of the bank to make all such loans be express and unmistakable.

The present bill does this. It would remove any misunderstanding that may now exist, or may later arise, about how and where stabilization loans, or general restoration loans are to be handled. They are to be handled by the bank managers.

In fact, if one reflects on the final over-all effect of the provisions of the present bill, it seems fair to conclude that every request for money coming before the two institutions that can be identified as truly a loan will go to and will be handled by the bank managers. No advance that can be identified as truly a loan is to come within the fund’s province of management.

This clearly defined function of the bank is to be regarded in the light of the general objective of the bank, which—it should be understood—is altogether different from that of the fund, as I shall show. The long-term purpose of the bank is to bring about as quickly as possible—and then to maintain—the full and ready flow of capital from one country to another, wherever it may be needed and wherever both creditor and debtor will be benefited by the flow. That is how so much progress, on the materialistic side, has been achieved on a worldwide scale over the past 150 years. We all know the obstructions to this flow of capital that have developed in the past quarter century. This new bank will seek to remove these blocks that have been built up to the free flow of capital over the world. The bank can be conceived of as building operable pipe lines for the world’s money; and under its careful direction money can be pumped through these pipe lines, wherever it is clear that economic gain—to both creditor and debtor—can be reasonably expected.

If all advances of money that can be identified as true loans—stabilization loans, general purpose loans, specific-project loans—are to be handled by the bank managers, the principal criticism that was made of the Monetary Fund disappears.

This main criticism was that the enormous pool of money existing in the fund would be quickly frozen; that in the transition period the need of many distressed nations would be so great that the supply of wanted currencies—like the dollar—would be drained away and replaced with an excess of unwanted currencies; and that in the end break-down, and some pretty bad consequences, could be expected. This apprehension has validity only if it is assumed that the fund was designed as an agency for making loans—and particularly long-term loans. It is not; certainly it is not, under the interpretations bound to result from this bill.

We have seen what the clear-cut function of the bank is. Is the fund's field of action also sharply defined?

Under this bill, the central bank of a member nation can come to the fund managers and demand the sale to it of a specific currency under its automatic quota only for one purpose; namely, because there is a shortage of that currency in the country, arising from a temporary unbalanced situation between the imports from and exports to the country whose currency is being sought.

Now, whether this request for a specific currency is a valid one, actually arising out of such a situation, will always be determinable by the fund managers. That will be revealed by the current conditions of the money market in the country initiating the transaction.

Moreover, the underlying causes of the situation—if they seem likely to be more than temporary in their effect—will be recognizable to the experienced central bankers asking for the money; and if recognizable to them will be recognizable to the fund managers, who certainly will be among the most experienced men in the world in this field.

If the situation really calls for a loan, and not a currency exchange, I myself cannot conceive the responsible individuals on both sides not recognizing that fact; with the result that the demanding nation will be sent to the bank, if it does not go there in the first place.

Fluctuations in the balance between imports and exports in many nations will occur over short periods. They always have. In the days when the gold standard was operating universally, these shortage of currency were quickly corrected, when they arose, by the shipment of gold, obtained usually from the monetary reserves of the country experiencing the shortage. In the years after the war, and perhaps for a long time, the monetary reserves of many nations will not permit—or at any rate cannot be relied upon—to perform this very necessary function. The Monetary Fund can fairly be described, therefore, it seems to me, as an invention called into being by the necessities of our times, and designed to perform the service that "automatic" gold shipments used to perform.

It will be a great pool of money, consisting of all currencies. Access to it by any nation must be quick, not subject to the bargaining and the delays incident to the making of conditions, as in the case of loans. But the demands will be relatively small in each case—and for short periods.

If they are anything else—if they are suspiciously large in any case, or turn out to be extended for longer and longer periods or increased in volume, by that very fact the red flag goes up to the fund managers. These men must be presumed to be as capable and responsible as the bank managers, and it will certainly be within their duties to consult thoroughly with the demanders and see if a loan is not indicated as a corrective of any given situation, and not an exchange transaction with the fund. If it is and the fund managers have the power to decide that it is, under this bill they can divert the demander to the bank.

In short, the basic principle set forth above would govern—in this case, currency transactions should be currency transactions and loans should be loans. The latter should not be allowed to masquerade as the former. Under this bill that can be wholly prevented, and with good management of the two institutions certainly would be prevented.

It will be seen that this mechanism of the fund—the automatic exchange of currencies within limits and under safeguards—is devised as a new means of holding the value of currencies in a stable relationship to one another—insofar as that relationship can be upset by expectable temporary imbalances of trade. Some such mechanism is obviously indispensable, if we are going to achieve "stability" of currency rates at all, since free gold shipments can no longer be relied upon to perform this function.

This mechanism must be appraised, not by itself, but as part of the whole picture; and in this appraisal—as in the case of the bank—it seems to me one should be careful never to lose sight of the main objectives.

The main objective of the fund is altogether different from that of the bank. To distinguish between them—the ultimate objective of the bank (as we saw) is to restore and maintain a full and ready flow of capital over the world. The main objective of the fund—quite plainly, when one reflects upon it—is to put an end to economic warfare among nations carried on by monetary means.

That warfare has been going on now for a full 30 years. We all know its manifestations; the competitive devaluations, and the various kinds of obstructive controls by individual nations over both the use and the value of their money.

These uncertain and unsettled monetary conditions have now plagued the whole world for a generation; they have diminished trade; they have stifled progress; they have bred distrust and fear; they certainly had considerable to do with the causation of World War II. This economic warfare carried on by monetary means must end. Every informed person in every nation recognizes this prime need. It is idle to talk about, and hopeless to consider, establishing those orderly relationships between nations which we all mean by the word "peace," unless this first-thing-first is taken care of.

Now, while everybody will agree that this is the main objective of the Monetary Fund, it seems not to have been properly appreciated in some quarters that the mechanism we have examined—of automatic exchange of currencies, under safeguards, to protect nations when they suffer a temporary imbalance of trade—is only one necessary portion of a larger and well-conceived scheme of attaining the objective. It is just a part of a much bigger contract among the nations. It has taken up a good deal of the public attention, because it is a new invention and is properly subject to caution. But the other parts of the contract are of enormous significance, also, and have been overlooked by many persons.

What else does the fund do besides providing this protective mechanism, to the end of establishing and maintaining stable rates of exchange between currencies?

The 44 nations represented at Bretton Woods—if they adopt the text of the document unchanged, as the United States would do under the proposed bill—agree not to institute any new exchange controls of any character.

They agree that whatever exchange controls now exist will be progressively lightened and abandoned.

They agree that if, in the case of any member nation, repressive exchange controls persist after 5 years, the fund managers—representing all the other nations—can demand that something be done about it.

They agree to measure the value of their currencies by gold.

They agree that whatever original value each one sets upon its currency, thus establishing its ratio of exchange with all other currencies, has to be approved by the fund—that is, by practically all other nations.

They allow for a 10 percent devaluation from this first rate, taking proper account of the difficulties of quickly setting a fair gold value on some currencies; but no change in the gold value of any currency may be made thereafter without the approval of the fund's managers.

They agree that if any further unapproved change is made, the offending nation may be barred from both the fund's and the bank's resources—no light penalty for any nation, large or small.

It is both sobering and exciting to reflect upon what these, and other collaborative features of the agreements, add up to. They mean that every one of these nations recognizes that every other nation is directly and vitally affected by what it does with regard to its own money. They go beyond that, and recognize the collective right of all other nations to have some direct say in the matter.

When one reflects upon this agreement in its entirety, it seems to mark an epoch in history. Never before have independent nations—even a few, let alone practically all—agreed to accommodate their monetary powers to those of other nations for the general peace and progress of the world. This development is of more practical importance, to my mind, than what is being accomplished at San Francisco. For it represents action toward the peaceful organization of the world; well-considered and determined action. Action, not promises, in the direction of lasting peace, is what hundreds of millions of plain men and women now want their governmental managers to provide.

Every thoughtful commentator about these two proposed international institutions agrees on one point—and the text of the agreements also points it up—that they must not be regarded as a cure-all of the world's economic malaise. They are plainly designed as only a part of the total necessary curative treatment. Other obstructions to international commerce that are not monetary in character—such as the undue use of tariffs, the provision of subsidies, protection to cartels, and similar governmental practices—call decidedly for change, if we are to have a more orderly world. The two institutions set up by this bill can only provide the basic conditions under which these other curative measures (such as are envisaged in the Economic and Social Section of the world body being organized at San Francisco) can be attempted with some hope of success.

Our committee pointed out in its original statement that both a sound fund and a sound Bank are needed, in order to carry out successfully the great purposes embodied in the Bretton Woods Agreements; and that the first prerequi-

site of "soundness" was to have the functions of both institutions very clearly delimited and recognized by all member nations.

In the ways I have indicated, the bill your committee is considering does this job of clarifying functions, and does it well. It seems to us to assure the soundness of both the fund and the bank. They will be workable institutions; and it is only fair to presume that they will be wisely and not unwisely administered, in full accordance with the purposes set forth in the document.

With such administration—as we put it—"hope of successful achievement of their great purposes is not unreasonable, even in the very different readjustment of the world economy that must take place after the war."

Now, Dr. Anderson, we will be glad to hear from you. Tell us who you are.

STATEMENT OF BENJAMIN M. ANDERSON, PROFESSOR OF ECONOMICS, UNIVERSITY OF CALIFORNIA, LOS ANGELES, CALIF.

Mr. ANDERSON. My name is Benjamin M. Anderson. I am professor of economics at the University of California. I think for the record it is well that I state my history with respect to my qualifications to talk about this measure. I taught for a time in Missouri colleges, was made instructor of economics at Columbia University in 1911, was assistant professor of economics at Harvard in 1913, and economist of the National Bank of Commerce in New York in 1918; economist of the Chase National Bank of the City of New York in 1920, where I remained for 19 years, and since 1939 I have been professor of economics at the University of California, Los Angeles.

My study of this problem, postwar foreign exchange stabilization, began early in 1919. I worked with that problem very intensively while the great postwar boom and the great postwar crisis went on. I published studies at the time. I had access to the records of many banking institutions and of foreign exchange brokers, their interpretation of what was going on at the time. I have watched it since in the matter of international conferences, but usually have been an observer rather than a participant. I was, however, secretary of the Second Standstill Committee in Berlin in the winter of 1931-32, where we spent 3 months, or nearly 3 months, in working out with the bankers of Germany the conditions under which we would leave our funds there, which work was done at the request of the United States and other governments.

The great job of the governments in straightening out the postwar world is political, not economic. Their first job is to bring an end to confusion in the world; to restore international law, to make international law really the law, upon which a stable and lasting peace may rest.

Governments have long experience and sometimes even great skill in arms, in diplomacy, in justice, and in policing. In the direct handling of economic life, governments are usually clumsy and ineffective. In economic life their main business should be that of traffic cop, not that of driver, and, above all, not that of back-seat driver.

Governmental economic cooperation in international matters is bad. Private international cooperation is bad, cartels are bad, agreements are bad, and tie up markets. You want competition. International economic relations in monetary matters in general should be competitive. A money market that is overexpanded should meet the situ-

ation by lending a part of its reserves to other markets that are not overexpanded. When you have international cooperation, in ordinary times particularly, the unsound tendencies may be carried much too far, as we saw in 1924 and 1927 and that period, and then international cooperation breaks down in a crisis such as we saw in 1931, when it had already overexpanded throughout the world. The thing to do, rather, is to compete in ordinary times, and then when a country gets into trouble others will come to help it out—not at 2 percent but perhaps at 7 percent, on short loans, and the thing is over.

We had that kind of international cooperation in 1907. London helped us with \$100,000,000 in gold, and the money panic was over. Yes; we paid for it.

Now, as I have said, in economic life their main business should be that of traffic cop, not that of driver, and above all not that of back-seat driver. You have done a magnificent traffic-cop job in the last few days in the passage of the reciprocal tariff legislation designed to help remove governmental restraints on international trade. I congratulate the Congress of the United States upon that legislation.

In the great postwar emergency we must, of course, do a great deal more than that. We must help Europe both with charity and with loans. But we must not disguise charity in the form of loans which cannot be paid. Contrary to the opinion just expressed in one of the paragraphs you read in that paper, Senator Radcliffe. Those plans do discuss charity in the form of loans as I shall undertake to show you.

In making loans we must meet fully the great obligations of the lender to see to it that the loans are (a) adequate for the purpose, (b) not excessive, and (c) that they are properly employed for the purpose for which they are made.

Senator MILLIKIN. Might I observe right there that they are the criteria of a private loan.

Mr. ANDERSON. Yes, sir. Loans to stabilize exchange rates which are not accompanied by conditions that assure the stabilization of the weaker currencies, are wasteful and useless loans. Small loans made under proper conditions, designed to stabilize, not exchange rates but currencies, can really accomplish their purpose. We saw this in the period that followed the last war. And that is a thing I studied very intensively at the time it was going on.

We wasted 6½ billion dollars between the armistice in November 1918 and September of 1920, first in stabilizing for 4 months or a little over and then in supporting the exchange rates of Europe. Our own Government provided but \$3,000,000,000 of this in direct loans to European governments. Private creditors put up another 3½ billion dollars. For several months J. P. Morgan & Co. stood buying all the sterling offered, at fixed rates. Money drawn from the Treasury of the United States by the British and the Italian Governments and not used in our markets, just what this fund would do if it performs its function up to the quota. The quota was rather smaller then, I mean at that time, than at a time when, perhaps, it was supplemented. Then on the 20th of the month sterling broke, and other exchanges broke—

Senator MILLIKIN. What year was that?

Mr. ANDERSON. 1919.

Senator MILLIKIN. When did it break?

Mr. ANDERSON. March 20, 1919, just after the armistice, you see. You had this thing that is now proposed as a novel thing, you had it being done.

We did not make any conditions at all as we made those loans; just let the governments have them, and they used them.

I want to say that I am a great admirer of Woodrow Wilson. I supported him in everything, almost, through his period; and fought for the League of Nations for him, and admired him. But here is one thing I did not like, one thing where he was more the idealist than I had been. I asked Secretary Houston at one time, the Williamstown Conference in 1922, why was it when President Wilson was having his troubles in Paris, and the British and French Ambassadors were coming to the American Secretary of the Treasury every week to get new loans, that the Secretary of the Treasury did not say: "Now, Mr. Ambassador, we will talk about this loan next Monday. Tomorrow I should like to talk about President Wilson's troubles in Paris."

"Well," Houston said, "we wanted to do it, we all wanted to do it. We begged him to let us do it, but he would not. He said it was not the proper use to make of money."

Gentlemen, I am going to show you that if we are putting up our money, before we do it we want to make our conditions, and want to get something good out of it for this country. What we got out of that money lent by our Government to foreign governments after the war was a wild export boom. After the postwar boom business reacted, after the armistice. Prices yielded and general conditions were highly unsatisfactory.

In March the tide began to turn, and in April it was stronger. Exports went up \$410,000,000 over January, and then by June they were \$625,000,000, excess of exports. The total exports were \$1,000,000,000 in 1 month, June, on credits provided by the Government of the United States.

I interchanged letters with A. Barton Hepburn, whom you will remember, the great old veteran banker of the Chase National Bank, a grand man, in which we agreed that that boom was false, that it rested on exports that could not continue; and, as we expected, it came to a disastrous end.

Really we felt that it would come to an end before it did. It went on. We could not get the full picture at the time. Only late in the autumn did it begin to become very clear what was happening.

When our Government stepped out of the picture and quit lending, in June, Great Britain stepped in informally. Britain was the one country over there that was balancing her budget, getting her finances in order. France, Italy, Belgium, and other belligerents were letting their finances slip. Their soldiers went off pensions, and the people wanted relief for the devastated regions. Following these loans I have mentioned, Europe responded by buying from the United States great quantities of commodities, many of which she ought to have been producing herself and many of which she could not afford to consume. She bought finished manufactures instead of the raw materials and the industrial equipment she ought to have been buying. She bought a great many luxuries.

Meanwhile, continental Europe and belligerents did nothing toward straightening out internal finances. As long as the foreign ex-

change markets would take their currencies the finance ministers of the continental European belligerents took the easy way. They did not tax, they did not borrow from their own people, they met every demand for expenditure and they leaned on the central bank of issue for their money. While our dollars supported that money, this process could go on.

England, the one belligerent of Europe which was getting on her feet financially, balancing her budget, joined us in this. She interposed her financial strength between us and the weak continent. We gave her credits by taking sterling and by taking her dollar obligations and we sold her the francs and the lire and the drachmae which our exports created. We also sold her goods which she resold to the continent. Late in 1920 we and England both had had enough of this. We pulled up and the great crash of 1920-21 came.

After this costly lesson of trying to stabilize exchanges without stabilizing currency we did very much more modest things successfully. In 1923, after the Austrian crown had dropped to 14,000 to 1 in terms of gold, under the auspices of the League of Nations, a stabilization loan of about \$45,000,000 (I have forgotten the exact amount) was made to Austria, placed in the investment markets of various countries, especially the United States. This was accompanied by conditions involving drastic reforms in Austria, curtailed Government expenditures, increased taxes, balanced budget, and definite stabilization of the currency on a gold basis. It worked.

Senator TAFT. Your point here is that this 1919 attempt to stabilize was not successful; is that it?

Mr. ANDERSON. It was wholly unsuccessful; and this brings a diversion—but perhaps I should not put it in.

Senator TAFT. I want to get the point you make about the 1919 operation.

Mr. ANDERSON. The money provided in the 1919 loan was a disastrous failure, but the proper credit that followed limited that failure. Now, the point is that we loaned without restriction. After this costly lesson in trying to stabilize exchanges without stabilizing currencies, in which we lost 6½ billion dollars, wasted that much, we then tried some very much more modest things very successfully.

The League of Nations started the thing in 1923. The Austrian crown had dropped to 14,000 to 1. And that, by the way, is very respectable because the German mark went down to a trillion to one before it got through. The people of Austria had had enough of deficit financing. The League of Nations came to their help this way: We will arrange a modest loan for you—and my recollection is that the amount of it was about \$45,000,000, although I may be mistaken as to the exact figure—but conditioned on drastic reform. The League of Nations sponsored this loan, and certain governments were induced to guarantee it. That was placed in various money markets, including our own. The conditions involved a curtailment of expenses.

In 1924 we did the same thing for Hungary, sending Mr. Jeremiah Smith, of Boston, over to sit on the lid to countersign checks and to see to it that the funds were used for the purpose indicated. Mr. Smith represented the foreign creditors. My recollection is that the Hungarian loan was a little larger than the Austrian loan. It worked.

In 1924 we did the same thing for Germany under the Dawes plan. This time the loan was \$200,000,000, of which \$100,000,000 was provided by New York. This loan was accompanied by drastic conditions—increased taxes, curtailed expenses, a balanced budget, and definite stabilization on gold, and foreign supervision of certain of the taxes, a foreign representative in the Reichsbank and a foreign commissioner sitting in Germany.

Those who wonder how we can ever bring continental Europe back to the gold standard may reflect upon this episode. The Dawes plan contained a provision that Germany should come back to the gold standard, but that it was probably inexpedient to do so immediately. This last clause was reluctantly consented to by the Americans on the Dawes Committee. The French and Italians had been sentimental about it. It was not fair that Germany should have the gold standard when France and Italy could not have it.

Senator RADCLIFFE. As I understand you, the loan to Austria was \$45,000,000, which was arranged by the League of Nations. Who actually loaned that money, and under what conditions?

Mr. ANDERSON. My recollection is that there were some guaranties given by some European countries, the British and perhaps the French, partial guaranties guaranteeing a certain proportion, and that the loans were placed in New York chiefly, or a big part in New York, and a part in Amsterdam, and a part in Paris, and a part in London; placed with investors, not being Government money. Government came in as guarantors.

Senator RADCLIFFE. Did our Government participate in any way? And how about the League of Nations?

Mr. ANDERSON. Not at all. It was the League of Nations only, and not all of them, just the bigger ones, but the League of Nations as an institution organized it, planned it.

Senator RADCLIFFE. You mean they arranged for it.

Mr. ANDERSON. Yes, sir. Now, this Dawes plan loan was not a League of Nations matter. It was a matter of creditors of Germany. Our Government, not officially, participated by sending informally, you will remember, General Dawes and Henry Robinson, of Los Angeles, and Owen Young, as the nominal experts, sending over some real experts, Gen. Leonard Ayers and Kemmerer—both of whom I hope your committee has heard or will hear before this is over.

Senator TAFT. Both testified before the House committee.

Mr. ANDERSON. Now, I have spoken of the British and other powerful nations attempting to have Germany come immediately to the gold standard. The British were not quite ready to come back to the gold standard, and their view was that Germany should go to the sterling standard and then England would take care both of sterling and Germany. But neither Washington nor New York was satisfied with this clause. Our \$100,000,000 participation was necessary for the success of the plan.

Senator MILLIKIN. Before you finish, Dr. Anderson, do you propose to discuss the relationship of gold to the proposed fund?

Mr. ANDERSON. I shall have something to say about it, and if I do not say what you have in mind, then ask me.

Senator MILLIKIN. All right.

Mr. ANDERSON. Now, I will not go into the details of this, but it was quietly made clear that Germany should come immediately to the gold

standard if the loan was to be placed in New York. They wanted \$100,000,000. All right, that could be arranged if Germany came immediately to the gold standard. I cannot prove this. I was in on the fight at the time and terribly concerned about it at the time, and I know that all in New York were greatly concerned. Somebody visited the State Department here in Washington and came back, and then everybody was satisfied. My impression is that Secretary Hughes quietly let it be known to investment bankers that European countries wanted this loan, that the State Department would make no objection to the loan if Germany came immediately to the gold standard. I believe that but cannot prove it. Anyhow, it was done.

It is easy for the creditor to make his conditions before he lets them have the money, not afterward. I put that in here with reference to these amendments in the bill. We are supposed to make some safeguards, and before the proposals that you ask to have presented to the bank and to the fund, and then they can be made. The bank has to organize as a going concern. We do not then want to have to say, "Please, won't you do this?" That is not the way to make conditions. The Congress of the United States is too respectable for that. You do not have to go hat in hand to somebody to whom you have already lent a billion or more dollars, but tell them first.

The effect of the restoration of sound currency in Germany was magical. They had been utterly demoralized by the deflation they had gone through. Business started up immediately. There was a strong boom and full employment. This was interrupted by a short-lived crisis in the winter of 1925-26, but full activity and full employment was speedily resumed which carried over into the international difficulties in 1929.

Senator MILLIKIN. What was the fall of the mark at the time of the Dawes plan?

Mr. ANDERSON. The mark had been a trillion to one of its old value. The old value was about 24 cents, or 23.8 cents, and it went down to one-trillionth of that. Then the new mark was established at the old rate, 23.8 cents, as against our old dollar, which was 23.22 grains of fine gold.

Senator RADCLIFFE. What does a trillion to one mean from the practical standpoint?

Senator TAFT. It means practically nothing at all.

Mr. ANDERSON. No; not nothing at all. For instance, Felicia borrowed some money at a trillion to one, and then when they had to pay it back it was embarrassing.

Senator RADCLIFFE. I can imagine so.

Mr. ANDERSON. Yes, sir. But it was such a costly nightmare that the German people were ready for anything. And the Austrians were ready for anything when their crown went down to 14,000 to 1, and the French were ready for anything in 1926 when the franc dropped from 19 to 2 cents. The French people demanded of their deputies that they get behind a conservative old lawyer who was saying, "We will cut pensions, dismiss public functionaries, raise taxes, and save the French people." The people did not like that before, but when they saw the franc going down every day they said, "Yes; we will get behind him."

Incidentally I want to say to the radicals, who believe in a new social order and who want revolution to come their way, inflation is not the way to get it. Inflation drives people back to conservatism, and they take to a study of arithmetic again. You better protect the dollar if you want to put this economic plan into effect.

We did the same thing with Poland with about \$72,000,000, sending the Honorable Charles S. Dewey over to act as representative of the creditors and to countersign checks. I see that gentleman here in this room today. He did a grand job. He decided gently, most courteously, but they did what he said, and the terms of the contract gave him adequate power. It might interest you to hear him with reference to what can be done with small sums of money in stabilizing currency if you do it that way.

I know the British problem is a different problem. I am not proposing to do that here, but the British problem is not solved by the bank or by the fund. The fund as originally proposed by Keynes, with its indefinite capacity for expansion, would have absorbed the bloc balances of England. The Morgenthau plan as originally proposed of \$5,000,000,000 was going to absorb those bloc balances. Then the revisions came later and they began to trim them, cut them down. We would take block balances up to 10 percent of the quotas. Then we found out in the summer of 1943 that those bloc balances were at least \$4,000,000,000 and growing rapidly, and that looked pretty big for a \$5,000,000,000 fund.

Then by the time Bretton Woods came out with the full disclosure, even Keynes had to admit it couldn't be done. I believe Professor Williams said yesterday that later it was expected to be 16,000,000. That was too big a job for the bank or the fund.

I think, gentlemen, I won't use the word charity where Britain is concerned. Here is a partner in a fight who has had great trouble. I think we have got to put some money in there and not expect to get it back, not calling it charity because that is offensive, not calling it a loan because it isn't, and it cannot be.

But here is three billions, see what you can do with it. That is the figure that Williams thought was about right. See what you can do with it, with three billions. Go and approach your creditors on these bloc balances and see what composition you can make with them; see how much they will scale it down; see how much time they will give you, how much adjustment of interest rates they will make with you, and then come back to us with a plan. This plan will involve \$3,000,000,000 from us, part of which you can use in making cash payments to them to sweeten the transaction; part of which you will use in improving your reserve position and in freeing your exchange apart from these old bloc balances. You want a free exchange in London, and if in the discussion it develops that three billion is not quite enough, make it four, but still a gift. I think that is the picture there. Britain is our partner in this war. She has spent herself. We have to do it in a businesslike way. Let us study the figures. Let us not give them a blank check, but study the figures and these agreements before we put our money up. See what we get on it before we put our money up.

Senator FULBRIGHT. Mr. Charman, may I ask this question? Are you going to pursue what happened with these countries? You got

them on the gold standard. How long did they stay there? That is what I was interested in.

Mr. ANDERSON. Germany stayed until 1931, just before the crack in England. Mr. Dewey, how long did Poland stay with her fixed exchange?

Mr. CHARLES S. DEWEY. Until 1939.

Mr. ANDERSON. Italy went down just before Germany did. There was a bad tangle in there. Hungary held out until after Germany and Austria got into trouble. But it worked.

Senator FULBRIGHT. Not very long.

Mr. ANDERSON. There was a whole world crash that was due—I haven't time to go into that story. I worked through it and I lived with it—due to overlending in the 1920's, possibly due to our high tariffs that prevented our foreign debtors from paying us.

Senator FULBRIGHT. Do you mean the Smoot-Hawley tariff?

Mr. ANDERSON. I am talking about the Fordney tariff, as the starting point, the 1922 tariff. The Smoot-Hawley was the final straw that set every nation into complications, but both of them were bad. The cheap money we had in this country, the excessive credit in this country, designed to override the tariff barriers and give us foreign trade in spite of high tariffs was part of it, and then the inadequacy settled problem of reparations and intergovernmental debts made a great deal of the trouble there.

Senator TAFT. If you had had a stabilization fund in 1931 and 1932, would it have blocked the general world collapse?

Mr. ANDERSON. No. All it would have done would have been to make scarce currency, blocked exchanges, less foreign trade than there was and more strangulation than there was. It would have done no good.

Senator TAFT. In other words, it would have been wholly inadequate to meet a collapse of that kind?

Mr. ANDERSON. Oh, it couldn't have touched it.

Senator FULBRIGHT. Neither a gold standard or any other one was adequate.

Mr. ANDERSON. Sir, when gold is the only instrumentality with which you can pay across international borders, there isn't enough gold in the world. When countries can move freely across international borders, there is plenty of gold.

I talked in 1929 with the old head of the Austro-Hungarian Bank who was then head of the Hungarian Bank, Popovich. I asked him how he was going to hold the Hungarian position. He said:

I will tell you how I held it once before for Austro-Hungaria. There was heavy pressure to pay. I sat here with firm discount rates, held the money market firm, got enough credit to avoid bankruptcies, but keeping pressure on them, and Hungarian timber went down the Danube through the Black Sea to the Mediterranean and up the Atlantic Coast and became effectively competitive with Scandinavian timber and paid our debts.

Senator RADCLIFFE. Mr. Anderson, what, if anything, would have saved the situation, do you think, at that time, especially insofar as it may be applicable to present conditions?

Mr. ANDERSON. In 1929?

Senator RADCLIFFE. Yes.

Mr. ANDERSON. Well, in 1929 we were still strong enough to have avoided the greatest disasters if we had had tariff reductions then,

and if we had avoided the things that followed in the efforts to keep it going. President Hoover's intentions were good when he called the businessmen and bankers and said, "Don't cut wages, don't cut prices, increase capital outlay." They took it seriously. I remember the old Frisco Railroad went off and declared a full dividend for the whole year to keep up purchasing power. Thereafter, they never paid anything. The Farm Board got in it to hold up the prices of the wheat, and everything, despite the immense slump in international commodity prices.

There were grave mistakes that followed. The thing we did in 1930 was to renew cheap money, further expansion of Federal Reserve credit against Government security to make money cheap and make prosperity. We had done it successfully in 1924 and 1927. It worked both those times, but when we tried in 1930 finance responded with some rise in the stock market and some foreign loans, but the business organization was jaded and could not respond. It went on down.

Senator, I don't know any racetrack where it is regarded as ethical to dope the same horse three times. We did that in 1930.

Senator RADCLIFFE. You have commented favorably on our action in passing the reciprocal trade agreements bill yesterday.

Mr. ANDERSON. Yes, sir.

Senator RADCLIFFE. What else do you think we ought to do to handle a situation which everybody admits is exceedingly grave?

Mr. ANDERSON. I have that in my proposal here. I will come to it.

Senator RADCLIFFE. All right; whenever you come to it.

Senator TAFT. May I suggest that Mr. Anderson finish his prepared statement? We have so many witnesses and we would like to get through today. I think the questions should follow that.

Mr. ANDERSON. Small sums, properly used, lent country by country, will do the job. A few hundreds of millions properly used will stabilize the currencies of Continental Europe. Not all of them will need it. It is not easy to see that France or the Netherlands will need it, for example.

Russia has no stabilization problem at all. Her currency does not get into the foreign exchange markets. Her dealings in international trade are in terms of dollars or in the currencies of the other countries with whom she deals. Foreigners do not hold deposits in Russian banks which they can sell in the foreign exchange markets nor are the Russians allowed to throw rubles upon the foreign exchange market.

When Russia does business with us she does it in dollars. If with Sweden, in Swedish crowns. Russia won't allow foreigners to have checking accounts in Russian banks, which they can sell in the foreign exchange markets. So that there is no exchange problem there, no stabilization problem there. It is an anomaly for Russia to be in this fund. As Mr. Ned Brown very properly points out, an addition which he very honestly makes, what Russia will use this fund for is not stabilization, but long-term credits, and the fund is certainly in position to give long-term credits for machinery and equipment and things of that sort. I do not say you should not lend to Russia. I say you should not do it in this way.

I am opposed to the whole idea of the International Monetary Fund. It lends money without proper conditions. It gives quotas to coun-

tries which need them, and to countries which do not need them. It gives quotas to countries whose finances are deteriorating and to countries which are getting on their feet. A false analogy has been made between these quotas and lines of credit at the bank. No bank gives lines of credit this way.

A line of credit is not one of a set of fixed quotas to a group of would-be borrowers, good, bad, and indifferent. A line of credit is a specific understanding with a specific borrower based on the facts of his individual position, and if those facts change the line of credit is revised. If the would-be borrower lies to the bank about his balance sheet or about his profits or any other essential point, the bank may cancel the line of credit, and if the borrower fails to notify the bank of any essential change in his financial position, the bank may cancel the line of credit. The quotas under the fund are nothing like lines of credit.

A line of credit is a specific arrangement with a specific customer based on a careful study of that customer's figures, based on the ability of that customer to pay back. They check up with the customer once a year in a city bank. Country banks are generally more generous. A line of credit is given with the understanding that the customer will keep them informed about any other lines of credit he has with any other bank. All his debts are taken into account. All his assets are taken into account.

Sound lending is a process in which the creditor makes conditions. When he is dealing with a strong borrower, he cannot make special conditions, or competing lenders will gladly take the loan, but when he is dealing with an embarrassed borrower, he can, should, and must, both in his own interests and in the interests of the borrower, make conditions that assure the safety of the loan. The fund puts the debtors—the borrowers—in control of the lending.

The notion that there will be any proper restraints upon the use of the funds under these conditions is absurd. The fund has very inadequate and vague provisions in any case for restricting or withholding credits within the quotas, and these vague provisions are to be applied by a board of governors, a majority of whose members represent necessitous borrowers all of whom want to borrow more. No one of them will impose adequate restraints upon another similarly placed lest he invite retaliation when his own country is involved.

I have seen banks ruined when the majority of the board of directors were impecunious borrowers from the bank, and wanted still more. I have seen cases of great city banks insisting as a condition for helping a correspondent bank that certain directors get off the board or, at all events, pay up their loans. But here is country A. The representative of country A is a pretty good fellow. If he were just a banker he would say to country B, "No, you are not handling your affairs properly. You cannot borrow any more." But his country isn't doing so well either, and he knows the next day this fellow is going to retaliate. Most of these quotas are largely automatic. If the country represents so and so, you have to go to a country and say, "You are a liar," in order to withhold credit.

There should not be any fund. If we stabilize the currencies one by one, the normal operations of the foreign exchange markets will keep the exchange rates stabilized and no fund is needed.

You don't need the fund to do that. The exchange rates will take care of themselves if the markets are free—I mean if the currency is good.

The fund is erroneously represented as an institution designed to eliminate foreign exchange restrictions. In the first place, it sanctions existing restrictions for at least 5 years. In the second place, it sanctions new restraints even in the countries which have free exchanges. It proposes to leave exchanges free only on current transactions and proposes international governmental cooperation to control international capital movements. Now this control of international capital movements is something we never talked about in the old days of free exchanges and sound moneys. The problem arises only when you have a shaky currency that people are afraid of. Then men get frightened and try to get their money out of the country. And then the government whose unbalanced budget and whose abuse of credit and currency has caused the money to become shaky begins to blame the people who are trying to run away and begins to blame the foreigners who are trying to take their funds out of the country. The government itself created "hot" money by making their country a "hot place" for money. The way to avoid "hot" money is to balance your budget and redeem your currency on demand, making an environment where the money cools off and it wants to stay.

This plan for international control of capital movements is vicious in the extreme. It is designed to shelter unsound finance and unsound currency policies by international governmental cooperation. The plan will generate "hot" money. It will create new nervousness on the part of every man who has funds in a foreign country or who knows how to put funds out of his own country.

This is a cheap-money plan. It is designed to take away the penalties of cheap money. Lord Keynes has that definitely in his mind. He wants expansion, expansion, expansion—all over the world. Keynes' philosophy dominates this. But excessive credit expansion is excessive debt creation. Debts and credit are the same thing. I have heard my friends in the country, the farmers, talking about agricultural credit and what a glorious thing it is, and I have heard them talking about agricultural debt and what a terrible thing it is.

Senator RADCLIFFE. Doctor, if you will just give us your text, we are rather short on time.

Mr. ANDERSON. All right. I will cease to give homilies.

Senator RADCLIFFE. We will appreciate that. I am afraid we are a little pushed for time now.

Mr. ANDERSON. There are two other provisions in particular that will generate "hot" money.

(a) The plan sanctions changes in the gold content of the various countries. They may drop 10 percent merely on their own initiative, and they may drop 20 percent unless the fund makes objection within 72 hours. Even then, as Mr. Edward Brown has admitted in his Chicago Journal of Commerce article, there is no reason to expect the fund to make effective objection when a powerful country wants to drop as much as 20 percent.

Now this possibility hanging over the markets all the time will create "hot" money which would not otherwise exist. Men will con-

stantly be watching, constantly making plans to shift their funds when they face a chance of a 20 or even a 10 percent loss in their capital. Foreign deposits paying 3 to 4 percent in banks of a country whose currency may drop 10 percent with no notice, or 20 percent on 72 hours' notice, are not attractive.

(b) The second amazing provision which will definitely generate "hot" money is that authorizing the fund to declare a currency scarce and authorizing individual countries in that case to ration out the scarce currency. It is the dollar which will become scarce. What if that happens? Foreign debtors can no longer get dollars with which to pay American creditors for goods that have been shipped. No matter how many francs the French debtor may have, he cannot use them to pay. Exchange transactions except at par are forbidden, both in France and in the United States, under the terms of the fund. There will then be a fixed exchange rate, but there is no exchange market. In 1919 the American exporter caught with depreciating francs could at least sell his francs, take his loss, and pay off his own debts. Or the French importer, obliged to pay dollars, could buy the dollars at a higher price and pay his debts. This time he is just blocked. He cannot do anything. He can go bankrupt through inability to get any dollars at all.

A depreciating exchange is nothing like so bad as a blocked exchange. It is flexible; it gives warning in advance. Men faced with this possibility of having their funds frozen by a declaration of scarce currencies would be constantly on the lookout ahead to get their funds out of the country where dollars are going to be scarce before the declaration comes. That is what this scarce currency provision creates. The Germans had a name for that. I remember the Germans talking when I was there in 1938 just after Munich; they were still talking about what they called *Adel Bechsel*, noble exchange. That meant free exchange, pound sterling, the dollar, even the franc. The franc was pretty weak and fluctuating, but it was free, but with the market you couldn't do anything except as the Government told you. These were noble exchanges, free exchanges.

The distinction between current transactions and capital movements is impossible in practice. Now how can a man get his funds out of a country if capital movements are controlled and only current transactions are free?

There are a multitude of ways. Goods can be shipped out of the country and the proceeds left abroad. You do not need a foreign exchange transaction to do it. Or a business having borrowing relations with banks in New York and in Paris could pay off its New York banks and increase its borrowings in Paris, which is a means of transferring capital from Paris to New York.

Dr. Palyi told you about a good many ways. He didn't tell you about this way: Here are great American concerns with borrowing power both in England and in the United States. In 1931 they anticipated a break in the pound sterling. They didn't want to disturb their English position, but they didn't want to lose on the pound. They quit borrowing money in New York. They increased their borrowings in London banks, and then when the pound had broken they came on over and borrowed 4 millions in New York to pay for pounds that would have cost them 5 millions before the pound broke.

They got their capital out. There are all sorts of ways of doing it. If you are going to control capital movements, you have to have a degree of control that we would not tolerate in this country, I think.

The devices are so multitudinous that Keynes has admitted in his original draft of the plan for a clearing union that control of capital movements probably involves control of all foreign exchange transactions, and I would go further and say that it involves control of all borrowing and lending transactions by companies doing business in several countries and of all export and import movements, not to mention the searching of pockets and traveling bags of every traveller, and censorship of the mails. This fund plan is very erroneously represented as a plan for free international transactions.

The International Bank proposed is also subject to the criticism that the borrowers dominate it. In a financial institution the lenders should control. If we are going to lend, and we should lend, let us do our own lending; let us have an American institution. Let this American institution go joint account when suitable with foreign institutions. Let it go joint account with private investment bankers.

Incidentally, it is highly desirable that we use private investment funds as far as possible, rather than Government money, in our financial aid to Europe. Moreover, it is far easier for private bankers to negotiate with foreign countries in such a way as to impose proper conditions than it is for government to do it. The banker does not make demands; he expresses his opinion as to what the investors of his country would require, with great courtesy. He raises no diplomatic issues.

A government raises a diplomatic issue if it criticizes other governments' finances. Moreover, we might embarrass ourselves. But the banker can say very simply and very courteously, "Gentlemen, unless you do so and so I don't think the investors in my country would be interested," and he can get his conditions that way. An American governmental financial institution could very well let investment bankers initiate and originate many propositions, then pass upon them and decide whether they wish to go joint account.

An American governmental institution with adequate lending power will do what this bank is purported to do: It will facilitate and partly make, or even in some cases wholly make, these stabilization loans I have been talking about, like we made to Germany, Poland, Hungary, and so on.

One great vice in both these plans is that the whole thing rests on new debt rather than on equity money. There is no provision for equity money. Now, if we have an American governmental institution, it could join American investment bankers in underwriting—not guaranteeing—stocks rather than bonds of European industries for sale to American investors. It is desirable that there should be American investment companies which put out their own stocks in this country, and which use their funds in buying a diversification of European stocks, diversified both by industries and by countries.

Such companies should seek venture capital only. They should notify the public that their securities are not for widows and orphans. But the same thing is true of bonds in Europe under existing conditions. Bonds would be good if the countries revive. They won't be otherwise. Stocks would be good if the countries revive and prosper and not otherwise.

They had better be equity rather than debt money, as far as possible, for two reasons.

(1) With real revival in Europe, the returns would be large to American investors.

(2) In bad years Europe will not have to pay any dividends. In good years she can pay large dividends. It is risk money that we are putting into Europe and it should be put in in risk form as far as possible.

The total amounts of loans contemplated to Europe, taking into account the fund, the bank, and other proposals, are far too great from the standpoint of Europe's ability to repay. European governments can repay to the extent (a) they can create excess of taxes over expenditures in their own country and (b) to the extent they can transfer these back to the United States by giving us goods and services. They must pay with hams, with bottles of wine, with diversified manufactures, with shipping services, with entertaining tourists, with a multitude of services. Viewed in this way, it is clear that it is to their interest and to our interest to hold the amounts down to what can be handled, not by the printing of money, but by the movement of goods and services. To the extent that we go beyond this we are giving charity in the guise of loans, and to the extent that we do this we are inviting default, repudiation, and international bitterness in the future. Let us give charity where we must. Let us lend when we can safely, but let us above all realize that we cannot support Europe.

The big job of the restoration of Europe is Europe's job. We can help. It is too big for us, but we can help. I reject the absurd fear that we can't get other nations to cooperate if we refuse this plan. By the way, none of them have accepted the plan. Even the experts are not committed, except as they have agreed to refer it to their governments. But if we are prepared to lend money, the borrowers will certainly cooperate on our terms if these are reasonable.

We cannot, moreover, amend this measure adequately, even assuming that we want to go on with it in the way which this bill proposes. The bill has tried to protect the framework of the Bretton Woods proposals. The proposals themselves, even if we wish to use them, must be changed. Even the modest changes which the bill seeks to accomplish cannot surely be obtained. We put our money in first under this bill, and then afterwards ask them to change the plan. That is no way to lend money.

But there are further major technical vices in the measure as drawn. One which I would emphasize strongly is that the fund proposes to use only central banks and stabilization funds in its transactions. We are apt to use reservoir money in making foreign loans. Our reserve money should be the last money used for that purpose, not the first. The desirable way to make foreign loans is with investors' money, or, if the Government is going to do it, with taxpayers' money. Second, in foreign exchange transactions short-run transactions, commercial banking money should be used. The worst way is to use reserve money.

Now, there are several kinds of money. The kind of money you want for a long-term foreign loan is investors' money, or, if the Government is going to make it, taxpayers' money. The kind of money you want for short transactions, quick turn-over is commercial bank

money. The last money you use should be reserve money from the stabilization fund. When you use that it comes right back to increase the member bank's reserves. It is highly inflationary in this country, highly inflationary. It is the worst form in which to issue credit. It increases the member bank's reserves and makes it possible for them to have multiple expansion of credit.

When payments are made out of the Federal Reserve bank to the fund, the dollars come back into the reserves of our member banks, increasing our bank reserves, making our money rates easier in the United States—making it easier to lend at home because we have lent abroad. This is vicious. The other side of it is that when France borrows from the fund, putting francs into the fund to provide dollars for a French importer, this means payments of francs into the Bank of France from French commercial banks, tightening the money markets of France.

The French importers' money has got to come out of the commercial banks, the Credit Lyonnais, and so on, into the Bank of France, pulling down the reserves of the commercial banks, tightening the French money market at the very minute France is getting a loan. It is just technically cockeyed.

Every foreign exchange transaction of the fund makes unnecessary money market complications in every country involved. This is technically vicious. If the fund is going to operate in the foreign exchange markets, it should deal with the market as a whole, and should make large use of the deposits in commercial banks rather than of central banks.

But the whole plan is vicious, artificial, self-defeating.

In summary, I reject both the bank and the fund. I propose instead an American institution which, cooperating where feasible with other institutions, shall make necessary loans, shall engage in necessary underwriting of equities and, above all, shall make stabilization loans to individual countries, one at a time, putting gold into their central banks on conditions of budget balancing and gold stabilization with, where necessary, supervision of the uses to which the funds are put.

Senator RADCLIFFE. Are there any other questions?

Senator MILLIKIN. Mr. Chairman, I would like to have Dr. Anderson give his opinion on whether silver could serve any useful function in the fund.

Mr. ANDERSON. No, sir; I think it could not.

Senator MILLIKIN. Would you mind saying why?

Mr. ANDERSON. Silver has ceased to be—long since ceased to be international money. If you had put this question to me in Alexander Hamilton's time, if you put it to me as late as 1834, I should have answered yes.

Senator MILLIKIN. Could it be reconstituted as international money, since it is used by so many people as money in so many places?

Mr. ANDERSON. It used to be the money of China until silver legislation in this country broke the silver standard in China. I think it is not now the money of any important country.

Senator MILLIKIN. We have been exporting silver to India.

Mr. ANDERSON. Silver is not a standard in India. Silver is used by the people in their private hoards in the form of bangles, but it is not standard money.

Senator MILLIKIN. I am driving to the point of a reconstitution of a silver standard money, in view of the fact that in India, for example, it is coin that people know about.

Mr. ANDERSON. Not coin.

Senator MILLIKIN. Well, I mean we have sent our own silver to India which has been put into Indian form and, according to Treasury reports, has served a very useful purpose.

Mr. ANDERSON. It is serving a useful purpose, but I don't think it has gone into coin. I don't think it is circulating. I think it is the rupee that is in circulation. The silver is in the form of bangles and earrings, and things that people wear.

Senator MILLIKIN. That is exactly what has happened. It is so valuable when it is put into circulation it immediately reflects itself in locketts and bangles and earrings and the hoards of the great Indian princesses.

Senator FULBRIGHT. That encourages vanity and frivolity, doesn't it? It encourages them to use bangles and things. It is very bad for their morals, isn't it?

Mr. ANDERSON. It does not reflect the frivolity or the vanity of a person, but the value of a person. The value of a person is indicated by the amount of silver he carries on his person.

Senator MILLIKIN. The princes put silver in their private hoards.

Mr. ANDERSON. That is more the peasants than the princes. The princes take gold in preference.

Senator MILLIKIN. You have said that in times of great stress there isn't enough gold to sustain the gold standard.

Mr. ANDERSON. No; I said when goods could not be moved across borders.

Senator MILLIKIN. It is at those times that the world needs a hard money basis more than at any other time.

Mr. ANDERSON. No; my point was that they blamed gold where they should have blamed the sudden closing of markets so the debts could not be paid.

Senator RADCLIFFE. Are there any other questions?

Senator MILLIKIN. I haven't finished; but I agree, Mr. Chairman, it would take a long time to finish, and I don't want to impose on your time.

Senator RADCLIFFE. Well, your statement would be very interesting, no matter how long it is.

Senator MILLIKIN. Well, I would like to ask the witness what he thinks of the scheme of the fund so far as the part played by gold is concerned.

Mr. ANDERSON. I don't like it. It is not the gold standard. It is left open to break 10 percent or 20 percent, or more. It doesn't create that certainty which is a prerequisite.

Senator MILLIKIN. It is a sort of shifting reference point, as it were.

Mr. ANDERSON. Enough to make "hot" money all over the world, enough to make people constantly apprehensive and create the very thing they are trying to stop. I want fixed rates on gold. That is one of my objections to the fund.

Senator TAFT. The evaluation provision under section 4, in other words?

Mr. ANDERSON. Yes.

Senator FULBRIGHT. Is it fair to say you would like to follow in general the procedure we followed after the last war?

Mr. ANDERSON. With the great exception that I don't want hanging over the world a great body of international debts, and I don't want the United States to raise tariffs.

Senator FULBRIGHT. We are agreed on the tariff.

Mr. ANDERSON. And with the third exception that I don't want a repetition—and I am terribly apprehensive of what we are doing now—I don't want cheap money, with a flight of capital coming out of the savings of the people and of the corporations, not out of the banks, marking up credits on books. We did too much of that then, and we have been doing it so vastly more in this war that I am scared to death.

Senator RADCLIFFE. Dr. Anderson, we are indebted to you for a very graphic presentation. Thank you very much indeed.

Mr. ANDERSON. Thank you. May I qualify that still further by saying I want to do what we did after the last war, beginning in 1923, with these stabilization programs, not what we did in 1920.

Senator FULBRIGHT. Yes; I understand that.

The CHAIRMAN. Is Dr. Beckhart here?

**STATEMENT OF B. H. BECKHART, DIRECTOR OF RESEARCH,
CHASE NATIONAL BANK, NEW YORK, N. Y.**

Senator RADCLIFFE. Dr. Beckhart, will you make a statement about yourself?

Mr. BECKHART. I am professor of banking at Columbia University and also director of research at the Chase National Bank. I should, by way of introduction, state that I am appearing here in my personal capacity and that whatever views or observations I make do not necessarily reflect the opinions of the institutions with which I am associated.

Senator MILLIKIN. If they should coincide that would be merely coincidental?

Mr. BECKHART. That would be merely coincidental.

Mr. Chairman, I have been asked to comment on H. R. 3314, cited as the Bretton Woods Agreements Act. This bill authorizes the President of the United States to accept membership for the United States in the International Monetary Fund and in the International Bank for Reconstruction and Development. Membership is to be based on the articles of agreement as set forth in the final act of the United Nations Monetary and Financial Conference dated July 22, 1944, and deposited in the archives of the Department of State. After commenting on certain sections of H. R. 3314, I should like to present an analysis of the International Monetary Fund and finally submit an alternative approach.

My comments relative to H. R. 3314 will be confined to sections 5, 10, 12, 13, and 14. Section 5 stipulates that approval by this country of certain actions in connection with the fund and the bank requires specific authorization of the Congress. One of these has to do with changes in the par value of the American dollar. Congressional control over the par value of the dollar is rendered somewhat obscure,

however, by the existence of sections 8 and 9 of the Gold Reserve Act of 1934, which allows the Secretary of the Treasury, with the permission of the President, to buy and sell gold at any price he may deem most advantageous to the public interest, any law concerning the maintenance of the parity to the contrary notwithstanding. In order to make congressional authority unequivocal, I would suggest the repeal of these sections in the Gold Reserve Act.

Senator TAFT. Do you mean section 5, article V?

Mr. BECKHART. I am referring now to the enabling act, to H. R. 3314. Section 5, stipulates that—

Unless Congress by law authorizes such actions, neither the President nor any person nor agency shall on behalf of the United States request or consent to any change in the quota of the United States under article III, et cetera; propose or agree to any change in the par value of the United States dollar under article IV, et cetera; or approve any general change in par values under article IV, section 7.

Section 10 of H. R. 3314 exempts from the provisions of the Johnson Act of 1934 those countries which accept and maintain membership in both the International Monetary Fund and the International Bank for Reconstruction and Development. The purpose is to induce nations which are in default on their obligations to the United States to join and remain in the fund and the bank. In my opinion, the Johnson Act should be repealed outright and its application or lack of application should not be contingent upon membership or continuance of membership in the fund and the bank.

Section 12 of the proposed statute provides that upon acceptance by the United States of membership in, and the establishment of, the fund and the bank, respectively, the immunities and privileges enumerated in the first sentence in section 2 (b), article VIII, and in sections 2 to 9, inclusive, of article IX of the articles of agreement of the fund, and of section 5 (i) of article VI and of sections 2 to 9, inclusive, of article VII of the articles of agreement of the bank, shall have full force and effect in the United States and its Territories and possessions, from the time the United States accepts membership. The first sentence of section 2 (b) of article VIII of the fund agreement reads as follows:

Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this agreement, shall be unenforceable in the territories of any member.

I believe that careful attention should be given to the constitutionality of that particular provision. It also seems to me that its enforcement might require a review of all exchange transactions.

Senator TAFT. Wait a minute. That is article VIII or article IX?

Mr. BECKHART. That is article VIII, Senator Taft; article VIII, section 2 (b). It is on page 15 of the United States Treasury release.

Senator TAFT. What specifically would happen? What is the specific application of 2 (b)?

Mr. BECKHART. The specific application of 2 (b) is that foreign exchange decrees, rules, and regulations of other countries are given legal effect in the United States.

Senator MILLIKIN. And that interferes with the constitutional right of Congress to keep control of the value of our money and of foreign money.

Mr. BECKHART. I am just raising the question, Senator, regarding the constitutionality of this particular provision.

Senator MILLIKIN. It might interfere with the constitutional power of Congress to regulate commerce.

Senator TAFT. Could you give me a specific case as an example of what would actually happen?

Mr. BECKHART. Well, exchange contracts which are entered into in the United States, exchange contracts involving importers and exporters and American bankers, shall be unenforceable in the United States if those contracts are contrary to the exchange control regulations of any member nation.

Senator TAFT. Oh, I see. You may make a contract with a Frenchman, and if France then comes along under the scarce currency or otherwise, under article XIV, and puts in exchange controls, that contract is illegal in this country.

Mr. BECKHART. It is unenforceable in the United States. The only point I am raising is that I believe careful consideration might be given to the constitutionality of that particular provision which would make unenforceable a contract in the United States if contrary to the exchange controls of other countries.

Senator TAFT. Although they are wholly to be performed within the United States?

Mr. BECKHART. Although wholly to be performed within the United States; yes. Also, I believe that the enforcement of this particular provision of the articles of agreement of the Monetary Fund would require a review of all exchange transactions by the Treasury or the Federal Reserve bank.

The next two sections I want to call attention to are sections 13 and 14. These are in the nature of directives to United States representatives on the bank and fund to seek interpretations concerning certain powers of each institution and, if need be, to propose and support certain amendments. Contrary to a mistaken popular impression, these sections are not amendments to the articles of agreement of either the bank or fund. They are simply directives to the American representatives and directives which they will endeavor to fulfill after this Nation has become a member of the bank and fund and after it has made the stipulated payments to each.

The next part of my statement has to do with the question of a commitment. I just want to state briefly, of course, the obvious point that the United States has no commitments as yet relative to the fund or the bank. Both institutions may be considered on their merits, and the question of adoption or rejection should be considered entirely upon the merits of each institution.

Senator TAFT. In fact, we are invited to, aren't we?

As I remember, the act says that all the Bretton Woods Conference did was to commit them to the consideration of the governments and the peoples of each country.

Mr. BECKHART. That is right. Lord Keynes made that quite clear in his remarks before the Bretton Woods Conference, where he said:

So far as the United Kingdom delegation is concerned, we, in common with all other delegations, reserve the opinion of our Government on the document as

a whole and every part of it. The whole of our proceedings is *ad referendum* to our governments, who are at the present stage in no way committed to anything.

In extending the invitation to the participating governments to attend the Bretton Woods Conference, President Roosevelt stated that—

the agreement by the Conference upon definite proposals will not be binding either morally or legally on the governments represented but will be referred to the respective governments for adoption or rejection.

In addition to this blanket reservation on the entire agreements, several delegations entered specific statements. These nations were the delegations of Australia, India, Iran, Peru, the Union of Socialist Soviet Republics, the United Kingdom, and the French delegation. The question of the adoption or rejection of the proposals can be considered entirely on their merits. There is no moral or legal obligation on the part of any nation to accept them. The fundamental question to decide concerning the fund and the bank is whether each is economically sound and whether each, over the long run, will promote international good will and cooperation.

Now, Mr. Chairman, if I may, I would like to get to the heart of my subject, which is the International Monetary Fund.

Students of the subject are agreed that an international credit organization is needed to facilitate discussion of, and to promote action respecting, international monetary problems. Students are also agreed as to the desirability of genuine exchange stability and of the elimination of exchange controls. The question at issue is whether the proposed International Monetary Fund will succeed over the long run in furthering international currency stability and international monetary cooperation. In my opinion, the proposed International Monetary Fund will not accomplish these particular purposes. My reasons for this conclusion can be summarized as follows:

The purposes of the fund are diverse and the objectives inconsistent.

The listed objectives of the fund lack the singleness of purpose and internal consistency essential to its success. One does not know, for example, whether the fund is to concentrate on currency stabilization or economic development. Both are given emphasis in the introductory article of the agreement. Its dual nature, resulting from an attempt to fuse the Keynes and White plans, accounts for its obscurities of language and augurs ill for its success.

In his testimony before the Banking and Currency Committee of the House of Representatives, March 12, 1945, Mr. Harry D. White, assistant to the Secretary of the Treasury, is quoted as stating that a "stabilization fund exists in order to meet emergencies." The emergencies he cited were those arising from crop failures and war. He said that the war had left countries with their factories destroyed and inventories depleted and that, in consequence, a stabilization fund was required. But would such use of the International Monetary Fund be consistent with article XIV, section 1, of the articles of agreement?

The International Monetary Fund is specifically enjoined from conducting two types of operations, either to meet a large or sustained

outflow of capital; or to provide facilities for relief or reconstruction, or to deal with international indebtedness arising out of the war.

Senator TAFT. Mr. Beckhart, Mr. White testified before this committee that in his opinion Russia, for instance, could draw \$300,000,000 a year for the reconstruction of plants and factories destroyed in the war, backing up the opinion of Mr. Edward E. Brown as to what Russia was going to do, in the article that was published. How can that position be reconciled with the express exception of relief and rehabilitation from the purposes of the fund?

Mr. BECKHART. To repeat what Dr. Anderson said, there is no economic reason why Russia should be a member of a stabilization fund. The Russian ruble is controlled completely by Russia's control of foreign trade. The Russian ruble is a bookkeeping device set up by the Russian Government and has no particular economic significance. Russia's need for credit is for long-term credit and for credit to rebuild Russian industries. If Russia is to use the Monetary Fund for the purpose of importing capital goods, as Mr. Brown indicated she planned to do in the article which he wrote for the *Journal of Business of the University of Chicago*, I think that such use would be contrary to the generally accepted purposes of such an arrangement. But so far as I can determine there is nothing in the agreement which would prohibit Russia from so using the fund although it would be contrary to the general principles of a stabilization fund.

Your question, Senator Taft, I think, gives emphasis to the obscurities of purpose of the International Monetary Fund. If the International Monetary Fund were to be used solely for the purpose of stabilization, the fund could be reduced greatly in size. It could be made a gold fund and reduced to about \$2,000,000,000. If the fund is to be used for the purpose of economic development, no fund, however large, would probably suffice for that particular purpose.

In a study issued sometime ago by the Treasury Department the point was made that in many respects an ideal stabilization fund would be a gold fund. An ideal stabilization fund would be a gold fund, and if the fund is to confine itself to currency stabilization, it could be greatly reduced in size and made a gold fund.

Respecting the obscurities in the language and meaning of the agreement, I shall refer to a statement made by Sir John Anderson, Chancellor of the British Exchequer, in which he described the articles of agreement of the International Monetary Fund as a "difficult document, inevitably long and technical," and stated that it contained some "obscurities of language" which had led to misunderstanding and which must be clarified.

Incidentally, none of the other countries have accepted the fund or the bank. They are all awaiting the action of the United States.

An example of an obscurity is the phrase "fundamental disequilibrium." A member is not to propose a change in the par value of its currency except to correct a "fundamental disequilibrium" (art. IV, sec. 5 (a)). What is a fundamental disequilibrium? The agreement gives no definition. Prof. Gottfried Haberler, of Harvard University, points out the term is not susceptible to easy definition. And yet vital practical policies rest on the particular definition selected.

Senator RADCLIFFE. Wouldn't the discretion be in the fund in that case?

Mr. BECKHART. Later on I again quote Sir John Anderson to the effect that in his opinion the definition of this particular phrase rests within the province of each member nation and that if a member nation comes to the fund and states to the fund it is confronted with a fundamental disequilibrium, that the fund is then obligated to accept the statement of the member nation and to permit the adjustment in exchange rates requested. The term is a very difficult one to define. There is no accepted definition and I think that the fund would have to rely upon the representations made by a particular nation.

Senator RADCLIFFE. You mean any allegations by a nation would have to be accepted by the fund as conclusive?

Mr. BECKHART. That is the statement made by the British Chancellor of the Exchequer.

Senator RADCLIFFE. That seems rather sweeping in view of the language of the section.

Senator TAFT. Whether it is right or not, it shows exactly what England proposes to do, so it comes down to a question of whether you throw England out and wreck the fund.

Senator RADCLIFFE. Any member can put any interpretation it wants on the language and get out, but I don't believe that is a very sensible approach to the problem.

Mr. BECKHART. I think, Senator, that the fund will be inclined to accept the allegations of member nations by reason of the great difficulty of defining the term "fundamental disequilibrium" and by virtue of the great difficulty in setting up any quantitative criterion whether a country is confronted by fundamental disequilibrium or not.

Senator RADCLIFFE. That is probably so, but still the fund would have the discretion.

Senator TAFT. The discretion of a board controlled by the debtors themselves, all of whom are suffering some fundamental disequilibrium.

Mr. BECKHART. Fundamental disequilibrium is a disease which tends to spread very rapidly from nation to nation. After one nation has depreciated its currency, it spreads very rapidly.

The next point has to do with the fact that the fund is a conglomerate of local currencies. The lendable assets approximate 4 billion, as opposed to total quotas of \$8,800,000,000.

It is estimated that the United States and other nations will contribute the following sums to the gold and currency portions of the fund:

Estimated gold and local currency contributions to the fund—in millions of dollars:

Countries	Gold	Local currencies	Total
United States.....	688	2,062	2,750
Other nations.....	955	5,095	6,050
Total.....	1,643	7,157	8,800

No nation need have any difficulty in meeting its contribution to the fund in the form of local currencies, which can be created at will.

It needs to be borne in mind that local currencies can be spent only in the nation of issue, francs in France, rubles in Russia, et cetera. Often the possessor of local currencies, Russian rubles for example, can spend the currency only if he has a ration card or export license.

Although the total quotas in the fund come to \$8,800,000,000 holdings of gold plus those currencies in greatest demand—the lendable assets—will probably not exceed 4 billion. The United States supplies about 70 percent of the fund's lendable assets.

Senator FULBRIGHT. We were told the other day that these currencies were not subject to any restrictions of other countries by the terms of the agreement. Isn't that true?

Mr. BECKHART. Currencies possessed by the fund are not subject to foreign exchange restrictions, but on the other hand, Mr. Senator, if one possessed Russian rubles purchased from the fund he would have to receive the permission of the Russian Government to export commodities.

Now the problem could be a very technical one. Even if there were no control over the particular currency from the point of view of foreign-exchange controls the Nation might happen to have trade controls which make it necessary to receive an export license before currency can be spent within a particular nation. The same thing would apply to tourist expenditures, that is, a tourist desiring to spend any particular currency in any particular nation would, of course, have to receive the visa of that nation.

The credit operations of the fund are not related to economic need. Quotas determine the net borrowing power of member nations, and for this reason, certain countries at Bretton Woods endeavored to secure the maximum possible amount. The results in some instances, according to *The Economist*—London—were ludicrous.

Particularly is this true of the quotas which were assigned to China and Russia, the Russian quota being only slightly less than the British quota despite the fact that Russian trade has never been particularly important relative to British trade; the Chinese quota being twice the quota of Holland despite the fact that the foreign trade of China has never been important relative to the foreign trade of Holland.

Conversely nations endeavored to reduce capital subscriptions to the International Bank for Reconstruction and Development. Latin-American countries as a whole subscribed \$154,000,000 less to the bank than the fund and six other nations an aggregate of \$46,000,000 less. Canada subscribed \$25,000,000 more to the bank than to the fund; China, \$50,000,000; and the United States, \$425,000,000. Dr. White was quoted as stating to the committee on Banking and Currency of the House of Representatives on March 7, 1945, that "participation in the bank means something quite different than the participation in the fund." Subscription to the bank, he explained, was a pure liability.

The point that I really want to make at this juncture is that no international credit agency can operate successfully unless its loans are tailored to the specific credit needs of the borrowing nations. What, for example, are the credit needs of the members of the International Monetary Fund? What are the requirements of England for foreign credit in the immediate postwar period, a point which I deal with later on? Will France, in view of her large gold holdings need a stabilization loan? What are the French needs for foreign credits?

Does Russia—a point I raised earlier—need a stabilization loan? Are not her needs for long-term credit?

In general, the quotas are not related to need or to capacity to repay and hence cannot be compared to lines of credit established by commercial banks, which are based upon a careful review and appraisal of all relevant financial and economic data, in which not only the need for funds, but also the ability of the borrower to repay is taken into consideration.

No international credit agency such as the International Monetary Fund, can operate successfully unless loans are tailored to the specific credit needs of borrowing nations and unless careful study is given to the nature of those borrowing requirements. Some of the problems involved become apparent by raising a few questions. What, for example, are the requirements of England for foreign credits, and in particular, for dollar credits in the immediate postwar period? Will France, in view of her large gold holdings, require an external loan for stabilization purposes? Unlike the British situation, France's monetary problems are internal rather than external. The stabilization of the franc would seem to be a matter largely of checking internal inflation. To cite still a third case, does Russia, in view of her economic system and of the controls she has imposed over her foreign trade, stand in need of a stabilization loan? The external foreign exchange value of the ruble has little, if any, economic significance. Russia's needs would have to do with long-term credits of an investment character.

The needs of each nation should receive careful study and the credits extended should be geared to those needs. There is no such thing as a general stabilization problem. Conditions and requirements vary greatly from nation to nation.

The credit operations of the fund are so automatic in character that no assurance is given that its resources will be used productively.

A member purchasing currency from the fund must represent that such purchases are consistent with the purposes of the plan. These purposes, however, are very broad and even this requirement along with all other restrictive provisions in article V, section 3 (a) may be waived by the fund in its discretion.

The only transactions specifically prohibited are that the fund may not be used "to meet a large or sustained outflow of capital" (art. VI, sec. 1 (a) or "to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war" (art. XIV, sec. 1). However, unless the fund finances specific transactions instead of a general passive balance of payments, as is its purpose, there is no assurance that it will not be used directly or indirectly for the above purposes.

Presumably only after a series of transactions have taken place can the fund, after some delay, limit or deny the use of its resources to a member nation. The burden of proof rests on the fund to show that its resources had been misused. This will be difficult to demonstrate inasmuch as the fund finances general debit balances rather than specific transactions, and, in any event, the use of the fund's resources by a large power will probably not be challenged.

The credit operations of the fund are without time limit.

It was the effort to remedy this defeat in part that led to the insertion of section 14 in H. R. 3314.

In testifying before the Committee on Banking and Currency of the House of Representatives (March 12, 1945) Mr. Harry D. White is reported to have said that it would not only be perfectly legitimate but it would be expected if nations, making net sales of their own currencies to the fund, did not repurchase their currencies until after the expiration of 5, 6, or 7 years. One of the things treasuries and central banks have learned over the past 20 years, he declared, is that many years may elapse before a nation's international balance of payments is in balance. But surely loans for the period of time envisaged cannot be defined as "short term."

According to one of the American delegates to the Bretton Woods Conference, Russia will probably use the fund to purchase capital goods. If this proves to be the case the fund can scarcely be termed a revolving one from which nations are "to meet temporary shortages."

It seems to me that that again exemplifies the obscurity of purpose of the International Monetary Fund and confuses the functions of purpose stabilization credit with the functions of investment credit.

The advocates of the fund point to the interest rate and recapture provisions of the agreement as devices to force borrowing nations to repay loans. Interest rates begin at a low level, progress slowly, and would not deter excessive borrowings.

Assuming that a nation exercises its full net borrowing rights each year, and assuming that it does not fall subject to the repurchase provisions, it would take 5 years for the over-all rate—excluding the service charge—to reach $2\frac{1}{2}$ percent, 8 years to reach 4 percent, and 10 years to reach 5 percent, after which the fund could fix rates at its discretion. Not until the rate applicable to any bracket has reached 4 percent are the fund and the member nation directed to consider means by which the fund's holdings of its currency can be reduced.

The recapture provisions are subject to exceptions and do not apply to nations whose monetary reserves are less than their quotas and would not prove particularly effective except in the case of those nations developing an active balance of payments. These provisions would not affect to any marked degree those nations likely to make greatest use of the resources of the fund.

Russia is given a broad exemption from the recapture provisions for the first 5 years of the operation of the fund.

Senator TAFT. Why is that true?

Mr. BECKHART. The reason for that, Senator Taft, is that the gold newly mined in Russia for 5 years after the agreement goes into effect, could not be considered as part of the monetary reserves of Russia, Russia is not mentioned specifically. Let me read you Schedule B, article 4, of the International Monetary Fund.

In the case of members whose metropolitan territories have been occupied by the enemy, gold newly produced during the 5 years after the entry into force of this agreement from mines located within their metropolitan territories, shall not be included in computations of their monetary reserves or of increases in their monetary reserves.

That has the effect of exempting Russia to that extent from the recapture provisions of the plan for that period of time.

Senator TAFT. You mean it does not apply to South Africa, but it must have been put in particularly for Russia?

Mr. BECKHART. It must have specific application to Russia.

Senator TAFT. So that they would not have to repay, or might not have to repay any money that had been drawn down?

Mr. BECKHART. As Russia is the only important gold-producing nation whose territory has been occupied by the enemy.

Senator MILLIKIN. Is that the language, "occupied by the enemy"?

Mr. BECKHART. Occupied by the enemy. Yes; that is the language of the agreement.

Senator TAFT. I figured up the interest rate. As I make it, at the end of 5 years a nation that borrowed 25 percent every year, as fast as it could, they would only pay up to $3\frac{1}{4}$ percent on the average at the end of 5 years. It would go up only half of 1 percent each year after that, so that at the end of the 7-year period they would be paying $4\frac{1}{4}$ percent.

Mr. BECKHART. My computations reach even a lower level of interest rates. Those particular provisions are difficult to interpret.

Senator MILLIKIN. Mr. Chairman, I should like to ask what was the purpose of that exemption to Russia and the Philippines?

Mr. BECKHART. Well, the exemption, I presume, was inserted in the agreement in order to confer a special benefit on Russia—that is, Russia doubtless was the country in mind rather than the Philippines. She will have additional free gold with which she can buy dollars.

Senator TAFT. That is, that the newly mined gold instead of being required to be used to pay back to the fund to make that short-term transaction, may be used to go out and buy goods directly in the world market?

Mr. BECKHART. Yes; if Russia's monetary reserve for example, were greater than her quota by reason of newly mined gold, then it would take 8 years for Russia to exhaust her quota in the fund. Whereas, if by reason of this exemption her monetary reserves are less than her quota, she could exhaust her quota in 4 years and, in addition, make use of newly mined gold to buy foreign exchange. So it gives Russia additional access to foreign markets.

The point I want to make in connection with the recapture provisions is that they do not, in reality, apply to nations making greatest use of the fund, that is, the exchange-poor nations as Professor Williams described them yesterday. They would apply very effectively only to those nations which are developing an active balance of payments and hence would not need to make use of the fund. So, to the extent nations are making use of the fund they are not under the same pressure to repay their borrowings.

The virtually automatic character of the credit operations of the fund preclude it from influencing internal monetary policy.

True exchange stability presupposes and rests upon the stability of internal price levels. To achieve internal stability, inflation which is now taking place in all nations would of necessity have to be checked. The International Monetary Fund is given no power to interfere with or to make recommendations concerning the domestic monetary and financial policies of member nations. In fact, it is enjoined from raising questions concerning "the domestic social or political policies" of those member nations requesting a change in exchange rates (art. IV, sec. 5 (f)), and yet such policies are almost always interrelated with financial action.

In the loans which it sponsored after the last war, the Economic Committee of the League of Nations found by experience that credits

granted were soon dissipated unless the borrowing nation undertook to balance its budget and otherwise rectify its internal finances.

Senator RADCLIFFE. It would have some choice whether or not to make loans, wouldn't it? And wouldn't that carry with it some authority to do something? If there is any exercise of power at all, it certainly carries with it some inherent right to express an opinion or to have some ideas or to do something before it makes its decisions.

Mr. BECKHART. The point I am trying to make here is that the loans are virtually of an automatic character. The member nations have an automatic right to credit. The loans granted must be within the purposes of the agreement, but these purposes are very broad and even that particular requirement may be waived by the fund in its discretion.

Senator MILLIKIN. It seems to me that that is one of the fatal defects in the plan and an unavoidable defect because it is easy enough for us to sit here and tell Greece what to do in her internal affairs, but the moment you say shall we allow any international body to tell us what we should do, you see at once the answer should be "No." Therefore, that provision in the plan must necessarily be there because we wouldn't accept any other thing.

Senator TAFT. You are overlooking the fact we are the one that can be told what to do under the scarce currency provision, section 7.

Senator MILLIKIN. That is the whole purpose of the plan. I don't think that provision could have been any other way. I think that makes one of the defects of the plan, an inevitable defect.

Mr. BECKHART. I agree with you as to the defect; I don't agree that it is an inevitable defect. It seems to me if an international monetary fund is established loans should be granted only after examining the need of the borrowing nation and the credit worthiness of that nation. These particular quotas were not established with reference to the credit requirements of the particular nation.

Senator MILLIKIN. Well, economically, you are entirely sound, but politically this country, for example, would never allow, I don't believe, any international fund to tell us how to regulate our internal affairs, although that might be the over-all function of the plan.

Senator TAFT. As a condition to getting money.

Mr. BECKHART. That is the real difference, as Senator Taft pointed out; namely, if we were a borrowing nation, as a condition to the receipt of those particular funds then we might be influenced by the advice of the creditor.

My next point is that because it deals with the mechanics rather than with the fundamentals of the exchange problem, the existence of the fund would not promote exchange stability.

A member nation may propose changes in its exchange rate to correct fundamental disequilibrium. If the change, inclusive of all previous changes, does not exceed 10 percent of the initial par value of the currency, the fund shall raise no objection. For changes beyond this amount the fund must concur. But Sir John Anderson, British Chancellor of the Exchequer, has declared that the fund is obliged to allow a change in exchange rates in order to correct a fundamental disequilibrium." The implication of the statement is that the nation requesting the change is itself to determine whether it faces a "fundamental disequilibrium" and whether, in consequence, it is entitled to alter its exchange rates. In other words, action is still

unilateral. Consultation with the fund becomes a mere formality. Sir John stated emphatically that England did not surrender "any ultimate right" to follow its own exchange policy, namely, a nation coming to the fund saying that it is confronted with a fundamental disequilibrium must be granted the right to alter its exchange rate by the fund.

Senator MILLIKIN. Senator Taft has also produced a number of excerpts from Lord Keynes to the same effect.

Mr. BECKHART. Yes; in a speech by Lord Keynes in the House of Lords in May 1944 he made the same statement.

The proponents of the fund have declared that Article IV, section 8, requiring nations to maintain the gold value of the fund's assets will deter member nations from exchange depreciation. This requirement, however, is not particularly onerous as nations depreciating their currencies simply give the fund an increased proportionate amount of their noninterest-bearing, nonnegotiable demand notes. These it would not have to honor unless it developed an active balance of payments.

The fund conveys no assurance of the removal of exchange controls on current account. I raise this point because the impression has been conveyed that the fund does insure the removal of exchange controls on current account. Member nations, retaining restrictions on current account, are not compelled to remove them within a stipulated period of time. Article XIV, section 4, simply requires that 5 years after the fund begins operations, and in each year thereafter, any member retaining restrictions on current payments shall consult with the fund as to the further retention of such restrictions. The fund may, if it deems action necessary in exceptional circumstances, make representations to any member that conditions are favorable to the withdrawal of any particular restriction or for the general abandonment of all restrictions. After the lapse of a suitable time, the fund may declare a member ineligible to use the resources of the fund.

The articles of agreement contain no definition of the phrase, "exceptional circumstances." Section 5, article XIV, instructs the fund to recognize the fact that the postwar transitional period is one of change and adjustment and in making decision on requests occasioned thereby, it shall give the member the benefit of any reasonable doubt. A heavy burden is thus put on the fund to prove that exchange restrictions on current account should be removed. Mr. E. E. Brown, an American delegate to the Bretton Woods Conference, stated:

"It must be admitted that the teeth given the fund to enforce the withdrawal of restrictions on current payments now in effect are weak."

Not only are member nations allowed, if they so desire, to retain exchange controls on current account through a transitional period of uncertain length, but they are permitted to impose such restrictions, where they did not previously exist, in case a currency is declared scarce (art. VII, sec. 3 (b)) and may impose restrictions on non-member currencies, when such are not contrary to the purposes of the fund (art. XI).

The point to which I wish to give emphasis in this discussion is not that exchange controls on current transactions could be quickly removed in all countries, but that the articles of agreement of the fund do not in themselves, as implied by many of its sponsors, insure the removal of such restrictions.

Whether the nations having such restrictions ultimately remove such restrictions, would depend very largely on the economic philosophy of those particular nations.

Senator MILLIKIN. It finally resolves itself, doesn't it, into an arbitrary control?

Mr. BECKHART. Yes.

Senator MILLIKIN. By continuing arbitrary control long enough, by their very nature, they ultimately collapse?

Mr. BECKHART. That would be my opinion.

Senator MILLIKIN. In other words, you can only have a managed currency and a managed economy as long as you can maintain complete management of everything that enters into the factor you are trying to control; isn't that correct?

Mr. BECKHART. I quite agree with that. Foreign exchange controls will lead to a complete control of the domestic life of a nation in the form of control of rates of interest and prices.

Senator TAFT. What do you think of the amendment suggested by Mr. Williams? I think that nobody should be entitled to draw their quota from the fund until and unless they had removed all exchange restrictions.

Mr. BECKHART. Well, I think that would be desirable addition.

Senator TAFT. That would meet this important objection.

Mr. BECKHART. That would meet this objection. It would not meet my fundamental criticism relative to the whole agreement, but it would meet that important objection.

The next point is the point which I believe Professor Williams stressed yesterday, that the operations of the fund might have the effect of universalizing exchange controls.

Although it is the avowed purpose of the fund to bring about the elimination of exchange controls on current account, in actual operation it might have the effect of causing such controls to be instituted where they did not previously exist and of perpetuating such controls where they have been in force. This conclusion rests on the following considerations.

The fact that controls on current account may be projected into a transitional period of indefinite length. The longer such controls are retained the more they become part of the fabric of the economic life of the nations concerned and the more difficult their removal will prove.

The difficulty of distinguishing between transactions on capital and current account. Interestingly enough that particular problem arose at Bretton Woods. I don't know whether you gentlemen have read the reservations made by several of the delegations to the Bretton Woods Conference, but the Russian delegation, for example, took exception to the definition given current transactions in the fund agreement. The Russians suggested that remittances for family living expenses should not be included in the term "current transactions." The French delegation also entered a specific reservation relative to the definition of current transactions. I refer to those specific reservations at the Bretton Woods Conference in order to illustrate the difficulty of distinguishing a capital and a current transaction and the fact that the difficulty was in evidence there.

Exchange controls on capital transactions may be maintained indefinitely and the introduction of such controls may be requested by the fund to prevent the resources of the fund from being used to meet

a large sustained outflow of capital (art. VI, sec. 1 (a)) or to prevent a member's own resources of gold and foreign exchange from being used to meet capital movements not "in accordance with the purposes of the fund" (art. VI, sec. b (ii)). The fact that the fund may request the imposition of exchange controls on capital transactions where they did not previously exist, along with the difficulty of distinguishing between capital and current transactions and the consequent need to scrutinize all exchange transactions, may well tend to universalize exchange controls.

Section 2 (b) of article VIII, making exchange contracts unenforceable, which are contrary to the exchange control regulations of any member nation (imposed consistently with the agreements), would probably cause governments to review all exchange transactions and possibly control such transactions.

The fact that nations may impose controls on current exchange transactions, whenever a currency is declared "scarce" (art. VII, sec. 3 (b)), the fact that such controls may be imposed on nonmember nations (art. XI, sec. 2), the fact that a member nation, unless it freely buys and sells gold, is charged with the responsibility of seeing to it that all exchange transactions between its currency and that of all other members takes place within certain prescribed limits (art. IV, sec. 4 (b)) would tend to perpetuate and to generalize a complete control of the foreign exchanges.

The recapture clauses of the fund might lead to permanent exchange control on both current and capital account.

Senator TART. Your main point is that this really gives the fund complete power to regulate exchange transactions throughout the world which will probably have to be exercised?

Mr. BECKHART. Which will probably have to be exercised in order to make effective the provisions of the Monetary Fund agreement.

The next point is a very important point and a point which Professor Williams has stressed in his various articles. The fund does not solve the British problem. Before the last war pound sterling was the international key currency. Now the dollar is the senior partner and the pound the junior partner as the key currencies of the world and the basic problem is the stabilization of the pound-dollar ratio.

Senator RADCLIFFE. Doctor, it is now a few minutes of one. We will have to adjourn in a few minutes. Would you want to come in again this afternoon?

Mr. BECKHART. I would be happy to.

Senator RADCLIFFE. We have a right busy program this afternoon. How long do you estimate it will take you to finish?

Mr. BECKHART. I don't imagine more than 15 minutes.

Senator RADCLIFFE. I think we had better recess at this time until 2:30.

(Whereupon, at 1 p. m. a recess was taken until 2:30 p. m. of the same day.)

AFTERNOON SESSION

The committee reconvened at 2:30 p. m., at the expiration of the recess.

STATEMENT OF B. H. BECKHART—Resumed

Senator FULBRIGHT (presiding). You may proceed, Mr. Beckhart.

Mr. BECKHART. Mr. Chairman, when we adjourned we were dis-

curring the point that the fund does not solve the British external financial problem which must be solved if genuine exchange stability and the elimination of exchange controls are to be achieved.

The currency which had become the "key currency" of the world prior to the last war was the pound sterling, and that was brought about by reason of the commercial and financial policy of England. Import duties had been removed and, in as much as England had a balanced budget, commercial banks were not involved in deficit financing.

In the interwar period there were two "key currencies," the dollar and the pound sterling, and in the postwar period the dollar will be the important key currency. The fund does not solve the British exchange problem for the reason that it does not provide England with the financial assistance that she will require in the immediate postwar period. Britain's needs may total several billion dollars. She will probably require in the neighborhood of from three billion to five billion dollars. Unless these requirements are met, England will not be able to effect a firm stabilization of the pound or to remove exchange controls.

So, this problem, the stabilization of the dollar-pound rate, will have to be solved, whether the fund is adopted or not, for the fund itself does not solve this very crucial problem.

The next point is, the fund is not a code of currency conduct.

Senator MILLIKIN. Is what?

Mr. BECKHART. Is not a code of currency conduct.

It has been stated that one of the great contributions of the fund is that it provides a code of currency conduct. However, so many basic questions have arisen concerning the meaning and interpretation of the agreement, that it scarcely merits being dignified by the term "code." For example, various questions have arisen concerning the interpretation of article VIII, section 3, having to do with the avoidance of discriminatory currency practices. The London Times has inquired whether this section would prevent special currency agreements within the sterling area. Lord Keynes has declared that there is nothing in the plan inconsistent with Britain requiring a country from which it imports to take in return a substantial quantity of its exports. For example, if England should purchase the entire wheat crop of Australia there is nothing to prevent England from paying for that wheat in a type of sterling which could be expended only in England.

Differences of interpretation have arisen concerning the relation of the fund to the gold standard. Various sections of the articles of agreement of the fund are presented to the American public as a victory for exchange stabilization and for a modified gold standard; other sections are presented to the British public as a victory for exchange flexibility and as the antithesis of the gold standard, or of such a radical departure that the standard is reduced to the status of a constitutional monarch.

Senator FULBRIGHT (presiding). Have you not found it is quite usual economists differ? That is quite usual, is it not?

Mr. BECKHART. Senator, economists do differ, of course, but there should not be these differences of interpretation, and these differences of interpretation are not differences of opinion among economists, but differences of interpretation concerning the agreement.

The British Chancellor of the Exchequer said, quoting from the New York Times of May 11, 1944, page 5, that the experts' proposals (the immediate precursor of the International Monetary Fund) did not mean a return to the gold standard and did not require the elimination of any special arrangements existing within the sterling area.

These wide differences in points of view caused Prof. John H. Williams to write: "But there remains the fundamental fact that national attitudes are very far apart, so much so that in efforts to get their plan adopted the experts have to engage in what comes dangerously close to double talk."

Senator MILLIKIN. Are you going to discuss the gold standard?

Mr. BECKHART. Yes, sir; I shall be very glad to.

Senator MILLIKIN. Thank you.

Mr. BECKHART. In a letter to the New York Times, March 14, 1945, Mr. Robert Boothby wrote:

The divergence of view between the two countries is already wide. You have been led to believe that the Bretton Woods proposals take us all back along the road to a gold standard, currency stability, nondiscrimination, and multilateral trade. We have been assured that they constitute the exact reverse of a gold standard, that exchange rates will be flexible and that reciprocal trade agreements involving discrimination will be permissible.

An agreement which, by reason of the ambiguity of its provisions is open to such widely divergent interpretations certainly does not constitute a code of currency conduct.

Then, the next point is the fund will not promote international monetary cooperation or international harmony.

The ambiguous character of the articles of agreement of the International Monetary Fund, as well as the failure to solve fundamental problems, argues ill for the success of the fund. It may appear to succeed as long as its gold and dollar assets remain. When these are exhausted, it will lose even the semblance of success. International harmony will give way to discord and recriminations unless the United States continues to supply additional dollars. But to supply the fund continuously with unlimited amounts of dollars, would of course, put our own currency in jeopardy.

The fund offers no basic solution for the monetary problems of a war-ridden world. Until such questions as relief and reconstruction, war debts and commercial policy are solved, attempts at international currency stabilization will prove abortive. Credit extensions of automatic type envisaged by the fund are no substitute for the solution of fundamental problems.

In other words, the point I am trying to make is the fund will not promote peace, and will not lead to international understanding, and that when the dollars are exhausted, whenever that occurs, then other nations will feel that the United States will have the responsibility of supplying dollars to the fund. In other words, in accordance with the scarce-currency provision the responsibility is placed on this Nation to provide those dollars. So, in my opinion the fund does not promote the cause of peace or international understanding. If we are going to promote the cause of peace we should make use of other means and methods. I think we should examine the particular instrument with care, and if the fund were established the immediate effect, in my opinion, would be to lead to intensification of exchange controls throughout the world, and ultimately a breakdown of the fund when the dol-

lar and gold reserves were exhausted. The tragedy would be that the resources possessed by the fund would probably solve none of these fundamental problems to which I have made reference, but would rather be dissipated with the consequence that the problem would remain to be solved in an aggravated form.

Basic in the stabilization of currencies is the elimination of barriers to trade. A world trade conference should be convened immediately to consider and evolve constructive action. In the absence of such action, exchange stabilization rests upon an ephemeral basis. Although in its report, Commission III of the Bretton Woods Conference did give emphasis to the need to reduce obstacles to international trade, the discussions centering around the fund have tended to direct attention, and to divert attention, from this all-important problem. Not until nations have exhibited a real willingness to effect drastic reductions in tariff rates and so eliminate import prohibitions and quotas, export subsidies, regional preferences, bulk buying, and so forth, is exchange stabilization a practicable goal. After our experiences in the decade of the twenties, a point made by Dr. Anderson this morning, we should not again resort to an extension of foreign credits as a substitute for the reduction in obstacles to trade.

Lord Keynes has written that "forms of commercial policy, permissible under the Bretton Woods currency proposals, may be so destructive of multilateral trade that, if they are adopted, Bretton Woods will have been rather a waste of time." That is from the London Times of August 30, 1944.

The United States must be willing to assume leadership in such a trade conference and must be prepared to effect a substantial reduction in its tariff rates. Never shall we have a better opportunity to do so than in the period of transition from peace to war, when economic systems, including our own, will be in a general state of flux.

The alternative to the adoption of the International Monetary Fund is not chaos. It offers no real solution to the world's monetary problems. It does not constitute a code of currency conduct. It will not contribute to international harmony.

A positive program would embody the following elements:

1. The rejection of the International Monetary Fund, as unworkable and unsound.

2. The immediate convening of a world trade conference.

3. If the trade conference proves successful, the United States should lend its assistance in the solution of the postwar British exchange problem. This problem is crucial and must be solved, if a multilateral system of payments is to be restored.

4. As a further important contribution toward international monetary stability, the United States would cancel World War I debts, repeal the Johnson Act of 1934, and stand ready to accord a very generous treatment in the settlement of lend-lease assistance given in World War II.

5. The United States would accept membership in the International Bank for Reconstruction and Development which would stand prepared to make long-term stabilization loans, to gather monetary information, and serve as a meeting place for the monetary authorities of member nations.

In my opinion there are only two types of stabilization loans, a long-term type, exemplified by the Dawes loan of 1924, and a short-term

seasonal stabilization loan which may be granted by the Federal Reserve banks under the powers they possess. In fact the Federal Reserve banks have in their history made a number of short-term stabilization loans.

6. Still another step to be taken by the United States, is the formulation of a constructive and well-integrated foreign lending policy. This I mention by reason of the proposed increase in the capital of the Export-Import Bank. This is essential if we, as the creditor Nation of greatest potential power in the postwar period, are to exercise a stabilizing influence on international economic relationships.

I have used the expression "creditor nation of greatest potential power" because at the present time we are neither creditor nor debtor. If we eliminate lend-lease our long-term creditor position is offset by our debtor position on short-term obligations.

Foreign dollar loans whether extended on public or private account should be confined to uses which will enhance the export ability of the borrowing nation and its power to acquire foreign exchange for repayment. In that respect we should avoid the mistake of the twenties when certain loans were made for nonproductive purposes.

Foreign dollar loans should not exceed the capacity of the foreign nation for productive utilization of the funds borrowed. They should supplement and not supplant domestic capital accumulation. To look upon capital exports as a means of maintaining full employment in this country is to render our foreign borrowers a great disservice.

One of the greatest contributions this country can make toward postwar stability is to provide a dollar in which other nations will have confidence. This will not prove easy. The road back to sound currencies is difficult economically and seldom popular politically. As soon as possible in the postwar period we must divorce the commercial banking system from deficit financing, balance the Federal Budget, and refinance the floating debt. These measures are necessary to retard postwar inflationary developments and without them we cannot establish the dollar as an international currency in which all nations will have confidence.

In conclusion, my recommendation is that the International Monetary Fund be rejected; that the International Bank for Reconstruction and Development be accepted with the changes suggested by the committees representing the American Bankers Association, the Association of Reserve City Bankers and the Bankers Association for Foreign Trade; that a conference of United Nations be assembled as soon as possible to give consideration to the removal of trade barriers; that the United States cooperate to the fullest extent with Great Britain in the solution of the British exchange problem; that the United States formulate a constructive and well-integrated foreign lending policy; and that the American dollar be established on such a firm basis that it will have the confidence of the trading world.

Senator FULBRIGHT (presiding). Thank you. Are there any questions?

Senator TAFT. Do you want to discuss the gold question?

Senator MILLIKIN. Have you any special comment?

Mr. BECKHART. If I can spend a few moments developing the background of that question.

Senator MILLIKIN. Yes, sir.

Mr. BECKHART. It seems to me that the International Monetary Fund is based upon a misconception of the way in which the gold standard operated prior to 1914. The gold standard prior to 1914 was in reality a pound sterling standard, and was a pound sterling standard by reason of the importance of England in international financial relationships. The world had confidence in the pound by reason of the fact it was redeemable in gold and had been since 1821. Furthermore, the pound inspired confidence because the British budget was balanced throughout this period.

Senator MILLIKIN. Would you permit a little interjection there?

Mr. BECKHART. Yes, sir.

Senator MILLIKIN. 1821 was a time of upset and peril for Great Britain, just as today is. It followed the Napoleonic wars and the whole world was upset. The other countries were following vagaries. Great Britain decided to do it the hard way and sound way.

Mr. BECKHART. That is quite true, and Great Britain followed sound policies and remained on the gold standard until 1914, and that contributed to the confidence in the pound sterling. The Bank of England was not involved in deficit financing. Their portfolio prior to 1914 consisted of "salt water bills," that is, bankers' bills arising from foreign trade.

England permitted the inflow of goods so debtors could pay their debts.

The British pound was the key currency of the world. It was important that the British pound remain stable. It was not of vital significance whether currency depreciation occurred in Russia or in the Argentine. It affected the local domestic situation, but from the standpoint of world economy, it was not of great significance. If we were importing from India we would pay in pounds and if we were exporting to India they would pay in pounds. It was an international currency. It rested upon a very small gold reserve in London of not over \$150,000,000—30,000,000 pounds.

If we are to restore world currency stability it is extremely important that the "key currencies," now two instead of one, be stabilized in terms of one another. It is very important that the United States dollar as the important "key currency" in the twentieth century fulfill the function the pound did in the nineteenth century; that the American dollar be placed permanently on a gold basis, and that the American dollar be redeemable in gold.

So, I would approach the problem from that particular angle.

Now, one does not know whether the fund itself imparts some of the aspects of the gold standard to the managed moneys. Personally, I think, and one does not know by reason of the confused purpose of the fund, that the fund is a collection of paper-managed currencies from which we cannot evolve an international monetary standard.

An international monetary standard in the postwar period would be based on the dollar linked to gold and not a heterogeneous grouping of paper managed currencies from which, as I have suggested earlier, we cannot evolve an international monetary standard.

Senator TART. Would you not think if the dollar were tied to gold, and England went along on this theory of fixing currency any way they liked, that the dollar would soon become the only key currency of the world?

Mr. BECKHART. That is correct. It would become the only key currency in the world, and nations of the world would be desirous of having dollars. Exporters in Australia or South America would be anxious to get dollars because it would be free of foreign exchange control, and a person possessing dollars in New York could do what he pleased with his funds, just as a person possessing pounds prior to 1914 could do as he pleased. He could transfer them to France or South America, and use them to buy goods in France or South America. The dollar would be the international currency, and in making the dollar the international currency we would make an important contribution to world trade.

Senator TAFT. We have kept our dollar tied to gold since 1934.

Mr. BECKHART. Yes. That is, we redeemed the dollar for export purposes but not domestic purposes. My suggestion is we should introduce gold for domestic purposes.

Senator MILLIKIN. You could not do that until you had a balanced budget.

Mr. BECKHART. That would be part of the entire problem.

Senator TAFT. Thank you very much, Mr. Beckhart, and we appreciate very much your comprehensive statement.

Representative WHITE. Mr. Chairman.

Senator TAFT. All right, Congressman, but I am not the chairman.

Senator McFARLAND (presiding). All right, Mr. White.

Representative WHITE. You spoke of the benefits flowing from the gold standard and stated the British money on gold started I think in 1821.

Mr. BECKHART. Yes.

Representative WHITE. Was not the chief stabilizing influence of this plan due to the fact the British based their money on gold rather than national credit?

Mr. BECKHART. I am not certain I understand the full import of your question, but the British pound from 1821 to 1914 was redeemable in gold.

Representative WHITE. It was based then on gold.

Mr. BECKHART. That is correct.

Representative WHITE. You could not get away from the fact it was actually based on gold and redeemable.

Mr. BECKHART. Based on gold.

Representative WHITE. All over the world the currency is based on national credit and there is a distinction there.

Mr. BECKHART. Yes, sir.

Representative WHITE. Was it not due to the fact the British based their money on gold which stabilized their money?

Mr. BECKHART. I agree with that. In addition the British in that period of nearly 100 years did not involve their commercial banks in deficit financing as they did during the Napoleonic wars and as Britain did in the period of the First World War.

Representative WHITE. Prior to the Napoleonic wars, did not William Pitt induce the Queen to standardize the money, and purify the money by taking out the base metal?

Mr. BECKHART. That was part of the monetary reform of Sir Isaac Newton.

Representative WHITE. Did not England as a matter of fact get up against the same thing that Abraham Lincoln did in our country

when there was not enough gold? The British credit was not good enough to float the bonds and finance the war.

Mr. BECKHART. The use of the commercial banking system in the period shortly preceding 1791 resulted from the fact England had not resorted to taxation to the extent she probably should have done, and there was a second reason for the suspension of specie payments, namely, the fear of French invasion.

It is very interesting to observe that Sir William Pitt, after the suspension of 1791, saw to it that England did not suffer from inflation resulting from governmental deficits. About 1808 or 1809 when by virtue of the fact that French entered Spain and severed the ties between Spain and South America, for the first time Britain was able to trade with South America, and this speculation gave rise to a certain amount of inflation.

Representative WHITE. Now, is there any safeguard in the Bretton Woods plan to prevent it from going at a premium in certain countries?

Mr. BECKHART. That is a rather difficult question. I do not believe gold could go at a premium.

Representative WHITE. You know gold is at a premium at the present time in pretty nearly all the countries of the world.

Mr. BECKHART. In India gold is selling at a premium of about 100 percent.

Representative WHITE. You are cognizant of the fact gold was \$35 an ounce in June, and gold imported into China has tremendous purchasing power.

Mr. BECKHART. Your question is rather a difficult one, but eliminating the black market gold would not sell at a premium.

Representative WHITE. You think there is a safeguard in the Bretton Woods plan when it is put in operation.

Mr. BECKHART. Assuming the black market——

Senator TAFT (interposing). Then, when gold is going at a premium they can devalue their currency.

Mr. BECKHART. Yes, sir.

Senator TAFT. That would make gold more valuable in terms of pounds. It might be said gold was at a premium but it would be a revaluation of their pound.

Mr. BECKHART. As a further comment on this subject, which, as I say, is a rather difficult one to answer, there would not be gold redemption probably throughout western Europe. There might be gold redemption in the United States.

Representative WHITE. I am talking about purchasing power, not gold redemption.

Mr. BECKHART. Reverting to that question, then, I believe from the point of view of your inquiry, gold would not go at a premium, although exchange rates could be altered and gold revalued.

Representative WHITE. Would that not require certain restrictions by law?

Mr. BECKHART. It would presuppose restrictions on foreign exchange.

Representative WHITE. Is there any safeguard in the Bretton Woods plan to prevent nations from using "block currency," such as England uses and Germany used?

Mr. BECKHART. If I may answer that at some length. Blocked sterling accumulated in England during the war now comes to about 12 billion dollars and at the end of the war will total about 15 billion dollars. This has resulted from expenditures made by England in the Near East and India.

Representative WHITE. We infer by "block currency" it has a purchasing power in some countries and not in others.

Mr. BECKHART. When England makes expenditures in India the expenditures are made in terms of notes of the Reserve Bank of India and the Reserve Bank of India receives a deposit credit in London which she cannot transfer, and she cannot spend it in other countries. That particular pound is blocked from the point of view of expenditure in England and transfer. It represents a short-term liability on the part of England. It represents a short-term asset on the part of India, but an asset which India is not free to use.

By virtue of England's financial position in the postwar period it is likely that the blocked sterling may have to be funded in a long-term obligation. If England were to pay them off at 3 percent a year, this would constitute a rather heavy burden, so the loan would have to be a very long-term loan.

Such then is the origin of blocked sterling. Under the articles of agreement the fund is not to be used to liquidate blocked currencies.

Representative WHITE. Mr. Chairman, I appreciate the indulgence of this committee and I have three or four questions—

Senator TAFT. (interposing). We have three more witnesses. We are very anxious to get through.

Representative WHITE. These questions are very important, and I look upon the use of block currency as just another expedient.

Senator TAFT. Thank you.

Senator MCFARLAND. The next witness is Mr. Goss.

STATEMENT OF ALBERT S. GOSS, MASTER, NATIONAL GRANGE

Mr. Goss. Mr. Chairman, we make no pretense at being experts in the field of international finance. We are in sympathy with the general purpose of providing a stabilized medium of exchange for aiding foreign commerce, and for extending credit to foreign nations to promote reconstruction and industrial development if it can be done on a sound basis.

Some people believe we can promote trade by expanding credit indefinitely. Our failure to collect the debts from the last war, our further extension of credit in vast amounts to keep up foreign trade, the campaign for unloading billions of foreign bonds on our people, and some of our lend-lease transactions in this war have undoubtedly given some nations reason to hope for further extension of soft credit in one form or another.

They have also caused us to view with concern any program for extending credit in the billions which we cannot understand. Very frankly, we cannot understand some of the Bretton Woods proposals both with reference to the fund and the bank. They are so technical and complicated that we are not sure just how they will operate—whether or not they will prove to be ample safeguards against abuse. The fact that we haven't found anyone else who understood them,

coupled with the known desire of many people, both here and abroad, to open the doors of our National Treasury to build a brave new world, makes us feel that great care should be exercised to be very sure that we know what we are doing.

The National Grange, after rather extensive study of the proposals, first reached the conclusion that the stabilization fund opened too easy a road to the Treasury, and opposed the creation of the fund, as indicated by a report which was adopted by the National Grange and which appears in our testimony before the House committee. I will not read this report unless requested.

This stand was later amplified to provide approval of the fund if sufficient safeguards could be provided to prevent the abuses, the possibility of which caused the original opposition. That resolution is also in the House record and will not be read unless called for.

The question, then, is whether or not the Bretton Woods proposals provide ample safeguards, or can be amply safeguarded to prevent abuse. There are some basic principles involved in this whole question which cannot be ignored with safety. Some weeks ago, one of our members requested that I explain the Bretton Woods proposals in simple language. This I attempted to do, and I do not know how I can present these basic principles to your committee, as we see them, any more clearly than by reading this letter, which, with your permission, I will do:

APRIL 20, 1945.

MISS MILDRED MAHOOD,
Washington, D. C.

DEAR MISS MAHOOD: I appreciate the kindly comment in your letter of April 16, in which you asked if I could explain the Bretton Woods proposal in simple terms. I lay no claims to being a monetary expert nor an authority on the Bretton Woods proposal, but there are a few basic principles which should be borne in mind in any consideration of the subject. While the proposal has to do with money, the financial transactions are all based on trade, and affect trade. So let's start there. While most trade is carried on between individuals or firms, the issuance of money is a national function, and the nation's credit is a composite of the credit of its citizens, so for simplification we will refer to the transactions in international trade as transactions between nations.

In its simplest form, trade is an exchange of goods. If I sell you something, I expect to receive something of equal value in return, either money or goods. If you continued to buy and didn't have anything to repay except promises, you would be a bankrupt and your promises would become valueless.

So it is with nations. A nation which buys must have something to sell. It can buy from one nation, sell to a second nation, and pay the first nation with the money it receives from the second nation. This we call multilateral trade. It is not necessary that the trade be direct, but if any nation expects to preserve its credit, it must produce something to sell to pay for what it buys. If it doesn't produce as much wealth as it consumes, it will go broke and its promises to pay will become valueless, just like those of an individual.

A nation's currency is one form of its promise to pay. Obviously, however, that currency cannot be used all over the world, or we would have a hundred kinds of money to deal with. If Mexico wants to buy a million dollars worth of Ford cars, she could not pay in Mexican pesos, for the Ford Co. could not pay its employees or buy its supplies with Mexican money. What happens is that Mexico buys American dollars from someone who will hold the Mexican pesos received in payment for the dollars until someone comes along and wants to buy Mexican coffee or oil, and will buy the Mexican pesos to use in payment. This we call dealing in foreign exchange. If a nation sells as much as it buys, there is a demand for its currency, because those who buy goods from that nation will have to buy the currency to pay for the goods. If a nation

does not sell as much as it buys, the dealers in foreign exchange will soon accumulate a surplus of that nation's currency which they cannot sell.

Let us picture a simple example. Let us assume that the Mexican peso is normally worth 20 cents. However, Mexico starts buying more than it sells, and the dealers in foreign exchange accumulate an increasing volume of Mexican pesos which they cannot dispose of. It reaches a point where the dealers refuse to sell an American dollar for 5 pesos, and demand 8 pesos. That means that an American dollar will buy more goods in Mexico, and of course, will stimulate American buying, possibly until the surplus supply of pesos is worked off, and the price comes back to 5 pesos per dollar.

Obviously this fluctuating value of the peso and dollars makes trading very difficult. Between the time of sale, delivery, and payment there may be a shift in the value of foreign exchange which will result in a substantial loss on a legitimate merchandising transaction. Some people buy and sell exchange for speculative purposes, hoping for rises or reductions in value which will render them a profit, and it has been charged that exchange rates are often manipulated for profit.

The purpose of the Bretton Woods proposal is to prevent these fluctuations. Instead of leaving the exchanges at the mercy of an absolutely free or uncontrolled market which may be upset by seasonal, emergency, or possibly speculative influences, it is proposed to set up an international financial organization, the facilities of which would be available to those nations wishing to use them to act as a sort of stabilizer.

However, the conferring nations found there were really two purposes to be served. One was to stabilize international exchange, which we will call monetary stabilization, and the other was to provide loans for rehabilitation or for commercial purposes. This we will call economic stabilization.

To meet these two needs they have proposed an organization with two departments, each with a capital of approximately 9 billion dollars, subscribed by the various participating nations, called the fund and the bank. The fund is designed to effect monetary stabilization. Any nation desiring to buy exchange of another nation pays the required amount of its own currency into the fund and gets what it wants at known and dependable exchange rates. Thus, as trade is carried on throughout the world, the fund becomes a clearinghouse. Each participating nation agrees to limitations designed to prevent changes in the value of its money, such as most of them carried on in the thirties, and it is hoped that the fund would thus effect monetary stabilization. The bank is the medium for making long-term loans which are to be based on security deemed ample to assure repayment.

The purpose of taking the fluctuations out of foreign exchange and smoothing out the bumps is certainly a worthy one. If Sweden's chief export product is sold in the fall, but her purchases are made intermittently, a temporary over-supply or shortage of kroners should not affect their exchange value.

However, there is a weakness in the fund plan. A nation might constantly buy more than it sold. In individuals we call this living beyond their means. It leads to trouble, but lots of people do it as long as other people will trust them. Many nations have done the same thing. If they could buy all the American dollars they wanted by putting their currency into the fund, the fund would eventually be stripped of the good currency and filled with the poor currencies of nations who sold less than they bought. Under the Bretton Woods proposal this would be hard to prevent, for the control of the fund lies largely with those who would want to borrow from it.

On the other hand, the bank is supposed to make loans on definite security, and only when there is reasonable assurance of repayment. If a nation needed to borrow money for rehabilitation or to put itself into a position to produce wealth, it might be a sound purpose, even though the payment might be delayed 20 or 50 years. Under the proposal, the directors of the bank could not legally make a loan to a nation to enable it to continue to live beyond its means. This is as it should be to preserve a sound credit position. The bank would be in a position to demand that a nation attain economic soundness before it would extend credit, that is, produce as much wealth as it consumes. Loans to aid in increasing production and bettering living standards would be sound so long as the borrowing nation did not live beyond its means, but kept in reasonably economic balance.

The National Grange saw the danger of using the fund instead of the bank for general credit purposes, and last November sounded a note of warning. It advocated abandoning the fund, but transferring its functions to the bank,

where all loans would be made on a sound credit basis. Since that time the whole question has been widely studied, and the point has been made that a certain amount of flexibility would be sacrificed if the fund were abandoned, and that it might be possible to retain the fund but throw adequate safeguards around it by limiting its use so that it would serve as a monetary stabilization fund without the possibility of being drained of its stable assets.

The executive committee of the National Grange has studied the whole matter in the light of the proposals made since the annual Grange convention, and has concluded that the purposes expressed by the Grange would be served if ways could be found to put limitations on the use of the fund which would protect its integrity, while at the same time broadening the lending powers of the bank so that it could meet any legitimate demand for credit.

The committee has, therefore, proposed that each nation's use of the fund should be limited both as to the amount and the time such use should run, so that any excessive amount or any amount which would run for longer than a sufficient time to cover short-term demands—possibly limited to 1 year—would be cleared up by securing loans from the bank or from other sources.

If the fund were used solely for monetary stabilization and this was assured by limiting its use to short term and safe amounts, based on the member nation's contribution, and if all normal credit transactions were forced to meet the standards of the bank, the fund would appear to be a practical approach to the problem of international monetary stabilization, and the bank could be used to attain economic stabilization. The Committee on Economic Development has said that the powers of the bank should be broadened to enable it to meet the legitimate demands made upon it. We do not know whether or not this is so, but we believe its powers should be broad enough to enable it to make all types of sound loans needed in world trade or for economic stabilization and development. Our experience in farm credit has taught us that there are always border-line cases, and that conflict is best avoided by having the various types of credit under one supervising authority which can assure that there are neither duplication nor blind spots. We have suggested that both the fund and the bank be under the supervision of a common board of directors, although the institutions and their staffs should be kept separate.

If these safeguards were provided we believe that fluctuations in exchange would be held to a minimum and speculation therein practically eliminated. Foreign trade would be made safer and thus promoted. Foreign credit would be to a considerable degree, channeled through agencies where it would be extended in individual cases upon principles declared to be sound by the participating nations.

In short, the soundness of the whole proposal would seem to depend upon separating the monetary stabilization features from the extension of credit for commercial purposes and for economic stabilization and development. If this can be done the Bretton Woods proposal would seem to be a most constructive and valuable step forward in international relations.

Yours sincerely,

A. S. Goss,
Master, the National Grange.

It will be seen that our basic fear is lest the fund be used for long-term credit instead of being confined to stabilization purposes, or that it may be used for the extension of unsound credit, because there apparently is no provision for determining upon the economic soundness of the borrowers; we feel that there must be adequate safeguards to see that there is a clear-cut demarcation of the use of the fund and the bank, the former being used for stabilization purposes only and the latter for the extension of credit for long term purposes. We made three specific recommendations to the Banking and Currency Committee of the House.

First, that the fund and the bank be under a common board of governors and directors who would be responsible for policies which would assure no conflict in purposes in the maintenance of the clear-cut demarcation which we feel is essential.

Second, that the powers of the bank be broadened, if necessary, so that it would not be handicapped in furnishing the type of long-term credit necessary to provide facilities or for reconstruction and development purposes.

Third, that adequate limitations be put on the extent to which the fund could be used, both as to the amount which would be borrowed by any one nation and the length of term of the loan. We believe that a time limit of possibly 12 or 18 months would have a very salutary effect. If it becomes necessary for longer loans, the borrower should go to the bank and arrange for credit on firm security.

The committee evidently recognized the dangers which we brought to their attention for it included in the bill the following steps designed to meet the points we raised.

First, it provided that the American representative on the Board of Governors should be the same for both the fund and the bank.

Second, it provided that the governor or executive director would get an interpretation of the authority of the bank to make loans for broadened purposes, and if the authority was not ample, to take steps to see that the articles of agreement were amended.

Third, it provided similarly for getting an interpretation on the purposes for which the fund could be used and if ample safeguards were not provided, it instructed our representatives to seek amendment.

Obviously, the purpose for following such a course was to avoid the complications which would follow if reservations were made in the original agreement. If forty-odd nations each attempted to write reservations and rewrite the charter to their exact liking, we would never reach an agreement. There must be a large measure of give and take, and some reliance placed on the good will and common sense of other nations to join in fixing whatever needs fixing when the organizations get into operation. If adequate reservations were actually made in the original articles of agreement, of course, we would approve them. The question is whether or not this method of making the reservations in the enacting legislation provides adequate protection, and whether the reservations themselves are adequate.

The executive committee of the National Grange has considered this question and has authorized me to advise your committee that we feel the method of approach would be satisfactory if the bill provided adequate reservations. Of course, we would like it better if the original articles of agreement were amended to provide safeguards without a question of doubt. But we have recognized the fact that the United States has not only the largest vote on the boards of the bank and the fund, but also, through the strong leadership in world affairs, could undoubtedly receive the support of enough nations to secure the proposed amendments if the rulings indicated they were needed. However, we do not think the reservations provided in the bill are entirely adequate.

Frankly, we are disturbed at the attitude of some public officials toward the question of a clear line of demarcation between the fund and the bank. On the one hand, they assure us the bill has proper safeguards, but when the Assistant Secretary of the Treasury, in his

testimony on the great need Russia has for credit, says, "the stabilization operation is precisely what a country of that kind needs," it leads us to believe that our fears are well founded. Apparently, it is the intention to use both the bank and the fund for the extension of general credit, despite the alleged safeguards in the articles of agreement and despite the reservations provided in the amended bill. Because of this we feel all the more certain that great care must be exercised to see that the promised demarcation of use is actually made effective.

We therefore recommend the following changes in H. R. 3314. First, we recommend that the bill express it as the purpose of the Congress to have the same representative serve on both boards of governors of both institutions; the same representative serve as director of both institutions, and the same representative serve as alternate director on both institutions, and that this policy shall prevail so far as the United States representatives are concerned. Also that the United States representatives take adequate steps to present an amendment to the articles of agreement so that his recommendation could be written into the articles applying to all nations.

Second, we understand that there is some question as to whether the bank has the authority to make loans for relief and development purposes. We believe these two purposes should be included in the first sentence of section 13.

Third, we feel that section 14 should be amplified. We do not know just what "temporary assistance" means and would prefer substituting for the words "afford temporary assistance" the words "provide short-term loans not to exceed 18 months maturity." In view of the expressed intention of using stabilization funds for longer term credit, we question the meaning of the word "cyclical" and would prefer to see it eliminated. However, we would not object to leaving in the words "afford temporary assistance" and "cyclical" if there was a provision that no loan should exceed 18 months.

Fourth, there is one further weak spot in the extension of credit through the fund which should be cured. As we read the articles of agreement, any member may borrow within certain limits upon putting up its currency as security. These limitations, however, can be removed by vote of the board. We doubt the wisdom of extending credit, even for stabilization purposes, without regard to economic position of the borrower.

It would seem the part of wisdom to add to section 14 a provision that an examination of the economic position of the borrower should be made with each loan, and that there should be reasonable prospect of the borrower being able to meet the obligation assumed at maturity before the loan is approved. This is all the more important in view of the possibility of the limitations now provided in the bill being waived. We think this should really be provided in the form of an amendment to the articles of agreement, but believe that our interests would be reasonably protected if our representatives were instructed to present such an amendment and work for its passage in similar manner to that provided in the other tentative amendments in sections 13 and 14.

The amendments we have suggested provide nothing more than reasonably sound credit practices. They would accomplish nothing more than the proponents assure us is the intention of the bill, and

we see no reason whatever why anyone who expressed the intention to follow the course these amendments are designed to assure, would object to them. The fact that strong efforts have been made to prevent such safeguards convinces us all the more strongly that the Congress has a very serious responsibility to see that adequate safeguards are provided. If thus properly safeguarded, we would urge the approval of this measure because we believe its purposes are sound, and that it will go a long way toward promoting international trade and good will.

Senator McFARLAND (presiding). Any questions, Senator Taft?

Senator TAFT. I think not. I think Mr. Goss has made some very constructive suggestions.

Senator McFARLAND. Any questions by any other member of the committee?

Senator BARKLEY. Mr. Goss, you do not advocate that the fund be abolished or separated from the agreement so as to cast it out, and accept the bank alone as a part of this agreement, do you?

Mr. Goss. No. We advocate that the fund remain, but that the bill set forth clearly that there should be a demarcation between types of loans, and that loans made from the fund should be for stabilization purposes, short-term loans, and that loans made from the bank cover—

Senator BARKLEY. It seems to me that is really set out pretty clearly in the separate agreements pertaining to the fund and to the bank. But, regardless of that, do your amendments apply simply to additional safeguards to those provided in the House bill; I mean the bill which has already passed the House and which we are now considering?

Mr. Goss. Yes, Senator Barkley, we made three recommendations to the House committee, and the House committee put in three safeguards designed to cure those three dangers which we pointed out. But we think those amendments only about half cured them.

We are here recommending to your committee that you strengthen those House safeguards. The first suggestion had to do with having a common governor and a common board of directors. They recommended that the American delegate on the Board of Governors serve both the bank and the fund, but did not go down to the directors.

I might say that the Board of Governors meets only once a year, and we doubt whether that change would have very much effect in coordinating the policies between the fund and the bank. So we want to have that extended, and we recommend that the purposes for which the bank can make loans be broadened. We do not think they broadened them quite enough.

And we recommended certain restrictions on the use of the fund, one of them pertaining to short-term loans. They set up certain restrictions and said, in effect, this: We have our doubts as to whether the restrictions in the articles of agreement actually are restrictive enough. So we are asking for an interpretation and if the restrictions are not sufficient, we instruct our delegate to seek amendment.

But in our judgment they did not make it clear just where the line of demarcation should be. We believe that the purposes of the whole agreement could be protected, Senator Barkley, if the Senate would make that clear. On the one hand, they tell us that they are in there. On the other hand, some of the activities and statements lead us to

believe they are not there. And the thing is so complicated that I cannot understand all those restrictions. Can you?

Senator BARKLEY. Well, Mr. Goss, I would not want to answer that publicly. [Laughter.]

Senator TAFT. You better ask Senator Barkley if he knows what the word "cyclical" means. Perhaps that is the key word.

Mr. Goss. I think the word "cyclical" would be all right if you limited it to 18 months. But I do not think an interpretation of the word "cyclical" as meaning you would go to 20 years would do.

Senator BARKLEY. That is all that I have to ask.

Senator McFARLAND. Any questions by other members of the committee?

That seems to be all, Mr. Goss, and we thank you.

Mr. Goss. I thank you.

(Thereupon Mr. Goss left the committee table.)

Senator McFARLAND. Mr. Wilken.

STATEMENT OF CARL H. WILKEN, ECONOMIC ANALYST, RAW MATERIALS NATIONAL COUNCIL, SIOUX CITY, IOWA; APPEARING IN BEHALF OF THE NATIONAL ASSOCIATION OF COMMISSIONERS, SECRETARIES, AND DIRECTORS OF AGRICULTURE; ALSO THE RAW MATERIALS NATIONAL COUNCIL

Senator McFARLAND. You may proceed with your statement, Mr. Wilken.

Mr. WILKEN. My name is Carl H. Wilken. I am economic analyst for the National Association of Commissioners, Secretaries, and Directors of Agriculture, representing the 48 State secretaries of agriculture of the United States.

Mr. Chairman, members of the Senate Banking and Currency Committee, our purpose in testifying in regard to the Bretton Woods agreement is to point out some basic economic factors that must be taken into consideration if the future of American agriculture, which is the foundation of our national economy, is to be protected.

The factors which we would like to bring to the attention of the committee are set out as follows:

1. The future income of the United States will depend on the price and production of our agricultural products. Any agreement which fails to recognize this factor will fail in its objective.

2. Stabilization of foreign exchange and currencies without a parity ratio between gold and silver is impossible under existing conditions.

3. Foreign exchange cannot be stabilized without taking additional steps to stabilize raw material prices.

4. Volume of monetary capital in the world depends on raw material income.

5. To maintain and safeguard our national solvency, the United States should insist that world prices and monetary values be geared to the American price level and costs of production.

6. Capital loans to foreign nations will not increase domestic employment on a permanent basis.

7. If we are to serve as the world's banker, we must insist that the income of our Nation and the world as a whole is maintained through adequate prices for production.

8. The Congress of the United States should not relinquish its constitutional right to regulate the value of the American dollar, which in turn means to maintain the American price level with proper tariff protection up to the American price level.

9. It is a simple fact that the barrier to world trade is income or buying power because of low raw-material prices. Therefore, unless the Bretton Woods agreement recognizes the importance of raw-material prices, our capital loans will bankrupt our own Nation and will fail to bring about restoration of world trade as a foundation for world peace.

As a premise in analyzing these factors, I want to stress the first point which we make, that agricultural income will govern our national income. For over 20 years, for each dollar of farm income produced in the United States our Nation has had \$7 of national income. In the future, for every dollar our farm income is reduced either through importation of farm products to pay for foreign loans or through a lower price level because of a competitive situation with world prices, our national income will be reduced \$7 and every economic group will suffer in direct ratio.

Our farm income creates 65 percent of the new dollar income to pay interest on past capital investments. If we permit our farm income to be reduced we not only destroy the earnings on capital but we also force the liquidation of our capital volume.

For example, in the 1930 depression and the years following, our failure to maintain farm prices at the American level forced the Nation to suffer a loss of \$473,000,000,000 in the 12-year period 1930-41.

This loss of income forced the loss of foreign trade in ratio and also forced the liquidation of billions of dollars of capital funds in banks and other investments. A nation will earn only as its production-times-price creates dollar income.

The Bretton Woods agreement can be analyzed on the basis of two courses of action:

First, if it follows present policies and announced theories of trade our price level will be reduced to the world level in spite of any loans which we may make. In this connection I wish to point out that \$3,000,000,000 of foreign loans, annually, represent about \$1.50 per capita throughout the rest of the world.

Applying the economic laws of exchange in our economy, we find that in 1941 with a raw-material income of approximately \$20,000,000,000, the capital worth of our Nation was approximately \$400,000,000,000. That in 1939 because of a lower price level it was approximately \$300,000,000,000. At present our price and production level will carry a capital value for the Nation of \$600,000,000,000.

We pride ourselves on having exportable capital. This is true with present price and production levels. But, if we under the Bretton Woods agreement go back to the 1939 price level, instead of having 600 billion of capital we will be reduced to 300 billion and find ourselves in national bankruptcy. Our available capital will always be in ratio to our price level.

Such a course would be economic suicide, yet from all that we can gather as to the trade-agreement program, Bretton Woods, et cetera, that is where we are headed. Our theorists are thinking in terms of agricultural imports to pay for foreign loans and to create foreign

markets. For every billion dollars that we reduce farm income through imports the Nation will lose \$7,000,000,000 and wipe out \$20,000,000,000 of capital values. It will be just another case of theory not working in practice and in complete disregard of arithmetic.

Such a course will legislate us into a permanent depression. I am sure none of the committee want that to happen.

The second course and the one which we should follow, is to make Bretton Woods a yardstick for world prosperity. Under the Bretton Woods agreement the world should agree to stabilize gold and silver in line with the American parity price level using the year 1926 as a base of 100, and with silver at parity with gold. To leave out silver, the monetary medium of the exploited nations, will mean the continuation of exploitation, and dollar devaluation. To these two metals as a base there should be added a program to stabilize enough basic commodities so that each nation can earn its exchange from production at a proper price level.

It is easy to say that this is theory but it happens that a positive ratio, as I have suggested, did exist in 1910-14 and that with the exception of gold and silver it did exist in 1925-29.

With such a program, the United States can remain a solvent nation and become a solid foundation for a sound world monetary system. We have a stable measure of weight and length. If we wish to maintain distribution of commodities then we must bring about a stable measure of value.

Production-times-price is income and in turn purchasing power. With a proper price level, nations can finance themselves and foreign loans will not be needed to bring about cartel ownership of raw material production with its exploitation of cheap labor.

Again the economists will say that we have to help with loans. They also told us that Germany couldn't rearm because they had no money. They did rearm, however, by the simple process of production at a price.

In the same way I have pointed out how we as a nation through price and production in the short space of 6 years increased our income from 75 billion to over 150 billion, and that we increased our capital worth from 300 billion in 1939 to over 600 billion at present.

Whether the Bretton Woods agreement stabilizes our price level at the present level or whether it reduces us to the world level, becomes a very important matter. At the world level we will have \$300,000,000,000 of capital worth and 75 billion of annual income, unemployment, and chaos.

With the American price level the yardstick, we will be worth \$600,000,000,000 and can have a national income of \$150,000,000,000 annually with full employment and prosperity.

We furnished the men, the materials, and the capital to win the war in Europe. We should demand that the world set up a world monetary system so that we as a nation can continue to help them. To permit our economy to be wrecked by joining in a world economy of exploitation will result in losing the peace.

If democracy is to prevail there can be no compromise—2 times 2 still makes 4 and the prosperity of the world and the peace of the world will be decided by the price of farm products in the United States. Finally the value of foreign exchange will be governed by the price of

commodities. Money is worthless except as a measure of value in the exchange of goods. The amount of money available will always depend on the units of production and the price per unit. Wealth is production and money is merely the value thereof.

That concludes my statement, Mr. Chairman.

Senator FULBRIGHT. Mr. Wilken, I take it you do not think much of these economists who have theories.

Mr. WILKEN. Well, Senator Fulbright, after analyzing the record of the United States, and pointing out, as I have, that we lost \$463,000,000,000 in 12 years, I do not know why I should think much of theories, because the record proves that we did just that.

Senator TAFT. Mr. Wilken, I did not quite gather whether you think the Bretton Woods agreements would tend to keep prices down, so I ask you what is your idea about it.

Mr. WILKEN. In my opinion there is nothing else that would happen. It starts out with the idea of stabilizing, and then leaves international exchange suspended in the air. There is no yardstick to tie to. In my opinion it will force European nations into the Soviet bloc; it will bring about bilateral agreements between nations; it will bring about bloc exchange; it will bring about black markets in gold and also in silver. I think it will result in chaos instead of producing stabilization. If we were to follow the matter of the gold standard, which proved very successful for 100 years, the situation might be different.

Senator FULBRIGHT. Then I take it you believe in the gold standard.

Mr. WILKEN. I want to qualify that in this way: We as a nation, with a banking system such as we have, probably have no need of gold, but that is not true so far as gold is concerned. The people in India and in China will want hard money. Psychologically there is a superstition for that, a superstitious fear if that is not to be used, and if they are going to use gold and silver, what is the difference?

Senator FULBRIGHT. Then it is a case of superstitious people who want gold.

Mr. WILKEN. Not necessarily, but let us be realistic about it and stabilize gold so as to have something to tie to and stabilize silver with it, and stabilize commodities with it. You cannot have sound money exchange with prices fluctuating day after day. Every time a commodity price level changes, your dollar value changes, or your pound value changes, or whatever currency you have changes.

Senator FULBRIGHT. Any questions by members of the committee?

There seems to be none, so we thank you very much, Mr. Wilken.

Mr. WILKEN. I thank you.

(Thereupon Mr. Wilken left the committee table.)

Senator FULBRIGHT. Miss Gertrude M. Coogan.

STATEMENT OF GERTRUDE M. COOGAN, ECONOMIC AND FINANCIAL ANALYST, CHICAGO, ILL.

Miss COOGAN. Mr. Chairman and honorable Senators—

Senator FULBRIGHT. Have you a statement?

Miss COOGAN. Yes, sir.

Senator FULBRIGHT. Whom do you represent?

Miss COOGAN. Myself and nobody else. I am a graduate of Northwestern University, bachelor of science (with distinction), in 1921,

a master of business administration, 1922. Following that—or, first, I might say that I majored in accounting, corporation finance, banking, and investments. Following that I was with the Northern Trust Co. of Chicago for 8 years as financial and security analyst, and since 1930 have been in my own business as independent economist and analyst, acting as consultant for corporations, universities, and individuals. I did a piece of research at one time covering 2 years, with two assistants all the time, during which time we searched all the money and banking statutes of the United States from the colonial period to 1943. This research included how the statutes were written, interpreted, and applied and the effects upon the whole American financial and economic system.

With that experience, plus my bank experience, I think it qualifies me to interpret what actually is meant by the wording of the Bretton Woods agreements, which may appear to be very obscure to people who have really never delved into banking literature and the operations of metropolitan banks and the operations of foreign-exchange markets.

Senator FULBRIGHT. Did you write a book called *Money Creators*?

Miss COOGAN. Yes, sir; 11 years ago.

Senator FULBRIGHT. Are you the same Miss Coogan who used to be Father Coughlin's adviser?

Miss COOGAN. No, sir. I never advised him. I was called in at one time by Bishop Gallagher, who was Father Coughlin's superior, who asked me if I would straighten him out, get him out of a lot of cockeyed and stupid communistic ideas. I did write a book entitled "*Money, Questions and Answers*," and will be glad to submit a copy of that book, also an affidavit published at the time (1936). That book is strictly one explaining the constitutional United States money system. Over and above that I never had anything to do with Father Coughlin. The late Bishop Gallagher was a very true American and a high-grade gentleman. I did the work solely at his request and under his supervision, and submitted the manuscript to Bishop Gallagher before it was published. That was the sole and only relationship I ever had with Father Coughlin, and I am going to read into the record a copy of the book and a complete affidavit written and signed.

Senator TAFT. Please do not read the book, but file it.

Miss COOGAN. I meant the affidavit. The statement that I was ever an adviser to Father Coughlin is not true. I repeat, I was at one time called in by Bishop Gallagher when he felt that Father Coughlin was being used for very sinister purposes by a lot of New York people. And I did make an effort to straighten Father Coughlin out, but he could not be straightened out.

Does that answer the question? If there are any further questions I will be glad to answer them fully. If this affidavit does not support any question you may have then I shall be glad to offer any proof that you may want.

Senator FULBRIGHT. I just propounded the question to get information.

Miss COOGAN. That charge has been used many times. It has been used in an attempt to smear me. It is totally without truth and without justification.

Senator FULBRIGHT. Tell us some of the people you have represented. What universities, if any, do you represent?

Miss COOGAN. Well, at one time I did a very extensive research at the request of Notre Dame University. I was asked in August 1940 to come into that research by Mr. Orlando F. Webber, the former chairman of the board of Allied Chemical & Dye Corp., New York. I did not make the approach to Notre Dame. I was approached, as I have explained to you.

Senator FULBRIGHT. Did you specialize in international trade?

Miss COOGAN. It has been money in all of its phases, both domestic and international, and into the basic laws controlling the operation of the money system and domestic economy; and into the operation of the money systems of the world as between many nations. I do not say this in any spirit of egotism, but think I could match wits with anybody in the United States in regard to money; and will be glad to match wits with any Senators that want to match wits with me.

Senator FULBRIGHT. I am sure that statement is not too egotistical, for as far as Senators are concerned, it might be an easy matter. [Laughter.]

Miss COOGAN. I think I did no wrong when I was asked by an honorable man such as Bishop Gallagher was to try to avoid a catastrophe and in attempting to assist him. Anything I ever did was done with absolute integrity and honor and I will stand before the world and explain it. This has been used in books to try to smear me, but nobody who ever dared to try and smear me in a book ever came to me and got the truth. It was used as an attempt to destroy my personal integrity and my qualifications. Does that answer you?

Senator FULBRIGHT. Oh, yes.

Miss COOGAN. I would like to have this affidavit go in the record since the matter has been brought up.

Senator FULBRIGHT. Very well.

Miss COOGAN. This affidavit is but a part of a statement published in October 1936 regarding why I wrote Money, Questions and Answers. This complete statement was published prior to the death of the late Bishop Gallagher, in January 1937.

(The affidavit is as follows:)

STATE OF ILLINOIS,

County of Cook, ss:

Gertrude M. Coogan, being first duly sworn upon her oath, deposes and says: That she is of legal age and resides in Chicago; that she is engaged in business as an investment and economic analyst with offices at 135 South La Salle Street, Chicago, Ill., and that she has so resided and has been so engaged for more than 15 years.

That cognizant of affiant's training and practical banking experience which she had brought to bear in writing Money Creators, published in February 1935, Rev. Charles E. Coughlin on January 4, 1936, requested that affiant write a book on money to be published and distributed by the National Union for Social Justice; that the only directions given were to write in question-and-answer form a book of about 150 pages, including a reliable supporting bibliography;

That pursuant to this request affiant immediately wrote, composed, and dictated in question-and-answer form, without any aid or assistance or suggestions from Rev. Charles E. Coughlin or any of his aides, a scientific document on money and economics, including the subject matter that appears under each chapter head in book I entitled "Money and Banking," and under each chapter head in book II entitled "The Operation of an Honest Money System," and in the appendixes 1 to 6, inclusive, as appear in the book known as Money, Questions and Answers published by the National Union for Social Justice.

Affiant further states that the historical facts and the list of United States Supreme Court decisions contained in Money, Questions and Answers were the

result of the research done in the preparation of her book entitled "Money Creators," and were not suggested or compiled by Rev. Charles E. Coughlin;

Affiant further states that the manuscript, arranged in chapters and typed, was taken by her and her research assistant to Royal Oak, Mich., to the office of Rev. Charles E. Coughlin;

That for about 2 weeks she and her assistant spent part of each day going over the manuscript with the Reverend Charles E. Coughlin to acquaint him with the contents thereof, he having no prior knowledge of what questions were included or answers given;

That at no time was the manuscript, as composed solely by affiant, or any part of it, altered in fact or in principle by Rev. Charles E. Coughlin;

That the recapitulation of several sentences at the end of several chapters was worked out by affiant in collaboration with Rev. Charles Coughlin, and a very few changes in words and phraseology were made by him; and accepted by affiant;

That at no time was the manuscript out of affiant's or her research assistant's jurisdiction;

That the manuscript was given to the printer in affiant's presence;

That the entire work on the printer's galley proofs, and the execution of the mechanics of the book were done by affiant and her employees in affiant's Chicago office;

Affiant further states that she did this work in good faith in the belief that it would be used for the furtherance of an educational program on the subjects of money and economics in strict accord with the principles embodied in the Constitution of the United States;

Affiant further states that the Union Party platform, not only in its money planks but in several other planks, is in positive contradiction to the principles set forth in Money, Questions and Answers:

Affiant further states that she believes it her duty to make public these facts.

(Signed) GERTRUDE M. COOGAN.

STATE OF ILLINOIS,

County of Cook, ss:

Subscribed and sworn to before me, a notary public, in and for the county of Cook, State of Illinois, this 6th day of October 1936.

OTTO J. MUESIG, *Notary Public*.

My commission expires October 19, 1939.

Senator McFARLAND. What do you have to say about this Bretton Woods proposal?

Miss COOGAN. Under H. R. 3314 and the Bretton Woods agreements Congress would surrender to superstate bureaucrats all-embracing financial and economic powers over the entire American economic system and over all American citizens and subordinate the whole domestic economy to a world plan totalitarian economy. Incidentally, going back there—

Senator TAFT. Oh, let's not go back. Let's just go on.

Miss COOGAN. All right. I shall prove that the United States Government commitments are not limited to approximately \$6,000,000,000, but could be up to \$17,770,000,000 without any further appropriations from Congress.

Over and above the Federal Government commitments up to \$17,770,000,000, the operators of the fund and the bank could levy upon the American people for many more billions.

I shall demonstrate how the proposed fund and bank under the terms of H. R. 3314 and the Bretton Woods agreements could be used to levy upon the American people for practically unlimited billions worth of natural resources, fixed capital and the output of American agriculture, industry and service enterprises while the American people got nothing but billions of foreign IOU's in return.

Clarification of certain banking and finance accounting terms contained in H. R. 3314 and the Bretton Woods agreements and a demon-

stration of how the control accounts of the fund and the bank would be set up and operated will prove the nature and extent of the financial and economic powers Congress is now asked to surrender.

If later the United States attempted to protect against the drain of United States dollars, the fund could under article VIII, section 3, declare the dollar a scarce currency and apportion its existing and accruing supplies, and when the fund issued a formal declaration of the scarcity of dollars the United States would have to impose temporary exchange restrictions.

Then the United States would be accused of being unwilling to cooperate in world trade and this might lead to economic sanctions, and war.

H. R. 3314 authorizes the Secretary of the Treasury to pay into the fund \$2,750,000,000 as the paid-in capital subscription of the United States. This \$2,750,000,000 includes the \$1,800,000,000 stabilization fund set up under the Gold Act of January 30, 1934.

After paying in the capital subscription of \$2,750,000,000, the United States Government would participate in the fund by giving the fund \$2,750,000,000 of United States special notes in exchange for dollars. H. R. 3314, section 8 (c) line 19, page 9.

"In exchange for dollars" means that when the fund takes in the \$2,750,000,000 special United States notes from the Secretary of the Treasury the Fund would create a "deposit" of \$2,750,000,000 for the United States Treasury—in other words, the fund would create \$2,750,000,000 new and additional dollars which did not exist previous to this transaction between the United States Treasury and the fund.

This is "deficit financing."

Gentlemen, under this fund we are entering into deficit financing on an international scale; in other words, allowing foreign governments and our own Government, to put their notes into the fund and have new moneys created. We are going one step further out into the deep by allowing international deficit financing on top of domestic deficit financing.

Instead of the United States Treasury putting United States Treasury notes into the domestic banks and receiving a "deposit," H. R. 3314 authorizes the Secretary of the Treasury to put United States special notes into this International Fund and receive a "deposit."

The balance sheet of the fund accounts with the United States Government after the United States paid in the subscription quota and the United States special notes for participation would be, as follows:

The fund—balance sheet of accounts with U. S. Government

[In billions]

ASSETS

Gold and currency from stabilization fund, and Federal Reserve bank balances.....	\$2. 75
United States special notes.....	2. 75
Total assets.....	5. 50

LIABILITIES

"Deposits" U. S. Treasury.....	\$2. 75
Capital paid in by U. S. Treasury.....	2. 75
Total liabilities.....	5. 50

Under the articles of agreement each foreign member nation would issue special notes of its respective government in the same ratio as its respective subscription of capital paid into the fund.

The fund would create new and additional dollars against pounds, francs, pesos, et cetera, as "deposits" of the money of each respective member nation on the books of the fund.

The consolidated balance sheet of the fund after all nations had paid in their respective initial paid-in capital subscriptions and initial "participations" would show the following:

The fund—consolidated balance sheet

[In billions]

ASSETS

Gold, currencies, money of respective countries.....	\$8.80
United States special notes.....	2.75
Special notes of respective countries.....	6.05
Total assets.....	17.60

LIABILITIES

Deposits of U. S. Treasury.....	\$2.75
Deposits of respective treasuries of foreign countries.....	6.05
Capital subscription of United States.....	2.75
Capital subscriptions of foreign countries.....	6.05
Total liabilities.....	17.60

All foreign member nations initially would put into the fund gold, currencies, and special government notes equivalent to \$12,100,000,000, and the United States would put in gold, currencies, and United States special notes amounting to \$5,500,000,000.

Senator FULBRIGHT. One word on that statement. What is the total capital of the fund?

Miss COOGAN. The total capital of paid-in subscriptions of all the countries, you mean?

Senator FULBRIGHT. Yes.

Miss COOGAN. Eight and eight-tenths billion.

Senator FULBRIGHT. In the balance sheet you have eight and eight-tenth billion. That is what they all put in?

Miss COOGAN. That is their capital subscriptions. They also put in that amount as participation.

Senator FULBRIGHT. That was explained here; they put in one or the other. They don't put in both.

Miss COOGAN. Oh, yes; they put in both.

Senator TAFT. That is what I cannot understand. I have seen that suggestion before. I asked Mr. White under the provisions of section 8 (b) of the act and he denied it certainly.

Miss COOGAN. Well, I would refer Mr. White to the National Banking Act. I would ask him to go back and read that.

Senator TAFT. No; no, no. Wait a minute. It is based on article III, section 5:

The fund shall accept from any member in place of any part of the member's currency which in the judgment of the fund is not needed for its operations, notes or similar obligations issued by the member or the depository designated by the member under article III, section 2, which shall be nonnegotiable, non-

interest bearing and payable at their par value on demand by crediting the account of the fund in the designated depository.

Now, it seems to me that that is a provision for the substitution of noninterest bearing notes for currency until the currency is withdrawn. I should think that is what it was. Isn't that so?

Miss KATHRYN HUBBARD. I beg your pardon. I am speaking as Miss Coogan's research associate. Will you please turn to the bill H. R. 3314?

Senator TAFT. Yes.

Miss HUBBARD. It says for the necessary participation in the fund the Secretary of the Treasury after paying this subscription of the United States to the fund—

Senator TAFT. No, no.

Senator FULBRIGHT. What page is that?

Senator TAFT. Page 9:

For the purpose of keeping to a minimum the cost to the United States of participation in the fund and the bank, after paying the subscription—

Miss HUBBARD. All right. After paying the subscription.

Senator TAFT. That isn't a part of the subscription. [Continuing reading:]

is authorized and directed to issue special notes of the United States from time to time at par and to deliver such notes to the fund and the bank in exchange for dollars to the extent permitted by the respective articles of agreement.

It seems to me that the articles of agreement contemplate that those dollars should be paid back, not that they should be set up in an account and deposited in the fund.

Miss COOGAN. Well, the words "in exchange" used in all banking statutes means that the person giving up a bond or note gets a deposit. If you go through the National Banking Act, and all the banking statutes, all the way through, the Federal Reserve Act, section 13 and section 24; the National Banking Act, section 5136 and section 5202 you will see that language every time and it means that the bank takes in the notes from the Treasury and gives a deposit offsetting it. It doesn't mean that the fund or the bank hands to the Treasury previously existing currencies or previously existing bank "deposits".

Senator TAFT. But this fund hasn't any right to accept deposits, as far as I know.

Senator FULBRIGHT. The language of that says "in place of."

Senator TAFT. The agreement is that they shall accept from any member in place of any part of the member's currency.

Miss COOGAN. Well, you are doing it in your enabling legislation.

Senator TAFT. If there is any ambiguity about it, I would certainly be glad to study it. Mr. White testified he would have no trouble about making the act perfectly clear. It is not intended to be a duplication and I don't think it is.

Miss COOGAN. It is. I would be glad to prove that if you want me to take the time. (See p. 570.)

Senator MILLIKIN. Your point is that those words have a specialized meaning in banking practice.

Miss COOGAN. Yes.

Senator MILLIKIN. And you are relying on that specialized meaning and contending that this statute means the same thing?

Miss COOGAN. That is right. I would be glad to come over here with all the statutes and show them to you. This is the same identical terminology as in all of them and it means the same thing to an informed person.

Senator FULBRIGHT. I remember Senator Taft's question about that Dr. White denied that was the purpose.

Senator TAFT. I think it could easily be cured by an amendment in the act. I think the agreement is all right.

Miss COOGAN. I would be glad, Senator, to send you a memorandum on that.

Senator TAFT. I would be glad to study it. If it is ambiguous it should be cleared up; there is no question about that.

Miss COOGAN. Thank you. I would be glad to make it perfectly clear to the Senators.

Miss HUBBARD. There was another question I would like to bring up there, with your kind permission, that if your outgo in dollars, after we put in our subscription—as I remember, Mr. White testified one day when I was listening that you had to put in another participation before any nation could buy currencies of another nation from the fund. So the quota is the same thing, before they can buy currencies of another nation they would put in more currencies or obligations acceptable to the fund. He made that statement right here. So the quota subscription is paid in and nothing can be used—he gave that argument—the fund was always to have a 200 percent guaranty.

Senator MILLIKIN. I would suggest that the ladies submit a memorandum of the technical meaning of those words under our whole statutory history having to do with finance, and also that they give us the reference to the record of what Dr. White said.

Miss COOGAN. I would be very happy to do that.

Miss HUBBARD. What was the second day Mr. White testified? Do you remember the testimony? I haven't a copy of the testimony, but I remember distinctly making notes on it, that they couldn't use the quota to buy currencies of other countries. They had to put in some currencies or securities.

Senator TAFT. You are referring to the testimony in the Senate committee?

Miss HUBBARD. Right here.

Senator TAFT. All right. We can get that.

Miss COOGAN. When the fund was set up and ready to operate, the United States Secretary of the Treasury would then write a check transferring the 2.75 billion dollar United States participation "deposit" to the account of the fund on the books of the Federal Reserve banks.

The fund would then have a balance of 2.75 billion dollars at the Federal Reserve banks against which it could draw to supply dollars to pay for exports.

In authorizing the Treasury to issue United States special notes to the International Fund "in exchange for dollars," Congress would authorize the fund to create new and additional deposits countable as Central Bank (Federal Reserve) monetary reserves just the same as gold certificates, silver certificates, United States notes and coins issued now only under direct acts of Congress.

Under the Bretton Woods agreements definition of monetary reserves, foreign nations could put into the fund, for "participation," any currency with "specified" rights of conversion into another currency. The fund (art. XIX, sec. (G), p. 35).

This means those nations to which England owes many billions—12 to 15 billions—frozen (blocked) balances could put those billions of frozen I O U's owed by England into the fund as their "participation," if the I O U's carried "specified" right of conversion into another currency. Conversions could be 100 years from now.

The 2.75 billion dollars United States special notes "shall be payable on demand of the fund" (H. R. 3314, sec. 8C, lines 2 and 3, p. 10). The articles of agreement provide that the "payable on demand" is "by crediting the account of the fund in the designated depository" (art. III, sec. 5, p. 4) the fund.

To pay off these 2.75 billion dollars United States special notes "on demand of the fund" the Treasury would use either 2.75 billion dollars tax money or another 2.75 billion dollars acquired through domestic "deficit financing." In other words, after they put the notes in, the fund can tell them, "Now, Mr. Secretary of the Treasury, pay us, and pay us in Treasury balances." So that the Secretary of the Treasury would have to take the 2.75 billions he had obtained through collecting taxes from the people or new additional bonds and put them into the commercial banks or the Federal Reserve banks, to get an additional creation of dollars, and those dollars would go into the fund.

Thus, the fund would then have received from the United States Government:

2.75 billion dollars in gold, money, currencies, and Federal Reserve bank balances paid in as capital. Subscription by the United States Treasury.

2.75 billion dollars United States special notes issued to the fund and offset by the fund creating 2.75 billion new and additional dollars which the Secretary of the Treasury transferred to the deposit account of the fund on the books of the Federal Reserve banks.

2.75 billion dollars transferred from United States Treasury balances at the Federal Reserve banks to the deposit account of the fund on the books of the Federal Reserve banks to redeem the 2.75 billion dollars special United States notes (art. III, sec. 5; H. R. 3314, sec. 8C, lines 2 and 3, p. 10).

8.25 billion dollars total United States Government participation in and paid-in subscription to the International Fund.

In other words, the fund could get away from the American people through their Treasury 8.25 billion dollars without Congress having authorized another nickel than was authorized in H. R. 3314.

Senator FULBRIGHT. Why couldn't they go on and demand another 2 billion?

Miss COOGAN. They could from Congress. They have now given back those United States special notes and they have got a deposit. If Congress passes an act authorizing the Treasury to give them 2.75 billions more—

Senator FULBRIGHT. If the Secretary of the Treasury wanted to deposit some more I O U's, say 5 billion, they couldn't do that?

Miss HUBBARD. No. Only up to the total subscription—not to exceed the 2.75 billions put into the fund to start. He can issue United States special notes up to that.

Miss COOGAN. That is the bank credit-creating provision of the old National Banking Act. The capital stock is paid in and a bank had power to create 100 percent over that—to create new bank-credit deposits as loans. Then with the amendments to the National Banking Act it finally went up to 200 percent. Under the powers you are now giving them, this fund can create new deposits up to 200 percent.

Senator FULBRIGHT. You have got it three times here.

Miss COOGAN. No. This is just the fund alone, the United States Government payments into it. This 8.25 billion dollars is what the fund can get out of the Treasury of the United States alone. The other 100 percent, I will explain a little later. That additional 100 percent can come through the fund creating dollars to buy foreign currencies. In other words, the fund buying whatever foreign currencies of the nations that want dollars and the fund creating those additional dollars. Those dollars will become balances of the Federal Reserve banks, exchangeable for anything foreign nations want to buy in the United States.

Now, I would like to speak regarding United States Government commitments to the international bank.

H. R. 3314 and the Bretton Woods agreements authorize the Secretary of the Treasury to commit the United States Government to the bank for paid-in capital subscription and participation up to 9.525 billion dollars, without further appropriations from Congress.

This 9.525 billion dollars would be derived as follows: 3.175 billion dollars in gold, money, and currencies paid in as capital subscription by the United States Treasury: 3.175 billion dollars, United States special notes, issued to the bank and offset by the bank creating 3.175 billion dollars new and additional dollars which the Secretary of the Treasury transferred to the deposit account of the bank on the books of the Federal Reserve banks (art. V, sec. 12—the Bank—p. 71); 3.175 billion dollars transferred from United States Treasury balances at the Federal Reserve banks to the deposit account of the bank at the Federal Reserve banks to redeem the 3.175 billion dollars, United States special notes.

The same thing happens again. The Secretary is authorized to redeem those United States special notes by giving the International Bank a deposit on the book of the central banks. In order to redeem these United States special notes he had given to the International Bank he would have to tax the people or do domestic deficit financing again.

Senator FULBRIGHT. Well, if he has redeemed that second 3 billions, I think you would take that out. He has already redeemed it.

Miss COOGAN. But the International Bank got the deposit. The bank got first the United States special notes, then got the deposit, and now the Secretary of the Treasury has gone back and given them another deposit on the books of the Federal Reserve banks to redeem the United States special notes.

Senator FULBRIGHT. Why, they get the notes back if are redeemed.

Miss COOGAN. But in the meantime the United States Treasury has handed the bank another 3 billion.

Miss HUBBARD. When the taxpayer—

Senator TAFT. I think you are getting a little mixed up here. It makes it very difficult for the reporter. If you want your associate

to testify, you had better ask her to testify when you get through and not keep interrupting you.

Miss HUBBARD. I beg your pardon. I didn't mean to interrupt.

Senator FULBRIGHT. Does redemption have a special meaning in this connection?

Miss COOGAN. Why, Senator, on the asset side of the International Bank statement are those United States special notes that the Secretary of the Treasury gave to the International Bank in exchange for a deposit, which deposit he transferred to the International Bank United States participation account on the book of the Federal Reserve bank. Now, the International Bank still has the 3.175 billion dollars United States special notes. If its International Bank demands redemption of these United States special notes, the Secretary of the United States Treasury would have to give the International Bank another 3.175 billion dollars. He would get that additional 3.175 billion dollars out of tax collections or issuing 3.175 billion dollars additional Government bonds as deficit financing.

Senator FULBRIGHT. Where is the provision in the bill saying that it authorizes the issuance of special notes?

Miss HUBBARD. The wording is just the same. Article V, section 12, page 71.

Miss COOGAN. Making a total of \$9,525,000,000 that the bank could get without any further authorization from the United States Congress.

Thus the United States Government under H. R. 3314 and the articles of agreements would be obligated to provide the bank with gold, currencies and Federal Reserve balances up to 9.525 billion dollars.

This 9.525 billion dollars is more than the total paid-in capital, surplus, and undivided profits of all commercial banks in the entire United States, including the Federal Reserve banks as of June 30, 1944.

Thus the United States Government could be committed to the fund and the bank for capital subscriptions and participations up to a total of 17.775 billion dollars (8.25 billion dollars to the fund and 9.525 billion dollars to the bank) without any further appropriations from Congress.

Powers of fund and bank to acquire additional billions of United States dollars—

Senator McFARLAND. Is that in addition to the 17 billion you are talking about?

Miss COOGAN. Yes; this in addition. This \$17,000,000,000 is solely the United States obligation.

Senator McFARLAND. You are going to add some more to that; is that it?

Miss COOGAN. That is right; yes, sir.

Senator McFARLAND. All right. I just wanted to get these billions straightened out the best we could.

Miss COOGAN. They are difficult.

In addition to the \$5,500,000,000 acquired through the U. S. Government participation in the fund, the fund could acquire additional billions of dollars:

(1) "By borrowing currency from some other source either within or outside the territories of the member," article VII, section 2 (i). This means the fund would borrow outstanding Federal Reserve notes or borrow new and additional "deposits" created by the Federal Reserve bank.

(2) By requiring the United States "to sell its currency to the fund for gold," article VII, section 2 (ii). This means selling gold to the U. S. Treasury for "deposits" at the Federal Reserve bank.

Senator TAFT. I might say we also questioned Mr. White about that point, and I have some doubt as to the right of the Federal Reserve banks to lend, but the fund does provide they cannot borrow in the United States without the consent of the United States.

Miss COOGAN. They can borrow from private institutions.

Senator TAFT. No; they cannot borrow dollars at all under the act without the consent of the United States. The consent, I take it, is given by this Council. I am somewhat doubtful as to whether that power could not be one of those reserved to Congress under section 5. I think it is.

Miss COOGAN. That would be with the consent of our man on the bank.

Senator TAFT. I think the way the act is drawn he would have to get the approval of this Council of five before they could borrow in the United States. I have some question as to whether we should permit them to borrow in the United States without the approval of the Congress, under section 5. I thought we should consider such an amendment.

Miss COOGAN. Even with the council we could be outvoted.

Senator TAFT. No; no. It is subject to consent.

Miss COOGAN. Yes; all right.

In addition to the International Bank's deposits at the Federal Reserve banks acquired through the U. S. Government participation in the bank, the bank could also acquire additional billions of dollars.

Now, this means creating new and additional dollars, participating in loans out of its own fund. "Out of its own funds" means creation of dollars corresponding to the amount of its unimpaired capital stock surplus. That is the old 100 percent provision to create dollars in sums up to an amount corresponding to the capital stock. [Reading:]

By making or participating in direct loans out of its own funds corresponding to its unimpaired paid-up capital and surplus, etc.—

article IV, section 1 (a) (i). This means the International Bank could create new and additional dollar "deposits" as loans up to a sum equal to 100 percent of its unimpaired paid-up capital and surplus. These deposits when transferred to the Federal Reserve banks would increase deposits at the Federal Reserve banks and also increase the reserves of the domestic banks.

By making or participating in direct loans out of sums raised in the market of a member, or otherwise borrowed by the Bank—

article IV, section (a) (ii). This means the International Bank would create new and additional dollars to advance to foreign borrowers on loans or would borrow new and additional—newly created—dollars at the Federal Reserve banks.

As these additional billions of dollars were spent to acquire American made goods, tools, foods, fixed capital, and so forth, the deposits of the Federal Reserve banks would be increased.

Long-term foreign bonds would then be sold to American corporations and individuals in exchange for their earned incomes, that is, for genuine savings—the dollars they got for selling for export or received as earned wages. No American manufacturers or others whose products are wanted for export would be able to avoid exchanging earnings—cash balances—for foreign I O U's—bonds. Otherwise he could be barred from exporting or even manufacturing for domestic use, for the bureaucrats who controlled the fund and the bank would have control over exports and imports and raw material priorities.

American manufacturers and other producers, and the American people, would be giving up their real wealth needed to sustain our own people to get only sheafs of foreign bonds.

The earned dollars extracted from American investors would be used to pay off the bank loans made by the International Bank creating dollars or the dollars created through the International Bank borrowing new and additional dollars—Federal Reserve bank deposits.

Here is what would happen: A country wanting to borrow has placed its foreign bonds in the International Bank. The bank would create dollars. The borrower would start to spend dollars for whatever that government was going to buy in this country to send home to carry on whatever they were going to do. Then the bank would sell foreign bonds to the American people for their earnings over a considerable period of time. As they sold those foreign bonds dollars so acquired would be used to pay off the loan at the International Bank. That is the usual operation.

By guaranteeing in whole or in part loans made by private investors through the usual investment channels (art. IV, sec. 1 a (iii)).

This means the International Bank may guarantee the principal and interest of long-term foreign bonds sold in the United States.

Under the provisions of article IV, section 5 (c), the bank could provide the dollars to prevent interest defaults of foreign bonds sold in the United States. This would be extremely easy, for the International Bank could borrow or cause to be created new and additional billions of dollars to purchase foreign bonds upon default in interest payments.

Hence, it is obvious, through the over-all operations of the financial and economic powers surrendered by Congress, the superstate bureaucrats would have power to do the following:

- (1) Control the reserves of the central banks and hence the operations of all domestic banks. Eventually the domestic banks would be reduced to currency exchanges and check-clearing functionaries.

- (2) Subordinate the whole American economic system to their one-world economic schemes in order to give away permanently every year, at the expense of the American workers, owners, and taxpayers, a large part of the total output of American agriculture and industry.

- (3) Set up and operate an absolute Government monopoly in all production and trade, both domestic and international.

No real currency stabilization or elimination of exchange restrictions.

Advocates of the Bretton Woods agreements contend that the adoption of, and the operations of, the fund and bank would stabilize the ratios at which U. S. dollars could be swapped for foreign currencies and eliminate exchange restrictions, multiple currency practices, and so forth; i. e. accomplish external stabilization.

Such statements are not borne out by the terms of the articles of agreement, for any member—

may, notwithstanding the provisions of any other articles of this agreement, maintain and adapt to changing circumstances restrictions on payments and transfers for current international transactions (art. XIV, sec. 2).

Such exchange restrictions may be retained and extended for from 3 to 5 years after adoption of the fund, and even after 5 years, with permission of the fund—article XIV; section 4. Moreover, any member, with permission of the fund, may engage in discriminatory currency arrangements or multiple currency practices—article VIII, section 3 (p. 16) : The Fund.

Under the terms of H. R. 3314, and the Bretton Woods, neither could there be internal stabilization.

Internal stabilization would be possible only if the volume of money and bank deposits in circulation were increased after the rate of production had been increased through the reinvestment of genuine savings—that is, through people saving their money and spending it to expand industry by investment in the industry—and then increased only in proportion to the volume of goods available for use and consumption within this Nation. You cannot stabilize domestic money system as long as you are putting Government bonds into the banks and having the banks create new and additional dollars, because those additional dollars command wealth that is being produced.

Internal stabilization is impossible when there is deficit financing; i. e., the domestic banks creating additional deposits simply because the Government wants to spend more dollars than it takes in through taxation and/or selling Government bonds to the public for genuine savings (Earned Wages and Incomes).

Under the Bretton Woods agreement and H. R. 3314, whenever the international bureaucrats wanted to claim more American-made goods for exports, more dollars would be created—there would be more dollars in circulation in the United States and less and less goods and things for use and consumption at home. This is upside-down banking and not internal stabilization.

Under these conditions the only way wild price gyrations could be prevented would be by permanent priorities, rationing, and permanent OPA control. There is no way a country can export in excess of imports without its own people paying for all excess exports—producing currently but going without the use and consumption of the food, clothing, tools, machines, factories, work, and services exported.

From the foregoing explanation and interpretation of the powers contained in H. R. 3314 and the Bretton Wood agreements, it is obvious that foreign governments, foreign corporations and individuals, would be able to levy continuously upon the United States for practically unlimited billions' worth of the food, clothing, industrial production, and fixed capital assets in this country.

Over and above these powers to so levy upon the people of the United States for unlimited billions, do we know what our liabilities are to foreign nations and foreign nationals for:

- (1) Allied military currency redeemable in United States dollars?
- (2) Military occupation and destruction in foreign countries?

The advocates of the Bretton Woods agreements accuse every opponent of being against international cooperation.

But, I say—the requisite for real and genuine cooperation between and among nations is, first, an understanding by the citizens or subjects of exactly what the governments propose to do under international agreements.

Second, the people must know what the burdens and costs are to be and then consent willingly and in a constitutional manner to assume such burdens and discharge such financial obligations.

Otherwise, there can be no international cooperation.

There can be nothing but deception and force.

We Americans must restore genuine competition in private enterprise and protect the constitutional rights of personal freedom of everyone.

I shall be glad, if requested by this committee, to submit amendments to this bill which I think would serve to keep control of United States money and bank reserves in Congress and to limit the obligation of the United States under the Bretton Woods bill to the \$6,000,000,000 which the American people have been told is to be their burden under the agreement.

As it is, it is not too extreme to say that the Bretton Woods agreement is a swindle against the American people.

Senator FULBRIGHT. Are there any questions?

Senator TAFT. I think if you would submit those amendments we would be glad to see them.

Miss COOGAN. Yes, Senator Taft; I would be glad to. The International Bank has the same power of money creation as the fund. It would have powers of creating up to 200 percent of their capital subscription; both the fund and the bank. The fund can create first 100 percent by taking in notes of the United States Government, the second 100 percent by buying foreign currencies. The bank can create the first 100 percent by taking in notes of the United States Government and the second 100 percent upon whatever is pledged to borrow new and additional bank credit to carry these foreign loans and sell them to the public.

Miss HUBBARD. May I ask that the committee make available to us Mr. White's testimony on that morning I heard him say the quota must be put in?

Senator TAFT. Well, it is being printed as rapidly as possible. I don't think there are any copies available while it is at the printers. I think that will be ready very shortly. Certainly before the committee ends its hearings.

Senator RADCLIFFE (presiding). Thank you very much, Miss Coogan.

Are there any further questions?

(There was no response.)

Senator RADCLIFFE. We will not have a meeting tomorrow, as was contemplated, but we will meet on Monday at 10:30.

(The following tabulation was furnished by the State Department in response to a question by Senator Taft on June 12 (see p. 11) :)

Articles and services to be furnished under lend-lease during fiscal year 1946 by the Foreign Economic Administration (based on appropriation request)

[Figures given in thousands of dollars]

Commodities	Estimated unobligated balance, June 30, 1945, available for reappropriation	Fund requirements, fiscal year 1946	Estimate of new appropriation, fiscal year 1946
1. Vehicles..... Trucks; other automotive vehicles; miscellaneous automotive supplies, spare parts, etc.	111, 175	111, 175	-----
2. Vessels and other watercraft..... Watercraft; equipment, services, supplies and materials; rental and charter of vessels.	53, 509	720, 421	666, 912
3. Agricultural and industrial commodities..... A. Dairy products and eggs; meat and fish; fruits and vegetables; grain and cereal products; lard, fats, and oils, vitamins; other foods not classified above. B. Cotton; tobacco; seeds; other nonfoodstuffs. C. Machine tools; agricultural machinery; roadbuilding equipment, material, and supplies; electrical equipment, material, and supplies; fire-fighting equipment, material, and supplies; railroad equipment, material, and supplies; other machinery, equipment, material, and supplies. D. Iron and steel; copper and brass; aluminum; zinc; lead; silver; other metals and alloys; nonmetallic minerals (other than chemical raw materials). E. Phosphates, other fertilizers; other chemicals; petroleum and coal; rubber and rubber products; textiles and clothing; timber products; drug and health supplies; all other commodities not otherwise classified.	2, 059, 366	3, 384, 594	1, 305, 228
4. Servicing and repair of ships, etc..... Testing, repairing, reconditioning of vessels.	96, 000	96, 000	-----
5. Services and expenses.....	79, 450	79, 450	-----
6. Administrative expenses.....	500	3, 360	2, 860
Total.....	2, 400, 000	4, 375, 000	1, 975, 000

(Thereupon, at 5 p. m., an adjournment was taken until Monday, June 25, 1945; at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

MONDAY, JUNE 25, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Friday, June 22, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner (chairman) presiding.

Present: Senators Wagner (chairman), Barkley, Radcliffe, Downey, Murdock, McFarland, Fulbright, Mitchell, Tobey, Taft, Butler, Capper, and Millikin.

The CHAIRMAN. The committee will come to order.

I have just received a telegram from Mr. Oliver M. W. Sprague, who is professor of banking at Harvard University, and his name is mentioned considerably in the course of the hearing. He says:

DEAR SENATOR WAGNER: I do not know that I can add anything to my rather extended evidence before the House committee on the Bretton Woods proposals, but perhaps a few summary observations on some of the major objections of witnesses at the Senate committee hearings may be serviceable.

So far as I am aware, no fundamental defects or unmanageable difficulties of a technical foreign exchange character have been disclosed in the course of discussion. It has indeed been argued that since this country does not for the most part make its international payments by buying other currencies, there will be no way in which the normal operation of the fund we can replace the dollars which foreigners buy from the fund with their various currencies. As a matter of fact payment for imports is not for the most part made with dollars, but where that is customary it may well be necessary in the case of weak exchanges that the nations of such countries be required to repatriate the dollar proceeds of their sales. It is perhaps proper to observe in this connection that in some instances, and not merely for the so-called transition period, it may be necessary to choose between some measure of exchange control and undesirable exchange instability. Establishment of the fund does not involve elimination of all exchange restrictions overnight, but it surely does give ground for the expectation that such restrictions may be gradually relaxed and far earlier than can be anticipated in the absence of the fund.

It is urged that the establishment of the fund should be deferred until after the close of the transition period, or at least until some more or less complete adjustment of the British position has been arranged. Here I find myself very definitely unable to agree with the distinguished experts who have appeared before your committee. I see no valid ground for the view that establishment of the fund will obstruct or delay such adjustment. On the contrary, I believe that its establishment may well facilitate the working out of such adjustments as may prove feasible and desirable. In other words, all that the advocates of the key country approach desire can in my judgment be more readily secured during the transition period with the fund in effective operation. At the same time, the special provisions relating to the transition period seem adequate to protect the fund and the domestic economies of the various members.

Finally, a word about the somewhat special case of Russia. As the Russian economy does not function on a free enterprise basis, doubts have been expressed as to whether that country could be a satisfactory member of the fund organ-

ization. On this point, I would say that given the will to do so, which I do not for a moment question, the Russian system will presumably give rise to less intricate problems for the management of the fund than may be encountered under a free enterprise regime. You will find other observations on Russia in my testimony before the House committee.

Sincerely yours,

OLIVER M. W. SPRAGUE.

Mr. BURGESS—

Senator TAFT, Mr. Chairman.

The CHAIRMAN, Senator Taft.

Senator TAFT. I would like to insert in the record at this point an editorial appearing this morning on the financial page of the New York Times, by Henry Hazlitt. Since Mr. Hazlitt is an authority himself on finance, it seems to be appropriate to introduce it here, and I would like to read it, if I may. [Reading:]

Administration leaders are planning to obtain congressional approval of the Bretton Woods agreements before the summer recess. This implies that the Senate Banking and Currency Committee, the full Senate, and the conferees of the two Houses, are all expected to agree and act on the measure within the next 2 weeks. Such speed, on a measure that will profoundly affect the economic future of this country and of the entire world perhaps for many years to come, will be possible only if the Senate takes an even more uncritical view of the agreements than was taken in the House.

The Bretton Woods agreements have been sold to the American public by a set of specious slogans. The most effective of these has been that their acceptance, precisely as they stand, means "international cooperation" and freedom of world trade, while their serious amendment would mean "isolationism" and trade wars. Nothing could be further from the truth. As Prof. E. W. Kemmerer, monetary authority of world-wide reputation whose long record as an internationalist is beyond question, has put it:

"Realistically speaking * * * the trend of the Bretton Woods monetary plan would be away from currency stability, free exchange, and internationalism, and toward currency debasement, exchange controls, paper-money standards, and monetary nationalism. In other words, it would be in the direction exactly opposite to the primary purpose of the fund as contemplated by its leading American proponents."

The economist who has had more influence than anyone else on the present form of the proposed monetary fund is Lord Keynes. It is significant that in the summer of 1933 Lord Keynes, in an article in the Yale Review, frankly recommended economic isolationism. He opposed the export of capital. He deplored international trade as full of dangers. "Above all," he insisted, "let finance be primarily national."

Perhaps Lord Keynes has since modified his views. But encouragement of essentially nationalistic policies runs throughout the Bretton Woods plan.

"We are determined," said Lord Keynes in the House of Lords in May of last year, "that, in the future, the external value of sterling shall conform to its internal value as set by our domestic policies, and not the other way round. * * * (And these domestic policies themselves) shall be immune from criticism by the fund. * * * That is why I say that these proposals are the exact opposite of the (international) gold standard."

Lord Keynes got the provisions he was determined upon. He also got a provision under which other nations can be specifically authorized "to impose limitations on the freedom of exchange operations" in American dollars if these become "scarce." He even got a provision under which member nations are authorized permanently to "exercise such controls as are necessary to regulate international capital movements." They could not in practice control such capital movements without policing all foreign-exchange transactions. In these provisions the fund deliberately sanctions exchange controls, blocked currencies, nationalistic and quasi-autarchic trade policies.

The extraordinary argument has been put forward that America's entrance into the proposed monetary fund would strengthen our bargaining power in getting financial reforms or trade concessions from other countries. Again the truth is the exact opposite. If we approve the fund just as it stands, we shall be throwing away our immense financial bargaining power—a bargaining power

that could be our strongest weapon for securing world monetary stability and the removal of paralyzing restrictions on international trade. For we shall be tossing billions of dollars into an international pool which other nations may draw on as a matter of right and almost automatically, regardless of what we may think of their policies.

We can keep our bargaining power for reform only if the fund is amended so that its managers can exercise beyond any doubt complete discretion regarding the terms and conditions on which individual nations may borrow from it. The minimum amendment to make this possible would explicitly authorize the managers of the fund to withhold its resources from any nation which in their opinion was following either internal or external policies not conducive to exchange stability.

Senator BARKLEY. Mr. Chairman, the only comment I would like to make about that is that apparently Mr. Hazlitt has gone so far to the right that it has left the American Bankers Association extremely to the left in contrast.

Senator TOBEY. Well, I would also add this comment: That he would be against it if we took 3 months instead of 3 weeks.

Senator BARKLEY. Absolutely.

The CHAIRMAN. Or 3 years.

Senator TAFT. Well, the New York Times is probably the greatest financial newspaper in the United States. Its editor is entitled to credit for sincerity and for common sense; and, as for the arguments he makes, they are unanswerable except as to the time. That, of course, is a question of legislative procedure. But as far as his arguments against the fund are concerned, nobody has answered them yet, and nobody can as far as I can see.

Senator BARKLEY. Well, you had better wait until we get into the Senate on them, and see.

The CHAIRMAN. Before Mr. Burgess begins I have some letters from a number of people who wanted to appear but were unable to do so. They have asked to have their statements put into the record. Some are for the Bretton Woods agreement and some are against it. If there is no objection, I shall place all of these communications in the record. Shall I read the names?

Senator BARKLEY. No.

The CHAIRMAN. All right.

Senator BARKLEY. You might put in the names, but don't read them.

The CHAIRMAN. We shall put them into the record now. One is from the Independent Bankers Association. Another is from the Pennsylvania Co. That is, all but three of the Pennsylvania bankers are for the Bretton Woods. There are communications from the American Labor Party, the Council for Social Action of the Congregational Churches of the United States of America, the American Association of University Women, the Economists' Committee on the Bretton Woods program, and also a statement from Mr. René Léon, who has been asked to appear before the committee, and he has given a statement.

(The communications are as follows:)

THE INDEPENDENT BANKERS ASSOCIATION,
Sauk Centre, Minn., February 28, 1945.

HON. ROBERT F. WAGNER,

Chairman, Senate Banking and Currency Committee,
Senate Office Building, Washington, D. C.

DEAR SENATOR WAGNER: The executive council of the Independent Bankers Association met in St. Louis on the 24th and 25th of February for the purpose

of considering the Bretton Woods agreement. At this meeting the council, on behalf of the association, approved the attached report recommending the adoption of the Bretton Woods agreement and by resolution directed me to make this report available to the Congress of the United States.

As you know, the Independent Bankers Association has a membership of over 2,000 country banks and extends into 40 States. While we can hardly claim to speak for Wall Street, we do believe we can speak for Main Street.

Copies of our report on the Bretton Woods agreement are being sent to each Member of Congress.

Yours very truly,

BEN DUBOIS, *Secretary.*

THE BRETTON WOODS AGREEMENTS

REPORT TO CONGRESS OF THE INDEPENDENT BANKERS ASSOCIATION

The Independent Bankers Association, through its executive council, makes the following report on the Bretton Woods agreements:

I. NEED FOR INTERNATIONAL ECONOMIC COOPERATION

The United Nations in cooperating to win this war have been compelled to marshal their total resources for unrestrained use in a war for survival. Victory will find the territories of many of our allies in a state of ruin, their industries destroyed, their manpower depleted, and their population sick and hungry. Even the more fortunate of our allies will find their whole economic structure must be reconverted from war to peace and that years of war have depleted their productive facilities to the point where new equipment and new machinery must be introduced at once if economic paralysis is to be avoided. The United States, in turn, will find itself needing new outlets for the tremendous productive capacity we have generated during this war.

We are deeply conscious of the fact that the end of this war will confront the whole world with monetary and financial problems of a magnitude never before known to man. These problems will be international in scope, knowing no national boundaries and transcending solution except in terms of international cooperation.

Common sense alone would dictate that when we are face to face with monetary, financial, and economic problems which are international in scope, we should seek their solution through international action. Common sense would also dictate that when we are confronted with an international economic disaster it is nonsense to quibble over details. Disasters must be met with action. We are called upon to address all of our efforts to getting the most out of the machinery now available. It would be the height of folly to start overhauling the fire engine on the way to the fire.

In devising effective machinery for dealing with international economic problems, we must measure its adequacy by the task to be done rather than by conformity to traditional design. We shall win this war because we were prepared to adapt our military strategy to meet the problem before us. Our invasion of France, our air power, our naval action in the Pacific are but a few examples of doing the impossible because we were compelled to. These lessons should be remembered in our consideration of programs for international economic cooperation. There is no precedent for the magnitude of the international monetary, financial, and economic problems we are facing with victory. We cannot, therefore, lightly cast aside any carefully considered proposal merely because some groups regard it as "novel."

II. THE ROLE OF INTERNATIONAL ECONOMIC COOPERATION IN ACHIEVING LASTING PEACE

The President of the United States, on February 12, 1945—the same day as the results of the Yalta Conference were announced—sent a special message to the Congress on the Bretton Woods agreements. In that message he stated:

"If we are to measure up to the task of peace with the same stature as we have measured up to the task of war, we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation. The cornerstone for international political cooperation is the Dumbarton Oaks proposal for a permanent United Nations. International political

relations will be friendly and constructive, however, only if solutions are found to the difficult economic problems we face today. The cornerstone for international economic cooperation is the Bretton Woods proposal for an International Monetary Fund and an International Bank for Reconstruction and Development."

The Independent Bankers Association and its members have not always concurred with the views of President Roosevelt. At times we have bitterly opposed them. On this matter, however, there can be no dispute. We think he spoke for the Nation when he said that "we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation."

We see no hope for retaining the unity of the United Nations down through the years if the end of the war is the signal for each of us again to resume the attack in economic warfare. Just as you cannot steal your neighbor's bread from his hungry children and expect to retain his friendship, you cannot steal your allies' markets and expect that ally to be taken in by pious statements of friendship and cooperation.

We cannot permit the channels of world trade to be clogged with currency depreciation, discriminatory exchange controls, barter arrangements and cut-throat competition and except a world in economic chaos to cooperate in preserving the peace. We cannot isolate ourselves from the fact that our devastated and war-torn allies must be helped to get back on their economic feet or their collapse will shake the foundations of our own country. Neither can we ignore the pressing needs of some of our allies for economic development so that their people can have enough to eat and improve their standard of living.

These premises we hold to be obvious. On these premises we concluded that real international economic cooperation is as essential to lasting peace as Dumbarton Oaks and a world-security organization.

III. THE BRETTON WOODS AGREEMENTS

Last July the delegates of 44 countries were represented at the United Nations Monetary and Financial Conference at Bretton Woods, N. H. At this Conference they formulated concrete proposals for an International Monetary Fund and an International Bank for Reconstruction and Development.

The International Monetary Fund is designed to achieve three objectives through international cooperation:

- (1) To stabilize the values of all currencies in terms of gold.
- (2) To progressively remove barriers against making payments across international boundaries.
- (3) To provide a revolving fund of foreign exchange for member countries to enable them in times of stress to maintain stable and unrestricted exchange relationships without resorting to cutthroat competition and economic warfare.

Each country contributes gold and local currency to a common pool in the fund. Total assets of the fund will be 8.8 billion dollars, of which the United States will subscribe 2.75 billion dollars.

The International Bank for Reconstruction and Development will operate as follows:

- (1) It will encourage profitable international investment in productive enterprises. Loans in which the bank is interested will be only for the purpose of rebuilding industries, public utilities, and so forth, in war-devastated countries, and developing natural resources, public utilities and industries in under-developed countries.
- (2) The principal function of the bank will be to guarantee loans made by private lenders, such as banks and investment houses. In addition, where necessary, the bank will make some loans out of its own resources.
- (3) Each of the 44 United Nations will purchase shares of stock in the bank. Only a small part of the value of each share will be paid immediately, and by far the larger part will constitute a reserve to support guarantees made by the bank.

(4) The liability of each member country is limited to the value of the shares of stock in the bank purchased by that country. Each member will share in the bank's risks in proportion to the stock it holds.

The subscribed capital to the bank will be 9.1 billion dollars, of which the United States will subscribe 3.175 billion dollars. Members will pay in only 10 percent of their subscription, in our case \$318,000,000.

The operations of the fund and bank are technical and involved. This is inevitable because international monetary and financial matters are technical and

complicated. But, as the above analysis shows, the principles involved are simple and can be intelligently evaluated by the ordinary man in the street. We believe these principles to be both sound and workable.

We also believe that the technical details of the fund and bank, representing as they do the product of the technical experts of 44 nations, are as sound and workable as it is possible to formulate in advance of an actual trial and tested experience. We are fortified in this conviction by the fact that more than 200 of the Nation's top economists in this field—including 16 past presidents of the American Economic Association—approve the fund and bank agreements in their present form. No doubt some technical problems may develop in actual operation just as so frequently occurs in other fields. However, we believe the intelligent way to go about the improvement of these technical details is to get the institutions going and observe their results. Both agreements provide methods of amendment and if experience demonstrates the need for improvement we are confident that all will be as anxious as we to see the improvements made.

The Independent Bankers Association has carefully weighed the arguments against the Bretton Woods proposals. This association believes that the opponents of the proposals completely misconceive the nature of the objections they are raising if they do not recognize that the changes they propose will most likely torpedo the whole Bretton Woods program for international economic cooperation. We are of the opinion that the changes proposed will not be acceptable to other countries and we will end up with another era of economic warfare with all of its tragic consequences to world peace.

IV. CONCLUSION

The Independent Bankers Association therefore—

(1) Endorses both the International Monetary Fund and the International Bank for Reconstruction and Development.

(2) Urges the Congress of the United States to act favorably on the Bretton Woods legislation at the earliest possible date and without crippling reservations.

(3) Calls upon America to insure the sound economic foundations for a lasting peace by carefully studying the operation of the fund and bank so that we can improve such institutions as tried experience shows the need.

THE PENNSYLVANIA CO.,
Philadelphia, March 21, 1945.

HON. ROBERT F. WAGNER,
Chairman, Senate Committee on Banking and Currency,
Washington, D. C.

MY DEAR SENATOR WAGNER: We enclose herewith a memorandum on the Bretton Woods agreements legislation now before your honorable committee.

We believe the memorandum to be self-explanatory. It has been submitted to the 13 largest banking institutions in Philadelphia and has been signed by the presidents of 11 banks representing approximately \$3,000,000,000 of resources, or about 90 percent of the total resources of the local institutions which have concerned themselves with discussing the agreements. The two banks which failed to sign hold considered objections against the portions of the agreements dealing with the monetary fund.

Very sincerely yours,

WM. FULTON KURTZ, *President.*

PHILADELPHIA, PA., March 20, 1945.

MEMORANDUM RE BRETTON WOODS AGREEMENTS

The success of any international monetary and financial plan dealing with long-term lending, exchange rates, exchange controls, and other aspects of world post-war problems will largely depend upon the mutual understanding and the willingness by all participating countries, first to undertake, and then to carry out the obligations assumed. The monetary chaos and the resulting social distress after the First World War have clearly demonstrated the urgency for mutual action.

The United States now has opportunity to exert leadership in developing a more united and cooperative world. Even though such leadership involves substantial dollar cost, we might well be the gainers through the restoration of reasonable international stability.

The Bretton Woods agreements represent the approved studies of 44 nations. Obviously, such a multilateral agreement involved give and take and a spirit of compromise. Just as obviously, such an agreement can never be wholly acceptable to each of the parties concerned.

We believe the agreements do provide a fair basis for effective financial collaboration among the United Nations as a counterpart of collective security in the political sphere.

The International Bank for Reconstruction and Development is based upon the dual principle that needed international capital must largely come from those countries able to supply it, and, since the benefits are universal, the risks involved should be shared by all members. There has been little criticism of the plan for the bank and that dealing principally with technicalities.

The International Monetary Fund provides a machinery for cooperation on international monetary problems. It is designed to maintain orderly exchange arrangements, to promote elimination of foreign exchange restrictions, and to provide additional monetary reserves to all members so that they will have an opportunity, under proper safeguards, to correct temporary maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

While there is general agreement as to the need for reaching the objectives of the fund, it has met with varying interpretations and with criticism because of its novelty and doubts as to its workability. In an effort to meet this criticism while still remaining within the framework of the present plan, we suggest the legislation should be so drawn as to assure (1) competent and trained management for the fund, and (2) some governmental committee of at least five members to consult with the governors and directors on matters to be referred to the members, and (3) an attempt be made to clarify the position of the United States with respect to differences of interpretation which now appear to exist.

In view of the broad principles and objectives of the Bretton Woods agreements, the undersigned join in recommending that the Congress, after full and free discussion, give favorable consideration to the passage of legislation toward these ends, since the agreements in our judgment give reasonable promise of avoiding the major financial errors committed after the last war, and seem flexible enough to be modified in the light of experience.

Evan Randolph, President, the Philadelphia National Bank; David E. Williams, President, Corn Exchange National Bank & Trust Co.; James E. Gowen, President, Girard Trust Co.; Isaac W. Roberts, President, the Philadelphia Savings Fund Society; W. Logan MacCoy, President, Provident Trust Co. of Philadelphia; Percy C. Madeira, Jr., President, Land Title Bank & Trust Co.; Wm. Fulton Smith, President, the Pennsylvania Co. for Insurances on Lives and Granting Annuities; Howard A. Loeb, Chairman, Tradesmens National Bank & Trust Co.; Archie D. Swift, President, Central-Penn National Bank; P. Blair Lee, President, the Western Saving Fund Society; R. Livingston Sullivan, President, Market Street National Bank.

THE AMERICAN LABOR PARTY,
STATE HEADQUARTERS,
New York, N. Y., March 26, 1945.

HON. ROBERT F. WAGNER,
*Chairman, Banking and Currency Committee,
United States Senate, Washington, D. C.*

DEAR SENATOR: The American Labor Party fully endorses the statement of our President urging the approval of the proposals agreed upon at the Bretton Woods Conferences as an indispensable prerequisite for a durable and prosperous peace. Moreover, because of the recent subtle attempts by certain economic isolationists to block the early approval of these proposals, the American Labor Party is undertaking a campaign to expose the real motives of these groups in the interests of the Nation's unquestioned desire for a real and lasting peace.

In connection with this campaign, we have formulated a comprehensive program on world trade to implement the Bretton Woods proposals and to consummate the objectives of that Conference. We are taking the liberty of enclosing our program and strongly urge its early adoption by Congress.

The renewed struggle of the dollar isolationists to impair the international peace organization forged by a bloody and costly war must be exposed quickly and thoroughly before it is able to generate confusion and suspicion in the minds of the American people.

The great unity, understanding, and friendship that has characterized the relationships of the peace-loving nations of the world must be supplied with a safe port of economic and financial security. We must prevent the despairing winds of selfish interests from smashing the peace ship against the rocks of another world war.

The peace, prosperity, and security of our Nation demand the earliest approval of the Bretton Woods proposals.

Very sincerely yours,

HYMAN BLUMBERG, *State Secretary.*

THE COUNCIL FOR SOCIAL ACTION OF THE CONGREGATIONAL,
CHRISTIAN CHURCHES OF THE UNITED STATES OF AMERICA,
New York, N. Y., March 20, 1945.

HON. ROBERT F. WAGNER,
Washington, D. C.

DEAR SENATOR WAGNER: The legislative committee of the Council for Social Action, an agency representing more than a million members of the Congregational Christian Churches, believes that a healthy international economic system is absolutely essential to the maintenance of peace. It is also our considered opinion that the proposed International Security Organization (as developed at Dumbarton Oaks) cannot function except in an atmosphere of international economic cooperation. Adequate instruments and organizations are needed to put such cooperation into effect. We believe that the Bretton Woods proposals relating to an International Bank and an International Monetary Fund are part of the instruments needed to bring about a sound basis for the exchange of goods between nations, the development of the world's resources, and the full employment of American workers. In short, the Bretton Woods plans are integrally related to the effective operation of the International Security Organization. Without Bretton Woods and other forms of international economic cooperation, the Dumbarton Oaks proposals become nothing more than a well meaning but ineffective organization for a peace which would be bound to collapse.

The legislative committee specifically approves the International Monetary Fund. Furthermore, because the fund is to serve a radically different purpose than the bank, it is our judgment that the fund should be kept separate from the bank.

It is our conviction that the separate existence of the fund is necessary for the following considerations:

1. The need for the fund will be greatest during the period immediately following the cessation of hostilities. During this period, unstable and chaotic situations will exist in many parts of the world. Lend-lease and UNRRA will either be withdrawn or limited in function. The fund would be used to prevent violent swings in exchange rates and to encourage full interchange of currencies thus facilitating trade and investment. Furthermore, it is during exactly such chaotic situations that the bank itself could not function. Nor could the fund work as it should if it is tied to the bank with the motives and considerations which should govern the bank.

2. The bank itself cannot function properly until stability in the exchange rates and the free interchange of currencies has been established. The usefulness of the bank will be greatly impaired by the lack of an independent fund.

3. In the absence of the fund, governments will set up exchange controls, restrict the movement of currencies, and generally create anew and in more extreme forms the monetary warfare of the 1930's. In other words, the real alternative to the International Monetary Fund as proposed is not a substitute fund controlled by the bank but rather a series of unilateral currency controls which spell nothing more nor less than economic warfare.

In view of these considerations the legislative committee urges you to support the Bretton Woods proposals with a separate and independent Interna-

tional Monetary Fund. The American people mean business about international economic cooperation. Your support is necessary so that the desires of the Americans will not be thwarted again.

Very truly yours,

THOMAS B. KEEHN,
Secretary, Legislative Committee.

AMERICAN ASSOCIATION OF UNIVERSITY WOMEN,
Washington, D. C.

HON. ROBERT H. WAGNER,
Chairman, Senate Banking and Currency Committee,
Washington, D. C.

DEAR SENATOR WAGNER: The American Association of University Women wishes to record its strong support for the adoption of the Bretton Woods proposals without any further amendment. We should be glad to testify before the Senate Banking and Currency Committee on this question, but we do not wish to protract the hearings unduly, and are substituting this statement for the information of the committee.

In view of the danger that any unilateral action by the United States, other than the amendment already approved, might jeopardize the ultimate adoption of the agreements we urge the committee to report the legislation in its present form as soon as possible and to urge prompt and favorable action by the Senate.

With sincere admiration for your excellent handling of the Senate hearings on this matter,

Very sincerely yours,

DR. HELEN WRIGHT REID,
Associate in International Education,
American Association of University Women.

ECONOMISTS' COMMITTEE ON THE BRETTON WOODS PROGRAM,
Cambridge, Mass., April 27, 1945.

HON. ROBERT F. WAGNER,
United States Senate, Washington, D. C.

DEAR SIR: In response to Congressman Spence's letter of February 26, 1945, the Economists' Committee on the Bretton Woods Program conducted a second poll of economists. In poll I, you will recall, we polled approximately 450 experts—all members listed in the American Economic Association Directory as primarily interested in the fields of (1) economic systems, national economics; (2) business cycles and fluctuations; (3) money and banking, short-term credit; and (4) international trade, finance, and economic policy.

Now in poll II we polled all members of the American Economic Association regularly residents in the United States.

In poll I, 90 percent of those who responded favored our statement urging Congress to approve the articles of agreement at Bretton Woods.

In poll II, the results were almost identical. Approximately 47 percent responded. Of the 1,711 ballots received which indicated a choice, 1,537, or 89.83 percent, approved, and 174, or 10.17 percent, disapproved. The results in greater detail are given in paragraph (1) of the attached notes.

We submit again our statement and the lists of its 33 sponsors, of whom all but one are regularly associated with a university. At the time of approval of this statement, 6 sponsors were on leave and working for wartime agencies, and 4 were consultants.

We should appreciate it very much if we were to be permitted to submit to you the signed ballots of both polls. Within a few days we shall also send you the lists of (a) sponsors, (b) others who approve, (c) those who approve with minor reservations, (d) those who disapprove, (e) those who failed to check their ballots, (f) those who approve but were not counted because of official connection with the Bretton Woods Conference.

I append a copy of our statement and the names of the sponsors (both published in the Congressional Record, February 21, 1945).

Sincerely yours,

SEYMOUR E. HARRIS, *Chairman.*

NOTES

1. The results of poll II are as follows:

Number of ballots mailed.....	3,766
Ballots which did not reach addressees and were returned to this committee.....	44
Total number who received ballots.....	3,722
Number of ballots sent back to this committee, to April 11 (46.77 percent).....	1,761
Ballots signed but not checked for approval or disapproval.....	43
Number approving, but not included in poll because of signer's official connection with the Bretton Woods Conference.....	7
	50
Number of ballots counted is remainder.....	1,711
Of which approve without reservation.....	1,523
Of which approve with reservations.....	14
Total number approving (89.83 percent).....	1,537
Of which disapprove.....	168
Of which approve of bank but disapprove of fund.....	6
Total number disapproving (10.17 percent).....	174

2. Poll of members of Economists' National Committee on Monetary Policy: Members of the Economists' National Committee on Monetary Policy who as a group are opposed to Bretton Woods replied in larger relative numbers than all members of the American Economic Association. This may well be a reply to those who argue that those who approve our statement replied in larger numbers than those who do not approve.

One thousand seven hundred and sixty-one of the AEA replied, or 46.77 percent.

Of 61 members of the ENCMP (according to 1944 membership list and latest AEA directory), 36 replied, or 59.02 percent, and of these 26, or 72.22 percent, disapproved.

3. Presidential poll: In poll I, we included a poll of ex-presidents of the American Economic Association. This group may be considered the most distinguished group in the country. Their vote in that poll was 16 for and 2 against. Since then we have had two more votes against (Prof. F. A. Fetter and Joseph S. Davis). Inclusive of the vote of the current president, Prof. Ira L. Sharfman, the vote is now 17 for and 4 against (and 2 not voting).

RECOMMENDATIONS OF ECONOMISTS FOR UNITED STATES APPROVAL OF THE BRETTON WOODS MONETARY AGREEMENTS

SPONSORS OF THESE RECOMMENDATIONS

Prof. James W. Angell (Columbia).
 Prof. John D. Black (Harvard).
 Prof. J. M. Clark (Columbia).
 Prof. J. B. Condliffe (California).
 Prof. J. Anton de Hass (Harvard).
 Prof. Howard S. Ellis (California).
 Prof. Paul T. Ellsworth (Wisconsin).
 Dr. J. K. Galbraith (Fortune).
 Pres. Harry D. Gideonse (Brooklyn).
 Prof. Frank D. Graham (Princeton).
 Dean Clare E. Griffin (Michigan).
 Prof. William Haber (Michigan).
 Prof. G. Haberler (Harvard).
 Prof. Seymour E. Harris (Harvard).
 Dr. Elbert G. Hart (Committee for Economic Development).
 Dean Calvin B. Hoover (Duke).
 Prof. Frank H. Knight (Chicago).
 Prof. Wassily Leontief (Harvard).

Prof Fritz Machlup (Buffalo).
 Prof Edward S. Mason (Harvard).
 Prof. Wesley C. Mitchell (Columbia).
 Prof. Mabel Newcomer (Vassar).
 Prof. Paul M. O'Leary (Cornell).
 Dean Howard H. Preston (Washington).
 Prof. Winfield Riefner (Princeton).
 Prof. Henry C. Simons (Chicago).
 Prof. Arthur Smithies (Michigan).
 Prof. Tipton R. Snively (Virginia).
 Prof. Oliver M. W. Sprague (Harvard).
 Prof. Jacob Viner (Chicago).
 Prof. Charles R. Whittlesey (Pennsylvania).
 Prof. Clair Wilcox (Swarthmore).
 Prof. John B. Woosley (North Carolina).

POLL OF EX-PRESIDENTS OF THE AMERICAN ECONOMIC ASSOCIATION

Sixteen approved these recommendations: Ernest L. Bogart, John M. Clark,¹ John R. Commons, Irving Fisher, Edwin F. Gay, Alvin H. Hansen, Alvin S. Johnson, Harry A. Millis, Frederick C. Mills, Wesley C. Mitchell,¹ Edwin G. Nourse, Carl C. Plehn, Oliver M. W. Sprague,¹ Jacob Viner,¹ Walter F. Willcox, Albert B. Wolfe.

Two disapproved these recommendation: Thomas N. Carver, Edwin W. Kemmerer.

LETTER SENT TO SENATOR ROBERT F. WAGNER AND CONGRESSMAN BRENT SPENCE, CHAIRMEN, RESPECTIVELY, OF THE BANKING AND CURRENCY COMMITTEE OF THE SENATE AND OF THE HOUSE

ECONOMISTS' COMMITTEE OF THE BRETTON WOODS PROGRAM,

February 12, 1945.

DEAR SIR: I submit herewith a statement of 224 economists in support of the Bretton Woods program. This statement is sponsored by 33 economists listed on the attached sheet and is signed by those who names will be sent to you later. This statement was also submitted to all living ex-presidents of the American Economic Association, nearly all of whom replied. Of the 18 who replied, 16 approved the statement and only 2 disapproved.

It may interest you to know that substantially more than one-half of the economists who were polled—all economists listed by the American Economic Association as primarily interested in international economic relations and three related fields—replied to this poll. Approximately 90 percent of those who replied approved and 10 percent disapproved.

This shows a remarkable degree of unanimity among economists. Economists of all kinds—liberal and conservative, Democrats and Republicans, New Dealers and anti-New Dealers, young and old—seem to agree that revival of world trade is imperative and that the Bretton Woods program is the road to take toward more trade and a higher standard of living.

Sincerely yours.

• SEYMOUR E. HARRIS, *Chairman*.

RECOMMENDATIONS OF ECONOMISTS FOR UNITED STATES APPROVAL OF THE BRETTON WOODS MONETARY AGREEMENTS

We, the undersigned economists, urge the Congress to accept the Bretton Woods agreements providing for an International Monetary Fund and International Bank for Reconstruction and Development. Our main reasons follow:

1. If expanding international trade is to make its much-needed contribution to the prosperity of the United States and of the world, exchange relations between currencies must be established on a stable and orderly basis and there must be a steady flow of international investment to increase the productive efficiency of the countries of the world. Action is, of course, required in other no less important fields such as trade barriers and commodities in world surplus. Although the monetary fund and the International Bank do not furnish a com-

¹ Also listed as sponsor.

plete solution to the international economic problems, they will contribute substantially toward solving the exchange and investment problems.

2. The experience of the interwar period has demonstrated that neither the operation of the international gold standard nor the independent action of national governments will achieve workable exchange arrangements. The nineteenth century gold standard is too inflexible to allow countries the independence of domestic action which they now demand; and the policy, so widely followed in the thirties, of disregarding international considerations in order to achieve freedom of action in the domestic sphere only served to contract international trade and, in the end, to make every country poorer.

3. In the field of investment, the last 25 years have shown the need for international action. While international investment did reach a substantial volume during the twenties, the investment was in many cases ill-advised; rates of interest were high and many countries resorted to borrowing in order to balance their international accounts without increasing their productive capacity. The collapse of the thirties brought repudiation, deflation or depreciation; and many borrowers and lenders resolved to eschew the dubious benefits of international investment in the future. Conditions of foreign lending must be substantially improved if international investment is again to make its indispensable contribution to the prosperity of the world economy on which, to a large degree, our own welfare depends.

4. The proposed Monetary Fund provides a program for avoiding competitive currency depreciation, the arbitrary and discriminatory control of foreign exchange available to pay for current imports, the freezing of funds due for current transactions, and related forms of economic warfare. This is in line with the fundamental United States trade policy of free enterprise with a minimum of administrative interference, discrimination, bilateralism, and international barter. The Bretton Woods agreements are essential to keep the door open for later application of this fundamental policy through international negotiations dealing with tariff discriminations, "administrative protection," import quotas, cartels, raw-material controls, etc. The clauses in the Bretton Woods agreements which permit limited devaluation, continued control of capital movements, rationing in emergencies of particular currencies officially declared to be scarce, and a gradual removal rather than abrupt termination of wartime currency and exchange controls are necessary modifications for reaching the fundamental objectives.

5. The proposed Bank for Reconstruction and Development aims at increasing security of international lending, not merely through the bank's guaranty but by making the government of the borrowing country directly responsible to the bank. Since the bank rather than any particular government is made the direct representative of creditors, the debtor country's government can be called upon to take responsibility without loss of dignity or risk of conflict.

6. Under the Monetary Fund, barring outright repudiation of debts by some debtor government, the risk of financial loss is very small. Under the bank agreement, loans are to be safeguarded not only by the scrutiny of the bank but by authorizing each government to prevent its currency from being lent if it thinks the transaction dangerous; and under the guaranty, all losses are to be shared among all member countries in proportion to their subscriptions. The advantages of the agreements far outweigh the financial risk incurred by the United States.

7. The good will acquired by accepting the agreements, supported by the influence which the United States can legitimately exert through its large voting power in the fund and the bank, will be of great advantage in the settlement of other international issues.

8. Bretton Woods represents the first attempt of the United Nations to reach agreement on vital economic issues. The present drafts could undoubtedly be improved as regards details. But in view of the fact that over 40 governments are involved and in view of the complexity of the problem, the extensive concessions made by others to the United States at Bretton Woods, and the ill-will we would incur by insisting on reservations, it is very doubtful whether another agreement could be reached at all or, if reached, whether in the end it would be a better one. If the present proposals were not ratified by the leading countries of the world, the outlook for genuine international collaboration in the economic field and even for world peace would be indeed gloomy. It is therefore a matter of urgent necessity that full support be given to the agreement by all United Nations.

SIGNERS OF THE RECOMMENDATIONS¹

Milton Abelson, Department of Commerce.
 Moses Abramovitz, War Production Board.
 R. King Adamson, Ohio University.
 J. Hans Adler, Yale University, Institute of International Studies.
 E. E. Agger, Rutgers University.
 W. E. Alley, Drake University.
 Clay J. Anderson, Central Missouri State Teachers College.
 Ivar Axelson, Treasury Department.
 Willis N. Baer, John B. Stetson University.
 Edgar R. Baker, Jr., United States Department of Labor, Postwar Division.
 Antonin Basch, Columbia University.
 Theodore N. Beckman, Ohio State University.
 Edward M. Bernstein, University of North Carolina.
 Percy W. Bidwell, Council on Foreign Relations.
 Arthur I. Bloomfield.
 Elmer C. Bratt, Lehigh University.
 Benjamin F. Brooks, Butler University.
 Edgar B. Brossard, United States Tariff Commission.
 William Adams Brown, Jr., Brown University.
 Norman S. Buchanan, University of California.
 F. H. Bunting, University of North Carolina, Woman's College.
 Roy E. Cameron, San Diego State College.
 Claude A. Campbell, University of Oklahoma.
 Valdemar Carlson, Antioch College.
 Cecil C. Carpenter, University of Kentucky.
 W. Harrison Carter, Jr., University of Connecticut.
 Frank Cist.
 Richard Clemence, National Bureau of Economic Research.
 Richard Clemens, Jr., John Adams High School, West Hempstead, N. Y.
 Clara H. Clevenger, Northeast Missouri State Teachers College.
 Emilio G. Collado, State Department.
 John B. Condliffe, University of California.
 M. V. Condoide, Ohio State University.
 Arthur G. Coons, Occidental College.
 John H. Cover, Office of Lend-Lease Administration.
 Garfield V. Cox, University of Chicago.
 John F. Cronin, St. Mary's Seminary.
 Morgan B. Cushing, Bowdoin College.
 Don M. Dailey, United States Savings and Loan League.
 John S. de Beers, Treasury Department.
 Walter H. Delaplane, Duke University Graduate School.
 Ethel B. Dietrich, Mount Holyoke College.
 Harwood B. Dolbear, University of Florida.
 Ernest C. Draper, Board of Governors of the Federal Reserve System.
 Boris G. Dressler, College of the City of New York.
 Eleanor Lansing Dulles, Social Security Board.
 William E. Dunkman, University of Rochester.
 E. Dana Durand, United States Tariff Commission.
 Earl V. Dye, Pennsylvania State College.
 James S. Earley, University of Wisconsin.
 L. R. Edminster, Department of State.
 Henry H. Edminton, Federal Reserve Bank of St. Louis.
 Walter P. Egle, Ohio State University.
 J. Edward Ely, Bureau of the Census, Division of Foreign Trade Statistics.
 John Exter.
 Willy J. A. Feuerlein, Board of Economic Warfare.
 Clyde Olin Fisher, Wesleyan University.
 Carroll W. Ford, University of Akron.
 Harry L. Franklin, United States Tariff Commission.
 Herbert F. Fraser, Swarthmore College.
 Ralph E. Freeman, Massachusetts Institute of Technology.
 Robert W. French, Louisiana State University.

¹ Affiliations as given by latest directory.

Lewis A. Froman, University of Buffalo.
Gordon S. Fulcher.
Denton A. Fuller, Jr., American Institute of Banking.
Earl S. Garver, Trinity College.
Arthur D. Gayer, Queens College.
Eunice B. Gettell, Board of Economic Warfare.
Harry D. Gideonse, Brooklyn College.
Max Gideonse, Rutgers University.
B. M. Gile, Louisiana State University.
T. H. Golightly, Madison-Crawford National Bank.
Henry F. Grady, American President Lines, Ltd.
Frank D. Graham, Princeton University.
William L. Gregory, Easton Taylor Trust Co., St. Louis.
Albert Griffin, Emory University, Georgia.
F. Gutmann, University of North Carolina.
G. Haberler, Harvard University.
George H. Haines, Grove City College, Pennsylvania.
George N. Halm, Tufts College, Massachusetts.
Alvin H. Hansen, Harvard University.
Seymour E. Harris, Harvard University.
H. G. Hayes, Ohio State University.
R. B. Hefebower, State College of Washington.
Michael A. Heilperin, Hamilton College.
F. A. Hermens, University of Notre Dame.
C. A. Hickman, State University of Iowa.
James Holladay, University of Alabama.
Jacob Horak, Treasury Department.
H. D. Hotchkiss, The Citadel.
Warren S. Hunsberger, University of New Hampshire.
Elgin F. Hunt, Woodrow Wilson Junior College.
Asher Isaacs, University of Pittsburgh.
James M. Jarrett, United States Tariff Commission.
Otto Jeldels, Bank of America.
Albert S. Keister, University of North Carolina, Womans College.
Raymond P. Kent, University of Notre Dame.
Milo Kimball, Ohio State University.
J. L. Knipe, Douglas T. Johnston & Co., New York City.
Carl Kreider, Goshen College.
R. S. Landry, Beloit College.
Simon Litman, University of Illinois.
V. M. Longstreet, Board of Governors of the Federal Reserve System.
Lewis L. Lorwin, Board of Economic Warfare.
L. B. Lunden, University of Minnesota.
O. G. McDiarmid, College of William and Mary.
Harlan E. McGregor, University of North Dakota.
John Gilbert McGrew, Concord State Teachers College.
M. Grace Madeleine, Immaculata College.
J. D. Magee, New York University.
Otto T. Mallory.
W. J. Maurer, Baker & Co.
Eliot G. Mears, Stanford University.
Raymond F. Mikesell, University of Washington.
B. O. Miller, Virginia Polytechnic Institute.
Henry S. Miller, Queens College.
Frederick C. Mills, Columbia University.
Robert R. Milroy, Bowling Green College of Commerce.
Waldo F. Mitchell, Indiana State Teachers College.
T. A. Mogilnitsky, Loyola University.
Theodore Morgan, Harvard University.
Walter A. Morton, University of Wisconsin.
F. W. Mueller, Jr., De Paul University.
Walter R. Myers, University of Minnesota.
Marcus Nadler, New York University.
Otto Nathan, New York University.
M. R. Neifield, University of Newark.
Hans Neisser, University of Pennsylvania.
J. H. Noble, Armour & Co.

R. M. Nolen, University of Illinois.
Rolf Nugent, Russell Sage Foundation.
Paul Martin O'Leary, Cornell University.
O. A. Olson, McPherson College.
Carl E. Parry, Board of Governors of the Federal Reserve System.
Ernest M. Patterson, University of Pennsylvania.
Paul S. Peirce, Oberlin College.
J. Marvin Peterson, Miami University.
N. M. Petruzzelli, United States Bureau of Foreign and Domestic Commerce.
William T. Phillips, University of New Hampshire.
Howard H. Preston, University of Washington.
E. L. Quirin, Babson's Reports.
Harold L. Reed, Cornell University.
Joseph E. Reeve, Bureau of the Budget.
Alice J. Reynolds, Goucher College.
Winfield W. Riefler, Institute for Advanced Study, Princeton.
Robert Rockafellow, Rhode Island State College.
Harold H. Rosen, Board of Economic Warfare.
Walter S. Salant, Office of Price Administration.
Arthur Schweitzer, University of Wyoming.
Lawrence H. Seltzer, Wayne University.
Hale T. Shenefield, Joint War Production Committee.
William R. Sherman, Hillsdale College.
Edward C. Simmons, University of Michigan.
R. W. Sinsabaugh, Woodruff Hayes & Co.
Lawrence Smith, Wellesley College.
I. J. Sollenberger, University of Oklahoma.
S. D. Southworth, College of William and Mary.
Kenneth M. Spang, Yale University.
Charles B. Spaulding, Whittier College.
A. Eugene Staley, Fletcher School of Law and Diplomacy.
Hans Staudinger, New School for Social Research.
Leroy D. Stinebower, Department of State.
M. L. Stokes, Lebanon Valley College.
Gordon B. Strong, Duquesne University.
A. F. Sturmthal, Institute for Economic Education.
Ernst W. Swanson, State College of Washington.
Joseph H. Taggart, University of Kansas.
Herman P. Thomas, University of Richmond.
R. G. Thomas, Purdue University.
V. P. Timoshenko, Stanford University.
Charles S. Tippetts, Mercersburg Academy.
Alvin S. Tostlebe, College of Wooster.
L. W. Towle, Lawrence College.
A. P. L. Turner, Jr., Montana State University.
F. W. Tuttle, University of Florida.
C. B. Upham, American University.
Roy Yeatch, Board of Economic Warfare.
Rufledge Vining, University of Arkansas.
Alexander Wall, Robert Morris Association.
E. H. Weinwurm, New York University.
J. P. Wernette, Harvard University.
E. L. White, Board of Economic Warfare.
Charles R. Whittlesey, University of Pennsylvania.
Thomas F. Wiesen, Texas Technical College.
Clair Wilcox, Swarthmore College.
John B. Woosley, University of North Carolina.
Frederick M. Worley, University of Pennsylvania.
David McCord Wright, University of Virginia.
Wallace Wright, Iowa State College.
John Parke Young, Occidental College.

This list includes 190 names of those listed in the American Economic Association directory as primarily interested in international trade or any of three related fields who responded to our inquiry and approved this statement. (There were 18 who disapproved.) In addition, there were 33 sponsors and 16 ex-presidents of the American Economic Association who approved this statement. Of these, 25 sponsors and 10 ex-presidents (who were not also among the sponsors) were not included in our poll.

STATEMENT OF RENÉ LÉON, PRINCETON, N. J.

To the Committee on Banking and Currency, United States Senate:

As an exchange man and a free trader by conviction, I approach the Bretton Woods Fund agreement from the angle of certain factors which influence the American price structure.

We know that our wages and taxes, both high, are integral parts of our costs of production. We also know that a large national income can result only from great production at good prices. It is a fact that, all things equal, trade everywhere gravitates to the premium markets and that, in so doing, it can cause serious price readjustments. Such being the case, these questions arise:

Can America protect her wage scale and carry her debt burden unless her prices are maintained at a reasonably high level?

Can American costs successfully compete with foreign costs when these latter are often based on bankrupt conditions or cheap labor?

Can America, tariff wise, let down the bars and also maintain a satisfactory price level on the basis of the Bretton Woods Fund agreement?

And if there is any doubt that we can do so, where and how should we seek protection for our price structure?

We know that tariffs, quotas, and exchange controls, by impeding its flow, reduce the volume of trade, spread unemployment, undermine prices. We know that they challenge retaliation in kind; that once established they are rigid; that they maintain their rigidity despite changing conditions. Obviously we must look elsewhere for protection.

It is my considered opinion that we can find protection for our prices in a free exchange rate in which no one should be permitted to speculate. For in the free exchange rate are actually integrated tariffs when needed, quotas when needed, subsidies when needed, yet all are reduced when the need for them declines, while they disappear altogether when the need for them is gone. For example:

Assuming the dollar-sterling equilibrium rate of exchange is \$4 equals £1 and that the balance of payment runs against America, the dollar, if free, might fall from \$4 to \$5 equals £1. This would be tantamount to a 25-percent tariff on our imports and a 25-percent subsidy on our exports. Both would make for balance and, as we approached nearer to balance, the rate of exchange might move from \$5 to \$4.50 equals £1, thus cutting both tariff and subsidy by half. Once balance were achieved, the rate of exchange would return to equilibrium. Every country would find in a free-exchange rate exactly the same protection for its own price structure without need of resorting to artificial controls.

The differences between the fixed rate of exchange and the free rate is this: Whereas under the fixed rate of exchange balance is achieved by direct price readjustments in combination with a growth of credits and debits involving the risk of repudiation, under the free rate of exchange equilibrium comes through a continuous change in relative prices—home versus foreign—as these are expressed in terms of changing exchange rates.

In explanation of what is meant by relative price changes: assuming the rate of exchange to be \$4 equals £1 (20 shillings), an Englishman needs 5 shillings to buy \$1 worth in America. If the rate goes from \$4 to \$5 equals £1, he needs only 4 shillings to make the same purchase. Though the rate of exchange has changed, the American price remains the same. Conversely, at the rate of \$4 equals £1, an American needs \$4 to buy £1 worth in England. If the rate goes to \$5 equals £1, he needs \$5 to buy the same thing he formerly bought at \$4. The rate will have changed, but the British price remains unaltered.

Some might ask, "Is this not six of a kind and half-dozen of the other?" The answer to that is "No." For if, instead of changing rates we change prices, we at once affect all those factors which go to make up prices, such as wages, taxes, rents, etc. Whereas, if we change the rate of exchange, we merely put the brakes on overselling and stimulate buying where and when both are needed. Whereas the fixed rate makes for balance primarily through readjustments in prices, the free rate makes for equilibrium with a minimum disturbance to price structures.

How, some would ask, could we carry on business on the basis of fluctuating exchanges? One answer is that, despite fluctuations in commodities and securities, we do manage to do business in these markets. Moreover, as our foreign commerce represents but 10 percent of our total trade, we can afford to accept the risk of exchange on this 10 percent, if thereby the other 90 percent is given protection and stability. The Bretton Woods Fund agreement would, in effect, cause us price wise to readjust 90 percent of our total trade to the 10 percent of our foreign trade. Can we afford this?

Our control over our dollar should at all times be complete. But we lose that control if we link the dollar to other currencies whose values are under foreign control. For monetary policies everywhere are primarily conducted to suit national needs, and what suits other countries may not suit the United States—and vice versa. By adopting the Bretton Woods Fund agreement Congress abdicates its power to regulate the value of the dollar and, in effect passes its prerogatives onto other and foreign hands. If, in combination therewith, it also lowers tariffs, Congress will turn this country from a premium market to a dumping ground. Despite our incomparable resources, human and material, we will once again, price-wise, go "through the wringer" and again, as in the early 1930's, needlessly face the paradox of misery in the midst of plenty.

Under a free dollar exchange rate "dumping" on this country would be eliminated because the dumper would receive for his goods mere dollar credits, useless in his country but good here for the purchase of American goods and services. He, not we, would assume the risk of exchange. If we attempted to dump on other countries the same situation would be ours to face. Under these conditions peoples everywhere could concentrate their efforts on the development of their home markets free of alien interference. They would adjust their units of currency to their internal needs, which are paramount, and they would readjust their price structure under the protection of the free rate and only to the extent of their needs from abroad which, in most cases, represent but a fraction of their total requirements.

Under the protection of the free rate we could and should reduce tariffs to a minimum; we could and should eliminate quotas and lift exchange controls, save those over speculation in the exchanges. To the full extent of national needs everywhere trade would have maximum freedom, while home markets would find that protection which the free exchange rate automatically provides.

If this sounds like oversimplification of this, our basic problem, I would say that nothing that is intricate can be sound, and that the Bretton Woods Fund agreement is a monument to intricacy. It suggests no principle of valuation in the fixing of exchange rates; no theory of value on which to accept or reject these rates. It seeks to harmonize great differences by reserving freedom of action to all and sundry. It offers flexibility of exchange only at the expense of prices. It puts the cart before the horse by attempting to stabilize exchanges before those conditions which cause instability in the exchanges are corrected. And, worst of all, by making a fetish of "stabilization", it would price-wise sacrifice our home market to our foreign trade, thus exposing American labor to the competition of the coolie.

No one can properly disagree with the objectives of the Bretton Woods plan which are lofty, and, precisely because they are lofty, make the fund agreement sound fine to the uninitiated. In reality the most charitable thing that can be said of the fund agreement is that it is premature in the extreme and, world conditions being what they are, must produce the very opposite of what its sponsors would have us expect. However, the pressure is on and Congress will probably ratify the Bretton Woods fund agreement; but if the other great nations also ratify it, which is far from certain, they will most likely accompany their ratification with reservations sufficient to invalidate it. We already have the British Prime Minister's official statement in Parliament to the effect that Britain proposes to protect her balance of payment come what may.

Fortunately for us two of the most flagrant economic exploiters, Germany and Japan, have been eliminated. We must hope that the other nations, great and small, will deal with us fairly. But let us bear in mind that their own internal problems are to them paramount; that they will not abandon their freedom of action when urgent internal questions press for solution; that their national interest will always have priority over their international obligations. And who shall blame them?

We, too, are in duty bound to protect our producers, wage earners, and taxpayers. The free rate affords them that protection and discriminates against no Nation—on the contrary, it is fair to all and fair to us. Sooner or later circumstances will compel us to adopt the free rate. At present it is a question of choice, it will be one of necessity later on.

Senator MILLIKIN. Mr. Chairman, I understand that Senator Thomas wants to appear before the committee.

Senator TOBEY. Which Thomas?

Senator MILLIKIN. From Oklahoma.

Senator MURDOCK. Mr. Chairman.

The CHAIRMAN. Yes.

Senator MURDOCK. I called Mr. Fagan at the committee Saturday with reference to the desire of Mr. Murphy, who represents a group of mining interests in the West.

The CHAIRMAN. Yes.

Senator MURDOCK. And I was assured that he would be given an opportunity to appear personally.

The CHAIRMAN. Yes.

Senator MURDOCK. I think that is the same thing that you have in mind, Senator Millikin?

Senator MILLIKIN. Yes.

The CHAIRMAN. Yes.

Senator MILLIKIN. The chairman has agreed to hear Mr. Murphy at 3 o'clock this afternoon.

The CHAIRMAN. I might say to Mr. Burgess, we have to leave here about quarter of 12 for a 12 o'clock session, and we will meet here in this room again at 3 o'clock, because I do not think our session will be very long, in view of the death of the late Senator Scrugham. So we shall leave at quarter to 12 and be here again at 3 o'clock, and I hope the entire committee will be present.

Very well, Mr. Burgess.

STATEMENT OF W. RANDOLPH BURGESS, PRESIDENT, AMERICAN BANKERS ASSOCIATION

Mr. BURGESS. Mr. Chairman, we appreciate this opportunity to appear before you. We have two witnesses. Mr. Lynn Hemingway, of St. Louis, who is the chairman of our committee that has been examining this matter, and myself. We kept the number down to two to save your time.

I should like first to have the record show that I presented the report of the American Bankers Association on this subject, which I think you all have had a chance to examine. It was published on February 1. It doesn't reflect the discussion since that time, but set down the considered opinion of the American Bankers Association. There is some misunderstanding about the production of this report. I might call your attention to the fact that it represented the work of some five committees. The work was done initially by a joint group of the economic policy commission, the advisory committee on special activities, and the committee of the association of reserve city bankers, and the committee of the bankers association for foreign trade. Their findings were approved by the administrative committee of the American Bankers Association, which is our governing body, partially of elective officers, partially appointive, and, in the case of each one of the other organizations, by their governing body. So it represents the opinion of a very substantial segment of the banking community. And this was, of course, sent to all our members and may be taken as the report of the association.

Now, you gentlemen have heard a great deal of testimony. I have read most of it or heard most of it, both here and in the House, and we do not want to take your time to thresh old straw. It seems to me that the question before you has narrowed down considerably. We

do not have to discuss the question of yes or no. I think the hearings and what we get from the country have demonstrated that the people are in favor of international monetary cooperation. Our association always has favored the principle of this bill, and our sole attention has been devoted to trying to suggest ways that it will work most effectively. I think it has been demonstrated also that by ingenuity, as was shown in the consideration in the House, interpretations and helpful changes can be made, certainly as far as relates to the organization in this country, to put into effect the policies of the fund and the bank.

Now, Mr. Hemingway and I would like to try to summarize for you, if we may, where we think we stand on this, with the idea of helping you in any way that we can to reach the decisions that are before you.

The questions are narrowed down also in this respect: that the criticism has been focused on the fund, and a very substantial part of the criticisms relate to the lending powers of the fund, the question whether they are too broad and dangerous, and I can say without attempting to bring the evidence before you—I know that you have heard it—that there is a pretty substantial opinion by competent people that there are dangers in the lending power of the fund, and that was cited even by organizations that came to the conclusion that nevertheless we should go ahead with it substantially as it was: like the Committee on Economic Development, which did, however, suggest some changes; the chamber of commerce; the bankers' groups, the Grange, and so on. Of course, that opinion was not unanimous.

Now, what are the dangers with respect to the fund? And I direct myself specifically to a question that Senator Fulbright asked on one or two occasions, that I didn't think was completely answered. In the first place, let me say that our concern about the fund is not primarily a question of loss of the money. That is not a dominating question when we are dealing with as large an area as this and as large a question. If this thing succeeds, two and three-quarters billion is a small price to pay for the success. It might be a large price to pay for failure.

I must confess that I am not reassured as to the safety of the fund by the argument that it is amply secured by domestic currencies of the members. I think experience leads one to doubt the adequacy of that security. We went through the period of trying to collect the bills that were drawn on German banks. The money was on deposit in the German banks, but we—my bank and others—had to settle for 40 cents on the dollar, and so on. We have just been through a similar experience with respect to some of the South American countries where it was not a question of there being money on deposit in those countries. The transfer problem, in other words, which Dr. White says is the danger point, is a very real danger. But I won't labor that point because the question of the loss of money is not the major point here.

The second point that one might examine is the inflation danger. This is highly inflationary money. The fund has money that is more inflationary than the bank; and at a time when we are talking about the OPA controls and other means for avoiding inflation, I do want to call your attention to the fact that the money put out through the fund is inflationary money. In that connection I have distributed a copy of the testimony given before the House committee by Gen. Leonard Ayres, of the Cleveland Trust Co., who is one of our best

students of these matters, reviewing exactly what happened after World War I with respect to just that question, and pointing out the fact that the flowing out of \$6,000,000,000 of American money at that time was in no small measure responsible for a terrific increase in buying power in this country, which impinged on scarce goods and which drove prices very high. You remember \$3.50 for wheat, 45 cents for cotton, and the tremendous rise in prices after the war which culminated in the very disastrous break in 1921; and that was certainly contributed to by our very large expenditure of funds which we put in the hands of foreigners to spend.

Now, that is not an argument that we shouldn't make loans. We have got to make loans. It is an argument that we need to do it with very great care, and the money spent by the fund is more inflationary than that spent by the bank. It puts into use gold which adds to bank reserves. To the extent that money is provided by the sale of Government securities it inflates the deposits of the bank. Whereas, with the case of the bank, where you are dealing with the long-term capital market, you have a mechanism that draws in funds before it spends them, so there is no new addition to the spending, or not much addition. One wouldn't say there wasn't any, because it may lead to some expansion of bank credit. But the fund is more inflationary than the bank, and that means that its spending, particularly in this transition period when goods are scarce, needs to be very carefully guarded. The thing that we just mustn't do again is to do our foreign lending in a spasmodic way: That is, to pour the money out and then stop. That is disastrous for these other countries, particularly for the countries that are dependent on a few products, a few raw materials, like the South American countries; and that, in my judgment, is an argument for seeing that the fund's spending is very carefully safeguarded, particularly in this period. And we want to review that a little later.

Now, there is a third point that is very puzzling and difficult, and that is the political question. In the case of the bank we have a veto on all dollar loans that are made. In the case of the fund we have no such veto, and, as we brought out in this report, it would have been possible, if Italy had been a member of this fund in the days when she was attacking Abyssinia, for her to be drawing down moneys, our moneys, from the fund at the same time that she was following a political policy that was directly contrary to our national policies and national interests.

I observed the testimony of the Secretary of the Treasury with respect to the Argentine. If the Argentine were a member of this fund, the Government in power could draw down our money for its own purposes, and that would be a difficult political question, because of course the Argentine is closer to those countries to which its exports its goods.

If we had had this fund in operation before the World War, and Japan had been a member, it could have used these moneys to buy munitions of war—iron and steel and oil, and so forth—in this country.

Now, I am quite aware of the dangers of mixing up economics and politics, but I am frankly a great deal puzzled by this problem. I was reading on Saturday an article in the July Foreign Affairs just out, by Herbert Feis, who, as many of you know, was economic adviser for

the State Department for many years, and a pretty wise economist. I quote in particular this paragraph:

Thus we are forced to consider an old and highly controversial issue: Shall we take political questions into account when making loans? It seems plain that we must. Our economic prospects, our safety, the chance that decency will prevail in this world—all these will be affected by the use that foreign countries make of the economic strength for which we provide the nourishment.

I observed in the discussion of this bill on the floor of the House that the question was asked, as a matter of fact, by Mr. Brehm of Ohio, whether there was anything to definitely show that these funds cannot be used by other countries to rearm and prepare for war. I should like to have a yes or no answer to that.

And the answer that he received was that they cannot be so used.

I regret to say that the answer came from my Congressman in New York, because I do not see anything in the documents that would prevent the use of these funds indirectly, as a net result of the balance of payments, for the purpose of building up munitions of war.

Senator MILLIKIN. Mr. Chairman.

Mr. BURGESS. Yes?

Senator MILLIKIN. Would you mind if I interrupt?

Mr. BURGESS. No.

Senator MILLIKIN. I have read that article to which you refer. It seems to me it poses a very interesting question and a more or less insoluble question. If we are going to control the money that we advance to foreign countries partially from political considerations, that is a two-way road.

Mr. BURGESS. Yes, sir.

Senator MILLIKIN. It applies to us as well as it applies to them. Politically I do not believe that we would ever allow anyone to tell us how to use money in this country, and therefore I doubt whether politically it is feasible for us to tell other countries how they should use the money of this fund, in any possible political aspect of it.

Mr. BURGESS. I think that is correct. There is one aspect of it that comes in, of course.

Senator BARKLEY. Well, the answer given by your Congressman was not so far off, after all, then, was it?

Mr. BURGESS. No; I understood it to be that he said that the fund had a provision that would prevent the use of this fund for warlike purposes. I understand Mr. Millikin's suggestion is the opposite: That you couldn't determine it.

Now, that appears in other guise. We have had experience with many countries in lending our money to smaller countries, and that has been a very important aspect on whether a government stayed in power or not. Of course, having our money to use is very helpful in keeping a government in power. For example, if the Argentine could draw on us for funds, it would help keep the colonels in power. Now, that is an aspect of it.

Now, again, I don't believe we can insist on having a veto power on all dollars used by the fund. That is a problem. To my mind it is an argument for keeping the operations of the fund really limited to an iron ration, to good short-term credits. Now, that is not a logical answer in a sense, but it does apply to the general idea that the bank should take loans which are for development, for reconstruction,

the kind of loans that are apt to be asked for by—or that should be asked for by some of these countries that are in this kind of situation, that they are not of the quality that should go into the fund. That is, I think we want to be sure we have a line of demarcation so that the fund is restricted to quality, to real quality.

Senator MURDOCK. To what? I didn't get your last word.

Mr. BURGESS. To quality. Quality of loans and short-term loans. That is it is a central bank for central banks. It is to furnish an iron ration, if you will. Now, I am not clear that the articles as drawn, even with the House amendments, would do that, but we will come to that in a few minutes. These reasons accumulate, to me, to emphasize that we want to be sure that those limitations are what they are interpreted to be.

Senator FULBRIGHT. In connection——

The CHAIRMAN. What limitations would you put on short-term loans?

Mr. BURGESS. Well, we shall come to that.

The CHAIRMAN. Well, if you are going to speak about it I won't ask you.

Mr. BURGESS. Yes.

The CHAIRMAN. Very well.

Senator FULBRIGHT. I was just going to suggest in that political problem, which I see is exceedingly difficult, you can hardly think of this fund operating except in connection with an operating over-all agency such as the Charter of San Francisco.

Mr. BURGESS. Yes, that is right.

Senator FULBRIGHT. If you eliminated that, I agree that this thing would be a very dangerous one.

Mr. BURGESS. Yes.

Senator FULBRIGHT. But unless that works, and this being in a sense a part of this whole approach——

Mr. BURGESS. Yes.

Senator FULBRIGHT. Why, you would have your danger, but I think you will have to rely on the San Francisco arrangement to have some influence on the political angle, don't you think?

Mr. BURGESS. I think that is right. And I think there is perhaps a very helpful way of developing that. The thing that we do want to see is that the managers of the fund, if they are advised by the Social and Economic Council that so-and-so is a bad boy, don't at the same time hand the bad boy some candy.

Senator FULBRIGHT. I had the same feeling you did, that we cannot just close our eyes to the fund and say, "Absolutely, we pay no attention to anything else that is going on except these exchange transactions."

Mr. BURGESS. No, no.

Senator FULBRIGHT. And yet I see no way to reduce it to a provision in the fund itself.

Mr. BURGESS. I think we want to be clear that the fund really has the authority to raise objection as to the way its money may be used. Now, it seems to me—this will be covered more fully by Mr. Hemingway—that in the interim period with respect to previously occupied countries perhaps it is clear that the fund has that power; but once a

country has get in, it looks very automatic, and I think that needs to be reexamined.

Senator MURDOCK. Mr. Chairman.

The CHAIRMAN. Yes.

Senator MURDOCK. Would your answers and the argument against the fund be changed at all if the San Francisco Charter had been fully ratified and was in effect?

Mr. BURGESS. No. I am assuming that it will be.

Senator MURDOCK. You are asking that it will be?

Mr. BURGESS. Yes.

Senator MURDOCK. Notwithstanding?

Mr. BURGESS. If it were not for that, why, it would be pretty nearly insuperable, but I didn't have—

Senator MURDOCK. I see. I just thought your answer might be changed by the complete ratification of it.

Mr. BURGESS. No. I think even so we need to examine this language again.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Yes.

Senator MILLIKIN. It seems to me that Senator Fulbright's question raises a large question as to the San Francisco plan. If that plan is going to concern itself with favoring one system of politics as against another, you at once have the same kind of problem as to the plan that you would have if this fund favored one system of politics as against another.

Senator FULBRIGHT. Well, it definitely disfavors what went on in the case he cited: Japan and Italy. It certainly is devoted to the prevention of aggression. That is cited here as an example of what we want to avoid.

Senator MILLIKIN. Well, but I don't understand that there has been any economic code drawn at San Francisco. There is provision for setting up an economic council, but I do not understand that they have drawn up an economic code.

Senator FULBRIGHT. No, not economic; but the examples that were used as what Japan had engaged in and Italy, are the very sort of thing that the Security Council is designed to prevent. Now, if they deny action or they won't approve of that, I wouldn't see anything inconsistent with other agencies concerned with international affairs taking cognizance of it.

Senator MILLIKIN. Well, I think your remarks, Senator, are driving to the question of preparing for war, in terms of munitions and that sort of thing, and my suggestion was going at political systems, which in a sense involves the same thing.

Mr. BURGESS. It may, Senator.

Senator MILLIKIN. If we followed the Feis suggestion, we would determine whether we will do this, that, or the other thing because we do or do not like the political system of certain countries. That is a very serious matter, and I take it it is not contemplated by the fund. If, however, the San Francisco plan contemplates that very thing, then we have raised an interesting question as to the San Francisco plan.

Senator FULBRIGHT. I do not think it does contemplate that.

Senator MILLIKIN. No.

Senator FULBRIGHT. It is just the political system.

Senator MILLIKIN. So that if it does not contemplate it, then there will be no over-all agency in the San Francisco plan to get at the narrow question, the narrow matter that I am posing, as to not putting loans or not giving aid to countries the political system of which we do not agree with.

Mr. BURGESS. There is a whole gamut there, of course. One is the question of whether specifically to use it for munitions of war, and ~~I think you can well mention that in the wording.~~ If you can rule out the use of funds for relief, for reconstruction, there is no reason also why you can't rule out the purchase of munitions of war, and development let us say. I don't think that negative clause in section 14 of the House bill is broad enough. I think you could partly cover it there.

The other question is one of economic questions, which borders on the political. Here is an administration in power in X country that is careless politically, that is careless economically. Now, in my judgment it isn't clear enough here that that administration might not draw funds from the fund to carry on an uneconomic policy, and I think economically it is possible to bore in a little more on our wording on that score. But the main conclusion I would draw is that you want to fence this fund in so that it is very carefully safeguarded. And we will come to that.

Senator TOBEY. Mr. Burgess, you are familiar with article X, Relations With Other International Organizations?

Mr. BURGESS. Yes.

Senator TOBEY (reading):

The fund shall cooperate within the terms of this agreement with any general international organization and with public international organizations having specialized responsibilities in related fields.

Mr. BURGESS. "Within the terms of this agreement."

Senator TOBEY. Yes.

Mr. BURGESS. It has no power—

Senator TOBEY. It enunciates the principle of cooperation with general economic policy.

Mr. BURGESS. Just as it should; yes. But that does not cover this point, I think, Senator.

Senator FULBRIGHT. Is it your specific suggestion that the words of restriction should not be used for munitions of war?

Mr. BURGESS. Well, that is one of the things I think ought to be thought about, but, more important, I don't know any limitations which make absolutely sure that this fund is used for short-term prime use, "a central bank for central banks," "an iron ration," as it is sometimes said. I try not to mention Mr. Keynes.

Senator TOBEY. Mr. Burgess, is it your thought—is it your general idea—that the Senate committee ought to be entirely satisfied with the results of the House bill as far as any changes are concerned, or are you going to suggest their going further than the House went?

Mr. BURGESS. We are going to suggest, to urge, Senator—

Senator TOBEY. Are you favoring it?

Mr. BURGESS. That there may be some further changes.

Senator TOBEY. You are not entirely content with the House bill; is that it?

Mr. BURGESS. No, sir; not entirely.

Senator BARKLEY. I would like to ask you this: Is your association still urging elimination of the fund?

Mr. BURGESS. No, sir. There again we—may I come to that in just a minute, Senator?

Senator BARKLEY. Oh, pardon me.

Mr. BURGESS. I think I will make it clear as I go on.

Senator TOBEY. On the point you are speaking about you did give the House praise for what it had done, expressed more approval of what it had done; did you not?

Mr. BURGESS. I thought they did a fine job.

Senator TOBEY. In theory?

Mr. BURGESS. But, of course, the great Senate of the United States, I am sure, can improve it, Senator.

Senator MURDOCK. Tell that to the marines.

Senator BARKLEY. Did you say that in your testimony on the House bill?

Mr. BURGESS. I didn't say that in the House.

Senator TOBEY. Representative Thom, please take notice of this libel on the House. [Laughter.]

Mr. BURGESS. Now, a fourth point with respect to the fund is the danger of failure. If this turns out, as John Williams used the words, "to be another failure," it would be very much too bad.

Technically, if we get into this scarce-currency provision, which I think is an abomination of the wicked, I think article VII of this bill is highly inexcusable. It lays the whole burden of responsibility on the creditor. I think it needs careful attention. But, of course, that does not come into operation if the fund is working beautifully; it comes in if you encounter failure, if the fund gets frozen. At that point, if the fund as a responsible group of fellows has to take formal action declaring a currency scarce, that is about the same as the Federal Reserve bank in New York raising its discount rate 2 percent, and what that does to an international picture in the way of discouraging a flow of capital out, and so on, is very serious. It is very different from just the fact of a currency being scarce in the market. It is a declaration by a responsible group of people which I think is extremely serious; and the power then of any country to break agreements that it may have with us, so it can abrogate an agreement, is authorized too specifically. I think it is very serious. Also I think the failure of this thing would be very painful and would lead us again into just what I have talked about, a roller-coaster policy of lending, where we lend and then stop, and that is disastrous for the other countries of the world and for world cooperation, and so on. So that is a danger. There again that is an argument for making sure that the fund is very carefully limited in its operations and protected.

Senator RADCLIFFE. Mr. Burgess, are you going to discuss these four points in detail, now or later? Are you going to discuss them further on?

Mr. BURGESS. No. I think those remarks conclude what I was going to say about them.

Senator RADCLIFFE. Could I ask one question about them, very briefly?

Mr. BURGESS. Yes.

Senator RADCLIFFE. The second point, the second objection which you raised to the fund, I believe, was that you considered it might be inflationary in view of the scarcity of goods in this country and the fact that the purchases by foreign nations would tend, of course, to increase the demand. Doesn't that go to the whole question of foreign trade? In view of the scarcity of the articles in this country, wouldn't practically any purchase from abroad have an inflationary effect? And if so, how far is it advisable that such an inflationary tendency should develop if thereby foreign trade, to a certain extent, can be promoted?

Mr. BURGESS. I think, Senator, it is largely a question of timing. I think over a period of years we are pretty well agreed that we want a flow of investments from this country abroad, wisely and properly made. Now, the trouble about timing in human affairs is that we all get on these waves of feeling about things. The country is now almost pathologically international-minded, so that they are not patient with even stopping to think about things, and that means we are going to pour out money too freely abroad. I have been through it twice myself. I was through it in 1920—

Senator RADCLIFFE. Well, haven't we a practical situation before us? If purchases abroad tend to have an inflationary effect, haven't we got to make up our mind how much of that is wise and how much of it isn't?

Mr. BURGESS. That is exactly the point; yes. That is exactly the point.

Senator RADCLIFFE. I thought personally you might be a bit concrete in developing that idea.

Mr. BURGESS. Well, yes; I do want to get at that. I think we want to look every gift horse in the mouth, and we have to do it case by case. I don't believe that you can sit back and say, "Well, we ought to lend 5 billion abroad this year and 6 billion next." There is already, of course, a huge buying power for our products. I think Harry White gave you some figures on that a few days ago, on the amount of dollars that countries already have and the amounts that have become available to them in one way or another by actions we take. And we have got the Export-Import Bank project, that I am for. And we have got to do something about the British position, which I am for. I don't think there is any general rule, and nobody can lay down an amount, but I do think in each case we have got to make sure the machinery is such that it is examined not just from the point of view of this individual instance, but from the point of view of the picture, whether that is going to lead to the purchase of scarce goods and going to push our economy too hard.

Senator TAFT. Mr. Burgess, will you explain why you think this fund is more inflationary in fact than the ordinary loan made to the bank?

Mr. BURGESS. Well, in the first place, the uses of gold, pouring a billion eight hundred million of our gold into this. All that, of course, goes directly into the credit stream and expands the bank deposits and purchasing power, and could do it manyfold. I don't think as a matter of fact it will do that, because the Federal has the power to offset that by the sale of Government securities. I say I don't know. All of this is a question partly in terms of the minds of the people, of

how we think of these things, and the business cycle is not an economic phenomenon; it is a psychological one, and the people are moving in a direction——

Senator BARKLEY. That is true not only internationally. It is true in the Nation. It is true in banks.

Mr. BURGESS. Exactly.

Senator BARKLEY. Classes and moral equations have entered into those things that you can't set out into law.

Mr. BURGESS. Yes. Now, right here we are in the middle of an inflation period. This is the time for caution. I know a banker who has a sign up over his door, "In prosperity—caution; in adversity—courage." This is a time for caution.

Now, sir; I want to answer your question.

Senator DOWNEY. Mr. Burgess, before you go on, I understood you to use the expression—maybe I didn't correctly understand it—"pathologically internationally minded." Is that the expression you used, and did you mean to use that expression?

Mr. BURGESS. Well, for the record I don't suppose I did, Senator. [Laughter.]

Senator DOWNEY. No, no. I think it is important to know what your meaning is. Did you mean what one would think you meant by that expression?

Senator TAFT. Almost, he said; almost pathologically.

Senator DOWNEY. Well, all right.

Mr. BURGESS. I put it, I put it in "almost."

Senator DOWNEY. I don't think the "almost" was there, but even if it was——

Senator TAFT. Yes; it was.

Senator DOWNEY. I mean all I want to do is to find out whether that is what you mean. You seem to be a man who uses language very precisely and carefully.

Mr. BURGESS. Well, I am for——

Senator DOWNEY. But did you designedly use that expression?

Mr. BURGESS. Let me explain it. I am delighted. I am delighted that we are so, because the danger was that we would repeat the error of after the last war.

Senator DOWNEY. Well, you don't mean to say you are delighted that we are crazy at this stage? Is that what you mean to say?

Mr. BURGESS. Not exactly, Senator. [Laughter.]

Senator BARKLEY. Well, you used the word "pathological" in the sense of sympathetic, didn't you?

Mr. BURGESS. I used it in the sympathetic sense; yes.

Senator BARKLEY. You didn't mean to include the lunatic fringe in that phrase?

Mr. BURGESS. No.

Senator DOWNEY. Well, it doesn't include the fringe. It includes those that have gone completely over, as I understand it.

Senator RADCLIFFE. You said "psychological" and not "psychiatric." didn't you?

Mr. BURGESS. Well, the danger, of course, Senator, is that when you are in one of these moods you do things carelessly without thinking about them, and my only thought is that where responsibility rests there is responsibility for stopping, looking, and listening and trying to guide this thing into wise channels.

Senator FULBRIGHT. Do you have any suggestion as to how we could control or coordinate the loans and the purchasing program in this country? It strikes me that some method of coordinating those should be very valuable in these 5 years or 10 years.

Mr. BURGESS. Well, I was delighted at the provision in the House bill for this council which, as I understand it, will unify, at least with respect to policy, all of our Government's undertakings with respect to foreign loans. I think that is a great step forward, and I hope that council would—

Senator FULBRIGHT. Could act sort of like a rationing board—

Mr. BURGESS. That is right.

Senator FULBRIGHT. In these purchases and give proper distribution among the various ones?

Mr. BURGESS. Yes; I think that is a very real help.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. Do you foresee the possibility, Mr. Burgess, of our possibly rationing exports?

Mr. BURGESS. Well, I would hope we wouldn't, Senator, but it ties right in with our loans. If we put too much money in the hands of foreigners, we may have to ration goods.

Senator MILLIKIN. Well, we could achieve the rationing by rationing the loans.

Mr. BURGESS. Yes; that is the place to do it. That is the best place to do it.

Well, now, those are the dangers as I see them, if that covers your question, Senator.

Now, what to do about it, Mr. Chairman; and I would like, if I may, to reply to Senator Barkley's question on that score. I think there are two main approaches to this problem. These dangers in the fund are recognized by responsible people. One way to do it would be to postpone the operations of the fund to a more normal period when the dangers of leakage and abuse would be less; and, frankly, that is the recommendation which our committee made when it considered this thing some months ago. We made it because we have been often accused of—no. Let me say that over again. We didn't make it for that reason, but we have frequently been accused of not making concrete suggestions. Somebody says, "What alternative is there?" Well, we gave an alternative and spelled it out. We wanted to do that not because we felt that was necessarily the only alternative, but to have one. That was the proposal, generally speaking, that the New York State Bankers Association arrived at, with some variations, and the gentlemen from the Federal Reserve bank arrived at after some consideration.

Senator TOBEY. Which gentlemen from the Federal Reserve bank?

Mr. BURGESS. Mr. Sproul and—the Federal Reserve Bank of New York. Excuse me, Senator.

Senator TOBEY. You were here the other day. We pointed out that 13 other bank presidents all are enthusiastically for it, whereas Mr. Sproul and one or two others—

Mr. BURGESS. There are only 12 banks.

Senator TOBEY. Well, 12 banks. Eleven to one.

Senator TAFT. I would like to take out that word "enthusiastically."

Senator TOBEY. Well, that is a preponderance of the testimony.

When we hear the testimony of the professor from Harvard College, when we sit here and hear 1 authority say one thing and 11 the other, when one says postpone it and the others say go ahead, full steam ahead, what is the jury to decide upon who has the authority, who speaks as having authority for the American Bankers Association? It is Mr. Sproul? Or is it the other 11 presidents of banks?

Senator RADCLIFFE. We want to hear all of them.

Senator TOBEY. Hear all of them; I agree to that. And I cite the fact that the preponderance of testimony on these issues is largely one way. The preponderance of testimony.

Senator BARKLEY. In that connection, while you are answering Senator Tobey, I have been bothered somewhat by the division of opinion in the banking world.

Mr. BURGESS. So have I, Senator.

Senator BARKLEY. The Pennsylvania Bankers Association, for instance, made up of big and little banks, has endorsed the Bretton Woods proposals, fund and all. The Independent Bankers Association, which is made up of about 2,000 country banks throughout the country, have endorsed it.

Mr. BURGESS. Yes.

Senator BARKLEY. Now, the New York Bankers Association at the beginning differed from the American Bankers Association. Your association recommended the elimination of the fund altogether. The New York Bankers Association recommended simply that it be postponed. So that there seems to be quite a division in the banking world over this whole thing.

Mr. BURGESS. That is right.

Senator BARKLEY. And we are glad to hear all of them. But I wonder whose advice we ought to take after we have listened to everybody.

Mr. BURGESS. I may say to the Senator that that difference between ourselves and the New York State Bankers Association I think is more in form than in reality, perhaps. While we said we wouldn't adopt the fund itself, we put its functions over into the bank and would develop them gradually.

Senator BARKLEY. You have come around to the New York Bankers Association viewpoint?

Mr. BURGESS. No; I wouldn't say that, Senator. I may have come even further than that.

Senator BARKLEY. Well, I mean—

Mr. BURGESS. I was going to say I recognize that we have learned something in these discussions here.

Senator BARKLEY. Yes.

Mr. BURGESS. I recognize that we may not have found the perfect answer in this thing, and there may be alternatives that maybe will produce the result as satisfactorily as we suggested. If we were perfectly free, if one could say what was economically the best thing to do, I would still advocate our original proposal. I recognize, however, that there are difficulties in that suggestion and that there are alternative methods of dealing with this thing, and the alternative which the House committee arrived at after long consideration was not to postpone the fund but to safeguard its operations still further,

beyond the safeguards that are already contained in the plan, I think that is a feasible way of procedure.

I would like, if I may, to turn to this question of examining the safeguards—

Senator BARKLEY. Now, let me see if this is the position of your association—I would like to make it clear—in view of what has happened in the discussion and in the House.

You no longer recommend the elimination of the fund, as I understand it.

Mr. BURGESS. We would not attempt to make up your minds for you, Senator.

Senator BARKLEY. No; but I would like to have you make up yours.

Mr. BURGESS. Senator, if I were sitting in your place and had the House action before me and had this problem, I would be inclined to proceed on the second way at this stage, to safeguard the fund, rather than to try to postpone its operation.

Senator TAFT. Your opinion really is that the thing to do is to postpone its operation?

Mr. BURGESS. Yes.

Senator TAFT. Your opinion is exactly the same as it has always been, but you have had to yield to the force of the fact that public opinion is in favor of this thing so that it seems to be impossible to do what you originally wished to do; isn't that it?

Mr. BURGESS. Well, I wouldn't define it as quite that.

Senator BARKLEY. Rob, do you want a new trial on the ground of surprise?

Senator TAFT. No; but I think as far as their position is concerned, I think I am right on that.

Mr. BURGESS. There are two ways of doing it. I recommend to go ahead in the second direction and safeguard the fund.

Now, there are two general ways of trying to safeguard this fund to avoid the difficulties. One is through management. Obviously, the management will be enormously important. I know that a great deal of thought will be given to the people who are appointed to do this. It is going to be one of the most responsible of the postwar jobs.

Senator BUTLER. Mr. Burgess, in that connection, would it help any if the Board of Governors and Directors in each case, on the bank and the fund, were made one and the same?

Mr. BURGESS. Well, that is one suggestion I would like to make, Senator; yes. The House committee went part way in that. One great problem will be to coordinate the activities of the two organizations. There will be many borderline cases which might be thrown one way or the other, and they will be making loans to the same people—the same countries. The same country will be coming to the fund and to the bank.

Now, the House recommends the principle of coordination, in providing that in the case of this country the governor of the bank shall be the same man as the governor of the fund. One man would serve both functions and I think that is a very helpful provision. There are two problems about that. One is that that is our action. There are 43 other countries concerned in this matter. I think it is a fair presumption that a good many of them will follow our lead in the matter, but that is only a presumption.

The other question is with respect to the Board of Directors of the fund, the Executive Directors. The Board of Governors meet statedly once a year. It may meet more frequently than that. The actual job of day-to-day decisions is carried on by the Executive Directors. The agreement provides for 12 Executive Directors of the bank, and 12 executive directors of the fund. Each one of these 12 has an alternate. So that there are 48 people designated to do this job, segregated into two separate Boards. Forty-eight is just two short of the number that we denominate as constituting a convention in our present parlance. We have a Federal Reserve Board, I believe, of six, at the present time, and that has proved ample for that purpose. There is a very good chance here of too many cooks spoiling the broth.

I had an experience in New York State that makes me recognize the importance of coordinating these things. That was in the organization of the War Finance Committee, when I took over that organization 2 years ago in 1943, as Senator Wagner will remember.

The CHAIRMAN. You did a good job, too.

Mr. BURGESS. We had two committees, we had an uptown War Savings group and we had a downtown group. They were made up of just exactly the same kind of people, investment bankers, bankers, retailers, business people, and so on. They were at each other's throats because they were doing the same things, selling bonds to people.

The first thing we did was to put them together under one board. I think it is a fair thing to say that this job would have a greater promise of success if there were a smaller number of directors and one board. Separate staffs, yes; but one Board of Directors. That doesn't require any change in the articles of agreement. It would simply be an agreement among the members to do it.

Senator RADCLIFFE. Do you think the system of alternates is unnecessary and may be an element of weakness?

Mr. BURGESS. No; I think particularly, if you merged the boards you would want an alternate. One proposal was that there should be two alternates, one to serve with the fund and one with the bank, with a single board of directors.

Senator RADCLIFFE. Do you think in all cases where you have an identical board of two institutions but whose functions are different, although they are kindred, that it would be possible to always carry out the Biblical injunction not to let your right hand know what your left hand is doing?

Mr. BURGESS. That is my fear.

Senator RADCLIFFE. That is my fear, too, that they would not have that independence as to each other that probably they ought to have.

Senator MURDOCK. It seems to me that each one ought to know very clearly what the other one is doing.

Senator McFARLAND. The question is, Should they be independent of each other?

Mr. BURGESS. I think they ought to be working together. Here are two boards making loans to Brazil. What should Brazil do? Is it all one program?

Senator RADCLIFFE. One of them is stabilization of currency and the other is investment.

Mr. BURGESS. One is short-term loans and the other is long-term loans. We are doing that all the time in my bank. We make a term

loan to a business which also has a current line of credit. We have our investment department and commercial department. They are both banking functions. The thing you do is to segregate the selling of securities, but this bank doesn't do that at all. That is just something I throw out for your consideration. I think the principle was recognized by the House committee. I think, myself, they don't go far enough with it. The bank and the fund have to pay these salaries. They have to be first-class men. They have got to be drawn to this job from other occupations.

There has been some discussion of these salaries. I think they have to be pretty good to attract the right people. If you have 48 of these fellows, that is quite a salary load to start with. If I were one of the fellows that was going to think about it, I would say, "I don't want to get into this debating society with all these people. It is too big." You have to attract first-class talent. I don't think this set-up at the present time will do that. I think you will find it difficult to get people to serve under these conditions.

That is one approach to the problem and we recommend that the same board of directors serve both institutions. We think it would obviate some difficulties.

There is another problem of management that has been referred to, and that is coordination of the foreign lending of the United States. I think that has been excellently provided for in the House bill through the creation of this Council. I think that has not been discussed very much here and I want to call to your attention that it does, in my judgment, some very useful things. In the first place it provides unification of policies with respect to our loaning agencies.

In the second place I think it can be used if we are alert, as a bridge between the institutions and Congress; that the members of that group can be called before Congress and can be accountable to you and the law provides they shall make reports every 6 months to the Congress and be available to collect information and so on.

There is one very important provision there that I don't think specific attention has been called to, and that is the provision on page 5 of the bill, section 4, subparagraph 6, which provides that the Council shall make at the end of 2 years, and every 2 years thereafter, a thorough survey of this whole business of the fund and the bank and how it has been working, how it protects American interests, and whether the two institutions have been adequately coordinated, and the whole operation. That seems to me of great value. In the first place, it is a provision that somebody has the responsibility at the end of 2 years of making this report. At the end of 2 years I think we will be in a position to size this thing up somewhat.

In the second place, it seems to me in a very diplomatic way to call other countries' attention to the fact we are going to examine this very carefully. The other countries know that we have the power to withdraw at any time, so that I think that is a very helpful provision.

The CHAIRMAN. Mr. Burgess, would you mind being interrupted at this time? We are going to have to recess until 3 o'clock and we want you back here.

Mr. BURGESS. All right. I will be glad to be back.

The CHAIRMAN. Right here in this room.

(Thereupon, at 11:45 a. m., a recess was taken until 3 p. m. of the same day).

AFTER RECESS

The committee resumed at 3 p. m., upon the expiration of the recess. The CHAIRMAN. The committee will resume. Mr. Burgess, we will go on where we left off, if you don't mind.

STATEMENT OF W. RANDOLPH BURGESS, VICE CHAIRMAN OF BOARD, THE NATIONAL CITY BANK OF NEW YORK, AND PRESIDENT, AMERICAN BANKERS ASSOCIATION—Resumed

Mr. BURGESS. Thank you, Senator Wagner. I was just commenting, I think, as we recessed, on methods that might suggest themselves for safeguarding the operations of the fund as an alternative to a more drastic revision of the whole plan. And I had said this might be worked under two general headings:

1. The question of management. That is primarily a question of who you get to run it, which we cannot decide here in the committee, but is of enormous importance.

2. Having a set-up that supports the management.

And I commented on the Council as a very effective and helpful provision as it was passed by the House. I commented also on what seemed to us the desirability of coordinating the two organizations by having the same board of directors for both.

Senator FULBRIGHT. You said something about 48 directors, and I do not believe I quite understood you. What did you say about 48 directors?

Mr. BURGESS. Twenty-four directors and twenty-four alternates.

Senator RADCLIFFE. Under that plan would the alternates sit and discuss matters?

Mr. BURGESS. They would not sit unless the directors were away. But they would be around the institution.

Senator TOBEY. In other words, here there would be a slight difference between directors and alternates?

Mr. BURGESS. Yes.

Senator TOBEY. What is the distinction between that situation and the case of some New York national banks? For instance, let us take the Chase National Bank of New York City. It has 24 directors, but also has 72 first vice presidents and 93 second vice presidents, or a total of 165 vice presidents. Perhaps when the time comes to do so you select a president from that number of vice presidents. Then if you take the National City Bank of New York they have 41 vice presidents called first vice presidents and 58 second vice presidents, a total of 99 vice presidents. Is there some analogy between what is suggested here and what you have in the case of your bank and in the case of other banks where there is a multiplicity of vice presidents?

Mr. BURGESS. I think the difficulty there is, what the status of these people is. Our directors come once a week and spend an hour.

Senator TOBEY. How about the work of these vice presidents?

Mr. BURGESS. I hope they come pretty close to 9 o'clock in the morning and stay until 5 or 6 o'clock at night. They are subordinate to the president and do what he tells them.

Senator TOBEY. So these alternates only function if the directors are not there?

Mr. BURGESS. It is a little difficult to say how they function during the course of ordinary business, but they are presumably around.

Senator TOBEY. But they are under the fund?

Mr. BURGESS. Yes, sir.

Senator TOBEY. And in case of the absence of directors they take their places?

Mr. BURGESS. Yes, sir. The trouble about the directors is that they are all presidents. Like the Federal Reserve Board, where you have to have them always there, and have to find something for them to do, and each one is equal to the others. In a case like that the number becomes difficult.

Senator TAFT. If they are full-time people, they want to be there.

Mr. BURGESS. Yes, sir.

Senator TOBEY. But it is in case the regular directors are not present?

Mr. BURGESS. Yes.

Senator FULLBRIGHT. They may attend meetings, but cannot vote?

Mr. BURGESS. Yes, sir.

Senator TOBEY. Somewhat like extra members of an orchestra, if someone breaks down there is another to take his place.

Mr. BURGESS. You might put it that way.

Senator TOBEY. But there is a tremendous disparity between the two set-ups, both in the fund and in the bank.

Mr. BURGESS. I might put it this way—

Senator MILLIKIN. Might I suggest that the trouble with the Senator's analogy is that he confuses the function of the two things.

Senator TOBEY. I say, there is some difference there.

Senator MILLIKIN. The functions of executive officers is entirely different. You may multiply them indefinitely according to the work that is to be done.

Senator TOBEY. So far as alternates taking the place of directors is concerned, that would not be true unless directors were absent.

Senator MILLIKIN. I assume in the case of these vice presidents—although I do not know how hard each one works at it, but each one has certain duties to perform. He does not sit around and wait for his principal to walk out and then step into the breach, but he is busy all the time doing something.

Senator TOBEY. But he would not function in the place of the president unless the president was absent.

Senator MILLIKIN. But they are always working at something.

Senator TAFT. As I understand the question here, it is this: Whether you want two boards of 12 men each or want to combine them.

Mr. BURGESS. Yes.

Senator TAFT. Whether you will have one board or two boards.

Mr. BURGESS. It is a problem of harmony.

The CHAIRMAN. You may proceed, Mr. Burgess.

Mr. BURGESS. If I may now move on to the other kinds of safeguards. You must not only have good management but must have the functions clearly delimited so that they may know clearly what they are going to do. There is going to be tremendous pressure on

these boards to lend money, particularly I would say in the case of the fund, because interest rates are low, and provision for submitting information and so forth means less than in the case of the bank. Each loan of the bank is to go through quite a long process of investigation and so on. Pressure for the use of the fund will be very great, and that means the definition needs to be very carefully laid or it will be harder for those fellows to say no, as they should say no from time to time.

That situation was explored by the House committee and they came up with an interpretation in sections 13 and 14 of the bill that you have before you, which is an attempt to throw the longer loans into the bank, and the loans which are of a general type rather than specific. This is a matter that was contemplated, as I understand it, at Bretton Woods, so that it is simply making somewhat more specific what was already contemplated by those who were at Bretton Woods, and that the loans made by the fund shall be correspondingly kept in the short-term class. In that way we attempt to meet the dangers that I have suggested by making sure that your loans are short-term and of high quality. That automatically restricts the amount and keeps you within bounds or at least minimizes some of the dangers I was talking about.

Senator MURDOCK. Mr. Burgess, it is difficult for me to distinguish between securities that you might have behind a loan from the bank, and the currency of a country that goes into the fund. I wish you would explain to me, briefly, just what type of securities you will have behind a loan which makes it a safer loan from the bank than in the case of a loan from the fund.

Senator TOBEY. Senator Murdock, if I may make one comment on that.

Senator MURDOCK. All right.

Senator TOBEY. Do you recall that the other day around the table here one of the speakers for the agreements made the statement that in his judgment there is more risk in the case of loans from the bank than from the fund?

Senator MURDOCK. I think Dr. White was quite distinct in his position that there was more risk in the case of loans from the bank than from the fund. I think I am right about that, am I not, Dr. White?

Mr. WHITE. Yes.

Mr. BURGESS. I am not sure that I differ at all from that. It seems to me loans from the fund ought to be a great deal safer because if you are going to have anything that has any automatic line of credit element to it, it ought to have much less risk than the longer term. The minute you get into the longer term you involve risks in the matter of the economy of the country, and so on. The longer risk should be thrown into the bank.

Now, as to the security——

Senator MURDOCK. I should like to have you go into that in a little more detail.

Mr. BURGESS. As to the actual tangible security you have for loans of either, I do not think in either case they amount to much. I do not think it is a question so much of security as it is——

Senator MURDOCK. Right there may I make this observation: Unless you have political stability in a country it seems to me any securi-

ties, with probably one exception, would be absolutely dependent on the government of the country from whence the securities come. Unless that country is absolutely in good faith in its transactions, and unless there is political stability and also economic stability in that country, it seems to me your securities are more or less a myth. Now I come back to the one exception to that and that is this: That if the currencies of those countries are based on gold, then in my opinion it makes little difference about the stability of the country, either economic or political; if there is sufficient gold backing for its currency—and gold remains the one thing assuring international exchange on all transactions—that would seem to protect the situation. We come right back to the proposition that when you talk about international stability of currency, or national stability of currency, you must come back to the fact, unless I am terribly mistaken, that there is just one, or maybe two, securities that you can have that are acceptable throughout the world, and those two are gold and silver.

Mr. BURGESS. Well, I would go along on part of that, but I do not think on all of it. As you know, and as I have said before in this committee, I am a hard-money man. I believe very sincerely in the theory of gold back of currency.

Senator MURDOCK. I saw evidence of that when you were here on the other bill.

Mr. BURGESS. I believe in that because of its human values rather than something mystical. I think if a country has gold back of its currency it is less apt to overexpand its currency; it is less apt to go haywire on its money policy and on its budget policy, because the gold reserve gives it an automatic warning of a sort that is not easy to ignore.

I have known of many instances where a country has been turned around from a profligate course because the head of the central bank and the Prime Minister have recognized their difficult position on their gold. The gold reserve is a reflection of their economic behavior, and they have taken that position to their Parliaments and told the story.

Without that kind of thing a situation may get just as bad, but there is no outward and visible sign of it perhaps. So it is the psychological value that seems to me is the important thing.

As far as loans of the bank and of the fund are concerned, you make them on a country's balance sheet in a sense; and with respect to the bank you make a loan, of course, not only on the country's balance sheet but on the balance sheet of its industries.

Brazil, for example, received a loan from the Export-Import Bank of Washington. They financed a steel mill in Brazil, and that steel mill was a tangible thing, yes, but it does not do you any good as security in the sense that you could carry it off and pay the debt with it. It is the fact of that operation that supports your loan. Of course, it is not just the balance sheet, but also the character and the integrity that you find here. The loans of this bank will be dependent, just as the loans of any bank are, on that sort of consideration; and the loans of the fund will also. They are, presumably, shorter term, and the risk ought to be considerably less.

Of course, it is very important that the loans of the fund should be protected because the dollars in the fund to be loaned are very much

smaller than the dollars in the bank. Now, that is something that they sometimes overlook. But I think it was pointed out in this committee that there are something like 4 billion of dollars in gold that will be in the fund. There is a potential 10 billions of dollars in the bank.

That is, the bank can guarantee up to a limit of close to 10 billion of dollar loans. It is a bigger and more expansible element. So that the fund is smaller and of a character where the safeguards ought to be better. And I agree with Dr. White; I think that the fund if properly managed, if it carries through what you gentlemen have in mind, will probably lose less money than the bank. I think it is terribly important, though, to back up the management here by being sure that they have clear authority as to just what they are to do.

Senator TAFT. This business of loans in the case of a bank with only 3,125 million, I think it is, in which they are called upon to guarantee \$10 billion of dollar loans, is something I do not quite understand. What happens supposing the loans go sour? What happens then to the fund that guarantees them? We only lose \$3,000,000,000, but how can these other nations' guaranties be used to make good to our people who have loaned under the bank's guaranty of \$10,000,000,000?

Mr. BURGESS. Now as to bonds, the other countries are under obligation to pay on those loans. Will they have the money? We do not know. As a matter of fact, it is a reasonable presumption that if the loans are properly made the losses that have to be met will be very much less than our own subscription to it, always assuming good management.

Senator TAFT. I do not think that is necessarily so at all. I do not see why the same thing cannot happen to 10 billion and the 6 billion fund that happened to the prewar debt. A condition may arise in the world whereby these nations are unable to repay any such tremendous sum, added to a lot of other debts; and in the past we have lost and others have lost.

Mr. BURGESS. That is possible.

Senator TAFT. Suppose they go broke like after the First World War. While loans might be as good as you please, the ability of countries to repay them might disappear. I do not quite like this idea of \$10,000,000,000 being loaned under a guaranty to the people in America who are making these things. I do not suppose we will get the whole ten billion; I suppose the British will insist on lending in pounds.

Mr. BURGESS. It is worth remembering that this bank makes loans between two extremes. In the first place, it must not take a loan that can be made in the market. So that the good loans many countries will take pride in securing by not having to have the guaranty of the bank. It will be the ones that cannot go to the market and borrow money at a fair rate, and that will be more true in the transition period before the credit is established.

Senator TAFT. What about the good loans?

Mr. BURGESS. On the other hand, the bank is supposed to make good loans. The number of loans you can find between what the market will take and what is good, that is the area of the bank.

Senator TOBEY. What was the agency of the Government that took over mortgages?

Senator RADCLIFFE. That was the HOLC.

Senator TOBEY. There was all sorts of gnashing of teeth about that, but it was all right. Senator Taft apparently is assuming that a majority of the 44 nations will be broke and the guaranty won't be any good. I believe he was talking about giving Great Britain \$5,000,000,000.

Senator TAFT. No.

Senator TOBEY. Well, I saw something of that kind in the newspapers.

Senator TAFT. No.

Senator RADCLIFFE. Although the operation of the bank would be restricted to loans which cannot be secured by private industry without governmental participation, do you not expect that loans which will be made by the bank will be very large, in both number and amount, and if you do not call it the twilight zone, then some zone in between?

Mr. BURGESS. No; I do not think it fair to call it the twilight zone.

Senator RADCLIFFE. No. That is hardly a fair term. But do you not imagine the amount of these loans will be very large, or do you rather think they will be relatively small in comparison with what can be loaned by financial institutions without any governmental participation?

Mr. BURGESS. I should think in the first 2 or 3 years they might do quite a substantial job for two reasons: That lots of countries have to get going again. Czechoslovakia may want \$100,000,000, or perhaps twice that; and Poland will want a considerable sum of money; and Yugoslavia would want money, and they would come to the bank I think. And they cannot come to the market now. When they get going they can perhaps come to the market.

In the second place, you are operating against a very strong prejudice against foreign loans, which is a perfectly logical inheritance from the experience we have been through. I would hope over a period, with proper policies, that we can partly overcome that prejudice so that more loans would come out through the market without guaranty.

Senator RADCLIFFE. You expressed what has been touched upon before a number of times, that you think for the first 4 or 5 years a certain result will follow, but after that something else will follow. Is not the primary purpose of this bank a consideration of and action in regard to what you might call the immediate future rather than some period 5 or 10 years hereafter? I should imagine that no matter what we do now, within 4 or 5 years we will do something different. But is not the important thing to decide what we will do in the next 4 or 5 years?

Mr. BURGESS. Yes; The problem of getting countries going again that have been prostrate or have had to mark time during this period.

Senator RADCLIFFE. Whether this is the right plan or not, what we are concerned with is what seems workable for the next 3 or 4 years.

Mr. BURGESS. Yes, sir.

Senator TAFT. But the point is that the fund is not of any use during the next 4 or 5 years because it does not accomplish anything.

Senator RADCLIFFE. There is some divergence of opinion there, is there not?

Senator TOBEY. What about securities of the bank reflecting loans made to public utilities or railroads in the countries, issuing them, and bearing the guaranty of the 44 nations, could they not have a very good investment rating in this country? And might they sell as low as 3 percent?

Mr. BURGESS. I think they will have a good rating. There is one technicality that must be worked out. At the moment they would be ineligible for purchase by insurance companies and savings banks in many States under State laws. Whether 3 percent is a proper rating I would not dare say.

Senator TOBEY. Certainly that would be true in this market now if these restrictions were off.

Mr. BURGESS. I would wonder whether it would be $3\frac{1}{2}$ percent or 3 percent, but it might start out with $3\frac{1}{2}$ percent and go to 3 percent.

Senator TOBEY. Under the conditions mentioned they would be a pretty attractive purchase, would they not?

Mr. BURGESS. Yes, I guess so.

Senator TOBEY. What is your opinion about that?

Mr. BURGESS. Something depends upon management, and something depends upon whether it is too political. A lot depends on how it is handled.

May I add this, and it reverts to Senator Taft's question: You refer to these things selling in the market. There might be a resistance point developed in the sale of these guaranteed obligations, say at \$4,000,000,000 or at some relationship to the amount of our dollar guaranty. That is, if they were suspicious that some loans were not too good they might say, "It is all right to sell bonds up to once and one-half or twice the number dollars the United States puts in. But they would not want to bet on the capacity of other countries to put in. There may be a resistance point in there.

Senator TOBEY. You also visualize with me, I take it, that when this is put out by the banking companies, and with this guaranty of the 44 nations, it will be of some benefit.

Mr. BURGESS. Yes, sir. If I may resume: In the interpretation to protect—

Senator TAFT. The picture you build of selling the securities to the people is far beyond anything I have envisioned. Are these securities to be sold as investments to the people of the United States?

Mr. BURGESS. Well, I think they are a lot better than some securities.

Senator TAFT. Or is it to be guaranteed for certain bank loans or for large industrial companies? What is your picture of this thing? Can or is the attempt to be made to sell this whole \$4,000,000,000 to the public?

Mr. BURGESS. I would think to investing institutions, like the insurance companies and the savings banks. But they would be rather slow in buying them because of the maturity.

Senator TAFT. What security would they buy?

Mr. BURGESS. Let us say a 30-year security of a utility corporation in X country, it being guaranteed by that country and by the bank for \$15,000,000.

Senator TAFT. Foreign government securities or foreign utility securities sold in the United States guaranteed by the bank.

Mr. BURGESS. Yes, sir. I think I will agree with Ned Brown, who testified here that that will probably be considered a pretty good in-

vestment. But I do think a great deal depends upon the character of the management, the way the thing starts, the whole surroundings of the matter. And on the whole international picture as it goes forward.

Now, as an interpretation to try to protect the management, so that the management will have a fair show in dealing with the people who come to them for money, the House committee has made the two proposals which are section 13 and 14 of the bill before you.

The first one, the so-called C. E. D. amendment, is a proposal that the bank should make loans for long-term stabilization purposes, for programs of economic reconstruction and the reconstruction of monetary systems, including long-term stabilization loans. That makes perfectly specific and clear what was the general understanding and meaning of the phrase in the powers of the bank as it came out of Bretton Woods.

Senator TAFT. You mean if this amendment were adopted by the bank?

Mr. BURGESS. Well, that is the other point. The method by which this amendment is presented is this: The Governor of the bank representing the United States is directed to make inquiry for interpretation, and then to propose a separate amendment if necessary.

As to the substance of that, it seems to me excellent. That is, it does clarify the point where there may be some doubt.

As to the method, whether that is an effective method of putting that into effect, you are as good a judge as I am. Here is the United States of America signing an enormously important agreement. This is an important phase of it. Whether it should be done by relying upon action after the money is put in and the thing is started, or whether we should do it as a condition of our adherence of membership, is a matter for the committee to consider.

Senator MILLIKIN. In other words, we should make up our minds whether if the interpretation would be against our ideas and the amendment would not be made, that we would still want to be a member of the fund.

Mr. BURGESS. That is right.

Senator MILLIKIN. Before we would accept this provision as written out here.

Mr. BURGESS. That is correct.

Senator TAFT. I don't suppose as to No. 13 there would be much difficulty. Would you know of any opposition to adopting that?

Mr. BURGESS. I don't know of any opposition. I have talked informally with people who should be in a position to know, from a number of different countries, and I see no opposition to that particular amendment. We would be pretty sure of getting that under those terms. There is no reason anybody should object that I know of.

Now, with respect to No. 14 which limits the operation of the Fund I should like, if I may, Mr. Chairman, to yield to Mr. Lynn Hemingway, who is chairman of our committee and especially prepared to discuss that. Is that agreeable to you?

The CHAIRMAN. Yes. You have finished, have you?

Mr. BURGESS. Yes. I will be here if you want to direct any questions to me after that.

The CHAIRMAN. Very well. Mr. Hemingway.

**STATEMENT OF W. L. HEMINGWAY, PRESIDENT, MERCANTILE
COMMERCE BANK & TRUST CO., ST. LOUIS, MO.**

Mr. HEMINGWAY. Mr. Chairman, I have no prepared statement. If I may, I would like to speak from notes that I have. I don't want to take up the time of the committee, but I would like to retrace a little that has already been presented to the committee in order to make out the argument I wish to make.

I want to take a concrete case of a loan that might be made through the International Bank for Reconstruction and Development. Let us assume that Athens, Greece, has had its electric plant destroyed and it wishes to rebuild it, and that that electric plant is owned by a power-producing company. The officials of that company have their engineers prepare plans for the reconstruction and development of the machinery, and so forth, that will be needed. They find what they have to acquire outside of Greece and it amounts to considerable, practically all the electrical machinery and so forth, we will assume, has to be bought elsewhere.

They have not the finances within Greece. They have no foreign exchange with which to buy those goods. So they first contact investment bankers in the money markets of the world, London and New York, and if they find they are unable to secure the money they need in those markets on terms that they think are reasonable and that they can meet, then they apply to the Bank.

The bank then appoints a committee of experts, engineers, and financial experts, and others, who go to Athens and make a study of that problem, and if they find that the plan is a good one and that this company has every reason to expect to repay its obligation, then they approve the application. They then discuss with the officials of this Athens company the method of selling their securities.

Let us assume they agree they want to offer them in the United States as dollar bonds. They would then take it up with some investment house in New York. They would tell this investment house that the International Bank has guaranteed their securities under certain conditions, and, the terms being worked out satisfactorily, the loan is offered in the market in the United States. The bonds are sold; the company secures the dollars, and buys this machinery, either here or elsewhere as it may determine.

It builds a plant and goes ahead. After a while it finds that maybe it has made some mistake of judgment or some emergency has arisen, some accident has happened, and it needs some additional money, temporary money. Well, it would go to the commercial banks of Athens and secure that money, if it is in good condition, as we assume it would be after this financing.

Now, let us take another case in Greece. Let us assume that the—

Senator TAFT. To go back just a moment. If they find this is a good place to sell securities and buy dollars, they might take those dollars and go to England and buy machinery in England. Could they do that?

Mr. HEMINGWAY. That is right.

Senator TAFT. And they might get a cheaper price in England?

Mr. HEMINGWAY. That is right. They have a right to use the dollars anywhere they wish.

Now, let us assume the financial system in Greece has been destroyed by the war in Greece, just as the electric system was, and the financial authorities then in the treasury or the central bank apply to the International Bank for rehabilitation of their monetary and financial system. If this suggested change is made in the statutes of the bank, the bank would go through the same procedure. They would set up a committee to make the same investigation into the conditions in Greece and determine whether or not this loan should be made, and if so, on what terms.

There comes the discretion on the part of the management of the bank as to how they will loan the money, what conditions they may put around that loan.

Now, let us proceed to the next step. Let us assume this loan is granted, and that the Greeks get their money in dollars or pounds, or whatever currency they desire, and with that they have then foreign exchange that they want. They may use some of it to buy gold and put it into their monetary system. They move along for a while and then they have crop failures, or they have this, that, or the other thing, that might arise.

Then they would apply to the fund. It might come about just in ordinary transactions, heavy flow of imports into Greece.

It is our feeling that this will operate much better if the management of the fund know exactly how to handle those applications, and we believe after hearing all the discussions that the best way to do that is to put a time limit on it. In other words, there is a border line there as to just whether or not this is for currency stabilization. It is our opinion if you directed the management of the fund not to make any of these exchanges of currencies as provided, unless it was shown by the applicant, the one desiring to purchase the currency, that they could repurchase their own currency within a period of 18 months, that then the fund would always be in good, sound liquid position, that it could render the assistance that would be needed to these countries, and that if the country came in and wanted money for any reason longer than that period there is the bank to go to.

On the other hand, you have a bank where the management has discretion to determine how and under what conditions and where the loans would be advanced. In the other case you have practically an automatic situation. The only requirement would be that they could show to the satisfaction of the management they could repurchase their currency in 18 months. We think this would obviate a good deal of this discussion on many of the fine points you find in reading the statutes on the fund.

The reason we make that suggestion is because it is based on our experience as bankers. We are making now what we call term loans to corporations. They are payable over a period of 10 years, generally, with annual or semiannual amortization, and these corporations also at the same time that they are making term loans arrange for what are known as current loans for the fluctuations that take place in the operations of their business. It has been found to be a very satisfactory way to handle that long- and short-term business.

Now, there is another thing in the fund that gives us considerable concern, and that is article VII on scarce currency.

Senator FULBRIGHT. Before you leave that, do you suggest section 14 of the act, instead of cyclical and so on, you want 18 months; is that correct?

Mr. HEMINGWAY. That is correct.

Senator TAFT. Do you suggest they be limited to 18 months?

Mr. HEMINGWAY. We suggest they be limited to 18 months.

Senator FULBRIGHT. That would remove the necessity for considering all the rest of this language?

Mr. HEMINGWAY. That would leave out all of that question of language there. It would then purely be a question of whether or not the fund managers felt the applicants would repurchase their currencies within that time.

Senator TAFT. Of course, if that change were made or even attempted, it seems to me we run up against the very doubtful question of whether the managers of the fund are going to agree to any such amendment to section 14.

Mr. HEMINGWAY. You mean the other nations might not agree to that?

Senator TAFT. The other nations might not agree to that. That would make it necessary to write it into an amendment to the thing itself rather than this request.

Mr. HEMINGWAY. Well, I don't know just the best procedure you would follow to bring that about, but in our judgment that would remove a lot of the difficulties that have arisen in interpretation.

Senator TAFT. Well, take the Russians for instance. They evidently expect to get this \$300,000,000 a year for the reconstruction of plants. At least Mr. Brown seems to think so. I wouldn't think they are going to agree to a substantial change in the character of section 14, certainly, if you make it more definite by saying 18 months.

Mr. HEMINGWAY. They might feel they were being deprived of it, yet our feeling was as to Russia they would probably get what they want outside of the fund, outside of the bank. We know nothing about them except the gossip and that is that they have been negotiating with this Government for a direct loan.

Senator TAFT. That is very interesting gossip. I heard they made a request, but I had not heard of any negotiations.

Mr. HEMINGWAY. Well, maybe request is a better word, Senator. Well, I will go ahead with the discussion of article 7 if I may.

The CHAIRMAN. Yes.

Mr. HEMINGWAY. That was on the question of the scarce currencies. I think you have had that before you, but I would like to just reread two sections there. This is section 1 of article VII.

If the fund finds that a general scarcity of a particular currency is developing, the fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Well, it is our feeling that this article VII is aimed directly at the United States by those countries who have the feeling that the obligations for stabilization of trade and currency rests upon the creditor nation. We do not believe we ought to be placed in that position. We think there is an obligation resting on the debtor nations and in that connection I would like to read a short paragraph from an article published in January of this year by Mr. O. R. Hobson, a financial

writer of England. This was published by the Journal of the Institute of Bankers. He says:

It may be said that if a country persistently tries to maintain a favorable balance of trade, other countries must necessarily sooner or later adopt restrictions of one kind or another against imports from that country and that in deliberately legislating for such a situation Bretton Woods was merely taking cognizance of the inevitable. Nevertheless, in international affairs unequivocal acknowledgment of the obvious is not so common a phenomenon that the action of Bretton Woods in this matter ought to be dismissed as of no significance—particularly when it is remembered that the potential scarce-currency country which every delegate had in mind was none other than the United States and that the American representatives themselves agreed to the penal clauses affecting the economic misdemeanor of excessive creditorism.

Now, I happened to be in England in November 1943, and I talked with a number of bankers and businessmen and some members of the British Government about these financial matters and trade matters. It was impressed on me many times the obligation that this country is under; that we must do this, and must do that, as a creditor nation. It seems to me this section I read is just enabling those people and others who think as they do, whenever the dollar becomes scarce, to point the finger at us and say that we are the cause of it. If they do that individually, as they would do perhaps if you didn't have the fund, it doesn't have the same effect as if it is done by an international organization with a regular body constituted and authorized to make such a comment.

The last section of the article says:

Members agree not to invoke the obligations of any engagements entered into with other members prior to this agreement in such a manner as will prevent the operation of the provisions of this article.

Now, I don't know just what that might be interpreted to mean, but many people who have discussed the matter and studied it think that in the event that action were taken against the United States, the dollar being declared scarce that for example the Reciprocal Trade Agreement Act would be nullified, and some go so far as to say that the Export-Import Bank loans would be postponed under the operation of that indefinitely. I don't know whether that is correct or not, but the implications there are such that it seems to us that that article 7 should be taken out of the agreement, and in amending this you should take that out.

Senator FULBRIGHT. Do you have any suggestion for a substitute to it?

Mr. HEMINGWAY. No. I would just take it out. I don't think it is necessary.

Senator FULBRIGHT. What would happen as a practical matter if the currency did get scarce—what would happen in the absence of that?

Mr. HEMINGWAY. Well, if it got scarce they would probably take some action to protect themselves. The effects of it as far as the exchange relations go would probably be pretty much the same whether you had that in or had it out, but this, if we understand it correctly, authorizes the cancellation of other agreements by reason of that fact.

Senator TAFT. If people cannot do business it means they cannot import from this country. Isn't that what it would mean?

Mr. HEMINGWAY. That is what it means.

Senator TAFT. So we can then do as we please about meeting that situation?

Mr. HEMINGWAY. That is right.

Senator TAFT. We could lend somebody some money or—

Mr. HEMINGWAY. We could take whatever action we thought best for us.

Senator FULBRIGHT. It is true, however, we cannot expect always to have a favorable balance of trade indefinitely. That won't work, will it?

Mr. HEMINGWAY. Well, I don't think so. Finally people run out of means of paying for your goods. We in our organization are great believers that there should be as near as possible a balance in the trade and that the money should be only used for settlement of comparatively small balances.

Senator RADCLIFFE. Mr. Hemingway, you stated you are apprehensive that this might militate against or eliminate the Reciprocal Trade Agreement or the operations in the Export-Import Bank. What was discussed as far as you know when the matter was under consideration as to what was the particular objective of this section? You have referred to what you think it might affect. I assume there was something very definite in the mind of the author when this was put in.

Mr. HEMINGWAY. Well, if you ask me for my personal opinion, I think that was put in by the British to force us to assume what they regard as our responsibilities as a creditor nation. Just how they did it, how they sold it to the other people, I don't know.

Senator RADCLIFFE. You don't know of any discussions?

Mr. HEMINGWAY. I wasn't there. No, sir. I haven't heard of any. There is only one other point that I want to bring out, Mr. Chairman. This is also just an observation of some of the things to be watched in the operation of the fund agreement.

There has been a lot of talk about the sterling areas. Some have said that these bilateral agreements are prohibited by the fund and some have said they are not. Frankly, I don't think we know. We cannot figure out and we see no sound language one way or the other.

Senator RADCLIFFE. They are certainly not prohibited for the first 5 years.

Mr. HEMINGWAY. For the first 5 years. That would be my impression. They are a means of economic warfare. There again I want to trespass on your time for a moment to read another article which was published in the Banker, a magazine of London. It says:

With the coming of war, the sterling area changed both its membership and its character. It immediately lost its neutral adherents. Like everything else forming part of the texture of the British Commonwealth of Nations it became an instrument of total war. The gradual evolution of sterling exchange control was built within the frame of the sterling area. That area acquired something it had never had before: statutory definition. It became one of the essential means of defense for sterling, used consciously and openly for canalizing trade where strategic demands required it to be canalized, providing the means for every kind of discrimination both in commercial policy and in directing the flow of capital to and from the various members of the area. As with so many of the metamorphoses brought about and justified by the needs and arguments of total war, this one has found a strong and vocal body of permanent supporters. The debates on Bretton Woods have revealed how strong is the body of opinion which wishes to preserve the sterling area not as what it was, but as what it is: an instrument of economic warfare; a battering ram with which to open the door to unwilling markets; a spiked fence

of discriminatory devices with which to keep unwanted goods from unwanted sellers out of the Empire market.

We just bring that to your attention because it is a subject we have discussed in our committee. It is a thing to be on guard against.

I would like to conclude my statement, Mr. Chairman, by putting in the record here some recommendations for safeguarding the operations of the fund which follow pretty much what I have said and which I would like to read.

The CHAIRMAN. Very well.

(The matter referred to follows:)

RECOMMENDATIONS FOR SAFEGUARDING THE OPERATIONS OF THE FUND

PURPOSES TO BE ACCOMPLISHED

I. Clarification of the power of the bank to make loans for financial and monetary rehabilitation and for exchange stabilization. The House amendment (sec. 13) does this satisfactorily.

II. In clarification of the short-term character of advances by the fund. The House bill does this only partly; the language is ambiguous. Perhaps the best way to do this is to provide as a condition of use of the fund that it can be shown to the satisfaction of the fund that the member making the purchase of exchange can repay within 18 months and agrees to do so. This condition should not be subject to waiver. This would be following the precedent of the Federal Reserve System and other banks of issue in having a definite maturity for advances.

III. An agreement by all members that the same directors and alternates will be designated for the fund and the bank. The House bill does this for governors, but this is inadequate to assure coordination of operations.

IV. Agreement to defer for future consideration the highly controversial article VII, with respect to scarce currency.

Methods of carrying out the foregoing proposals.

To make the foregoing interpretations and agreements fully effective, they should be made conditions of the acceptance by the United States of membership in the fund and bank.

The other method of attempting to accomplish the purpose is the one contained in H. R. 3314 of instructing the American governor and directors to obtain interpretations and if these are unsatisfactory to present the necessary amendments. This method may not accomplish the purpose.

Senator TAFT. I think we might again refer to Lord Keynes' interpretation on this subject. He says:

It is clearly recognized and agreed that during the postwar transitional period of uncertain duration, we are entitled to retain any of those wartime restrictions, and special arrangements with the sterling area and others which are helpful to us, without being open to the charge of acting contrary to any general engagements into which we have entered.

So whether you have any doubt about the meaning of it, Lord Keynes definitely has no doubt about the meaning of article XIV.

Mr. HEMINGWAY. I think that is true, Senator Taft, but it would seem to us contrary to the spirit of the statutes of the fund for any country to engage in discriminatory agreements. They might engage in agreements that were beneficial to the parties to the agreement and not injurious to others, but where they are of a discriminatory nature it would seem to us they would be in violation of the spirit, at least, of the fund.

Senator TAFT. Have you seen, or have you a copy of that very recent report—yesterday or day before—of the British Trade Association or Association of British Industries or whatever it was, that was published in the paper?

Mr. HEMINGWAY. No; I haven't seen it.

Senator FULBRIGHT. I would like to ask more about that 18 months. What about the agreement of 25 percent of the quota? I don't see how that is going to operate.

Mr. HEMINGWAY. I am glad you asked that question, Senator. That might also be amended so that the member country applying to purchase the currency would be able to get 50 percent a year, so that in the 18 months period they could exchange the entire quota.

Senator FULBRIGHT. You would be willing to let them use a great deal more, but it would be for short term, is that the idea?

Mr. HEMINGWAY. Yes, sir; that is correct. I have the feeling if they could say they needed this money and could show the fund that it could be repaid within 18 months they should have the right to have the entire amount of the quota.

Senator FULBRIGHT. Would that be with the idea, assuming they make settlement, they could repeat that at any time?

Mr. HEMINGWAY. That is right. It would be a continuing arrangement.

Senator FULBRIGHT. One other question. You heard, I believe, Mr. Williams' testimony the other day. Do you feel that if arrangements were made with the British outside of the fund that that would be very important as to the chances of success of the fund?

Mr. HEMINGWAY. I think that is the crux of the whole thing. I don't see how we can hope to restore sound multilateral trade throughout the world unless we get the British back into a strong and healthy position.

Senator FULBRIGHT. Have you any suggestions of what might be done to do that?

Mr. HEMINGWAY. Well, yes. I think that we ought to extend to them a credit and work out with them this credit arrangement so that they would at the same time make settlements with the holders of blocked sterling. In other words, get their house in order. I am satisfied from the talks I have had with those people that the minute the discussions begin then you get into the question of trade relations. They would want to discuss trade relations. They would also want to discuss with us arrangements as to shipping. In other words, what they want to do when they get their house in order is to keep it in order, and this credit that they would take, or might take, if the matter were agreed upon, would be for the purpose of enabling them to keep their house in order during this transitional period until the stabilization was effected.

Senator FULBRIGHT. From what you say it might be a long time before you could effect any agreement.

Mr. HEMINGWAY. It would take some years for them to achieve stabilization. I think it would.

Senator RADCLIFFE. What have they concretely in mind in regard to shipping? Do you mean the acquisition of some of our ships in the merchant marine or a pooling of international shipping, or what?

Mr. HEMINGWAY. I think they have several things in mind. I am not a shipping man, so I didn't go into that with them, but their feeling was that they must have some fairly competitive position in the shipping world after the war in order to keep their trade in balance.

Senator MURDOCK. Coming back to this 50 percent, that is, increasing the amount a country could draw out, from 25 percent to 50

percent, provided that they must agree to repay it within the 18-month period.

Now, there seems to be a lot of apprehension on the part of a lot of the witnesses who have testified before us that there will be a terrific demand for dollars from the fund almost immediately on the setting up of the fund; that probably a great majority of the countries participating will immediately apply for their quota of dollars. Do you apprehend that that will take place?

Mr. HEMINGWAY. I presume it will, but I tried to make clear that the applicant country would have to satisfy the management of the fund first that the exchange they wished to make was within the purposes of the fund and, second, that they could repurchase their currency within 18 months.

Senator MURDOCK. Yes. That is what I want to come back to.

It seems to me that this limitation of 25 percent would be a very efficient limitation against this mad scramble, let us say, for dollars, but you seem to, if I have followed you, to feel that that is not so much of a break or a limitation on the scramble for dollars and that you would be perfectly willing to increase the amount they could draw out annually to 50 percent, provided they agreed to repay it within 18 months.

Mr. HEMINGWAY. Well, also provided that the management of the fund felt that they could repay it.

Senator TART. And had discretion to refuse, you mean?

Mr. HEMINGWAY. That is correct. The discretion would lie with the management of the fund and I am assuming that the fund management would be splendid, that they would not grant this unless that country was pretty well in equilibrium, because if it were not, it could not pay it back in 18 months.

Senator MURDOCK. In other words, you would rather have the discretion to loan 50 percent on a repayment agreement of 18 months than an automatic power to draw it out at the rate of 25 percent a year?

Mr. HEMINGWAY. I would. I think it would be more effective.

Senator MILLIKIN. Mr. Chairman, in my cogitation on the British end of this problem, which I, too, think is the crux of the whole thing, I always come back to this, and I would like to get your opinion on it. It seems to me that unless Great Britain can get her export costs down so that she can freely compete in the markets of the world, that she will always be confronted with the necessity of maintaining exchange controls and various types of internal control, and if that be true, then anything that you do is merely a stopgap. I have in mind the possible adoption of the Beveridge plan which will raise costs in England and which, of course, will raise the prices of her products, which may raise them so high that she cannot compete on a free and natural basis. What is the answer to that?

Mr. HEMINGWAY. I was told when I was over there that they had made great strides in improving their methods of manufacture. I am not a manufacturer, so I don't know. I didn't go through any of their plants, but I talked to others, Americans, who had been in some of their plants, and they were impressed with the fact that the British are remodeling, you might say, their method of manufacturing and show evidence that they will be able to manufacture at lower costs.

Senator MILLIKIN. Of course, if they could do that——

Mr. HEMINGWAY. If they could do that, that would overcome the difficulty there. Of course, it all gets right down to this, as to whether or not you have confidence they will be able to solve their problems. If they cannot, they are a poor risk. Personally, I have confidence enough in the British people, and I think they will find a way to solve their problems.

Senator MILLIKIN. Would you say that unless they do make a marked modernization of their processes, then you are just chasing your tail?

Mr. HEMINGWAY. That is correct. They have to keep up with the procession.

Senator FULBRIGHT. What do you think we ought to do about lend-lease?

Mr. HEMINGWAY. What can we do?

Senator FULBRIGHT. I don't know, but one thing, would you say it ought to be settled right away?

Mr. HEMINGWAY. I think so.

Senator FULBRIGHT. Treat it like the war debts?

Mr. HEMINGWAY. That is what I think, and I have thought so all the time.

The CHAIRMAN. Are there any other questions of Mr. Hemingway?

(There was no response.)

The CHAIRMAN. Thank you very much.

(The following letter was later received for the record:)

W. R. GRACE & Co.,
New York, N. Y., June 27, 1945.

HON. ROBERT F. WAGNER,

United States Senate, Washington, D. C.

MY DEAR SENATOR WAGNER: I refer to the statement made on Monday, June 25, to the Banking and Currency Committee by Mr. W. L. Hemingway, of the American Bankers Association, as to the need to bring British international receipts and payments into better balance, so that world currency stabilization might be permanent and trade barriers reduced. On one point of this part of his statement I would like to register a respectful disagreement. That is with regard to Mr. Hemingway's suggestion that we (the American shipping public) might find it profitable to build up the British merchant marine and to patronize it in greater measure as a means of giving the British more dollars to buy our goods. Mr. Hemingway, of course, put this out as a tentative suggestion, stating that he was not an expert in shipping.

For many years foreign shipping interests have put out propaganda to the effect that the earnings of their ships pay for a considerable part of our exports and it is not surprising that, in the absence of special knowledge, an otherwise well-informed gentleman like Mr. Hemingway should accept the thesis. It is, however, quite erroneous. For the information of the committee, I give hereunder a brief statement as to the actual facts of the case, so that no misconception of the matter may influence any of your members in dealing with shipping policy.

First, it is to be noted that gross dollar receipts by foreign shipping interests cannot be used to buy our goods—it is only the much smaller net balance remaining after payment of dollar expenses for United States stevedores, United States office staff, port charges, fuel costs, etc., which is capable of purchasing American goods for shipment abroad. Also, one must make allowance, in considering the balance of payments, for expenditures of foreign seamen here as against American seamen abroad, and subtract net receipts by American lines of foreign currencies from the net receipts by foreign lines of dollars. The determination of an actual balance of payments taking these and other factors into account is quite difficult and we have preferred to leave it to the Department of Commerce, which makes an annual study of this matter.

Analysis of the official statistics of the Department of Commerce shows that in the 20 years between the end of World War I and the beginning of World War

II, foreign nations (including the Axis) had an average net favorable balance with us from shipping services of less than \$40,000,000 per annum. This was only 1 percent of the average value of our exports during the same period. It can be seen that this sum is insignificant in relation to the trade balance, and that putting foreign shipping in a preferred position will do almost nothing to solve trade disequilibria, while it may do much to decrease our defense power, which depends on our merchant shipping for effectiveness abroad.

Britain is by no means as badly off in shipping as is generally supposed. The British Empire as a whole now has a larger tonnage of dry cargo vessels than in 1939 with slightly better average speed.

In 1939 American ships carried less than 30 percent of our American foreign commerce. But when war broke out we found our ship tonnage far too low for commerce or even for minimum military demands, and were in serious danger of defeat because of this. The military authorities say that we should never again be so weak at sea, and desire that we maintain postwar a much larger foreign trade fleet.

But in maintaining this will we not damage the British or others, and reduce our exports? The answer is no. As shown, the export matter is insignificant, and furthermore, it is possible to expand American tonnage very greatly without decreasing British or Allied tonnage at all, as compared with 1939 levels. If we take the place of Axis tonnage formerly in our trade this will allow of considerable American tonnage increase. An even larger increase can follow from an expansion in the volume of our overseas trade, and from the carriage by our ships of most of the additional cargo movement. Incidentally, a larger foreign trade fleet will be an important factor in furnishing employment to Americans in future years, and studies made by us show that the economic benefits to be derived therefrom clearly exceed any economic losses through supposed decreases in foreign purchasing power, etc., which might theoretically be brought about by its existence.

If it is desired (as we all do) to bring the British balance of payments into better equilibrium, would it not be better to encourage imports from Britain or her colonies, than to seek to reduce our shipping, which would reduce a key element of our defense? Increased imports from Britain could help solve the problem of trade unbalance, and also promote our exports, but increased purchase of British shipping services could do little in regard thereto, due to the small magnitude of the transportation item in our balance and the large percentage thereof already in British hands.

Sincerely yours,

R. H. PATCHIN, *Vice President.*

STATEMENT OF HON. ELMER THOMAS, UNITED STATES SENATOR FROM OKLAHOMA, WASHINGTON, D. C.

Senator THOMAS. I have pending before the committee two amendments. They do not propose to amend the charter or the treaty or the agreement between nations. The amendments only amend, if enacted, the pending bill.

This bill deals with money and because of that fact it deals principally with United States money because we have the most money and the best money. Under the Constitution, Congress has original and exclusive jurisdiction over money, and for that reason this bill and this program is all-important.

The amendment I propose are two in number. I remember being before this committee 12 years go. At that time I had a proposal to raise prices through money management. The Congress accepted the amendment and gave the President most of his powers over money, and to the extent and as fast as the President operated under the law, prices rose. The amendment incorporated into the law was responsible for prices taking a turn in the spring of 1933 and they kept increasing until 1937, when the people who had money and bonds became alarmed that we were facing uncontrolled inflation, then the money

managers changed the trend of the value of the dollar and stopped its decrease in value and brought about an increase in the value of the dollar, thereby a decrease in prices, and we had the recession of 1937.

At that time I was accused of being everything but a sound money man. Nevertheless, the amendment that Congress adopted did the job of raising prices as intended and as fast as the authorities wanted the job done.

Now I come before the committee today with a proposal to keep the United States and through the United States the world, I hope, on a sound metallic monetary basis. I see a distinct trend now, not only here in the United States, but throughout the world, to permanently go off gold and to remain off all kinds of monetary metals, to go to purely managed paper currencies, not only in this country, but throughout the world and I am opposed to such a program, at least in our own country.

I have an amendment that is very simple, however, it is far reaching.

The amendment proposes to establish in our monetary system a new coin and I exhibit to the committee a Treasury statement that comes out every day save Sunday. At the top of this statement under "gold" we find two designations, first the value of our monetary gold in terms of gold ounces and, second, the value of our monetary gold in terms of dollars. On the 18th of June we had in this country 579,-037,307.09 ounces of gold, pure gold. On the same date we had 20,-266,305,375.01 gold dollars.

Now, under our present system, the gold dollar is our standard and nobody wants that changed, but inasmuch as the Treasury Department prints the amount of gold in ounces I propose to add a new section to the bill, establishing a gold ounce in our monetary system, reading as follows:

There is hereby established in the money of account of the United States a gold coin to be known as a gold ounce; such coin to contain 480 grains of pure gold (troy weight) and sufficient alloy to make it nine-tenths fine and to be of the value of \$35 or units.

Gentleman of the committee, this does not direct the Secretary of the Treasury to actually coin gold ounces. It only establishes in the financial system of our country a gold ounce as a legal coin. Just as the gold dollar is established as the gold standard unit of our monetary system.

Now, the purpose of this amendment is not to direct the Treasury Department to coin gold ounces and place them in circulation, but to have them established in the Treasury by law, so that if the managers of the fund or the bank so desire—and from my viewpoint, if they are interested in keeping this country and the world on a gold standard, or on a metallic standard, they would deal as far as possible in gold ounces in the place of other units or forms of money.

At Bretton Woods Great Britain proposed to establish a theoretical coin called—

Senator TOBEY. That didn't get up to Bretton Woods. It died before Bretton Woods came in existence.

Senator THOMAS. Well, I know it was proposed by England to establish a coin to be known as a "bancor." The United States also proposed, either at Bretton Woods or earlier, the establishment of a

gold coin to be called a "unitas." Other writers and economists have suggested a coin to be called a "gramor." Others have suggested a gold ounce to be known as a "goldoz," so this is not originally my idea.

If the bank and the fund begins to loan moneys—loan pounds, for example, or loan francs, for example, or loan liras, or pesos, or rubles, I don't care what the money might be, I am of the opinion that some countries are certain to lose vast sums of money. We are putting into these two institutions gold. Every time we put a gold dollar into the fund or the bank we are putting in a potential \$44 of American money because under the present law one gold dollar stands for or supports \$4 in currency and such currency dollar is a basis possibly for \$10 of credit. So when we put a dollar into the fund or bank we deposit possible \$44 of American money. The other nations may not have gold and in such cases they must depend on paper currency which cannot be the basis of additional money, so every time we put in a dollar in gold we are putting in the basis for \$44 in currency and credit while other nations are putting in only their paper currency.

If the bank and the fund deal in the currencies of all nations, then supposing the fund or the bank should loan, for example, so many units of any nation's currency, the borrowing country could pay back those units in an identical number, but when the borrowing country proposes to pay back such units they might not be worth one half of their value in terms of property that they were when the loan was made. That being true, the bank or the fund, as the case may be, would lose. If any country loses it will probably be the United States. So if the fund or the bank should deal in gold ounces, they could loan so many ounces to a country instead of local units. Of course, local units could be secured but measured in terms of gold ounces.

Then the borrowing nation would be obligated to pay back gold ounces instead of units of their own country. If a loan of a million ounces of gold should be loaned to any nation, England for example, at the present time the British pound is worth some \$4.02—or it fluctuates, \$4.02—and \$4.03 so the fund would loan gold ounces and, at this time, each gold ounce is worth something like 8.7 pounds sterling.

Now, when it comes time for Great Britain to pay such a loan, it should pay back enough pounds to get the number of gold ounces that were borrowed. It might take more or less, but all the time the lending institution would be protected.

In the case of France, for example, today the franc is worth 2 cents. Gold ounces today are worth some 1,750 francs. If a loan was made in gold ounces we could convert that into francs. When it came time for France to pay her loan back she would not pay back so many francs. She would pay back so many gold ounces. It would be no concern of the fund how many francs the French Nation had to secure to pay the gold ounces back. The same thing would be true of every other nation.

That is one of the reasons for the establishment of the gold ounce as an additional coin in our monetary system. It is not mandatory so far as coinage is concerned. The amendment only establishes the coin in our money of account.

The second amendment is with respect to silver. If we cannot keep gold as a basis for our money it is obvious we cannot keep silver. If gold goes out, silver goes out. If gold remains the basis of our monetary system the chances are we can keep silver in our monetary system.

We have a very large stock of silver. At one time we had over 3,000,000,000 ounces. A part of that silver was used during the war and some is still being used.

We yet have a large amount of silver. It is stored up at West Point, serving no particular purpose.

Inasmuch as we will have to put real money in this fund and in the bank, the second amendment proposes to direct that a part of our surplus silver be placed in the bank or in the fund to take care of our obligation. Silver would be placed in the bank or the fund on the basis of its present world-wide value. At the present time silver is worth something like 50 cents an ounce, so we could place our surplus silver in this fund or in the bank on the basis of 50 cents an ounce. It would take two ounces to be worth a dollar. It would be valued at all times in terms of gold. That would take care of our surplus silver to a good advantage, and then by providing that this silver should be valued from day to day in terms of gold the silver would serve the same purpose as gold. It is my conviction that if this amendment should be agreed to very shortly all the surplus silver in the world would come to be used as money. When I say fund, I mean either the bank or the fund.

It is my conviction if this is done very shortly there will be an effort made to establish the relative value between gold and silver on a production ratio. At the present time the production ratio of silver to gold is about 12 times that of gold. It was that when we were producing both metals but more recently it isn't quite that much.

The amendment which I suggest is as follows:

On page 4, line 23, before the period, insert a colon and the following: "*Provided*, That the Secretary of the Treasury is directed to use all silver in the Treasury not held as security for outstanding currency of the United States and all silver which may from time to time come into the Treasury to pay that part of the subscription of the United States to such International Monetary Fund which is not required to be paid in gold under the provisions of the articles of agreement of the International Monetary Fund: *Provided further*, That all silver which may be paid into such International Monetary Fund shall be valued in terms of gold from day to day on the basis of the commercial or fair world value per ounce of such silver and on such basis such silver shall be regarded as the full equivalent of gold: *Provided further*, That nothing herein shall be deemed to affect the obligation of the United States to pay in gold to such International Monetary Fund that portion of its subscription thereto required under the terms of such agreement to be paid in gold."

We have over 20 billions of the world's gold. There are only about 32 billions of monetary gold in the world. So we have twenty thirty-seconds of all the gold in the world. That makes our country by far the most important monetary country. I am of the conviction that when this war is over the demand for money is going to be very great. I am sure you gentlemen agree with that proposition.

The question is, Shall we keep our money on a metallic basis or shall we go off metal and begin to deal in paper currency? Those are the two amendments I have to suggest to the bill. As I said, they are not amendments to the charter. The nations would not have to be brought together to agree to them. They are simply amendments to the bill and they have to do wholly with America's monetary system and Congress has full jurisdiction to pass on the matter.

That completes my statement.

I thank you for hearing me at this time.

The CHAIRMAN. Thank you, Senator Thomas.
Mr. Murphy, we will hear from you now.

STATEMENT OF WILLIAM S. MURPHY, WASHINGTON REPRESENTATIVE, WESTERN ECONOMIC AND MINING AFFILIATES

Mr. MURPHY. My name is William S. Murphy. My appearance before this committee is as the Washington representative of the Western Economic and Mining Affiliates, a western organization interested in gold in all its aspects. Since—as I once heard a western Senator say before this committee—this is my life, I would be very grateful if I can first read my testimony and then answer afterwards, if possible, any questions that you gentlemen may have. Let me first briefly attempt to qualify myself and then equally briefly say a word about my organization.

This is the first time that I have testified before this committee, although I have assisted more than once in the preparation of testimony that was offered to this committee by the War Production Board and by the United States Navy within the past 3 years in connection with silver legislation.

As to myself, I have spent 25 years in the mud holes of monetary activities, as follows:

- (1) From 1919 to 1922 with the Equitable Trust Co., of New York, possibly the greatest pioneer in the monetary field at that time;
- (2) From 1922 to 1942, as a partner in companies bearing my name and which acted as dealers and brokers specializing in gold and silver bullion and in the principal foreign exchanges;
- (3) From 1942 to 1944 as Chief of the Silver-Gold Section of the War Production Board.

In those 25 years I have participated in transactions in gold, silver, sterling, francs, yen, rupees, etc., probably aggregating the total sums proposed for the fund and the bank together.

The organization which I am representing here was incorporated in Colorado last February. Its president, Merrill E. Shoup, is also president of the largest custom mill in the United States and his company was the fourth largest gold producer in the United States in 1943. Its vice president and treasurer, Charles N. Bell, is a former president of the Colorado Mining Association, the largest mining organization in the west with a membership of several thousand. Its managing director is Robert S. Palmer, who occupies the same position in the Colorado Mining Association.

The membership of my organization is drawn from the 12 western mining States, which contain 40 percent of the area of the United States although a much smaller percentage of its population. My organization speaks on behalf of the \$200,000,000 gold-mining industry of the West, whose product stands close to the very heart of this entire legislation. It is interested primarily in gold and is committed first of all to the protection of our national position in gold and secondly to full and appropriate protection of the western producing interest in gold.

We would first of all like to pay our tribute to the officials of the Treasury and to all those who participated in the extensive labors which produced the Bretton Woods plan. We would like equally—

because of the terrific importance of this legislation—to pay our tribute to all those individuals who—agreeing with us or not—have contributed to the careful scrutiny of the present proposals and in particular to Randolph Burgess, president of the American Bankers' Association and the late Leon Fraser, formerly president of the Bank for International Settlements, who we think have performed a superlative public service in connection with this legislation.

With the general stated purposes of the Bretton Woods plan we are in wholehearted agreement. In the light of a million American casualties and of the far greater casualties in other lands, and in the light of the ghastly material losses from the war throughout the world, we think it would be very difficult to find many people who are not in agreement with those purposes.

In detail, however, we feel that the Bretton Woods plan falls far short of national and international necessities and we would like to offer the following comments:

(1) The cooperation which the plan calls for from the United States seems to us to be the kind of cooperation that the lamb is sometimes expected to offer before being devoured by the lion. In our view any international monetary plan in which the United States is expected to play such an important role must, first of all, take into full and properly balanced account all pertinent, past, present and, as far as possible, future actualities—financial, commercial, and industrial actualities.

This plan—which originated with our own Treasury and with the British Exchequer—contains in our opinion the same lack of reality which has characterized British monetary policy since the middle 1920's, a lack of reality which is traceable to British failure to recognize the deterioration in her national position that became manifest after the last war, a failure which led her in 1925 to restore the pound to its 1914 parity—\$4.86—which caused her in 1931 to cut loose from gold with a consequent drop in the pound to \$3.19 and which led her in 1939 under the impact of war, to a new valuation for the pound—\$4.03—the last of which, at least in our judgment, represented a beginning of realism since for the first time it established a 4 to 1 ratio against the dollar in place of the previous 5 to 1 ratio.

This plan contains a so-called stabilization fund, which to us is nothing more than a mere copy of the first stabilization fund that was set up by the British in 1931 and which has done an excellent job of pseudo-stabilization up to this point, a stabilization, however, which is getting shakier every day.

(2) It is our view that the United States should participate in any plan that really offers some hope of genuine stabilization. It is equally our view that this plan is the very negation of stabilization and is simply a device for the artificial temporary pegging of unsound currencies largely at the risk of the United States and overlooking the principal facts of the matter.

In our view—instead of merely copying bankrupt British monetary leadership—the United States should for the first time in its history offer some semblance of genuine American leadership, comparable to the excellent leadership—all things considered—which the British did offer for 100 years from 1815 to 1914. My organization even believes that if we here and now fail to offer that leadership our great Russian ally will do so in her own time and way.

The American leadership which we have in mind would stem from two basic considerations, first the fact that the world is in violent and historic flux and that we are the only single country left on the face of this earth which has still enough of its substance left after two successful World Wars to be strong enough to offer any real hope of stabilization; secondly, that that leadership must be based unequivocally on the only solid foundations of monetary policy that have any history whatsoever—namely, gold and silver—the one emanating principally within the confines of the British Empire and Russia and the other primarily from the American Hemisphere.

In respect to the first, the terrific flux in world affairs includes among its major aspects, in our opinion, a historic change in the relative financial and commercial positions of Great Britain, of Russia, and of the United States, a change which goes back to the latter half of the last century, accelerated by two World Wars.

Please let me enlarge on this point slightly. For over 200 years Great Britain was the unquestioned leader in this world—financially and commercially. During most of that time both the United States and Russia were of unimportant significance in that sphere. As of approximately 1870—which is an important milestone because it marks the eclipse of France, the emergence of Germany as a world power, and the abandonment of silver by the Latin Union—Great Britain possessed 25 percent of the international trade of the world. That of the United States amounted to only about 5 percent; that of Russia to only 3 percent. The inroads upon the British position from that milestone have been diverse and continuous with the result that by 1938 the British share of world trade was only 15 percent. Ours was 11 percent, and Russia's only 1 percent.

Now the full meaning of these changes is obscured by the fact that world trade does not have the same meaning to these three world leaders of today. In the case of Britain her foreign trade as of 1938 amounted to roughly 30 percent of her national income. In our case, as of 1929, the best prewar year, it amounted to only about 6 percent of our national income. In Russia's case it is very much smaller. The meaning of this change in international trade positions has been further intensified during the present war, in which Great Britain has been forced to liquidate most of her foreign investments, formerly estimated at about \$19,000,000,000, and has lost a large part of her shipping, the two of which formerly produced about one and one-half billion dollars of national income.

In other words, gentlemen, Great Britain—which unlike Russia or the United States must trade in the international markets or die—is in the words of Lord Bevin, broke but not bankrupt. Russia, on the other hand, with her natural resources, her prestige throughout the world today, the trade vacuum existing in Europe which she can to a substantial degree control, and her semi-Mongolian interest in the Far East, is unquestionably on the threshold of major international trade activity. The United States—with all the advantages which we enjoy—should be able to maintain or increase her position.

But any monetary program like this one, which is not based on these fundamental facts, is, in our opinion, foredoomed to failure and will exact a heavy price in terms of American prestige.

In respect to my second point, the necessity of basing any monetary program on gold and silver, those metals are, of course, the only two which have any standing whatsoever in the long centuries of monetary history. The Bretton Woods plan does, of course, give some recognition to gold although the meaning of that recognition has been the subject of sharp differences of opinion on both sides of the Atlantic. The Bretton Woods Conference even went so far as to advocate some study of the possible inclusion of silver in the plan in some form. We are a little skeptical, however, of the likelihood of any important results from that study. In fact, we think that currently Russia, India, and China have a better understanding of those metals than the plan suggests.

Now precisely what is it that our organization is afraid of in this plan, and just what proposals do we offer for your consideration?

We are not at all fearful of the bank, since the leading American bankers have stated that the standards of the bank conform to good banking practice and that there is full opportunity of approving or rejecting the proposed loans, including stabilization loans, in the light of the collateral that is offered.

We are, however, greatly fearful of the implications for the United States which are contained in the fund, because of its basic lack of consideration of the matters that I have outlined. We are not in the least afraid of the amount of the American subscription to that fund, but we are fearful of the delays to genuine stabilization that it will cause and of the more important damage to American financial prestige. As General Eisenhower said the other day, "Weakness cannot cooperate with anything," and we are certain that ours is the only important currency which is not fundamentally weak.

The fundamental weakness of the pound sterling to some extent can be calculated as a result of the recent British-French trade agreement, which provides a valuation of 200 francs to the pound. Now if you take the franc rate in the French black market—which is probably much closer to reality—of one-half cent, or one-fourth of the official rate, and if you assume that that agreement represents the best of British and French realism as of today, you arrive at a price of \$1 for the pound.

And so we ask you gentlemen of this committee if this plan itself does not come pretty close to indicating the impossibility of stabilization under this plan, and, secondly, if it does not come pretty close to indicating at least one of the major penalties that we shall suffer from participation in it. We think it does both. It has been pointed out in previous testimony here that there is a strong possibility that the resources of the fund may be dissipated in a maximum of 4 years. It has been pointed out that the United States—because of her unwillingness to increase her foreign trade beyond proper limits—much of that trade finance in the past by our purchases of gold, including Russian gold—may find itself in the embarrassing position of having participated in an agreement that was foredoomed to failure, and much more important than that that such unwillingness on our part may provide the excuse for the British inability to pay off her Indian blocked balances, which amount to \$4,000,000,000 at \$4 for the pound, but to only \$1,000,000,000—or 25 cents on the

dollar—at \$1 for the pound. Just when the British will make their settlement with India is, of course, anybody's guess, but it does seem to us that there is an excellent possibility that it might be more or less simultaneous with the declaration that the dollar is a scarce currency.

We are quite conscious of Lord Keynes' statement that at the end of the war Great Britain will have burdened herself "with a weight of deferred indebtedness to other countries beneath which we shall stagger." We are in favor of generous, even magnanimous assistance to Britain, but with all the cards face up. Such an eventuality as that which I have described in respect to India, we feel, would not hurt Russia in the Far East at all. But we think that eventuality would be a catastrophe for the United States.

With a few more words I shall be finished. The specific recommendations that my organization offers for the consideration of your committee are as follows:

(1) That we decline to participate in the fund, if necessary modestly increasing our participation in the bank in order to assist in any possibilities of genuine stabilization.

(2) That the Advisory Council which has been proposed by the House of Representatives—and which we believe is unfortunately overweighted in the direction of declining European trade—be modified to include at least 40 percent representation for our great raw material producing areas, a representation which would be approximately the same as that contained in this committee—we are fearful that the outlook on this matter of the Treasury, State, and Commerce Departments, of the Federal Reserve System and of the Export-Import Bank, would be substantially the same and would not take into proper account the monetary views of our Western States—that the modified Council be empowered to make a full report as to the necessities of American and international monetary policy within 2 years.

(3) That in any stabilization loans in which we participate through the bank our policy be based on the declaration of Congress on November 1, 1893, reading as follows:

It is hereby declared to be the policy of the United States to continue the use of both gold and silver as standard money and to coin both gold and silver into money of equal intrinsic and exchangeable value, such equality to be secured through international agreement or by such safeguards of legislation as will insure maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts. And it is hereby further declared that the efforts of the Government shall be steadily directed to the establishment of such a safe system of bimetallism as will maintain at all times the equal power of every dollar coined or issued by the United States and in the payment of debts.

And upon the guarding by Congress of its constitutional power article I, section 8, paragraph 5, which provides that "Congress shall have the power to coin money, regulate the value thereof, and of foreign coin"—given it by the people against encroachment by any international agreement or treaty or by the enactment of any legislation limiting the power of Congress in this respect.

Now, Senator, if I might possibly be permitted, I would like to introduce in the record the resolutions which were adopted by my organization in Boise, Idaho, following a meeting they held there on May 25 and 26 of this year.

The CHAIRMAN. Very well.

(The resolutions are as follows:)

RESOLUTIONS ADOPTED AT BOISE, IDAHO, MEETING OF WESTERN ECONOMIC & MINING AFFILIATES, INC., MAY 27-28, 1945

The gold-mining industry of the United States is united in its support of our President, Harry S. Truman, our armed forces, and our Congress in making every effort to complete the victory over the country's enemies, thus making it possible for a great many of the members of our armed forces to return to their peacetime pursuits, including the many gold miners who are now fighting for our country on the far-flung battle fronts.

We accept our responsibility with respect to the immediate problem of reemployment of those who desire again to make their livelihood in the gold-mining industry of America. We urge the prompt rescinding of the gold-mine closing order, known as L-208, with due consideration being given to the immediate needs of the industry with respect to equipment, supplies, and the additional burdens placed upon the industry by the pursuance of governmental policies and economic trends which have changed considerably conditions under which we must operate since the issuance of the order. The order was ill-advised in that it never accomplished its stated purpose of diverting manpower and materials into strategic metal mines but instead worked undue hardship on many communities in which the production of gold is usually carried on, while we have seen gold producers in Allied countries continue production throughout the war, sending their gold to the United States, and, in many instances, using equipment manufactured in this country, the use of which was denied American producers.

When order L-208 is rescinded, between 6 months' and 1 year's time will be required for our gold mines to replace equipment that was commandeered for the war effort. Prompt action to permit resumption of gold mining is necessary to start planning jobs for the returning veteran.

We believe in the American system of government, including our historically sound monetary structure, based on gold and silver, which has carried us through many periods of stress to world leadership.

We deplore the recent unfortunate utterances of Marriner Eccles and others in governmental positions with respect to gold, which embody a foreign ideology, not suitable to this country. We can understand spokesmen from other countries whose gold reserves are temporarily exhausted, criticising our time-honored and tested monetary system in which our people have such a huge stake, but we take sharp issue with any Government official of this country who attacks the very foundation of our monetary structure, depending as it does on public confidence based on gold and silver as a safeguard against debauchery of our currency. We insist upon the continuation of our monetary policy as announced by Congress on November 1, 1893, as follows:

"It is hereby declared to be the policy of the United States to continue the use both of gold and silver as standard money and to coin both gold and silver into money of equal intrinsic and exchangeable value, such equality to be secured through international agreement, or by such safeguards of legislation as will insure maintenance of the parity in value of the coins of the two metals, and the equal power of every dollar at all times in the markets and in the payment of debts. And it is hereby further declared that the efforts of the Government shall be steadily directed to the establishment of such a safe system of bimetallism as will maintain at all times the equal power of every dollar coined or issued by the United States and in the payment of debts."

and the guarding by Congress of its constitutional power (art. I, sec. 8, p. 5, which provides that "Congress shall have the power to coin money, regulate the value thereof, and of foreign coin") given it by the people against encroachment by any international agreement or treaty or by the enactment of any legislation limiting the power of Congress in this respect.

Our people have confidence in hard money supported by gold and silver, for they know that this money is the money of freemen and that paper money has been used in foreign countries to pay slave labor and has, invariably disrupted the economy of the countries using such paper currency. The disaster, poverty, and hardship which has resulted to the peoples of those countries in which man-

aged currency unsupported by a metallic base has been attempted justify a strong position on the part of all thinking Americans against any trend in that direction in this country. We had bitter experience with greenback currency following the Civil War and remember full well the experiences of Germany following World War I. We have the example of paper-currency inflation in Greece today, as well as in China, where the Chinese Government has made a strong appeal for American gold to save its currency structure.

Confidence in currency is essential for the well-being of our people. Confidence in gold has been the inherent trait of people for centuries and has been recognized in law and in fact by our people since the Declaration of Independence. It is impossible to change human nature and we urge that Government officials who have seen fit to attack gold and silver desist from their attacks and restore confidence in the monetary structure of our Government. The immediate circulation of gold would help to this end. We call attention to the fact that this gold belongs to the people of the United States, other than that earmarked for foreign countries, and that it is not the personal property of any public official or group of officials. It should be safeguarded with the utmost discretion on the part of every public official and the monetary policies on which our country was founded and developed should be strictly upheld and defended.

We recommend that encouragement be extended to producers of the precious metals, not only in the United States but throughout this hemisphere, and we believe that encouragement of the production of these metals will add much to North and South American solidarity. Contrary to general belief, the world price of \$35 was established by economic forces acting throughout the world. This was later recognized by our Government and since that time gold has been selling at a higher price than \$35 on certain foreign markets. Pending reestablishment of a stabilized international price for gold, we urge that the right to sell newly mined gold in foreign markets be extended to domestic producers.

We commend those leaders in the Senate and House of Representatives who have, by their actions, demonstrated a knowledge of the monetary system of our Nation.

The professed objectives of the Bretton Woods Conference are worthy of consideration. The methods proposed to attain those objectives especially with respect to the stabilization fund, as incorporated in H. R. 2211, are contrary to the best interests of the people of the United States. We favor the adoption of the amendment to be offered by Senator Elmer Thomas of Oklahoma, giving recognition to the fundamental principles and monetary policies heretofore adhered to by the legislative branch of our Government.

While this conference is primarily concerned with the precious metals, we fully appreciate the fact that one or both of the precious metals are found in conjunction with the nonferrous base metals in this area and that any policy detrimental to the encouragement of the production of precious metals would drastically affect the cost of production of the base metals as well as precious metals and would restrict production of both.

Looking forward to the postwar period when venture capital should take the place of Federal loans for the development of present or new mines, and when essential productive work instead of WPA projects should be provided for the returning serviceman, we strongly urge that the present restrictive taxes on venture capital in mining be removed by an act of Congress to permit such mine-development costs to be treated as direct mining costs, deductible in computing net income.

We respectfully urge and petition that the Senate of the United States appoint a special committee to investigate the administration of the gold-closing order, L 208, with special reference to high priorities and approval given by the War Production Board for manufacturers of the United States to furnish hundreds of millions of dollars of gold mining machinery to foreign countries while at the same time denying equipment and supplies to gold mines of the United States. Also, to determine why so-called small gold mines in Central and South America were granted P-56 serial numbers and authorized to purchase gold-mining machinery and supplies in the United States, without regard to quantity, and under which authority many of these mines stocked up with supplies to last several years while all gold mines in the United States were closed down by Order L 208.

Mr. MURPHY. I would like also to submit for the record a copy of an address I made in January at the banquet of the Colorado Mining Association's Western Mining Conference in Denver.

The CHAIRMAN. Very well, if you think it would be helpful.

Mr. MURPHY. I think it would be helpful in understanding our position.

The CHAIRMAN. Very well. Thank you very much.

(The address is as follows:)

GOLD AND SILVER AND WESTERN INDUSTRIALIZATION

(By W. S. Murphy, New York City)

Address delivered at the gold and silver banquet of the Colorado Mining Association's Western Mining Conference, Denver, Colo., January 26, 1945

I'm sure that you will all forgive me and understand when I tell you that—although a New Englander by birth and a New Yorker by accident—I feel like no stranger here tonight in this capital of the mining West, but rather like one who has taken the long road home and again finds himself on familiar ground. For the fact is that when the shaft of the St. Lawrence copper mine in Butte, Mont., went down into the depths of that glittering hill in the 1890's my father was in that shaft—and one of my prize possessions is a sample of the ore that he mined there and another is the spiked candle-holder that he hung from his cap and pushed into the walls of the stopes.

And yet I hope that nobody here will take advantage of me for having made this admission. For, as a matter of fact, I feel a little bit like the character O. Henry told about in his story of the Cosmopolite in a Cafe—the man who was able to take the whole, round world in his hand, so to speak, and make it seem no larger than the seed of a cherry in a grapefruit. In fact, this man even knew an Eskimo in Greenland who ordered his neckties in Ohio—he himself had a room in Egypt and kept his slippers in Shanghai and didn't even have to tell them how to cook his eggs in Rio. But the Cosmopolite got mixed up in a terrible brawl when somebody passed a disparaging remark about the sidewalks and the water supply in Mattawamkeag, Maine. And so I hope that nobody will bring up the subject of Pompanoosuc, Vt., or Krumville, N. Y., or even Wood's Hole in Massachusetts—unless he comes in shooting.

Now, after having been in the bull ring that is gold and silver—month after month for 25 years—buying, selling, shipping, and delivering those metals from New York to Bombay, from Vancouver to Shanghai, and from West Point to Indianapolis—there is only one ultimate thought that has fixed itself in my conscience in all that time and it is this: That in the 50 centuries that gold and silver have constituted the world's only two monetary metals they have developed a personality all their own—a personality that repeatedly nullifies the easy preconceptions and dogmatisms of so-called authorities and experts. Gold and silver have a strange faculty for compelling the utmost both in imagination and in humility. Bankers—economists—engineers—however great their achievements in other directions—come and go—but the tale of national rivalries, of shifting power, and of never-ending controversy that these metals tell goes on and on.

The House of Morgan, for example, was strangely silent in the early 1930's—at a time when Senator Elmer Thomas was demanding monetary reconstruction and told of men from his State who were prepared to march on Washington, and said that if necessary he would lead them. Professor Kemmerer traveled around the world for years collecting lavish fees from foreign governments for recommending the establishment of the old-fashioned gold standard, only to see it collapse in the 1930's. Engineers have lain awake o'nights trying to decide whether a particular vein contained an ounce of gold or 200 ounces of silver to the ton, only to find that the discovery of a new ore-body or the development of a new technical process had upset all their calculations. All these have been confounded time and again by the rule-of-thumb calculations of Indian ryots in the fields of Hindustan, of Chinese farmers along the banks of the Yangtze, and of Mexican peons in the hills of Pachuca who have bought these metals when they knew they were low in price and sold them when they knew they were high in price. And the only index which these simple people used was a very elementary one—no banking regulation, no economic theory, no engineer's

handbook—but the mere knowledge that century after century gold and silver have measured panic and boom and always been accepted as money.

And the lesson which these plain people can teach us, I believe, is this: That we may be able to cancel out 5,000 years of monetary history, we may be able to perform a successful monetary operation, as some people are suggesting today, we may be able to do that in 50 years or in 500—but the chances are mathematically against those who try. For the long centuries of monetary history and the habits of the 2,000,000,000 people who inherit this earth are not tossed overboard that easily.

Now, there are a few international facts of life that characterize these metals. And those facts show clearly that no nation which has ever been powerful enough to exercise any important influence on gold and silver and the ratio between them has ever failed to give first consideration to its own best national interests.

That was true in the sixteenth century, when the powerful Dutch Republic demonetized gold as a blow at Spain.

That was true in 1689, when Portugal—the second great imperial power of that day—first established the 16 to 1 ratio, overvaluing the increasing gold production from her Brazilian placer mines.

That was true in 1815, when England—her gold holdings exceeding the value of her silver holdings—adopted the gold standard.

That was true in 1871, when Germany—having exacted from defeated France an indemnity payable in gold—demonetized silver and forced France and the Latin Union to cut the link to gold.

That was true from the 1890's to the late 1920's, when Great Britain—then the world's financial and political leader—never failed to advertise the benefits of the gold standard. That was true, in 1931, when Ramsay MacDonald as Prime Minister said—when his country's leadership had faded somewhat—that the gold standard was no sacred cow to be worshipped before the financial altar.

And it is equally true today, when the march of time has reduced England's position from that of the world's principal creditor to its largest debtor, and when Lord Keynes sings the praises of a managed currency, an important part of that management to be conducted by a country that now has no stock of gold or silver worth talking about.

We should remember these international facts of life when the time comes to sit at the conference table and discussion turns to who is going to manage what and with what. We should remember them not in narrowness or excessive isolationism, but with all due admiration for the England that has been our gallant ally in two world wars and with the full knowledge that other nations have had their little hour upon the international stage.

Now, what are our special interests as they pertain to gold and silver?

To begin with, we are the owners of approximately 60 percent of the world monetary stock of gold and of about 50 percent of the world monetary stock of silver. That gold and that silver were obtained through the exploitation of American resources and technology and the employment of American manpower, generation after generation. About 60 percent of that gold and about 25 percent of that silver were obtained from the settlements of international trade—in exchange for our raw materials, our manufactures, our securities, and our services. That exchange has benefited the gold-mining industry of South Africa, Russia, Canada, and Australia particularly, as well as the silver-mining industry of Mexico, Canada, and Peru. The benefits that our own mining industry has received have been small by comparison.

We have, secondly, a national interest in the prosperity of our domestic gold and silver mining industry, of the mining industry of this hemisphere, and of all those other mining nations that will march hand in hand with us to meet the gigantic problems that lie ahead. Is any other course possible, bearing in mind that 75 percent of the silver production of the world emanates from this hemisphere and 75 percent of the gold production from the Eastern Hemisphere—and that India and China, those industrially undeveloped countries of today that will be major industrial powers of tomorrow, have always used gold and silver in enormous quantities and that we enjoy great goodwill there?

Thirdly, any international monetary policy that is based on the idea of our playing the role of an international Santa Claus is a snare and a delusion, for as somebody has said, we cannot be a monetary Atlas without developing a financial hernia. Any monetary cooperation that we render that is not based on a quid for every quo is clearly not worth the name. Churchill was quick to realize

the importance to British interests of a friendly government in Greece. Stalin was equally quick to assert the need for full protection of his western frontiers, in Poland and elsewhere. Not in smugness or in cynicism, therefore, but with a full determination to be helpful in the new world order that is developing, we must be equally aware of our own special interests in gold and silver, remembering—if we need to enforce our views—that by great good fortune we possess an economy with characteristics that all the world is trying to achieve—an economy that is 90 percent self-sufficient, that is founded on a unique geographical position, that has half the industrial capacity of the world, and a domestic market of 140,000,000 people. Unlike England and Germany, we are not compelled to “trade or die.”

Yes; by virtue of our stocks of gold and silver and by virtue of our other national assets, we do possess the resources and the ability and the imagination to fill the role of world leadership that is beckoning to us. But the age of American innocence must come to a quick end. Let me give one brief illustration of that American innocence.

For over 10 years we have been deluged with a torrent of European propaganda, describing the gold standard as a “relic of barbarism,” as Lord Keynes once called it, and describing gold and silver as useless metals that serve no economic purpose. It is easy enough to understand this propaganda when it emanates from Europe, but not so easy to understand—or to excuse—it when the chorus is taken up by gullible Americans. Yet Americans have consumed tons of paper and tons of printers’ ink moaning over the worthless hoard of gold that is buried at Fort Knox and the worthless hoard of silver that lies at West Point.

The statement of the Federal Reserve Board, however, tells a little different story. For the system’s reserves against notes and deposits—which stood at over 90 percent 2 years ago—have now dropped below 50, and the President now needs it necessary to ask Congress for a reduction in the legal limit to 25 or 30 percent in the near future.

And the recent changes in the gold holdings of other governments tell an equally interesting story. In 1928—before the onset on the depression—and just to keep the monetary records straight, that was the time when New York hotel clerks asked you whether you wanted your room for sleeping or for jumping—but in any event in 1928, foreign holdings were about 8 billions of dollars to our 4 billions. At the beginning of 1941 we held 22 billions and foreign governments less than 9 millions. Today we have less than 21 billions and foreign governments have 14 billions. If they were to convert the additional 3 billions of deposits standing to their credit on our books into gold, they would have 17 billions and we less than a billion more than that, almost a 50-50 ratio, which incidentally would be a pretty accurate index of our own industrial capacity on the one hand, and of that of the rest of the world on the other.

Even our stocks of silver—which the same voices considered of little value and the American production of which they compared with our peanut and grass-seed crops and our salmon catch—has already shown a decline from a peak of about 3,300,000,000 ounces in 1943 to a little less than 3,000,000,000 today, most of the decline being due to authorizations and shipments under lend-lease.

How silly all this propaganda sounds today in the light of the prices that India is now paying—about \$60 for gold and above \$1 for silver.

Now what are some of the lines that our national interest in gold and silver should take?

We can first of all acknowledge that there is no industrial problem as far as gold is concerned, since the industrial uses of gold are a small part of our national production or of our total stocks. The industrial uses of silver, however, cannot easily be ignored, although they should not be exaggerated. Only in wartime would we ever think of substituting silver bus bars for copper bus bars and there is, I think, some question of the soundness of that program even in wartime. So we can safely ignore any implications that come from that use. The consumptive uses of silver, however—most of them not a mere matter of the substitution of materials but of the intrinsic properties of silver itself, particularly for bearings in airplanes and tanks, in photography, in brazing alloys and solders, in contact points, and in silverware and jewelry, have shown a substantial increase in the past few years, from an average of about 27,000,000 ounces annually in the 10 years before the war to about 125,000,000 ounces in each of the years 1943 and 1944.

In measuring the importance of this growth, however, we should not lose sight of the fact that in the same period our consumption in domestic coinage shot up even more—from an average of about 15,000,000 ounces in the decade before the

war to an annual average of about 100,000,000 ounces in 1943 and 1944, in addition to which over a quarter billion ounces have been authorized for shipment under lend-lease, most of that also for monetary purposes. In other words, we have had in the past 2 years a rise of only 463 percent in industrial consumption as against an increase of over 1,500 percent for over-all monetary purposes.

Now notwithstanding the relative insignificance of the industrial increase as compared with the monetary, thousands of workers in the silverware, jewelry, and photographic industries have been dependent on a continuing supply of silver, and many of the new uses that have developed during the war will persist in peacetime and add to the national income, provided that the price which those industries pay bears some resemblance to the cost of substitutes. During the war, the War Production Board has for the first time in our history squarely and constructively faced the fact that silver—unlike all the other materials of industry—is both an industrial and a monetary metal and has set up patterns of use that isolate the one from the other. I hope that it will be possible to continue to isolate these previously conflicting uses indefinitely in one way or another, to the benefit of the producing west and the industrial east.

Now in connection with their monetary aspects, we can in complete good will appreciate the change that time and circumstance have wrought in the position of the British Empire in respect to gold and silver and particularly in the position of Great Britain, which gradually from the seventeenth century until recently, became the sole arbiter of the world position of these metals. We can well understand the magnitude of the problems that lie ahead of Britain—which Labor Leader Bevin says is broke but not bankrupt. Under satisfactory conditions, we can even assist in the solution of some of those problems—which arise from the fact that Britain's stocks of gold and silver are now dissipated and her position no longer that of the world's principal creditor but instead the world's principal debtor, while at the same time industrially undeveloped India has become one of the world's great creditor nations, her assets including a billion pounds of uncertain and doubtful sterling.

But the world moves on, in one century favoring one nation—Portugal, Spain, Holland, France—and in another century favoring others—India, China, Russia, the United States. Today, circumstances favor us particularly as tomorrow they may favor some other country. So—whatever the merits or demerits of the Bretton Woods plan—whatever the views of the American Bankers' Association or of the Economists' National Monetary Committee—we should never forget that gold and silver century after century have constituted the only reliable forms of money—that by good fortune we hold the preponderant stocks of them—and that their value cannot easily be falsified or depreciated. Plainly, this means that gold and silver must both constitute the unquestioned basis of any world plan in which we are expected to participate and in fact to play the leading role.

There is one final aspect of this whole matter that is of the greatest concern to the West. It may seem strange that an easterner like myself should be able to accept its implications, but any fair analysis will lead, I believe, to no other conclusion.

The days of constantly expanding frontiers—in our own country and to a great extent in the rest of the world—are gone. Gone also are the lush days of the extensive exploitation of the earth's surfaces—whether the surfaces of America or Africa, of Australia, or Madagascar. And so the enormous burdens of debt which the war has laid on the backs of all of us, the insistent demands of the average man everywhere for continuous improvement in his standard of living, and the challenges of technology itself leave us no choice but to move forward with a more intensive exploitation of our presently known surfaces. A better balancing of the economies of the great material-producing nations and regions, on the one hand, and of the material-consuming nations, on the other, is therefore inevitable and desirable. China and India, Latin America and Africa, are no longer willing to be suppliers of materials to be fed into the insatiable jaws of the great world industrial machine, because they now realize that the present lack of balance in this respect is merely a dilapidated relic of economic colonialism and economic imperialism. These great material-producing areas are already demanding an increasing participation in the industrial fabrication of their materials, in order that they themselves may be able to turn a considerable portion of their substance into the finished goods that have enriched the industrial sections—our own industrial sections as well as those of England, Germany, and France—disproportionately to the benefits that the producing areas have received.

The great material-producing areas are well aware that however important is the know-how that industrial workers have developed—whatever the advan-

tages that are derived from large-scale operation—whatever the benefits that arise from the concentration of transportation—these things can all be acquired and much of our world industry diverted to the producing areas themselves, with important gains both to the producing and consuming areas and to the sum total of production.

This is the compulsion that underlies the 15-year plan of Indian industrialists, that caused the Dutch Queen to promise a complete transformation of the economy of the East Indies, that has led a former French Minister of Colonies, Georges Mandel, and the present one, René Plevin, the British labor leader, Clement Atlee, and other enlightened officials to accept this philosophy, a philosophy which the former Chinese Finance Minister Kung and the Mexican Minister of Foreign Relations Padilla have also espoused.

And so our own producing West, comprising more than a third of our national area and supplying so much of the material of eastern industry, is in complete harmony with and will draw important strength from this powerful world influence when she demands that she, too, shall participate more and more in the industrial use of the materials which she produces, whether from her mines, her fields, her rivers, or her forests.

In terms of gold and silver there are the strongest reasons why the West should insist on the application of these policies: First, as a deliberate matter of self-protection and in order that we may provide the fullest possible stimulus to the prosperity of our domestic mining industry which must never be allowed to lag to the detriment of our relative world mining position. For what good would we accomplish if in playing our international role we merely encourage mining in other countries to the detriment of our own? A second reason for the adoption of such policies is as a matter of intentional redistribution of some of the benefits that have come from our national development, benefits which in our own country as in the rest of the world have inured to the greater benefit of the industrial areas. It would indeed be the worst kind of folly if we were to assist Latin America, the Orient, and Africa along the paths of industrialization if we did not first of all lend a helping hand to our own producing areas.

It will take courage and understanding to appraise all these necessities of national interest properly, particularly in respect to gold and silver. But with a ratio of exports to national income that is the lowest of any major power, on the one hand, with a national debt that will soon soar above \$300,000,000,000 on the other, and with a more important national debt being written in the mud of Europe and the swamps of the South Pacific—I, at least, am confident that we will appraise them carefully and with some accuracy, to our own benefit and that of the rest of the world. And any western leadership that is based on an understanding of these principles and a western faith in them will, I believe, experience greater support and greater encouragement on the other side of the Mississippi than the West ever expected or dreamed of.

Senator TAFT. Before the committee adjourns, I would like to have them hear from Mr. Roig for a few minutes. I think what he has to say will be very interesting.

The CHAIRMAN. Very well.

STATEMENT OF HAROLD J. ROIG, VICE PRESIDENT, W. R. GRACE & CO.

Mr. ROIG. My approach to the Bretton Woods proposals is not that of a monetary or economic expert but simply that of a businessman engaged for the past 30 years in international merchandising, industry, banking, and transportation. I view the monetary provisions of the Bretton Woods plan simply as means to an end. That end is to reestablish and facilitate the movement of international trade. The means are to be judged by the effectiveness with which they promote that end.

With a lifetime spent in international business, I am, of course, vitally interested and concerned and thoroughly in sympathy with

any measures intended to promote international cooperation and calculated to attain the stated objectives of the Monetary Fund.

The single point I wish to make is this: The repeatedly stated objective of the fund is the promotion of international trade by the elimination of practices in regard to international money which tend to restrict and control international trade. Yet the plan, in its present form, does not deal realistically and effectively with this problem because it provides no necessary relationship between the use of the fund's resources and the elimination of restrictions to international trade movement, and it gives the fund no power during the first 5 years of its operation, the transitional period, to deal with exchange restrictions at all.

The first two stated purposes of the fund (art. I, (i) and (ii)) are "to promote international monetary cooperation" and "to facilitate the expansion and balanced growth of international trade." These objectives are to be attained through consultation, collaboration, exchange stabilization, and elimination of foreign exchange restriction. To accomplish these purposes a fund is provided equivalent to \$8,800,000,000 in gold, dollars, and other currencies.

With this clear statement of objectives and of the means to their attainment and provision of a reasonable amount of money in the fund to implement their attainment, it would be fair to assume that effective provision would be made to establish a clear connection between the means and the end to insure that the means provided would accomplish their purpose.

Exchange restrictions used to channel and control international trade are the most pressing problems with which the fund must deal. Obviously these exchange restrictions, prevalent throughout the world today, cannot be done away with instantly by a mere stroke of the pen. The simplest way to begin to eliminate them would, therefore, seem to be to vest the management of the fund with power to deal with them one by one in a practical way adapted to the special circumstances of each case. Manifestly one of the most practical ways of dealing with the problem would be for the fund's management to make or withhold loans from the fund depending on whether or not such loans were related to agreed terms and conditions eliminating or tending to eliminate exchange restrictions.

Instead of this, during the transitional period, the fund's management is deprived of all power to use the fund's resources as a means of freeing international trade of oppressive and subversive exchange controls. This situation results not only from the unconditional automatic quota basis on which the fund's resources are to be loaned, but also from the specific provision of section 2 of article XIV which, during the transitional period, leaves the entire matter of exchange controls unrestricted and unregulated by providing in the most sweeping terms that—

in the postwar transitional period members may, notwithstanding the provisions of any other articles of this agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions.

The words "restrictions on payments and transfers" mean exchange controls which may be availed of to control and channel international trade. Under these provisions, the fund can take no effective action

about exchange restrictions during the critical transitional period, and its best method of dealing with such practices, namely, making the use of its resources conditional on amelioration of such practices, is literally thrown away.

Now I respectfully submit that world trade cannot wait 5 years for relief from exchange practices prejudicial to international trade movement. Five years is no passing phase. It is a very long time in the life of any business, certainly too long in the life of world business strangled by restrictive and subversive practices. The very underlying basis of Bretton Woods and the urgency for its adoption are that world trade is suffering from restrictions and impediments now that must be removed. A patient in the condition on which Bretton Woods is premised cannot wait 5 years for help. The trade of every nation in the world needs help now, not 5 years from now. What I mean by "help now" is that definite action for the removal of discriminatory exchange practices, along the lines I have already indicated, should be taken as soon as the fund becomes operative and not 5 years later.

The status of the sterling area under the Bretton Woods plan during the transitional period illustrates my point. It is generally agreed that the Bretton Wood plan does not require abandonment of monetary trade practices such as the sterling area during the transitional period.

The sterling area comprises the countries of the British Commonwealth (except Canada and Newfoundland) and the British protectorates, and certain European countries. Affiliated with it, through compensation agreements, are most of the countries of South America, and a growing number of the countries of Europe. These countries have agreed in substance to accept the pound sterling, blocked in London, in payment for their products sold to Great Britain and to some extent to other members of the sterling area.

This blocked sterling can be used only for purchase of goods or services from Great Britain, or, under certain circumstances, from other members of the sterling area. It cannot, generally speaking, be made available by conversion into dollars for purchases in the United States except, and only then with the consent of the Bank of England, where the commodity to be purchased is not obtainable in the sterling area.

Mr. Paul Bareau, who holds, I believe, some position with the British Treasury, writing in *The Banker of London* of March 1945, describes the sterling area as—

an instrument of economic warfare; a battering ram with which to open the door to unwilling markets; a spiked fence of discriminatory devices with which to keep unwanted goods from unwanted sellers out of the Empire market.

Illustrative of how the sterling area operates in practice:

1. The New York Herald Tribune of May 18, 1945, carries an article to the effect that the Egyptian National Airline M.I.S.A., desiring to purchase certain Douglas aircraft, was advised by the British authorities that the air line's "blocked sterling could not be made available for maintenance of such planes unless the job was turned over to the British Overseas Airways Corporation" and "meanwhile offered for delivery late this year a transport going into production next fall" of British production "which qualified designers describe as a stopgap

model 'not as good as a DC-3.' " The article further states that this "threatened action" has been sufficient to bring American sales programs in the entire area to a standstill. The South African government, although interested in American planes which were demonstrated at Johannesburg in March, has told the American representative, in effect, that its "hands are tied."

2. In the year 1938, for example, the combined exports of Chile, Peru, and Bolivia, now parties to sterling-compensation agreements, to countries in the sterling area, amounted to some \$77,000,000. The combined imports of Chile, Peru, and Bolivia from sterling-area countries in the same year amounted \$21,000,000.

A large part of the difference of \$56,000,000 was at that time convertible into dollars for the purchase of goods in the United States and in other markets. Now this \$56,000,000 could not be used for such purchases as the blocked sterling resulting from the sale of the South American countries' exports to the sterling area would have to be spent in the sterling area and could not be converted to dollars for purchases in the United States or other countries outside the sterling area.

Add to this \$56,000,000 similar diversion of trade from other sterling area countries and the far-reaching effect on American exports is apparent.

3. In one of the countries of South America which sells a large part of its exports to the sterling area for pounds sterling some of the resulting pounds have been used to purchase commodities which are imported to the South American country and sold there in the currency of the country at as much as 20 percent under normal price. This is, of course, merely a method of converting pounds sterling into local currency by taking a discount on the pounds. This is a familiar practice under which undisclosed currency depreciation takes place and undue competitive advantage secured, through monetary controls, for the exports of one country over those of another.

4. Supplementing and facilitating the functioning of the sterling-area program, British manufacturers are engaging in an extensive advertising campaign of British machinery and manufactured products in South America.

Grant the validity of Britain's justification of the sterling area in the necessities of her postwar economic situation, and every desire on the part of the United States to assist in the solution of her problem. This does not mitigate the disastrous implications of this form of monetary control of international trade to American foreign trade and that of other countries outside the sterling area. A flourishing American export trade and related American merchant marine are essential to provide full postwar employment and to maintain the business and industrial structure necessary to sustain our postwar obligations, our necessarily large postwar naval and military establishment and our standard of living. Correction, by action fair to all concerned, of restrictive trade practices making such an export trade and merchant marine impossible cannot be put off for 5 years. Unless the management of the fund has authority from the outset and while its resources are intact, to use those resources in an intelligent way directly and specifically to facilitate elimination of the necessity for such trade practices, the one best chance to accomplish the stated objectives of the fund will be lost.

Most of the objectives of the fund would be met by an amendment giving the fund's management authority to use its resources from the outset to make loans on a selective basis in a manner not only making possible but requiring the easing and elimination of exchange restrictions to the fullest practical extent as a condition of loans from the fund. Such an amendment would make it possible for the fund to perform its intended function as an effective means of removing exchange controls and blocs as barriers to international trade and would enable it to assist in a very important way in the reestablishment, "extension and balanced growth of international trade."

The CHAIRMAN. Thank you very much, Mr. Roig.

The committee will meet again, the final meeting at which we will hear only one witness, on Thursday of this week at 10:30.

Dr. White, will you be with us then?

Mr. WHITE. I will be glad to be here.

(Whereupon, at 5:15 p. m., an adjournment was taken until Thursday, June 28, 1945, at 10:30 a. m.)

BRETTON WOODS AGREEMENTS ACT

THURSDAY, JUNE 28, 1945

UNITED STATES SENATE,
COMMITTEE ON BANKING AND CURRENCY,
Washington, D. C.

The committee met at 10:30 a. m., pursuant to adjournment on Monday, June 25, 1945, in room 301, Senate Office Building, Senator Robert F. Wagner, chairman, presiding.

Present: Senators Wagner (chairman), Barkley, Downey, Fulbright, Mitchell, Taft, Butler, Capper, Buck, and Millikin.

The CHAIRMAN. The committee will come to order.

Before we proceed with Dr. White, let me pause long enough to present a letter and statement submitted to the committee by Mr. Eccles. The Board of Governors of the Federal Reserve System is convinced that ratification of the Bretton Woods agreements would be an important step in the restoration of world trade and in safeguarding the interests of the United States in the postwar world; and a statement of the Board of Governors has been presented here, which I am going to ask to put into the record at this point.

BOARD OF GOVERNORS,
FEDERAL RESERVE SYSTEM.
Washington, June 25, 1945.

HON. ROBERT F. WAGNER.

*Chairman, Senate Committee on Banking and Currency,
Washington, D. C.*

MY DEAR SENATOR WAGNER: As you know, in order to conserve the time of your committee in the hearings on the Bretton Woods agreements, members of the Board, including myself, refrained from testifying on behalf of the enabling legislation which the Board hoped would be enacted by the Congress as promptly as possible. In view of the fact, however, that the president of the Federal Reserve Bank of New York and one of the vice presidents of that bank appeared before the committee as opposing witnesses, I am enclosing a copy of the Board's statement of March 21, 1945, endorsing the agreements. It would be appreciated if you would place it in the record of the hearings so that there may be no doubt in the official record of the committee as to the position of the Board which is an agent of the Congress and the governing body of the Federal Reserve System.

Sincerely yours,

M. S. ECCLES, *Chairman.*

(Enclosure.)

MARCH 21, 1945.

INTERNATIONAL FUND AND BANK

(Statement by the Board of Governors of the Federal Reserve System)

The Board of Governors of the Federal Reserve System is convinced that ratification of the Bretton Woods agreements would be an important step in the restoration of world trade and in safeguarding the interests of the United States in the postwar world.

I. Without the institutions proposed by these agreements we would be confronted with disrupted currency conditions and with trade and exchange policies and practices which foreign countries might be forced to adopt in self-preservation but which would nevertheless have disorganizing effects on world trade. In rebuilding the machinery of international finance after the war it will be vital to avoid the recurrence of practices which developed after the First World War, and to eliminate abuses which were prevalent in international lending. Effective action in these fields would form a counterpart to essential programs of domestic reconstruction. The greatest contribution to international prosperity and stability that the United States can make is to maintain full employment and a rising standard of living at home. In order to establish international trade on a sound and enduring foundation, it must be based upon a balanced exchange of goods and services. On such a basis it will contribute an important steadying influence to our domestic economy.

The International Monetary and Financial Conference of representatives of 44 nations held last summer in Bretton Woods resulted in agreements for the creation of two new international financial institutions, the International Monetary Fund and the International Bank for Reconstruction and Development. The International Monetary Fund would exert an influence toward exchange stability and thus reduce the exchange risks for exporters and importers. It would require member countries to maintain established exchange rates and would provide machinery for making in an orderly manner by mutual agreement such changes in exchange rates as may be necessary. Members undertake to eliminate as soon as possible monetary practices which interfered with the flow of world trade before the war, such as discriminatory exchange restrictions, multiple currency arrangements, and bilateral clearing agreements. It would help to give assurance to member countries that the proceeds of sales to any country could be used for the purchase of goods in any other country.

For the purpose of assisting member countries in maintaining their exchange rates, once they have been established, without resorting to harmful restrictions on trade, the fund would have resources in gold and various currencies which would be available for temporary use by members. It would afford member countries faced with heavy payments abroad a breathing spell during which to make necessary adjustments in their economies with a view to restoring equilibrium in their trade with the world. The fund would not be in essence a lending institution but a mechanism for converting local currencies contributed by members into a pool of international reserves, on which each country could draw in proportion to its contribution. While temporary shortages of foreign exchange could be met through use of the fund, members would be under pressure to restore the exchange to the fund as soon as possible in order to maintain its ability to serve other members.

As a companion institution to the fund, the Bank for Reconstruction and Development would be a lending institution to promote the international flow of long-term capital. It would make loans for productive and developmental purposes out of its own capital or out of funds borrowed in the market and would guarantee such loans offered to private investors. It is intended to make or guarantee such loans as would in the long run increase the borrower's ability to balance its international accounts. It would help to restore economies destroyed or disrupted by war, to reconvert their productive facilities to peacetime needs, and to develop the resources of less developed countries.

The bank would have a stabilizing influence on interest rates and other conditions for international loans and would tend to eliminate practices in international investment that have in the past resulted in excessive costs to borrowers and in losses to lenders. It would handle only loans that could not be obtained on reasonable terms without its support and would, therefore, in no way interfere with the flow of private funds into international investments. At the same time it would make it possible for countries greatly in need of foreign resources to obtain necessary capital which might not otherwise be available to them on reasonable terms. The agreement provides that loans made or guaranteed by the bank must have the approval of the lending country. Consequently, the loans can and should be so timed as to diminish either inflationary or deflationary pressures, and to contribute to the maintenance of economic stability in this country.

II

From the point of view of the board of governors the establishment of the fund and the bank would be desirable because they would contribute to world recovery and to the maintenance of economic stability at a high level which is the main objective of the board's policy. The monetary and credit structure of this country is continually and seriously affected by international transactions. In the past this country's monetary authorities have had to meet difficult situations when our banking system was called upon to absorb an excessive amount of foreign funds, arising out of surplus commodity exports and capital movements from foreign countries. The adoption of the proposed agreements should help to moderate these disturbing influences.

III

In connection with the enabling legislation now before Congress, the board is strongly in favor of the addition of a provision for the establishment of a council or committee to provide the necessary direction and guidance to the representatives of the United States on the governing bodies of the fund and the bank and to interpret to them the international financial and monetary policies of the United States. Members of this council or committee should consist of the heads of the appropriate agencies of the Government to be designated by the President. It should be a small group, comprising not more than five members. Since the proposed institutions are to be permanent, it would be advisable to have the council provided by law rather than by Executive order or informal arrangement. The council would not only advise the American governors and directors on the fund and the bank of its views with respect to the financial and monetary policies of the United States but would also be authorized to act for the United States in matters which require approval under the agreements, except in cases in which the right to decide will be retained by Congress. Establishment of such a council would assure reasonable continuity in the interpretation of American international financial policy to this country's representatives on the bank and the fund. Provision for such a council in the enabling legislation would not call for any change or modification of the articles of agreement of the fund or bank.

The CHAIRMAN. Dr. White.

**STATEMENT OF HON. HARRY D. WHITE, ASSISTANT SECRETARY OF
THE TREASURY, WASHINGTON, D. C.**

The CHAIRMAN. The hearings have closed except for your testimony. We requested that you finish up the hearing by any additional statement you would like to make, or perhaps the Senators here would like to ask you some questions.

Mr. WHITE. Well, Senator, possibly some of the questions might bring out points that were left not completely clarified. If there are no questions, then I will continue my comments but possibly there are some questions.

Senator DOWNEY. I have two or three questions I would like to ask you.

I think, Mr. White, that Mr. Burgess suggested the possibility that there would be difficulty in the fund selling the currency, and spoke of some difficulty, as I understood, that his bank had had in selling German marks. Did you recall his testimony on that point?

Mr. WHITE. Yes. I was here when he referred to the sale of, I think it was, standstill marks by his bank, or I presume that is what he referred to, and it is true that his bank took a loss on it; but I think that episode brings out clearly the difference between the currency held by the fund and the other currency.

You see, the marks which they had to sell, I think they were referred to as standstill marks, had restricted uses. They could be used chiefly by tourists and only up to a certain amount. They could also be used for reinvestment in German securities, but in that event the investor could not take any dividends or principal out of Germany. So that the market for those marks was largely confined to people who might be going to Germany and who were willing to buy marks (at a discount) up to the limit that was allowed. The market was, therefore, extremely narrow.

Now contrast that with the currency held by the fund, which it could sell if the account were being liquidated, either because the country was withdrawing or because it was asked to withdraw. In the first place, the withdrawing member guarantees the unrestricted use at all times of the currency sold by the fund. Instead of the currency having a restricted use, as was the case in the illustration which Mr. Burgess I think was referring to, the currency in the fund is guaranteed against any restrictions. It is better than ordinary currency.

Senator TAFT. Being put out of the fund, why should they keep their guaranty, being unable to? They are only out of the fund because they are unable to keep their obligations, so why should they keep their obligations?

Mr. WHITE. No; not necessarily, Senator. The member country might have left the fund of its own free will. I think I stated clearly, earlier that if a country repudiates its obligations there is very little that the fund can do other than help make it a sort of financial outcast. But I am not speaking now of repudiation. I am assuming that countries will not repudiate their obligations and I am indicating that the collateral which is left with the fund is of a character which makes a possible monetary loss, exclusive of a repudiation, negligible, or almost negligible, because this collateral has special advantages. If—

Senator TAFT. I am suggesting that the moment they leave the fund they will put on a lot of exchange restrictions that apply to this collateral so it won't be good.

Mr. WHITE. Well, I am suggesting that they can't unless they repudiate their written promises, because they agree that they won't. They agree that they will not do that.

Senator TAFT. Well, they just say they are unable; that is why they have not paid their debts. That is why. I didn't say they are deliberately repudiating. The situation we face is of a large number of countries that are unable to pay their debts. That is the condition we face.

Mr. WHITE. Well, let me finish my illustration, and I think you will see wherein that does not apply. Member countries agree not to put on any restrictions on the use of their currency held by the Fund. If Mr. Burgess's bank had marks which had no restrictions on their use, it could have got a much better price for them and would have found a much wider market. But more than that, the other member countries agree that if requested by the Fund they will buy the particular currency which the Fund offers them first.

The importance of that last point cannot be overstressed, because

every country needs some foreign currencies. To illustrate, we have selected about five or six countries as a sample. We picked the United Kingdom, France, Brazil, Egypt, and Honduras, to get a small country, medium-sized, and large trading country. Now, in the 5-year period in which the currency can be sold, the demand which there can be in the world for the currency of each of those countries, as compared with the amount of those currencies which the fund will have to offer, is, in the case of the United Kingdom, 8 times as great; in the case of France, 11 times as great; in the case of Brazil 10 times as great; in the case of Egypt 20 times as great; in the case of Honduras 20 times as great.

Now, what does that mean? That means that all that the fund is asking to sell in the case that Egypt or Honduras withdraws is a small part of the amount of those currencies which the world will need, so that there can be no question as to demand. The demand over a period of 5 years is much greater than the supply.

Senator TAFT. I suggest that the country that is forced to leave the Fund is doing so because it cannot maintain its currency. Its currency, therefore, by hypothesis, is rapidly depreciating. By the time you sell it it is of no value.

Mr. WHITE. Oh, no.

Senator TAFT. That is the only reason you put them out of the fund, because the currency is depreciating. They can't maintain their currency by your ordinary fund operations, so you say, "Well, too bad; you're out."

Mr. WHITE. Senator, there are many reasons why a country might want to withdraw. There are many reasons why a country might be expelled. In either event it doesn't follow that a country's currency would depreciate to nothing. It might happen under special circumstances. Even were it to happen that country would still be obligated to repay the agreed upon gold value.

Well, I don't want to spend any more time on that topic. I merely wanted to explain, in answer to your question, the distinction between the liquidation value of currency which has no special privileges, in which there is no guaranty by the country as to its unrestricted use, nor any agreement on the part of other countries to take that currency, and the currency held by the fund.

Senator DOWNEY. Of course, as you have already indicated, Mr. White, if a government wanted to repudiate its obligations, of course then you would have a very different situation.

Mr. WHITE. That is a very different situation, Senator. That possibility creates the risk of loss.

Senator DOWNEY. Well, now, Mr. Chairman, I have one or two other questions.

I think on your original testimony, Mr. White, you did discuss at some length the time for which the fund should loan money. I think some of the witnesses fixed an arbitrary period, say 18 months, I believe one did. What is your opinion on that phase of the situation?

Mr. WHITE. A limitation on the period of repurchase of 18 months or anything like that would, in the first place, make it impossible for the fund to function well, and in the second place would be completely unacceptable to other countries. When countries are in need of foreign exchange, the function of the fund is to give them assistance

until such time as they can carry out the measures to adjust their balance of payments without having to adopt drastic measures that would adversely affect the trade of the world. Also, one of the important factors in the restoration of equilibrium in the country's balance of payments, in restoring the country's balance of its outpayments and inpayments, is, just time. Shifts in imports and shifts in exports frequently take place without any governmental action. There are swings in trade. If allowed enough time the pendulum frequently will swing back.

Now, the adjustment of a country's balance of payments is something that requires anywhere from a year to 5 or 6 or 7 years. That is one of the things that people working in the field have learned from the experience and study of the past 20 years. A country must be permitted plenty of time to adjust its balance of payments.

You can see what would happen if a country, having an unfavorable balance of payments, that is, having to pay out more than it was receiving in the way of foreign exchange, came to the fund and was told, "Yes, we will let you buy 25 or 50 percent of your quota but you must repurchase it in 18 months." That country, faced with a shortage of foreign exchange caused by the situation, whatever it might be, intensifies that bad situation by saying, "We will borrow more, and we will pay it back within 18 months," without any assurance—and it can have no assurance—that that additional amount of exchange plus an amount to correct its disequilibrium will be available within that short period of time. Events do not move that fast in international economic relations, unless drastic action is taken. It is a recognition of that fact that is one of the basic principles of currency stabilization. That is why it is provided in the fund agreement that a country must repurchase its exchange, but not with a short-time limit, because nobody can say ahead of time how rapidly inpayments and outpayments will change and to what extent. The flexibility in the time of repurchase which is provided in the fund is one of the important elements in the successful operation of the fund. The fund says to the country, "You must repurchase this exchange, and the longer you wait the more pressure we put on you; but we recognize that there is no definite date that we can say ahead of time by which you must repurchase it. We expect that as time goes on the steps which you take to help correct your disequilibrium will yield results, and it may take 1 year, it may take two, it may take three, it may take five, it may, in special cases, even take longer."

Senator DOWNEY. Mr. White, is there any agreement, any declaration of policy, as to the fund making shorter loans than the bank, or is that left entirely an open matter?

Mr. WHITE. The bank is restricted in its operations to long-term loans.

Senator DOWNEY. By the declaration agreement?

Mr. WHITE. By the articles of agreement, definitely.

Senator DOWNEY. But is there definition of long-time loans?

Mr. WHITE. No. You could not get a definition unless you took the term in its context in each case. For example, a long-term loan for some projects would be 40 years; for other projects it might be 10 years. A short-term loan for a businessman would be 3 months. A short-term loan to a municipality would be a year or two. In our

Federal financing we call short-terms anything less than 5 years. All we can do is establish the general principle and leave it to the bank authorities to determine what is a long or a short term.

There would be agreement, for example, by all authorities, that a loan for 3 years is a short-term loan, and the bank shouldn't make it. There would also be agreement that a 20- or 30- or a 40-year is a long-term loan.

Now, as we move from those extremes there might be some difference of opinion. Some difference might develop whether you should call a 5- or 8-year loan a short-term loan or a long-term.

In the fund it is recognized that the operations are short-term, "short term" being related to the business cycle. In other words, a 10-year operation would be long, and 15 years would certainly be considered much too long to be regarded as a proper function for the fund. We expect to be—

Senator TAFT. What is the cycle?

Mr. WHITE. There are 3-year cycles, there are 7-year cycles, and there are 9-year cycles. Within the major cycle you get other cycles which are subsidiary; are not the dominant cycles.

Senator TAFT. It seems to me obvious from your statement that the fund, then, is intended to make what are practically permanent loans. If this is a 9-year proposition, I cannot understand why it is stabilization at all. What has it to do with stabilization currency?

Mr. WHITE. Senator, I didn't say—

Senator TAFT. How do you separate it from other long-term loans? Doesn't it all go in one pot if it is a 9-year loan?

Mr. WHITE. No, Senator. Apparently I have not been able to make clear the function of an exchange stabilization—

Senator TAFT. No; you haven't, because—

Mr. WHITE. Operation. A country is permitted to buy exchange, and is required to repurchase it gradually as the conditions improve or time passes. The country is usually expected to take certain steps which will subsequently enable it to make the necessary repurchases.

Senator TAFT. Well, I suggest—

Mr. WHITE. Most countries will repurchase their currencies probably in 2 or 3 years. Some will repurchase it in 4. Some, I presume, may repurchase it in 5, Senator. They have the burden—

Senator TAFT. I suggest if they need it that long it is not a question of stabilization of exchange; it is a fundamental lack of exports or some other condition having to do otherwise than simply with the question of exchange stability.

Mr. WHITE. Well, Senator, you are entitled to your opinion. The technicians and the experts, most of them, differ with you.

Senator TAFT. Most of them agree with me; those who have any—

Senator DOWNEY. The gentlemen having reached an agreement to disagree here, then I would like to ask another question, if I may, please, Mr. White.

Senator BARKLEY. Do you want to add to the confusion?

Senator DOWNEY. I am going to ask another question to create more confusion. [Laughter.]

One of the witnesses expressed some fear, and I cannot say I entirely followed his reasoning, but as I understood it, it was that

the fund might declare a scarcity of dollars and thereby decrease the amount of our imports. Was there such a fear expressed by one witness?

Mr. WHITE. Decrease the amount of exports that would perhaps be available?

Senator DOWNEY. That is right.

Mr. WHITE. Yes; there was such a fear expressed. And, Senator, the opposite is true.

As has been the case in the past and as will be true in the future without the fund in operation, when countries do not have an adequate amount of a foreign exchange, they have to ration what they have and receive. They have to restrict its use. They have no other choice. They may do other things in addition, but they have no other choice unless they want to let their currency float, that is, let it depreciate, let the market determine whatever rate it shall reach, usually a much lower rate. They have to restrict sales of foreign exchange if they want any control at all over the gold parity of their currencies.

Now, when a country restricts the use of foreign exchange, there is nothing in the absence of the fund which requires it to impose restrictions only to the extent necessary. Also, there is nothing that makes it possible for those countries with a shortage of foreign exchange to benefit by adequacy or surplus of foreign exchange resources that other countries might have.

Now, both those things are accomplished by the fund. The fund says, "You can impose restrictions on exchange when there is a general scarcity, but you must do so only to the extent and only as long as is necessary." And the fund is the judge.

Secondly, it canalizes, it siphons off, surplus gold or dollars, if it happens to be dollars that are scarce, from those countries which either are having an inflow of gold or are in a position to repurchase their own currency from the fund. It siphons the scarce currency or gold into the fund through the repurchase provisions and thus makes more of it available to the other countries. The end result of the operation of the provisions in the fund agreement dealing with scarce currencies is that the United States will have its exports greater than would be the case without the fund, and also a more equitable and more effective use of scarce currency.

Instead of the scarcity of dollars in the fund resulting in a reduction in our exports as compared with the absence of the fund, the contrary is true.

Senator DOWNEY. Well, Mr. White, if we take this kind of a condition, suppose the citizens of Great Britain wanted to purchase more goods from the people in the United States than they had American dollars or currency with which to buy them.

Mr. WHITE. Which is the situation now, or will be right after the war.

Senator DOWNEY. That is the difficulty that we shall have to meet for an indefinite period, probably, isn't it? Well, now, your statement is that the way the fund is set up the probabilities are that there would be a greater use made of our exchange through the fund than there would be if the fund was not in existence?

Mr. WHITE. Yes; I should be inclined myself not to use the word "probability," but rather "almost certainty."

Senator DOWNEY. Mr. Chairman, that answers the questions that I wanted to ask. Thank you, Mr. White.

Senator BUCK. Mr. White, you referred to the operations of the bank a moment ago. Will there be an opportunity for private banks to pass upon—accept or reject—any of these loans that have come into the bank?

Mr. WHITE. It comes to them in the first place, Senator Buck.

Senator BUCK. It goes to private banks first?

Mr. WHITE. Yes. The International Bank isn't permitted to consider making or guaranteeing any loan unless it has received evidence, unless it is assured, that the private banks will not handle it on reasonable terms. The purpose of that was to in every way promote and encourage complete handling of loans by private banks and by private investors. The bank steps into the picture only when the underwriting companies or banks or the potential borrower says, "We can't handle this at a reasonable rate, and we want your help."

The CHAIRMAN. Senator Millikin, you have a statement with reference to the things that you wanted in regard to the legal phases. Did you want to put it into the record, or is that—

Senator MILLIKIN. The attorneys for the Treasury have handed me what seems to be a very thorough job, under their slants, on the questions which I wanted to cover. I am perfectly willing that it be or be not introduced in the record.

The CHAIRMAN. What would you like to have done? —

Senator MILLIKIN. It is rather lengthy, and I am inclined to believe it would be a good thing to have in the record.

The CHAIRMAN. Very well; all right.

Senator MILLIKIN. I should like to ask, is there a copy available to put in the record?

Mr. LUXFORD. I have the original here, which I will be glad to turn over to the committee.

(The above-mentioned statement is as follows:)

CONSTITUTIONALITY OF THE BRETTON WOODS AGREEMENTS ACT

INTRODUCTION

There is pending before the Senate a bill¹ to provide for the participation of the United States in the International Monetary Fund (hereinafter called the "fund") and the International Bank for Reconstruction and Development (hereinafter called the "bank"). The proposal is in the form of a statute entitled the "Bretton Woods Agreements Act." It would authorize the President to accept membership in the fund and the bank provided for in the respective articles of agreement therefor contained in the final act of the United Nations Monetary and Financial Conference,² and would in substance enact the necessary statutory authority to permit the United States to carry out the obligations to be undertaken by it under these agreements.

QUESTION

The question has been raised whether United States participation in the fund and bank can be effected by an act of Congress authorizing the President to sign the articles of agreement or whether they are treaties that must be made by the President, by and with the advice and consent of the Senate. An incidental question has also been raised whether participation of the United States in the fund and bank will involve an unlawful delegation of legislative power to the institutions or to foreign countries.

¹ H. R. 3314, 79th Cong., 1st sess., passed by the House, June 7, 1945.

² Held in Bretton Woods, N. H., July 1-22, 1944. The final act is deposited in the archives of the Department of State.

CONCLUSION

It has been concluded (1) that the approach embodied in the Bretton Woods Agreements Act is authorized under United States constitutional procedure and practices and is in fact preferable in this case to any other form of procedure; and (2) that H. R. 3314 and the articles of agreement do not involve an unlawful delegation of legislative power.

I. STATEMENT OF FACTS

International Monetary Fund

The International Monetary Fund is open to membership to the 45 United and Associated Nations which participated in the Conference, and to such other countries as may thereafter be admitted. Provision is made for aggregate subscriptions by the original members of the equivalent of \$8,800,000,000 in accordance with a schedule attached to the articles, which quotas are payable at the time and in the manner set forth in the Agreement. The purposes of the fund are:

"(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

"(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

"(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

"(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

"(v) To give confidence to members by making the fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

"(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members."³

The fund is an integral part of a program to further international trade and to improve general economic conditions with special emphasis upon stability of exchange rates and the avoidance of unilateral and discriminatory exchange practices. Members are required to state the par value of their currency in terms of gold and to agree to restrict their freedom to make changes in exchange rates.⁴ A pool of gold and currencies of all members is to be created through the subscriptions of the quotas, which will be available under prescribed conditions to members requiring the currency of other members to meet temporary shortages of exchange.⁵ This pool is to be strengthened through various provisions, including the requirement that members repurchase their own currency from the fund,⁶ and that certain charges be incurred by members using the fund to acquire foreign exchange.⁷ Special action is authorized in the event that the holdings of the fund of the currency of any member should become scarce.⁸ Members are required to avoid restrictions on current international payments and discriminatory currency practices.⁹ Provision is made for a Board of Governors, Executive Directors, and a Managing Director and staff in whom the organization's powers shall be vested¹⁰ and for the extension of certain privileges and immunities to the fund and its officers and employees.¹¹ The fund may require members to furnish it with such information as may be essential to its operations.¹²

The fund is to deal only with governments or their agencies¹³ and each mem-

³ Art. I, articles of agreement of the fund.

⁴ Art. IV, *ibid.*

⁵ Art. V, sec. 3, *ibid.*

⁶ Art. V, sec. 7, *ibid.*

⁷ Art. V, sec. 8, *ibid.*

⁸ Art. VII, *ibid.*

⁹ Art. VIII, *ibid.*

¹⁰ Art. XII, *ibid.*

¹¹ Art. IX, *ibid.*

¹² Art. VIII, sec. 5, *ibid.*

¹³ Art. V, sec. 1, *ibid.*

ber shall designate its central bank or other acceptable institution as a depository for the fund's holdings of its currency.¹⁴ Any member may withdraw from the fund at any time by transmitting a notice in writing to the fund at its principal office; withdrawal shall become effective on the date such notice is received by the fund.¹⁵ Provision is made for amendments to the articles of agreement, the acceptance of the United States being required in all cases and the acceptance of all of the members being required in the case of any amendment modifying (a) the right to withdraw from the fund; (b) the provision that no change in a member's quota shall be made without its consent; and (c) the provision that no change may be made in the par value of a member's currency except on the proposal of that member.¹⁶ The agreement is to enter into force when it has been signed on behalf of governments having 65 percent of the total of the quotas. Each government becoming a member shall at the time of signature deposit an instrument setting forth that it has accepted the agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under the agreement.¹⁷ At the time it comes into operation, the fund shall request each member to communicate the par value of its currency and the parity must be agreed between the fund and the members.¹⁸ Provision is made for compulsory arbitration of disputes arising between the fund and a member which has withdrawn and between the fund and any member during liquidation of the fund.¹⁹

International Bank for Reconstruction and Development

The International Bank for Reconstruction and Development is open to membership only to members of the fund.²⁰ It has an authorized capital stock of \$10,000,000,000 of which \$9,100,000,000 is open for subscription by the countries participating in the Conference.²¹ The subscriptions are payable in the manner set forth in the agreement which provides in effect for the postponement of the payment of 80 percent of the value of each country's subscription until needed to meet obligations incurred in the operations of the bank.²² The purposes of the bank are as follows:

"(i) 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 peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

"(ii) To promote private foreign investment by means of guaranties or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

"(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

"(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

"(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy."²³

The bank is likewise a part of the program to promote world trade and full employment, primarily through encouraging and providing for the international flow of long-term capital. The resources and facilities of the bank are to be used exclusively for the benefit of members with equitable consideration to

¹⁴ Art. XIII, sec. 2, *ibid.*

¹⁵ Art. XV, *ibid.*

¹⁶ Art. XVII, *ibid.*

¹⁷ Art. XX, secs. 1 and 2, *ibid.*

¹⁸ Art. XX, sec. 4, *ibid.*

¹⁹ Art. XVIII, *ibid.*

²⁰ Art. II, sec. 1, articles of agreement of the bank.

²¹ Art. II, sec. 2, and schedule A, *ibid.*

²² Art. II, secs. 3-8, *ibid.*

²³ Art. I, *ibid.*

projects for development and projects for reconstruction alike.²¹ The bank may make or facilitate loans (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 (c) by guaranteeing private loans.²² However, the bank may not have outstanding guarantees, participation in loans and direct loans in excess of 100 percent of the unimpaired subscribed capital, reserves, and surplus of the bank.²³ Similar provisions are made in the case of the bank as in the case of the fund with reference to organization and management,²⁴ privileges and immunities,²⁵ depositories,²⁶ withdrawal,²⁷ amendment,²⁸ signature of the agreement,²⁹ and arbitration of disputes.³⁰

In summary, the purposes of the fund and the bank taken together are to facilitate the most rapid return to normal economic conditions after the war; to provide for increased employment and trade through making productive loans to devastated and undeveloped countries; to promote exchange stability and thereby to provide against unilateral and discriminatory exchange practices; and in general to facilitate the expansion and growth of international trade. These purposes are closely related to, or are projections of, other measures which the United States Government has taken in recent years, either on its own initiative or in concert with other nations, in the field of international economics and finance. The Tripartite Currency Stabilization Agreement of 1936,³¹ the bilateral stabilization agreements with a number of other countries,³² the reciprocal trade agreements³³ program and the International Silver Agreement of 1936,³⁴ among others, relate to these purposes. The so-called Lend-Lease Act³⁵ and the mutual-aid agreements entered into under the authority thereof have provided during the war for cooperative action between the Allied countries and the pooling of their resources to the utmost extent in the prosecution of the war. Article VII of the mutual-aid agreements³⁶ recognizes and stresses the necessity of continued cooperation between these allies in the field of international economics to promote high levels of employment and free movement of trade. The United Nations Relief and Rehabilitation Administration³⁷ has been created as the first step toward the restoration of the economies of the countries which have been devastated during the war; although humanitarian motives have, to a large extent, dictated our participation in this organization, the economic factor has repeatedly been emphasized as an important consideration, particularly in determining the large size of the United States contribution.³⁸ The Export-Import Bank has in recent years played an important

²¹ Art. 3, sec. 1, *ibid.*

²² Art. IV, sec. 1, *ibid.*

²³ Art. III, sec. 3, *ibid.*

²⁴ Art. V, *ibid.*

²⁵ Art. VII, *ibid.*

²⁶ Art. V, sec. 11, *ibid.*

²⁷ Art. VI, sec. 1, *ibid.*

²⁸ Art. VIII, *ibid.*

²⁹ Art. XI, *ibid.*

³⁰ Art. IX, *ibid.*

³¹ Federal Reserve Bulletin, October 1936, p. 759.

³² Annual Reports of the Secretary of the Treasury 1933, 1941, 1942.

³³ 48 Stat. 943.

³⁴ United States Executive Agreement (63).

³⁵ U. S. C., title 22, secs. 411-423.

³⁶ A typical example is the mutual-aid agreement with Great Britain (United States Executive Agreement Series 241) signed February 23, 1942. Article VII of this agreement provides in part as follows:

"In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the act of Congress of March 11, 1941, 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-wide 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 the 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; and, in general, to the attainment of all the economic objectives set forth in the joint declaration made on August 14, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom."

³⁷ Public Law 267, 78th Cong., approved March 28, 1944.

³⁸ See, for example, Hearings before the Committee on Foreign Affairs, House of Representatives on H. J. Res. 192, 78th Cong., 1st and 2d sessions, and especially statement of Herbert H. Lehman, p. 126, that "Economic aid to the liberated countries is essential to the long-term security of all countries. The interdependence of all countries is such that it would imperil the prosperity and security of all if the areas liberated by our armies continued life with unemployment, inflation, unrest, disease, and other consequences of economic . . . disorganization."

role in furnishing capital to the other American republics to facilitate sound and productive industrial development in those countries and thereby to increase their economic potential as trading nations; so successful have been its operations that a strong demand has been created for the extension of the lending powers of this bank as a complement to the activities of the International Bank for Reconstruction and Development.⁴²

The United States has taken the lead in the creation of the fund and the bank in order to further, through international cooperative action, objectives which this country has been striving to attain for years. It is impossible therefore to consider the pending legislation without taking into account the other steps which have been taken by this country to make this program effective.

II. POWERS OF CONGRESS

The subject matter of the pending legislation relates directly to powers which under the Constitution are vested in the Congress. Article I, section 8, of the Constitution provides that "the Congress shall have power * * * to coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures." By virtue of this provision, legislative authority in the field of banking and currency and foreign exchange is vested jointly in the House of Representatives and the Senate. The subject of the bill is also directly related to other clauses in section 8 of article I of the Constitution, including those which provide that the Congress shall have power "to borrow money on the credit of the United States" and "to regulate commerce with foreign nations."

Under the banking and currency powers of the Congress, a pattern of highly complex and interdependent legislation has been built up during the history of our country which forms the basis of our present national currency and credit structure. A recent article by Myres S. McDougal and Asher Lans⁴³ notes this development and states:

"An intricate network of intermeshing legislation has been built upon the monetary and currency powers of Congress. It has long been recognized that Congress' monetary powers subsumed control over the relations between domestic and foreign currency."

These laws provide, among other things, for the national banking system; the coinage and recoinage of metal; the circulation and redemption of notes; and the powers of the Secretary of the Treasury with reference to these matters.⁴⁴ Of particular significance, as related to the pending legislation, is the series of vitally important statutes which have been adopted during the last 35 years to keep pace with the increasingly complex financial problems of the twentieth century and the drastic change of the position of the United States in relation to the rest of the world in matters of industrial development and financial power. The Federal Reserve Act of 1913,⁴⁵ and Banking Act of 1933,⁴⁶ and the Banking Act of 1935⁴⁷ have been designed to strengthen our national banking structure in the light of present-day needs. Flexible powers have been granted to the Executive to

⁴² See, for example, America's New Opportunities in World Trade, National Planning Association, November 1944, p. 76. S. 1181 and H. R. 3490, 79th Cong., 1st sess.

⁴³ Treaties and Congressional-Executive or Presidential Agreements: Interchangeable Instruments of Foreign Policy (1945), Yale Law Journal 181.

⁴⁴ U. S. C., title 12, sec. 21, et seq. and sec. 221 et seq.; and title 31, sec. 311, et seq. An interesting provision in connection with the general subject of this memorandum is contained in sec. 312 of title 31, as follows:

"International monetary conference commissioners.—Whenever the President of the United States shall determine that the United States should be represented at any international conference called by the United States or any other country with a view to securing by international agreement a fixity of relative value between gold and silver as money by means of a common ratio, between these metals, with free mintage at such ratio, he may appoint five or more commissioners to such international conference; and for compensation of said commissioners, and for all reasonable expenses connected therewith, to be approved by the Secretary of State, including the proportion to be paid by the United States of the joint expenses of any such conference, the sum of \$100,000, or so much thereof as may be necessary, is appropriated (Mar. 3, 1897, c. 376, § 1, 29 Stat. 624)."

Thus it appears that nearly 50 years ago Congress had anticipated the necessity of an international conference to secure "international agreement" with reference to certain of the problems with which we are generally concerned here. The fact that this provision is contained in legislation dealing with the most basic aspects of our domestic currency system is consistent with the thesis herein maintained.

⁴⁵ 38 Stat. 251.

⁴⁶ 48 Stat. 162.

⁴⁷ 49 Stat. 684.

enable it to deal with financial problems of an emergency nature, including problems of an international character.⁴⁸

More directly related to the problems with which the current legislation is concerned are a series of financial statutes enacted since 1933. Thus, title III of the Agricultural Adjustment Act of 1933⁴⁹ authorizes the Secretary of the Treasury, in conjunction with the Federal Reserve banks, to undertake extensive credit operations in the event, among other things, that "the President finds * * * that * * * the foreign commerce of the United States is adversely affected by reason of the depreciation in the value of the currency of any other government"; and also, in such event:

"By proclamation to fix the weight of the gold dollar in grains nine-tenths fine and also to fix the weight of the silver dollar in grains nine-tenths fine at a definite fixed ratio in relation to the gold dollar at such amounts as he finds necessary from his investigation to stabilize domestic prices or to protect the foreign commerce against the adverse effect of depreciated foreign currencies, and to provide for the unlimited coinage of such gold and silver at the ratio so fixed, or in case the Government of the United States enters into an agreement with any government or governments under the terms of which the ratio between the value of gold and other currency issued by the United States and by any such government or governments is established, the President may fix the weight of the gold dollar in accordance with the ratio so agreed upon * * *."

The Gold Reserve Act of 1934,⁵⁰ as noted below, made further extensive provision with reference to our monetary structure and the foreign exchange value of the dollar.

The Silver Purchase Act of 1934⁵¹ authorized the Secretary of the Treasury, among other things, to "purchase silver at home or abroad," and "to investigate, regulate, or prohibit * * * the importation, [or] exportation * * * of silver." The act of July 6, 1939,⁵² also made important provisions with reference to silver and continued the President's authority under section 10 of the Gold Reserve Act.

Important provisions with reference to the national credit structure are contained in the Reconstruction Finance Corporation Act,⁵³ as subsequently amended, and in the legislation with respect to the Export-Import Bank.⁵⁴ In recent years, the Reconstruction Finance Corporation, in conjunction with the Secretary of the Treasury, has been authorized to finance the operations of other corporations having important foreign activities, including the Defense Supplies Corporation, the Metals Reserve Corporation, and the Rubber Reserve Corporation.⁵⁵

The effect of these statutes on the international economic relations of the United States has been very great. The enormous economic power of the United States results in profound reverberations throughout the economic and financial world whenever a major change is made in our domestic policy with reference to monetary matters. Since the dollar is today the leading medium in the world for the settlement of international transactions, any action to revalue the dollar in relation to gold, for example, is a matter of the greatest consequence to other nations.

In other words, it is impossible for the Congress to exercise its legislative powers in the field of banking and currency to any important degree without affecting our foreign relations. By the same token, it is impossible for the Con-

⁴⁸ See, for example, sec. 2 of the act of March 9, 1933 (48 Stat. 1), providing that: "During time of war or during any period of national emergency declared by the President, the President may, through any agency that he may designate, or otherwise, investigate, regulate, or prohibit, under such rules and regulations as he may prescribe, by means of licenses or otherwise, any transactions in foreign exchange, transfers of credit between or payment by banking institutions as defined by the President, and export, hoarding, melting, or earmarking of gold or silver coin or bullion or currency, by any person within the United States or any place subject to the jurisdiction thereof; and the President may require any person engaged in any transaction referred to in this subdivision to furnish under oath complete information relative thereto, including the production of any books or account, contracts, letters, or other papers in connection therewith in the custody or control of such person, either before or after such transaction is completed." Under these powers, Executive orders have been issued relating to the export of gold coin and to transactions in foreign exchange (Executive Orders 6260, Aug. 28, 1933, and 6560, Jan. 15, 1934) and with respect to the entire wartime system of blocking of credits and regulating foreign exchange transactions (Executive Order 8389, Apr. 10, 1940, as amended).

⁴⁹ 48 Stat. 31, 51. These provisions were not affected by the decision of the Supreme Court in *United States v. Butler* (1935), 297 U. S. 1.

⁵⁰ 49 Stat. 327.

⁵¹ 48 Stat. 1178.

⁵² 53 Stat. 998.

⁵³ 47 Stat. 5.

⁵⁴ 49 Stat. 4.

⁵⁵ 55 Stat. 248.

gress to legislate on monetary matters in the international field without taking into account the policies enunciated by Congress and the legislation enacted in the domestic field. The two fields are so closely related in fact as to be inseparable. It would be practically out of the question to attempt to draw the line between a purely domestic and a purely foreign monetary matter. It would likewise be extremely difficult to maintain, it is submitted, that legislation in the monetary field is beyond the scope of the powers of Congress simply because such legislation is related to, or is designed to effectuate, an international agreement in this field.

The Gold Reserve Act of 1934 is a significant landmark in the history of our domestic monetary structure and the reserves behind this country's currency. Elaborate provisions are contained therein with reference to such matters as reserves against deposits and circulating notes; the authority of the Federal Reserve banks with respect to note issues; Federal control over gold reserves; the coinage of gold; and the redemption of circulating notes. But one of the most important sections in this historic act, which deals with our domestic currency structure, is section 10 thereof providing that "For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury * * * is authorized * * * to deal in gold and foreign exchange * * *," and creating a fund of \$2,000,000,000 for this purpose.⁴⁸

Under this section, which was enacted pursuant to the power of Congress with reference to monetary matters, the Secretary of the Treasury has carried on extensive stabilization operations through dealings in foreign exchange. With the approval of the President, he has entered into a number of bilateral stabilization agreements.⁴⁹

In 1936, acting under this authority, the Secretary of the Treasury entered into a stabilization agreement with the other leading financial nations of the world.⁵⁰ This agreement was designed to accomplish many of the purposes of the International Monetary Fund with which we are concerned here. It was an effort to deal through international agreement with monetary problems of pressing domestic concern. It was fully within the power of the executive branch to enter into under the Gold Reserve Act, and no further legislative sanction was required. Congress approved this action by implication when it renewed the authority after its attention had been called to the execution of the agreement. So closely was the 1936 agreement and the stabilization fund created under section 10 related to the purposes of the proposed International Monetary Fund, that it is proposed to utilize the stabilization fund, to the extent of 90 percent, to meet in part the expenses of the United States subscriptions under the pending bill. Also compare the international silver agreement of 1933, entered into under the authority of title III of the Agricultural Adjustment Act of 1933.⁵¹

The Export-Import Bank is a domestic institution created by Congress to further the foreign trade of the United States. It is authorized to "discount notes, drafts, * * * for the purpose of aiding in the financing and facilitating exports and imports and the exchange of commodities between the United States * * * and any foreign country * * * or nationals thereof, and, with the approval of the Secretary of the Treasury, to borrow money and rediscount notes, draft, * * * for the purposes aforesaid."⁵² Its principal purpose is in substance to aid United States exporters to obtain access to markets in foreign countries and it performs numerous banking functions to this end. Under its powers it also enters into agreements with other countries. Some of these are primarily of a financial character similar to the operations which the fund may undertake. An example of this type of operation is the so-called Hull-Aranha agreement of March 8, 1939,⁵³ whereby, among other things, the Export-Import Bank agreed to extend acceptance credits to the Banco do Brasil in the amount of approximately \$20,000,000 for the specific purpose of increasing trade between the United States and Brazil. In this agreement the Export-Import Bank also agreed "to aid in improving Brazil's transportation facilities and the development of her other domestic undertakings designed to increase the productive capacity of the Brazilian nation and her trade with the United States [by cooperating] with the American manufacturers and exporters [and through] the extension of credits of a tenor calculated to enable the Government of Brazil and the Banco

⁴⁸ 48 Stat. 341.

⁴⁹ Annual Reports of the Secretary of the Treasury 1938, 1941, 1942.

⁵⁰ Federal Reserve Bulletin, October 1936, p. 759.

⁵¹ United States Executive Agreements (63).

⁵² 49 Stat. 4.

⁵³ Department of State Press Release, March 11, 1939, vol. XX; No. 493, Publication 1207, p. 174.

do Brasil to create the necessary exchange without disrupting normal purchases from the United States, or too rapidly depleting Brazil's supply of foreign exchange."

Under this provision, credits have since been extended to Brazil for these purposes.⁴² In this respect, the functions of the Export-Import Bank are similar to the operations of the proposed International Bank and are designed, so far as this country is concerned, through the making of productive loans, to stimulate industrial development in foreign countries and thereby to facilitate expansion of United States foreign trade. The Export-Import Bank is therefore a domestic organization, created by domestic legislation, under the powers of Congress, but which has important implications with reference to our foreign relations.

In the pattern of the legislative acts referred to above and international understandings carried out under their authority, the Bretton Woods agreements and the pending legislation fit as a projection of what has gone before. So far as this country is concerned, the purposes of the fund are related to and an extension of the fundamental purposes underlying title III of the Agricultural Adjustment Act, of section 10 of the Gold Reserve Act, of the bilateral stabilization agreements, and of the tripartite stabilization agreement of 1936 entered into thereunder, as well as of certain of the financial operations of the Export-Import Bank. The purposes of the proposed International Bank are similar in many respects to those of the Export-Import Bank and the two would in operation complement each other so far as this country is concerned, the Export-Import Bank acting in situations of special interest to the United States. To the extent that the International Bank will provide for assistance in the reconstruction of countries devastated by war, its purposes are also a continuation of the purposes of the Congress in authorizing our participation in the United Nations Relief and Rehabilitation Administration. In fact the proposal for the International Bank is similar in some respects to proposals which were discussed in the House of Representatives during the consideration of the UNRRA legislation, providing for United States participation in foreign loans for reconstruction purposes.⁴³

It is true that in one important respect the purposes of the pending legislation are inconsistent with existing law, namely, with the so-called Johnson Act,⁴⁴ which imposes restrictions upon the power of persons or entities in the United States to lend money to foreign governments in default to the United States. A similar provision is likewise contained in the legislation creating the Export-Import Bank.⁴⁵ This fact, however, reinforces rather than detracts from the argument that the power of Congress is involved in this legislation. The Johnson Act is legislation enacted in this field by Congress under the powers which are involved here. It is so intimately related to the subject matter and purposes of this legislation that its continued existence in unmodified form might

⁴² See statement of Warren Lee Pierson, President of Export-Import Bank, before the subcommittee of the Committee on Appropriations of the House of Representatives, May 12, 1944:

"The Export-Import Bank of Washington was created in 1934 with broad banking powers to facilitate exports and imports and the exchange of commodities between the United States and the governments, agencies, and nationals of other nations. To further the development of the foreign trade and the expansion of world markets of the United States, the Congress in September 1940 increased the lending authority of the bank in order to enable it to make loans, *inter alia*, to develop the resources, stabilize the economy, and assist in the orderly marketing of products in the countries of the Western Hemisphere. The bank is authorized to have outstanding at any one time loans or other obligations to it aggregating not in excess of \$700,000,000.

"* * * As an example, it might be pointed out that under the \$45,000,000 credit to the Brazilian steel plant, the bank has opened letters of credit and made individual commitments to cover more than 6,000 orders which have already been placed in the United States. Up to the present time this loan has involved over 5,000 individual disbursements and before the full credit has been utilized there will have been a total of more than 30,000 transactions. Similar situations prevail in many other credits of this type.

"There are at present on the books of the bank 120 loans and commitments involving 28 foreign governments or the agencies or nationals thereof. Also the bank has at present entered into 23 contracts with 23 Latin-American banks and 176 contracts with 31 United States banks pursuant to which letters of credit are opened or disbursements made from time to time as purchases are effected from the United States" (Foreign Economic Administration appropriation bill for 1945, hearings, 78th Cong., 2d sess., p. 460).

⁴³ H. J. Res. 226, "To provide for a central reconstruction fund to be used in joint account with foreign governments for rehabilitation, stabilization of currencies, and reconstruction, and for other purposes," 78th Cong., 2d sess., introduced February 1, 1944. The proposal was discussed during the debate on UNRRA, January 20, 1944, 90 Congressional Record 491 et seq.

⁴⁴ 48 Stat. 574, "An Act to prohibit financial transactions with any government in default on its obligations to the United States."

⁴⁵ 49 Stat. 4.

raise questions as to the ability of the United States to participate in the fund. It has important effects upon the foreign relations of the United States in a negative sense, if not in the positive sense that the pending legislation has such effect. It is consequently proposed in this legislation to modify the Johnson Act in the light of present-day exigencies and the aims and purposes of the Bretton Woods legislation. Without entering into the frequently debated field of non-self-executing treaties, it is submitted that since the Senate alone is not in a position to modify the policy set forth in the Johnson Act, its existence on the statute books of the United States makes it desirable for the review of this policy as applied to our participation in the Bretton Woods agreements to be made by the Congress.

With reference to the power of Congress under the commerce clause of the Constitution, it has been noted above that the Bretton Woods agreements have important effects in this field and on the policies which this Government has pursued for the purpose of promoting the foreign trade of the United States. While it is customary to emphasize the financial aspects of the fund and the bank, their importance with reference to American foreign commerce is very great. The provisions of the fund agreement relating to the avoidance of restrictions on current payments and discriminatory currency practices, and with respect to convertibility of foreign-held balances, among others, are designed to facilitate commercial intercourse between nations. These are provisions on which the representatives of the United States Government in negotiating the agreements have placed great importance, as they did upon the statement to the effect that among the purposes of the fund is the purpose "to facilitate the expansion and balanced growth of international trade." Viewed in this sense, therefore, these agreements form an important extension of the underlying purposes of the Trade Agreements Act of 1934⁴⁶ and should be considered in conjunction therewith. As stated by President Roosevelt in his message to the Congress recommending the passage of the Bretton Woods legislation:

"It is time for the United States to take the lead in establishing the principle of economic cooperation as the foundation for expanded world trade. We propose to do this, not by setting up a supergovernment but by international negotiation and agreement, directed to the improvement of the monetary institutions of the world and of the laws that govern trade. We have done a good deal in those directions in the last 10 years under the Trade Agreements Act of 1934 and through the stabilization fund operated by our Treasury. But our present enemies were powerful in those years, too, and they devoted all their efforts not to international collaboration but to autarchy and economic warfare. When victory is won we must be ready to go forward rapidly on a wide front. We all know very well that this will be a long and complicated business."⁴⁷

In summarizing this point therefore, it is submitted that the Bretton Woods legislation affects importantly powers of Congress in the field of banking and currency and commerce among others. Although it may be argued that any international treaty or agreement may have such effect with respect to existing laws, there are few examples of an international agreement which affect so intimately the powers of Congress in such important fields or which so directly affect such a complex pattern of legislation already enacted and congressional policy already enunciated. For the foregoing reasons it is submitted that unless section 2 of article II of the Constitution provides the only method, namely, the treaty power, under which the United States can proceed to enter into international arrangements of this nature, the Bretton Woods Agreements Act may constitutionally and in fact preferably be submitted to Congress in the form presented.

* * * * *

With this in mind, it is desirable to make a brief examination of instances of foreign negotiations in which apparently the fact that a particular international act affected a legislative power vested in the Congress was deemed to override, or present a preferable alternative method of procedure to, the treaty power. It is important in this connection to note that since the inauguration of our constitutional Government, the Executive agreement has played a leading part in our international relations. Between 1789 and 1944 nearly 1,500 Executive agreements have been effected, while, during the same period, the United States entered into only about 850 treaties.⁴⁸

⁴⁶ 48 Stat. 943.

⁴⁷ 79th Cong., 1st sess., H. Doc. 70, pp. 3-4.

⁴⁸ McClure, *International Executive Agreements* (1941) 1, Article by Edwin Borchard, *Congressional Record* (daily index), Mar. 9, 1945, p. A-1205.

A few outstanding cases of this nature are as follows:

1. *Commerce and navigation*.—As early as 1815, the Congress was concerning itself with problems incident to reciprocal rights with reference to commerce and navigation. In that year a statute⁶⁹ was enacted repealing provisions of earlier statutes imposing on ships or goods imported in them duties that were discriminatory as compared with vessels of the United States and their cargo, provided that such repeal should take effect in favor of any foreign nation whenever the President should be satisfied that the discriminatory duty of such foreign nation as applied to the United States had been abolished. These provisions were extended in other closely related acts of Congress.⁷⁰ Under the authority of this legislation the United States completed an arrangement with Austria⁷¹ providing for equality of treatment for the vessels of each nation in the other's ports.

In 1830 Congress enacted legislation providing for equality of treatment with reference to commerce and navigation between the United States and Great Britain and certain of its colonial possessions⁷² under which President Jackson subsequently proclaimed, after negotiations with the British Government, an arrangement in relation to trade between the United States and British possessions.⁷³ Under this general authority the United States during the years 1884-88 entered into a series of agreements with Spain for the elimination of discriminatory customs duties and establishment of national treatment of shipping with respect to Cuba, Puerto Rico, and other Spanish possessions.⁷⁴ Likewise, in 1925, the United States and Finland entered into an agreement providing substantially the same matters.⁷⁵

2. *Postal treaties*.—A notable example of the exercise of congressional power in the foreign field concerns postal arrangements with foreign countries under the power of Congress "to establish post offices and post roads." In 1872 the Congress enacted a statute which provided in part: "Sec. 167. That for the purpose of making better postal arrangements with foreign countries, or to counteract their adverse measures affecting our postal intercourse with them, the Postmaster General, by and with the advice and consent of the President, may negotiate and conclude postal treaties or conventions and may reduce or increase the rates of postage on mail matter conveyed between the United States and foreign countries."⁷⁶

Under this authority President Grant in 1874 entered into a "treaty concerning the formation of a General Postal Union," which provided for an extensive system of regulation of postal rates and transmission of correspondence on a multilateral basis and for the organization of the General Postal Union and of a congress of plenipotentiaries to meet every 3 years to consider changes in the system of the Union.⁷⁷ Although the "treaty" dealt comprehensively with a vital aspect of our economic and social relations with virtually all of the nations of the world, it was not required to be submitted to the Senate for its advice and consent, in view of the specific action of the Congress in authorizing the Executive to enter into such treaties. Presumably the reason for this course of action on the part of the Congress was the fact that matters relating to the transmission of mail to and from foreign countries was intimately related to domestic postal matters for which the Congress had made provision under its constitutional powers.⁷⁸ The same practice has been adhered to practically with-

⁶⁹ 3 Stat. 224.

⁷⁰ 4 Stat. 2 and 4 Stat. 308.

⁷¹ 3 Miller, *Treaties*, etc., 507.

⁷² 4 Stat. 419.

⁷³ 4 Stat. 417.

⁷⁴ 2 Malloy, 1680, 1681, 1683, 1684, 1685. See McClure, *International Executive Agreements* (1941), p. 60.

⁷⁵ 4 Malloy, 4132.

⁷⁶ 17 Stat. 283, 304.

⁷⁷ 19 Stat. 577. The name of the organization was later changed to the Universal Postal Union.

⁷⁸ See opinion of William H. Taft, Solicitor General of the United States, passing upon the practice followed in entering into "postal treaties," in which he stated: "Foreign mail is so closely connected with a proper system of inland mail as that the power to organize and carry on a general post-office system would seem to imply a power to organize, in connection therewith, a system of foreign mails, and, in the maintenance of such a system, a power to conclude contracts with the post-office departments of other countries" (19 Op. Att. Gen. 513, 520).

out exception in connection with our negotiation of postal arrangements with foreign nations. In 1934 the authority granted by the act of 1872 was renewed and the Postmaster General was authorized: "by and with the advice and consent of the President [to] negotiate and conclude postal treaties or conventions, and * * * reduce or increase the rates of postage or other charges on mail matter * * * between the United States and foreign countries."⁷⁵

3. *Copyrights and trade-marks.*—With respect to copyrights and trade-marks, the Congress has also exercised in the foreign field its power under article I, section 8, of the Constitution "to promote the progress of science and useful arts, by securing for limited times to authors and inventors the exclusive rights to their respective writings and discoveries." In 1891 in a statute making comprehensive provision with respect to copyrights it was provided that the benefits of the act should: "only apply to a citizen or subject of a foreign state or nation when such foreign state or nation permits to citizens of the United States of America the benefit of copyright on substantially the same basis as its own citizens; or when such foreign state or nation is a party to an international agreement which provides for reciprocity in the granting of copyright, by the terms of which agreement the United States of America may, at its pleasure, become a party to such an agreement."⁷⁶

Under this legislation, executive agreements on this subject were entered into with Germany in 1892;⁷⁷ with Spain in 1895;⁷⁸ with Italy in 1915;⁷⁹ with Argentina in 1934;⁸⁰ and in 1911 with France in relation to rights in China.⁸¹ With respect to trade-marks, Congress in 1881 enacted a statute providing that: "owners of trade-marks used in commerce with foreign nations, or with the Indian tribes, provided such owners shall be domiciled in the United States, or located in any foreign country or tribes which by treaty, convention, or law, affords similar privileges to citizens of the United States, may obtain registration of such trade-marks by complying with" ⁸² certain requirements. Under this authority agreements recognizing the existence of the reciprocal requirements were concluded in 1883 with the Netherlands⁸³ and Switzerland⁸⁴ by exchange of diplomatic notes. A similar agreement was concluded in 1889 with Great Britain with respect to reciprocal protection of trade-marks in Morocco.⁸⁵

4. *Reciprocity with Canada.*—With further reference to the exercise by Congress of its power to regulate foreign commerce discussed in paragraph 1 above, a notable example of congressional action in this field is the act of July 27, 1911,⁸⁶ in connection with a proposed reciprocity arrangement with Canada. It was specifically agreed between the administration of President Taft and the Canadian representatives to enter into certain tariff changes not through a formal treaty but through reciprocal legislation to reduce tariffs in the two countries.⁸⁷ The United States Congress did in fact enact the necessary statute but the proposal was not concluded because of failure of the Canadian Parliament to pass concurrent legislation.

5. *World War debts.*—An interesting and important example of the exercise of congressional power with respect to financial arrangements with other countries is found in the history of the debts arising out of the last World War. The First Liberty Loan Act of 1917⁸⁸ authorized the President to enter into arrangements for the purchase of obligations of other governments with the view to establishing credit and providing for the prosecution of the war. Under this authority the United States entered into a series of executive agreements with foreign countries in the form of contracts concluded by the Treasury Department under Presidential authority.⁸⁹ After the conclusion of hostilities the liquidation of these and other credits extended during the war through Executive action became an economic problem of major importance in the efforts to reestablish normal inter-

⁷⁵ 48 Stat. 943.

⁷⁶ 26 Stat. 1106, 1110.

⁷⁷ 1 Malloy 557.

⁷⁸ 2 Malloy 1687.

⁷⁹ 3 Malloy 2705.

⁸⁰ 180 LNTS 57.

⁸¹ 3 Malloy 2585.

⁸² 21 Stat. 502.

⁸³ 2 Malloy 1265.

⁸⁴ 2 Malloy 1769.

⁸⁵ 1 Malloy 778.

⁸⁶ 37 Stat. 4.

⁸⁷ 46 Congressional Record 1516.

⁸⁸ 40 Stat. 35.

⁸⁹ See Annual Report of the Secretary of the Treasury (1921), 32 st. seq.

course between nations. In 1922 Congress provided for the creation of a World War Foreign Debt Commission consisting of the Secretary of the Treasury and four—later, seven—other members to be appointed by the President by and with the advice and consent of the Senate. This Commission was authorized, subject to the approval of the President, "to refund or convert, and to extend the time of payment of the principal or the interest, or both, of any obligation of any foreign government now held by the United States of America or any obligation of any foreign government hereafter received * * * arising out of the World War * * *."⁴¹ As a consequence of this legislation, Executive agreements were effected with 13 foreign countries providing for various adjustments and extensions of maturity of the debts of those countries to the United States. The agreements were subsequently approved by acts of Congress.⁴² Similarly the moratoria with reference to the debts so funded which were negotiated by President Hoover in 1931 were carried out as Executive agreements in conjunction with specific authority conferred by joint resolution of Congress,⁴³ and were not submitted to the Senate for ratification.

6. *Stabilization agreements in World War I.*—During the last World War the Congress under the banking and currency power also granted authority to the Executive to make arrangements with foreign countries to stabilize foreign exchange and to obtain foreign currencies. This was contained in section 4 of the Supplement to the Second Liberty Bond Act which provided: "That the Secretary of the Treasury may, during the war and for two years after its termination make arrangements in or with foreign countries to stabilize the foreign exchanges and to obtain foreign currencies and credits in such currencies, and he may use any such credits and foreign currencies for the purpose of stabilizing or rectifying the foreign exchanges, and he may designate depositories in the foreign countries with which may be deposited as he may determine all or any part of the avails of any foreign credits or foreign currencies."⁴⁴ Several such stabilization agreements, including agreements with Argentina, Bolivia, and Peru, were negotiated by the Treasury Department under the authority of this act and were consummated by exchanges of notes between the State Department and the representatives in the United States of those Governments.

7. *Stabilization agreements under the Gold Reserve Act.*—Similarly, under the banking and currency power, Congress authorized the executive branch to conclude stabilization agreements when it enacted section 10 of the Gold Reserve Act of 1934.⁴⁵ The Secretary of the Treasury is authorized by that act, with the approval of the President, to deal in gold and foreign exchange for the purpose of stabilizing the exchange value of the dollar. Bilateral agreements to achieve this objective have been concluded with Brazil, China, Mexico, Ecuador, and Iceland.⁴⁶ In addition, this legislation was the authority for the execution of the Tripartite Currency Stabilization Agreement of 1936.⁴⁷

8. *Chinese loan.*—An interesting example of an international financial agreement entered into by the executive branch pursuant to congressional authorization under the banking and currency power is the agreement with China of March 21, 1942 providing for the extension of financial aid in the amount of \$500,000,000.⁴⁸ This agreement was authorized by the act of February 7, 1942⁴⁹ which gave the Secretary of the Treasury, with the approval of the President, broad authority to "loan or extend credit or give other financial aid to China in an amount not to exceed in the aggregate \$500,000,000 at such time or times and upon such terms as the Secretary of the Treasury with the approval of the President shall deem in the interest of the United States."

9. *Reciprocal trade agreements.*—Of all the examples of the exercise of congressional power in the foreign field, one of the most notable is the Trade Agreements Act of 1934 which provides that the President shall have authority "to enter into foreign trade agreements with foreign governments or instrumentalities thereof" for the purpose of expanding foreign markets for the products of the United States.⁵⁰ Under this authority some 27 reciprocal trade agreements have been entered into and promulgated by the President, making provision with reference to customs duties, most-favored-nation treatment and reciprocity.

⁴¹ 42 Stat. 365, 1325.

⁴² 42 Stat. 1325; 43 Stat. 20, 136, 719, 720; 44 Stat. 329, 376, 377, 378, 385; 45 Stat. 299; 46 Stat. 48.

⁴³ 47 Stat. 2: Annual Report of the Secretary of the Treasury (1932), 34, 286, and 290.

⁴⁴ 40 Stat. 965, 966.

⁴⁵ 48 Stat. 1178.

⁴⁶ Annual Reports of the Secretary of the Treasury, 1938, 1941, 1942.

⁴⁷ Federal Reserve Bulletin, October 1936, p. 759.

⁴⁸ Department of State Bulletin, March 21, 1942, p. 263.

⁴⁹ 56 Stat. 82.

⁵⁰ 48 Stat. 943.

The act and the agreements negotiated thereunder have constituted during the last 10 years the cornerstone of this country's foreign economic policy.

10. *Civil aviation agreements.*—Congressional power under the commerce clause has been exercised in the field of civil aviation to facilitate international negotiations with foreign countries for the extension of reciprocal rights for commercial and other types of airplane travel. These statutory provisions and the negotiations with other countries thereunder are similar in many respects to the developments in connection with maritime navigation discussed above.

Section 6 of the Air Commerce Act of 1926,⁴ as amended by Section 1107 of the Civil Aeronautics Act of 1938,⁵ provides, in part, that—

"If a foreign nation grants a similar privilege in respect of aircraft of the United States and/or airmen serving in connection therewith, the Civil Aeronautics Authority may authorize aircraft registered under the law of the foreign nation and not a part of the armed forces thereof to be navigated in the United States."

Sections 802 and 1102 of the 1938 act provides respectively:

"Sec. 802. The Secretary of State shall advise the Authority of, and consult with the Authority concerning, the negotiation of any agreements with foreign governments for the establishment or development of air navigation, including air routes and services."

* * * * *

"Sec. 1102. In exercising and performing its powers and duties under this act, the Authority shall do so consistently with any obligation assumed by the United States in any treaty, convention, or agreement that may be in force between the United States and any foreign country or foreign countries, shall take into consideration any applicable laws and requirements of foreign countries and shall not, in exercising and performing its powers and duties with respect to certificates of convenience and necessity, restrict compliance by any air carrier with any obligation, duty, or liability imposed by any foreign country."

Under these statutes the United States has entered into a series of bilateral agreements with foreign countries. By an exchange of notes with Germany in May 1932, each country granted liberty of passage over its territory to the aircraft of the other party, it being understood that "the establishment and operation of regular air routes by an air transport company of one of the parties within the territory of the other party * * * shall be subject to the prior consent of the other * * *". Similar agreements have been entered into with Italy in 1931; Sweden in 1933; Norway in 1933; the Union of South Africa in 1933; Denmark in 1934; Great Britain in 1935; and the Irish Free State in 1937, among others.⁶ One of the most significant of these agreements is the "Agreement for Civil Air Transport" between the United States and Canada dated February 17, 1945,⁷ providing in part that:

* * * * *

"ART. II. The Governments grant the rights specified in the annex for establishing the international civil air routes and services described in the annex, whether such services be inaugurated immediately or at a later date at the option of the Government to whom the rights are granted."

* * * * *

"ART. IV. In order to prevent discriminatory practices and to insure equality of treatment, the Governments agree that:

"(a) Each of them may impose or permit to be imposed on air lines of the other state just and reasonable charges for the use of public airports and other facilities on its territory provided that these charges shall not be higher than would be paid for the use of such airports and facilities by its national aircraft engaged in similar international services;

* * * * *

"(d) Neither of them will give a preference to its own air lines against the air lines of the other state in the application of its customs, immigration, quarantine and similar regulations or in the use of airports, airways or other facilities."

"ART. V. The laws and regulations of each state relating to the admission to or departure from its territory of aircraft engaged in international air navigation, or to the operation and navigation of such aircraft while within its territory, shall be applied to the aircraft of the other state, and shall be complied with by such

⁴ 44 Stat. 572.

⁵ 52 Stat. 973.

⁶ United States Executive Agreement Series 38.

⁷ United States Executive Agreement Series 24, 57, 59, 54, 58, 76, 110.

⁸ State Department Bulletin, February 25, 1945, p. 305.

aircraft, upon entering or departing from or while within the territory of that state.

"The aircraft operated by United States air lines shall conform at all times with the airworthiness requirements prescribed by the competent aeronautical authorities of the United States of America for aircraft employed in air transportation of the character contemplated by this agreement.

"ART. VIII. The aircraft operated by Canadian air lines shall conform at all times with the airworthiness requirements prescribed by the competent aeronautical authorities of Canada for aircraft employed in air transportation of the character contemplated by this agreement.

"ART. X. The services authorized by this agreement and for which rights are specified in the annex shall be conducted in accordance with the following provisions:

"(3) Holders of through tickets traveling on a through international service may make stop-overs at any point where a landing is made even though such landing is made at a point not otherwise authorized for the pick-up and discharge of traffic;

"(5) The routes specified in the annex shall be open for operation by properly designated air lines at any time during the life of the agreement. The rights shall not lapse with any failure to exercise them, or any interruption of such exercise."

Under the authority of these statutes the United States has also entered into multilateral agreements for the reciprocal extension of air transport rights as a result of the International Conference on Civil Aviation.¹⁰

The foregoing and other examples point strongly to a constitutional practice whereunder the power of Congress has been exercised through legislation in a particular field, generally economic, to authorize the executive branch to enter into arrangements with foreign governments, frequently on a multilateral basis, or to effectuate executive agreements of this nature. In each case the subject matter dealt with was one which concerned a function specifically delegated to Congress in the Constitution.

III. JUDICIAL DECISIONS WITH REFERENCE TO CONSTITUTIONALITY OF EXECUTIVE AGREEMENTS

It is not proposed in this paper to review in detail the familiar thesis that the Constitution does not require all arrangements with foreign nations to be concluded through the treaty procedure. From the point of view of constitutional law, the validity of executive agreements, whether entered into under the authority of Congress or under the authority of the President, or both, and not subject to the advice and consent of the Senate, is clearly established by precedent and judicial decision. Nor is the line of demarcation between treaties and executive agreements dependent upon whether or not a particular treaty or agreement imposes a binding commitment on the United States; many executive agreements, in fact, the vast majority, have imposed such obligations.

With respect to monetary agreements in particular, the comment of McDougal and Lans in their recent article¹¹ is striking. They state that—

"From the legal standpoint the most significant fact about these stabilization agreements is that every one of them was effected by congressional-executive agreement. In fact, there is no known instance where an international monetary arrangement to which the United States was a party was validated by the treaty process."

It may be noted, however, for the purpose of clarifying the issue, that the use of the term "executive agreement" has contributed to some of the confusion in the thinking on this subject to the extent that it has been used as a generic term, descriptive of all arrangements with foreign governments which are not submitted to the Senate for advice and consent to ratification. Since some opprobrium appears to attach to the term "executive agreement" because of the implication that such an instrument necessarily may involve the by-passing of a constitutional prerogative of the Senate, it is essential to point out by way of

¹⁰ International Conference on Civil Aviation, Final Act.

¹¹ Treaties and Congressional-Executive or Presidential Agreements: Interchangeable Instruments of National Policy (1945), Yale Law Journal, 181.

further definition that there are several varieties of agreements to which the term "executive agreement" is customarily applied or situations in which some procedure other than the treaty procedure has been or may be resorted to. These divide themselves in two general categories, as follows:

1. The classical example of executive agreement would appear to be an agreement entered into by the President, irrespective of specific congressional action, in the exercise of his powers as the principal military and diplomatic officer of the Government. These may either take the form of statements of policy such as the Root-Takahira agreement of 1908¹² and the Lansing-Ishii agreement of 1917¹³ which dealt with the special interests of the United States and Japan in China; or they may be agreements incidental to the waging of war such as the undertakings with reference to liberated areas and the prosecution of the war entered into at the Crimean Conference in February 1945¹⁴ or the transitory provisions of the Act of Chapultepec which specifically contemplate the use of force by this country during the present war and before the final adoption of a treaty.¹⁵ A closely related form of executive agreement entered into under the power of the President is an agreement which is non-executory and in effect relates to a specific act and imposes no further binding commitments upon this country. Outstanding examples of this type of agreement are the exchange of notes between President Roosevelt and Foreign Commissar Litvinov in 1933 relating to the recognition by the United States of the Soviet Union and the assignment by the latter to the United States of certain claims against United States nationals arising from confiscatory decrees of the Soviet Government;¹⁶ and the so-called Hull-Lothian agreement of September 1940 by which the United States transferred to Great Britain 50 destroyers in exchange for the rights for 99 years to military bases in British possessions in the Western Hemisphere.¹⁷

2. An entirely different type of constitutional procedure is involved in the case of an agreement with one or more foreign nations which is entered into by the executive branch in conjunction with legislative action by the Congress under one of its delegated powers. While for want of a better term such an agreement is customarily referred to as an "executive agreement," it might with equal correctness be called a "congressional agreement" since in the nature of this type of instrument its provisions could not be binding upon the United States without legislative action by the Congress. In practice there may be several variations in the interplay of executive and congressional action with reference to undertakings of this nature. The simplest type of case is an agreement which is entered into by the executive branch under general powers vested therein by previous act of Congress; examples of this type are the International Silver Agreement of 1933¹⁸ and the International Air Services Transit Agreement and the International Air Transport Agreement entered into as a result of the International Conference on Civil Aviation at Chicago in 1944.¹⁹ Secondly, there may be an executive agreement submitted for subsequent approval to Congress such as the debt funding agreements of 1923²⁰ or for subsequent legislative action to provide for the carrying out of the provisions of the agreement as in the case of the United Nations Relief and Rehabilitation Administration and the subsequent legislation providing for contributions of funds by the United States.²¹ Thirdly, there are examples of specific prior congressional authorization to enter into international agreement as in the case of Trade Agreements Act of 1934²² and United States membership in the International Labor Organization.²³ In any of these three types of cases the necessity of congressional sanction is present, and in all of these cases the issues involved from the constitutional aspect are different from those involved in the type of "executive agreement" entered into solely on the authority of the President.

This memorandum is concerned exclusively with the constitutionality of the procedure followed in the executive-legislative approach to international agree-

¹² 1 Malloy 1046.

¹³ 3 Malloy 2720.

¹⁴ 79th Cong., 1st sess., S. Doc. No. 8.

¹⁵ 91 Congressional Record, p. 2058, et seq., March 12, 1945.

¹⁶ Department of State Publication (528).

¹⁷ Department of State Bulletin, September 7, 1940, p. 195.

¹⁸ U. S. Executive Agreements (63).

¹⁹ International Conference on Civil Aviation, Final Act, pp. 87 and 91.

²⁰ 42 Stat. 363.

²¹ Public Law 267, 78th Cong., March 28, 1944, and Public Law-862, 78th Cong., June 30, 1944.

²² 48 Stat. 943.

²³ 48 Stat. 1182.

ments as applied to United States participation in the specific agreements herein dealt with. Nevertheless, since the broad issue of the treaty power is involved in both of these categories of "executive agreements," it is necessary to make reference to judicial decisions of the Supreme Court upholding the power of the executive to enter into agreements with foreign nations other than through the treaty process whether under his own authority or in conjunction with congressional action. Time and again agreements of these kinds have been upheld; never has their validity been impugned by the Court.²⁴ Whether the question of their constitutionality has been presented to the Court on the issue of unlawful delegation of power or on the issue of the avoidance of the treaty process, the decisions have been the same. Summaries of outstanding Supreme Court decisions are set forth below:

1. In *B. Altman & Co. v. United States* ((1912) 224 U. S. 583, 601) there was involved the question of the power of the Supreme Court to review a judgment of the Circuit Court of Appeals in a case involving the interpretation of a reciprocal trade agreement between the United States and France under the authority vested in the President by section 3 of the Tariff Act of 1897²⁵ which authorized the President to make reciprocal agreements with foreign countries with reference to certain articles. The contention was made that the judgment of the lower court was not reviewable under the provisions of the Circuit Court of Appeals Act of 1891 because the negotiations with France had concluded in an agreement rather than a treaty. The Court rejected this contention and stated as follows:

"While it may be true that this commercial agreement, made under authority of the Tariff Act of 1897, section 3, was not a treaty possessing the dignity of one requiring ratification by the Senate of the United States, it was an international compact, negotiated between the representatives of two sovereign nations and made in the name and on behalf of the contracting countries, and dealing with important commercial relations between the two countries, and was proclaimed by the President. If not technically a treaty requiring ratification, nevertheless it was a compact authorized by the Congress of the United States, negotiated and proclaimed under the authority of its President. We think such a compact is a treaty under the Circuit Court of Appeals Act, and, where its construction is directly involved, as it is here, there is a right of review by direct appeal to this court."

2. One of the leading cases on the subject of the powers of the Executive in the field of foreign affairs is *United States v. Curtiss-Wright Export Corp.* ((1936) 299 U. S. 304, 318) which involved an attack upon the constitutionality of a joint resolution of Congress of May 28, 1934,²⁶ which provided that:

"If the President finds that the prohibition of the sale of arms and munitions of war in the United States to those countries now engaged in armed conflict in the Chaco may contribute to the reestablishment of peace between those countries, and if after consultation with the governments of other American Republics and with their cooperation, as well as that of such other governments as he may deem necessary, he makes proclamation to that effect, it shall be unlawful to sell, except under such limitations and exceptions as the President prescribes, any arms or munitions of war in any place in the United States to the countries now engaged in that armed conflict, or to any person, company, or association acting in the interest of either country, until otherwise ordered by the President or by Congress."

Under the authority of this statute the President issued a proclamation prohibiting the sale of arms in the United States to the countries engaged in the Chaco War, namely, Bolivia and Paraguay. The Curtiss-Wright Corp. was indicted for conspiracy to violate the joint resolution and on appeal attacked the constitutionality of the joint resolution on the ground that it constituted an unlawful delegation of legislative power to the Executive. Excerpts from the opinion of the Court follow:

"It results that the investment of the Federal Government with the powers of external sovereignty did not depend upon the affirmative grants of the Constitution. The powers to declare and wage war, to conclude peace, to make treaties, to maintain diplomatic relations with other sovereignties, if they had never been mentioned in the Constitution, would have vested in the Federal Government as necessary concomitants of nationality. Neither the Constitution nor the laws passed in pursuance of it have any force in foreign territory unless in respect of our own citizens (see *American Banana Co. v. United Fruit Co.*, 213 U. S. 347, 356); and operations of the Nation in such territory must be

²⁴ McClure, *International Executive Agreements*, 221.

²⁵ 30 Stat. 151.

²⁶ 48 Stat. 811.

governed by treaties, international understandings and compacts, and the principles of international law. As a member of the family of nations, the right and power of the United States in that field are equal to the right and power of the other members of the international family. Otherwise, the United States is not completely sovereign. The power to acquire territory by discovery and occupation (*Jones v. United States*, 137 U. S. 202, 212), the power to expel undesirable aliens (*Fong Yue Ting v. United States*, 149 U. S. 698, 705 *et seq.*), the power to make such international agreements as do not constitute treaties in the constitutional sense (*Altman & Co. v. United States*, 224 U. S. 583, 600-601; *Crandall, Treaties, Their Making and Enforcement*, 2d ed., p. 102 and note 1), none of which is expressly affirmed by the Constitution, nevertheless exist as inherently inseparable from the conception of nationality. * * *

"Practically every volume of the United States Statutes contains one or more acts or joint resolutions of Congress authorizing action by the President in respect of subjects affecting foreign relations, which either leave the exercise of the power to his unrestricted judgment, or provide a standard far more general than that which has always been considered requisite with regard to domestic affairs.

* * * * *

"The result of holding that the joint resolution here under attack is void and unenforceable as constituting an unlawful delegation of legislative power would be to stamp this multitude of comparable acts and resolutions as likewise invalid. And while this court may not, and should not, hesitate to declare acts of Congress, however many times repeated, to be unconstitutional if beyond all rational doubt it finds them to be so, an impressive array of legislation such as we have just set forth, enacted by nearly every Congress from the beginning of our national existence to the present day, must be given unusual weight in the process of reaching a correct determination of the problem. A legislative practice such as we have here, evidenced not by only occasional instances, but marked by the movement of a steady stream for a century and a half of time, goes a long way in the direction of proving the presence of unassailable ground for the constitutionality of the practice, to be found in the origin and history of the power involved, or in its nature, or in both combined."

3. *United States v. Belmont* (1937) 301 U. S. 324, 330, involved certain aspects of the agreements between President Roosevelt and Foreign Commissar Litvinov in 1933 referred to above. This agreement, among other things, provided for the assignment to the United States of all claims of the Soviet Government against United States nationals arising by virtue of a decree of 1918 of the Soviet Government nationalizing and appropriating certain property, including a sum of money deposited prior to 1918 by a Russian corporation with Belmont. The United States sued to recover the deposit under the assignment. The lower court dismissed the complaint on the ground that a judgment for the United States would be contrary to the controlling public policy of the State of New York. The Supreme Court reversed the decision of the lower court and held that the United States was entitled to recover. In so holding the Court stated:

"We take judicial notice of the fact that coincident with the assignment set forth in the complaint, the President recognized the Soviet Government, and normal diplomatic relations were established between that Government and the Government of the United States, followed by an exchange of ambassadors. The effect of this was to validate, so far as this country is concerned, all acts of the Soviet Government here involved from the commencement of its existence. The recognition, establishment of diplomatic relations, the assignment, and agreements with respect thereto, were all parts of one transaction, resulting in an international compact between the two Governments. That the negotiations, acceptance of the assignment and agreements and understandings in respect thereof were within the competence of the President may not be doubted. Governmental power over internal affairs is distributed between the National Government and the several States. Governmental power over external affairs is not distributed, but is vested exclusively in the National Government. * * * The assignment and the agreements in connection therewith did not, as in the case of treaties, as that term is used in the treaty making clause of the Constitution (art. II, sec. 2), require the advice and consent of the Senate.

"A treaty signifies 'a compact made between two or more independent nations with a view to the public welfare.' (*Altman & Co. v. United States*, 224 U. S. 583, 600). But an international compact, as this was, is not always a treaty which requires the participation of the Senate. There are many such compacts, of which a protocol, a *modus vivendi*, a postal convention, and agreements like that

now under consideration are illustrations. (See 5 Moore, *Int. Law Digest*, 210-221.) The distinction was pointed out by this court in the Altman case, *supra*, which arose under section 3 of the Tariff Act of 1897, authorizing the President to conclude commercial agreements with foreign countries in certain specified matters. We held that although this might not be a treaty requiring ratification by the Senate, it was a compact negotiated and proclaimed under the authority of the President, and as such was a 'treaty' within the meaning of the Circuit Court of Appeals Act, the construction of which might be reviewed upon direct appeal to this court."

4. *United States v. Pink* (1942) 315 U. S. 203, 228) involved the recognition of the effect in the United States of another decree of the Soviet Government which purported to nationalize the insurance business and all of the property, wherever situated, of all Russian insurance companies, including the First Russian Insurance Co. which had a branch in New York. The United States Government, suing as assignee of the Soviet Government under the Litvinov assignment, was held entitled to recover the surplus of the New York branch of the Russian insurance company subsequent to its liquidation. In so holding and in reversing the decision of the lower court the Court stated:

"If the priority had been accorded American claims by treaty with Russia, there would be no doubt as to its validity (Cf. *Santovincenzo v. Egan*, *supra*). The same result obtains here. The powers of the President in the conduct of foreign relations included the power, without consent of the Senate, to determine the public policy of the United States with respect to the Russian nationalization decrees. 'What government is to be regarded here as representative of a foreign sovereign state is a political rather than a judicial question, and is to be determined by the political department of the government' (*Guaranty Trust Co. v. United States*, *supra*, 304 U. S. at p. 137). That authority is not limited to a determination of the Government to be recognized. It includes the power to determine the policy which is to govern the question of recognition. Objections to the underlying policy as well as objections to recognition are to be addressed to the political department and not to the courts. (See *Guaranty Trust Co. v. United States*, *supra*, p. 138; *Kenneth v. Chambers*, 14 How. 38, 50-51.) As we have noted, this court in the Belmont case recognized that the Litvinov assignment was an international compact which did not require the participation of the Senate. It stated (301 U. S. pp. 330-331): 'There are many such compacts, of which a protocol, a modus vivendi, a postal convention, and agreements like that now under consideration are illustrations'."

* * * * *

While in none of these cases did the circumstances of the litigation involve the question of the use of the "executive agreement" procedure as an instrument for bringing about United States membership in an international organization similar to those which we are concerned herewith, they establish conclusively that the treaty process is not the only constitutional method for concluding arrangements with other countries.

IV. USE OF EXECUTIVE AGREEMENTS TO AUTHORIZE UNITED STATES PARTICIPATION IN INTERNATIONAL ORGANIZATIONS AND MULTILATERAL AGREEMENTS

During the last 75 years there have been repeated and important instances of the use of the "executive agreement" procedure to bring about United States membership in international organizations or United States participation in multilateral agreements with other nations. In general, two factors are common in all of these instances, whatever other differences may exist between them: (1) The action of the executive branch in joining the particular international organization or entering into the particular multilateral agreement was carried out in conjunction with legislative action by Congress in one of the fields of congressional authority; and (2) the subject matter with which the particular organization or agreement was concerned was "economic" as distinguished from political or military. It is also significant that, with a few exceptions, our participation therein resulted in the imposition upon this country of commitments of a substantial and continuing nature.²⁷ While during this same period the United

²⁷ See statement of Manley O. Hudson, The Membership of the United States in the International Labor Organization, 28 American Journal of International Law 674, October 1934: "On numerous occasions in the past, the United States has accepted membership in international organizations by action taken by the President with the authorization of Congress, and it can hardly be questioned that obligations may be assumed by the United States in consequence of such membership."

States became a member in other international organizations through action under the treaty process, it is submitted that the cases enumerated below clearly establish that the "executive agreement" procedure coupled with legislative action in a field of delegated congressional power is a well-recognized method of bringing about United States participation in international arrangements in certain fields. A brief summary of certain of these instances follows:

1. *Postal organization.*—Reference has been made above to United States membership in the Universal Postal Union pursuant to specific authorization by the Congress to the executive to "negotiate and conclude postal treaties or conventions" and to "reduce or increase the rates of postage on mail matter conveyed between the United States and foreign countries."²³ While international cooperation in the postal field has been taken for granted for many years because of its fundamental effect upon the lives of individual citizens, the existence of orderly arrangements with foreign countries for the transmission of the mails forms the basis of international trade and financial transactions and indeed of almost all intercourse between nations. For this reason, it is of the utmost importance to examine with care the nature of certain of the provisions of the 1874 treaty which was entered into on behalf of this country "by and with the advice and consent of the President" pursuant to the specific congressional authorization contained in a vastly comprehensive statute dealing with all domestic aspects of the postal service.²⁴ There are set forth below certain of the provisions of the treaty:

"ARTICLE III

"The general Union rate of postage is fixed at 25 centimes for a single prepaid letter.

"The charge on unpaid letters shall be double the rate levied in the country of destination on prepaid letters.

"ARTICLE V

"Every registered packet must be prepaid.

"The postage payable on registered articles is the same as that on articles not registered.

"The charge to be made for registration and for return receipts must not exceed that made in the interior of the country of origin.

"In case of the loss of a registered article, except in the case of vis major, there shall be paid an indemnity of 50 francs to the sender, or, at his request, to the addressee, by the Administration of the country in the territory or in the maritime service of which the loss has occurred—that is to say, where the trace of the article has been lost—unless, according to the legislation of such country, the Administration is not responsible for the loss of registered articles sent through its interior post.

"ARTICLE X

"The right of transit is guaranteed throughout the entire territory of the Union.

"Consequently, there shall be full and entire liberty of exchange, the several Postal Administrations of the Union being able to send reciprocally, in transit through intermediate countries, closed mails as well as correspondence in open mails, according to the requirements of trade and the exigencies of the postal service.

"Closed mails and correspondence sent in open mails must always be forwarded by the most rapid routes at the command of the Postal Administrations concerned.

"ARTICLE XV

"There shall be organized, under the name of the International Office of the General Postal Union, a central office, which shall be conducted under the surveillance of a Postal Administration to be chosen by the Congress, and the expenses of which shall be borne by all the Administrations of the contracting states.

²³ 17 Stat. 283, 304; see also 48 Stat. 943.

²⁴ Sec. 167 of the act of June 8, 1872, entitled "An act to revise, consolidate, and amend the statutes relating to the Post Office Department," 17 Stat. 283.

"This office shall be charged with the duty of collecting, publishing, and distributing information of every kind which concerns the international postal service; of giving, at the request of the parties concerned, an opinion upon questions in dispute; of making known proposals for modifying the detailed regulations; of giving notice of alterations adopted; of facilitating operations relating to international accounts, especially in the cases referred to in article 10 foregoing; and in general of considering and working out all questions in the interest of the Postal Union.

"ARTICLE XVI

"In case of disagreement between two or more members of the Union as to the interpretation of the present treaty, the question in dispute shall be decided by arbitration. To that end, each of the Administrations concerned shall choose another member of the Union not interested in the affair.

"The decision of the arbitrators shall be given by an absolute majority of votes.

"In case of an equality of votes the arbitrators shall choose, with the view of settling the difference, another administration equally disinterested in the question in dispute.

"ARTICLE XVIII

"Every 3 years at least, a congress of plenipotentiaries of the countries participating in the treaty shall be held with a view of perfecting the system of the Union, of introducing into it improvements found necessary, and of discussing common affairs.

"Each country has one vote.

"ARTICLE XIX

"It is concluded for 3 years from that date. When that terms shall have passed, it shall be considered as indefinitely prolonged, but each contracting party shall have the right to withdraw from the Union on giving notice 1 year in advance."

Since the date of the treaty, and under subsequent legislative authority the United States has become a party to numerous other treaties with foreign nations dealing with postal matters.²⁰ Almost without exception the same constitutional procedure has been followed to bring about United States adherence to such treaties.

2. *Pan American Union.*—The Pan American Union has for many years formed the cornerstone of our inter-American policy in fields ranging from the political and the military to specific functions such as sanitation and health. It is significant that our membership in the Union was brought about by Executive action implemented consistently by congressional action to appropriate funds for administration expenses, in accordance with the provisions of article XVI of the Constitution of the Union adopted in 1910 that: "The American republics bind themselves to continue to support the Pan American Union * * * and to pay annually into the treasury of the Pan American Union their respective quotas."²¹ The 1910 Constitution of the Pan American Union (originally known as the commerce Bureau of the American Republics) traces its beginning to the first International Conference of American States held in 1889-90. At that Conference a resolution was adopted recommending the establishment of a bureau for the collection and publication of information on commerce and the laws relating to it in the several American nations. Thereafter a committee of the Conference was instructed to prepare a detailed plan setting forth the purposes and functions of the International Bureau. This plan, when completed, was submitted to the various governments. In the case of the United States the plan was then presented to the Congress by the President, and the Congress in an appropriation act provided the necessary funds in the following terms:

"For the organization and establishment under the direction of the Secretary of State of 'The International Union of American Republics for the prompt collection and distribution of commercial information. * * *'"²²

3. *International Labor Organization.*—One of the most important international organizations to which this country belongs is the International Labor Organiza-

²⁰ See 25 Stat. 1339; 28 Stat. 1078; 30 Stat. 1629; 35 Stat. 1639; 42 Stat. 1971; 44 Stat., Part 3, 2221; 46 Stat. 2523; 49 Stat. 2741.

²¹ Fourth International Conference of American States, 1910; Report of United States Delegates; 61st Cong., 3d sess., S. Doc. No. 744.

²² 26 Stat. 275.

tion, which during the last 25 years has assumed a vital and dynamic role in labor affairs. This organization is primarily a recommendatory and fact-finding organization, its activities consisting to a large extent in recommending for adoption by the member governments draft conventions on a variety of subjects within its competence. Nevertheless it is of some interest to examine the constitution of that organization, which includes the following provisions:

"ARTICLE 22

"Each of the members agrees to make an annual report to the International Labor Office on the measures which it has taken to give effect to the provisions of conventions to which it is a party. These reports shall be made in such form and shall contain such particulars as the governing body may request. The direction shall lay a summary of these reports before the next meeting of the Conference.

"ARTICLE 23

"1. Any of the members shall have the right to file a complaint with the International Labor Office if it is not satisfied that any other member is securing the effective observance of any convention which both have ratified in accordance with the foregoing articles.

"2. The governing body may, if it thinks fit, before referring such a complaint to a commission of inquiry, as hereinafter provided for, communicate with the government in question in the manner described in article 23.

"ARTICLE 24

"1. When the commission of inquiry has fully considered the complaint it shall prepare a report embodying its findings on all questions of fact relevant to determining the issue between the parties and containing such recommendations as it may think proper as to the steps which should be taken to meet the complaint and the time within which they should be taken.

"2. It shall also indicate in this report the measures, if any, of an economic character against a defaulting government which it considers to be appropriate, and which it considers other governments would be justified in adopting.

"ARTICLE 25

"In the event of any member failing to take the action required by article 19, with regard to a recommendation or draft convention, any other member shall be entitled to refer the matter to the Permanent Court of International Justice.

"ARTICLE 26

"The decision of the Permanent Court of International Justice in regard to a complaint or matter which has been referred to it in pursuance of article 29 or article 30 shall be final.

"ARTICLE 27

"The Permanent Court of International Justice may affirm, vary, or reverse any of the findings or recommendations of the commission of inquiry, if any, and shall in its decisions indicate the measures, if any, of an economic character which it considers to be appropriate, and which other governments would be justified in adopting against a defaulting government.

"ARTICLE 28

"1. The members engage to apply conventions which they have ratified in accordance with the provisions of this part of the present treaty to their colonies, protectorates, and possessions which are not fully self-governing:

(1) Except where, owing to the local conditions, the convention is inapplicable;

(2) Subject to such modifications as may be necessary to adapt the convention to local conditions.

"2. And each of the members shall notify to the International Labor Office the action taken in respect of each of its colonies, protectorates, and possessions which are not fully self-governing.

"ARTICLE 37

"Any question or dispute relating to the interpretation of this part of the present treaty or of any subsequent convention concluded by the members in pursuance of the provisions of this part of the present treaty shall be referred for decision to the Permanent Court of International Justice."

The Constitution of the International Labor Organization was originally promulgated as part XIII of the Treaty of Versailles and payment of its expenses, with certain exceptions, was to be made from the general funds of the League of Nations. Although the United States was not originally a member of the International Labor Organization, since it was not a member of the League of Nations, Congress by joint resolution of June 19, 1934, enacted that:

"* * * the President is hereby authorized to accept membership for the Government of the United States of America in the International Labor Organization, which, through its general conference of representatives of its members and through its International Labor Office, collects information concerning labor throughout the world and prepares international conventions for the consideration of member governments with a view to improving conditions of labor."

After the adoption of this resolution of Congress, the Organization invited the United States to accept membership therein, it being understood that the United States should not thereby assume any obligations under the covenant of the League of Nations. The statement also authorized the Organization's governing body to settle with the Government of the United States the question of the latter's financial contribution. Pursuant to this invitation the President, under the previous congressional authorization, accepted the invitation and his acceptance was transmitted to the Director of the International Labor Office at Geneva by a letter from the American Consul at Geneva.³³

4. *Intergovernmental Committee on Refugees*.—In response to public demand in this and other countries for effective collective action between nations to alleviate the plight of victims of religious persecution in Germany, the United States Government convened the so-called Evian Conference in July 1938 which resulted in the creation of the Intergovernmental Committee on Refugees consisting of representatives of 31 nations. Membership in the organization involved no specific obligation on the part of the member nations except as they might feel morally obliged to contribute funds and personnel to make its work effective. It is briefly referred to here merely as an example of the exercise of leadership by the United States to act in concert with other nations in a field of primarily humanitarian concern where pooling of effort could be reasonably expected to be more effective than separate unilateral efforts of the different governments. The Congress has since appropriated funds to effectuate United States participation in the Committee.³⁴

5. *UNRRA*.—A similar example on a far larger scale is furnished by the proceedings to bring about United States membership in the United Nations Relief and Rehabilitation Administration. After consultation over a period of several months with Members of the Senate and House of Representatives, the President on November 9, 1943, signed an agreement creating the Administration, providing in part as follows:

"Insofar as its appropriate constitutional bodies shall authorize, each member government will contribute to the support of the Administration in order to accomplish the purposes of Article I, paragraph 2 (a). The amount and character of the contributions of each member government under this provision shall be determined from time to time by its appropriate constitutional bodies."

After the signature of the agreement and the conclusion of the first session of the Council of the Administration, the Congress by joint resolution authorized appropriations to the President of "such sums not to exceed \$1,350,000,000 in the aggregate, as the Congress may determine from time to time to be appropriate for participation by the United States * * * in the work of the United Nations Relief and Rehabilitation Administration, established by an agreement concluded * * * on November 9, 1943, reading as follows * * *." Sub-

³³ 48 Stat. 1182.

³⁴ Department of State Press Release, August 25, 1934, p. 109.

³⁵ See hearings before the Committee on Foreign Affairs, House of Representatives, November 26, 1943, on H. Res. 350 and H. Res. 352, 78th Cong., 1st sess., *passim*; see also Intergovernmental Committee on Refugees, Report of the Fourth Plenary Session, August 15-17, 1944, issued by American resident representative of the committee, *passim*.

³⁶ Public Law 267, 78th Cong., approved March 28, 1944.

sequently the Congress appropriated funds for the work of the Administration in accordance with this authorization.³⁷

While the agreement creating the Administration did not impose specific commitments on the United States, and by its terms left the question of contributions to the discretion of the member governments, the Congress subsequently adopted as the basis of appropriations the financial plan adopted by the council at its first session.³⁸ Although one of the principal sponsors of UNRRA in the Senate has repeatedly stated that the UNRRA proceedings are of limited value as a precedent in the field of "executive agreements,"³⁹ they, nevertheless, represent a striking example of interdependent action between the executive and legislative branches to effectuate an important step in United States foreign policy through multilateral action.

6. *International silver agreement.*—A significant multilateral agreement from the legal point of view which the United States has entered into in recent years in the economic field was the Memorandum of Agreement between the United States, Australia, Canada, China, India, Mexico, Peru, and Spain, with reference to the world price of silver, which was negotiated at the monetary and economic conference held in London in July 1933 and was signed on behalf of the United States by Senator Key Pittman, then chairman of the Committee on Foreign Relations of the Senate, who was a delegate to the conference.⁴⁰ The agreement was based upon a proposal submitted by the United States delegation to the conference designed to provide permanent measures with respect to the use of silver for monetary purposes which would give necessary assurances both to the silver-mining countries and to countries using silver as a basis for their currency. Significant portions of the agreement are as follows:

"Now, therefore, it is agreed between the parties hereto:

"1. (a) That the Government of India shall not dispose by sale of more than 140,000,000 fine ounces of silver during a period of 4 years, commencing with January 1, 1934. The disposals during each calendar year of the said 4-year period shall be based on an average of 35,000,000 fine ounces per year, it being understood, however, that if, in any year, the Government of India shall not dispose of 35,000,000 fine ounces, the difference between the amount actually disposed of and 35,000,000 fine ounces may be added as additional disposals in subsequent years: *Provided further*, That the maximum amount disposed of in any year shall be limited to 50,000,000 fine ounces.

"(b) Notwithstanding anything previously stated in this article, it is understood that if the Government of India should after the date of this agreement sell silver to any government for the purpose of transfer to the United States Government in payment of war debts, such silver shall be excluded from the scope of this agreement.

"2. That the Government of Australia, Canada, the United States, Mexico, and Peru, during the existence of this agreement, shall not sell any silver and shall also in the aggregate purchase, or otherwise arrange for withdrawing from the market, 35,000,000 fine ounces of silver from the mine production of such countries in each calendar year for a period of 4 years, commencing with the calendar year 1934. The said governments undertake to settle by agreement the share in the said 35,000,000 fine ounces which each of them shall purchase or cause to be withdrawn.

"3. That the silver purchased or withdrawn in accordance with article 2 above shall be used for currency purposes (either for coinage or for currency reserves), or to be otherwise retained from sale during said period of 4 years.

"8. That this memorandum of agreement is subject to ratification by the Governments concerned. The instruments of ratification shall be deposited not later than the 1st of April 1934, with the Government of the United States. It shall come into force as soon as the ratifications of all the Governments concerned are received: *Provided*, That all the ratifications are received before the 1st of April 1934. A notice by any government that the affirmative action

³⁷ Public Law 382, 78th Cong., approved June 30, 1944.

³⁸ First session of the Council of UNRRA, Resolution No. 14, p. 44.

³⁹ See statement of Senator Vandenberg (a member of the subcommittee of the Committee on Foreign Relations) during the consideration of the authorization resolution, 90 Congressional Record, p. 1743 et seq., February 16, 1944; and also during hearings before a subcommittee of the Committee on Commerce on S. 1385, 78th Cong., 2d sess., pp. 184 and 203, November 28, 1944.

⁴⁰ United States Executive Agreements (63).

necessary to carry out the purposes of this agreement has been taken will be accepted as an instrument of ratification."

A supplementary undertaking dealing with matters of detail was entered into by each of the signatory governments. Excerpts from the supplementary undertaking signed by the United States are as follows:

"In connection with the attached memorandum of agreement entered into by the delegates of India, China, and Spain, as holders of large stocks or users of silver, and of Australia, Canada, the United States, Mexico, and Peru, as principal purchasers of silver, it is understood that the Government of the United States shall purchase or otherwise arrange for withdrawing from the market, as in the attached memorandum of agreement provided, 24,421,410 fine ounces of silver in each calendar year beginning with the calendar year 1934.

"This understanding is conditioned upon similar undertakings being entered into by the Governments of Australia, Canada, Mexico, and Peru, whereby those governments agree to purchase or otherwise arrange for withdrawing from the market of amounts of fine ounces of silver which, with the obligation hereby entered into, will make in the aggregate 35,000,000 fine ounces of silver annually.

"It is understood that this agreement and the similar agreements to be entered into by the delegates of the Governments of Australia, Canada, Mexico, and Peru are subject to the following general provisions:

"1. That every provision of this agreement shall terminate on January 1, 1938.

"2. That the absorption of silver referred to in this agreement means current mine production.

"3. That when the Government of India shall have sold, transferred, or otherwise disposed of Government stocks of silver to the net amount of 175,000,000 fine ounces, as provided in paragraph (c) of article 1 of the attached memorandum of agreement, the obligations of governments to purchase under this contract shall cease.

"4. That this memorandum is subject to ratification by the proper governmental authorities of the United States whose delegate has executed this agreement, and the undersigned delegate undertakes to use his good offices to secure such action at the earliest possible date."

The United States gave the necessary notice of affirmative action on December 21, 1933.⁴¹ The commitments undertaken by the United States under this agreement were in harmony with, and could be carried out under, the legislative authority conferred upon the President by virtue of title III of the Agricultural Adjustment Act of 1933.⁴² The agreement was not submitted for ratification to the Senate. On December 21, 1933, the President of the United States issued a proclamation under the foregoing provision of law directing the appropriate agencies of this Government to carry out the provisions of the agreement so far as they concerned the United States.⁴³

The international silver agreement of 1933 represented an effort on a smaller scale to cope through international cooperative action with some aspects of the international financial problems with which the Bretton Woods agreements are generally concerned. The congressional enactment and the subsequent Executive action constituted an early recognition of the evils of unilateral action by nations in respect of currency manipulation. The statutory authority on the basis of which the agreement was entered into by this country specifically contemplated that "agreements" would be entered into with foreign countries in order to "protect the foreign commerce of the United States." The basic purposes of the silver agreement and the constitutional procedures involved in bringing it into force as to the United States are very similar to those in respect of the Bretton Woods agreements.

7. *International wheat agreement.*—Another significant development of the Monetary and Economic Conference of 1933 was the calling of a conference in London in August 1933 which resulted in the signing of the international wheat agreement, 1933, between some 20 of the nations of the world most intimately concerned with the problem of international trade in wheat.⁴⁴ Important commitments were imposed upon the United States by virtue of the following provisions of the agreement:

⁴¹ Department of State press release (December 21, 1933), 365.

⁴² 48 Stat. 31. Also relevant in this connection are the provisions of the Silver Purchase Act of 1934, 48 Stat. 1178, and the Gold Reserve Act of 1934, 48 Stat. 337.

⁴³ 48 Stat. (pt. II) 1723.

⁴⁴ State Department Treaty Information Bull. No. 48, September 1933, p. 18.

"ARTICLE 1

"The Governments of Argentina, Australia, Canada, and the United States of America agree that the exports of wheat from their several countries during the crop year August 1, 1933, to July 31, 1934, shall be adjusted, taking into consideration the exports of other countries by the acceptance of export maxima fixed on the assumption that world import demand for wheat which will amount during this period to 560,000,000 bushels.

"ARTICLE 2

"They further agree to limit their export of wheat during the crop year August 1, 1934, to July 1, 1935, to maximum figures of 15 percent less in the case of each country than the average outturn on the average acreage sown during the period 1931 to 1933, inclusive, after deducting normal domestic requirements.

"The difference between the effective world demand for wheat in the crop year 1934-35 and the quantity of new wheat from the 1934 crop available for export will be shared between Canada and the United States of America as a supplementary export allocation, with a view to the proportionate reduction of their respective carry-overs.

"ARTICLE 4

"They further agree that their combined exports of wheat during the crop year 1934-35 will not exceed a total of 50,000,000 bushels and recognize that the acceptance of this export allocation will not allow of any extension of the acreage sown to wheat.

"ARTICLE 6

"The Governments of the wheat-importing countries in signing this instrument—

"(I) Agree henceforth not to encourage any extension of the area sown to wheat and not to take any governmental measures, the effect of which would be to increase the domestic production of wheat.

"(II) Agree to adopt every possible measure to increase the consumption of wheat and are prepared to bring about the progressive removal of measures which tend to lower the quality of breadstuffs and thereby decrease the human consumption of wheat.

"(III) Agree that a substantial improvement in the price of wheat should have as its consequence a lowering of customs tariffs and are prepared to begin such adjustment of customs tariffs when the international price of wheat reaches and maintains for a specified period an average price to be fixed. It is understood that the rate of duty necessary to assure remunerative prices may vary for different countries but will not be sufficiently high to encourage their farmers to expand wheat acreage.

"Appendix A contains the agreed definitions relating to the technical points mentioned in this paragraph.

"(IV) Agree that in order to restore more normal conditions in world trade in wheat the reduction of customs tariffs would have to be accompanied by modification of the general regime of quantitative restriction of wheat imports and accept in principle the desirability of such a modification. The exporting countries for their part agree that it may not be possible to make substantial progress in these modifications in 1933-34, but the importing countries are prepared to make effective alterations in 1934-35 if world prices have taken a definitely upward turn from the average price of the first 6 months of the calendar year 1933. The objective of these relaxations of the various forms of quantitative restrictions will be to restore a more normal balance between total consumption and imports and thereby to increase the volume of international trade in wheat. It is understood that this undertaking is consistent with maintaining the home market for domestic wheat grown on an area no greater than at present. It is obvious that fluctuations in the quantity and quality of the wheat harvest resulting from weather conditions may bring about wide variations in the ratio of imports to total consumption from season to season."

The countries participating in the Conference agreed to set up a Wheat Advisory Committee to watch over the "work and application of this agreement."

This agreement imposed binding and continuing obligations upon the United States. Like the silver agreement, however, it was not necessary to submit it to the Senate for ratification, in view of the fact that ample legislative authority

already existed to carry out the provisions of the agreement so far as this country was concerned by virtue of the provisions of the Agricultural Adjustment Act.⁴⁸ This, then, is another example of the use by the executive branch of authority vested in it by an act of Congress to bring about international agreement and action in an economic field which is irrevocably aligned to domestic problems in the same field. The Agricultural Adjustment Act and subsequent legislation in the same field has been aimed primarily to control burdensome surpluses of particular farm commodities and to provide for the orderly marketing thereof. This is a domestic problem, but its solution depends upon the disposition of these surpluses in foreign markets and therefore to the action of other countries producing the same commodities. The Congress, acting under its power to regulate interstate and foreign commerce, is the organ which determines our country's policies in these matters. The wheat agreement was part of a program to effectuate through international action the purposes and policies established by Congress. Although various difficulties prevented the execution of the agreement in accordance with its terms, it is nevertheless pertinent to this study as an example of international agreement reached through the exercise of a combination of legislative and Executive authority.

8. *Tripartite stabilization agreement of 1936.*—A further and more important effort to bring about international cooperative action in the monetary field was the tripartite stabilization agreement of September 25, 1936, which was brought about by simultaneous and identical declarations issued on that date by the Governments of Great Britain, France, and the United States, to which Belgium, the Netherlands, and Switzerland adhered shortly thereafter. The declaration of the United States was as follows:

"1. The Government of the United States, after consultation with the British Government and the French Government, joins with them in affirming a common desire to foster those conditions which safeguard peace and will best contribute to the restoration of order in international economic relations and to pursue a policy which will tend to promote prosperity in the world and to improve the standard of living of peoples.

"2. The Government of the United States must, of course, in its policy toward international monetary relations, take into full account the requirements of internal prosperity, as corresponding considerations will be taken into account by the Governments of France and Great Britain; it welcomes this opportunity to reaffirm its purpose to continue the policy which it has pursued in the course of recent years, one constant object of which is to maintain the greatest possible equilibrium in the system of international exchange and to avoid to the utmost extent the creation of any disturbance of that system by American monetary action. The Government of the United States shares with the Governments of France and Great Britain the conviction that the continuation of this twofold policy will serve the general purpose which all the governments should pursue.

"3. The French Government informs the United States Government that, judging that the desired stability of the principal currencies cannot be insured on a solid basis except after the reestablishment of a lasting equilibrium between the various economic systems, it has decided with this object to propose to its Parliament the readjustment of its currency. The Government of the United States, as also the British Government, has welcomed this decision in the hope that it will establish more solid foundations for the stability of international economic relations. The United States Government, as also the British and French Governments, declare its intention to continue to use appropriate available resources so as to avoid as far as possible any disturbance of the basis of international exchange resulting from the proposed readjustment. It will arrange for such consultation for this purpose as may prove necessary with the other two Governments and their authorized agencies.

"4. The Government of the United States is moreover convinced, as are also the Governments of France and Great Britain, that the success of the policy set forth above is linked with the development of international trade. In particular it attaches the greatest importance to action being taken without delay to relax progressively the present system of quotas and exchange controls with a view to their abolition.

"5. The Government of the United States, in common with the Governments of France and Great Britain, desires and invites the cooperation of other nations to realize the policy laid down in the present declaration. It trusts that no

⁴⁸ 48 Stat. 31.

country will attempt to obtain an unreasonable competitive exchange advantage and thereby hamper the effort to restore more stable economic relations which it is the aim of the three Governments to promote.⁴⁶

This agreement so far as the United States is concerned was entered into under the authority of section 10 of the Gold Reserve Act of 1934 providing as follows:

"SEC. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

"(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of \$2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the fund) under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interests accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund."⁴⁷

More strikingly than any other act which the United States has ever taken in the international field, the Tripartite Stabilization Agreement of 1936 was a direct forerunner of the Bretton Woods agreement. The Gold Reserve Act and the stabilization agreement recognized the fact that there can be no domestic prosperity in this country unless healthy conditions exist in the international field and that the soundness of our domestic currency structure is irrevocably linked to the exchange value of the United States dollar in relation to other currencies. As in the case of the wheat and silver agreements, the statutory basis for the action of the executive in entering into the stabilization agreement lay in what is essentially a domestic statute, dealing in this case with the reserves behind our currency. As in the case of those agreements, it would not have been possible for the United States to carry out their terms without such statutory authority.

9. *Aviation agreements.*—A recent example of multilateral international agreement entered into by the United States under the authority of existing legislation is furnished by the results of the International Civil Aviation Conference held in Chicago, November-December 1944. This Conference concluded in the preparation of four multilateral agreements, namely, an interim agreement on civil aviation, a convention on international civil aviation, an international air services transit agreement, and an international air transport agreement.⁴⁸

The interim agreement provides, among other things, for the creation of a provisional international civil aviation organization to conduct certain research and recommendatory functions relating to standards and procedures in the field of civil aviation and to perform related services; for the adherence by signatories of the agreement to certain principles relating to flight over the territory of members and with respect to such matters as documents carried by aircraft, certificates of airworthiness, and licenses of personnel; and for certain undertakings

⁴⁶ Federal Reserve Bulletin, October 1936, p. 759.

⁴⁷ 48 Stat. 337, 341. In addition to the 1936 Agreement, stabilization agreements have been entered into by the Secretary of the Treasury under these powers with the Governments of Brazil ((1938) Annual Report Secretary of the Treasury, p. 21); China ((1941) Annual Report Secretary of the Treasury, p. 52); Mexico ((1942) Annual Report Secretary of the Treasury, p. 42); Ecuador (Ibid.); and Iceland (Ibid.). The powers contained in sec. 10 were renewed in 1937 (50 Stat. 4), 1939 (53 Stat. 998); 1941 (55 Stat. 395); and 1943 (57 Stat. 68). At the time of each extension, the attention of Congress was called to the fact that these stabilization agreements had been made.

⁴⁸ International Conference on Civil Aviation, Final Act (pt. I). The original of the final act is deposited in the archives of the Department of State.

whereby members agree to file copies of contracts with the organization and to apply provisionally certain recommendations with respect to aviation practices. All of these matters are within the power of the executive branch of this Government to perform under provisions of the Air Commerce Act of 1926⁴⁹ and the Civil Aeronautics Act of 1938;⁵⁰ consequently, this agreement has been accepted by this Government as an "executive agreement" subject to compliance with the constitutional processes of the United States in respect of the contribution of funds for administrative expenses of the organization.⁵¹

The other two agreements, commonly referred to as the two freedoms and five freedoms agreements, provide primarily for the reciprocal granting by each signatory country to the other signatories of certain privileges in respect of scheduled international air services; in the first case, the privilege to fly across its territory without landing and to land for nontraffic purposes, and, in the second case, the same privileges plus the privileges to carry passengers, mail and cargo to and from each signatory country and intermediate points. In view of the provisions of existing law with reference to the granting of commercial right to foreign aircraft,⁵² these agreements are within the power of the Executive to carry out without additional legislative authority, and consequently they have been accepted as "executive agreements."

The Convention has been submitted to the Senate as a treaty.⁵³

10. *Other international organizations.*—Other international organizations in which the United States participates pursuant to specific congressional authorization are as follows:

(a) *International Hydrographic Bureau.*—The State Department appropriation act of 1921 provided, in part, for appropriations "To enable the United States to become a member of the International Hydrographic Bureau, and for the first annual contribution of the United States toward the creation and maintenance of such Bureau. * * *"⁵⁴

(b) *International Statistical Bureau.*—A joint resolution of Congress in 1924 authorized appropriations "To enable the United States to maintain membership" in the Bureau.⁵⁵

(c) *Permanent Association of International Road Congresses.*—A joint resolution of Congress in 1924 authorized appropriations "to enable the United States to accept membership" in the Association.⁵⁶

(d) *American International Institute for the Protection of Childhood.*—A joint resolution of Congress in 1928 authorized appropriations "for the contribution of the United States toward the support of the institution."⁵⁷

The cases enumerated above constitute some of the most notable as well as some of the most successful specific acts of the United States Government in the field of foreign affairs during recent years in respect of international cooperation on a multilateral basis. While in none of these cases has the constitutionality of the action been passed upon by the Supreme Court, it is of perhaps greater significance that the method employed to bring about United States participation therein has never been questioned. It is submitted, therefore, that unless there are special circumstances in connection with the Bretton Woods agreements to differentiate them in this respect from examples such as the multilateral postal treaties and the international silver agreement, the United States may become a party to the Bretton Woods agreements through Executive action in conjunction with legislation by Congress as has been proposed.

Two considerations have been of predominant importance in the preparation of the Bretton Woods legislation.

The first, which is basic to the entire study of the legal and constitutional problems here involved, is that under the articles of agreement of both the fund and the bank, any member may withdraw from either institution at any time by transmitting a notice in writing to the institution, and withdrawal shall become

⁴⁹ 44 Stat. 572.

⁵⁰ 52 Stat. 973.

⁵¹ Department of State Bulletin, February 11, 1945, p. 198.

⁵² 44 Stat. 572 and 52 Stat. 973.

⁵³ 79th Cong., 1st sess., Executive A.

⁵⁴ 41 Stat. 1215.

⁵⁵ 43 Stat. 112.

⁵⁶ 44 Stat. 754.

⁵⁷ 45 Stat. 487.

effective on the date the notice is received.⁵⁵ These provisions have a most vital effect upon the nature of the commitments imposed by the agreements and make it particularly appropriate for our participation in these organizations to be brought about by legislation. Like any other phase of our national monetary and economic policy, our active membership in the fund and the bank will be subject to the policies laid down in this field from time to time by the Congress. The right of withdrawal, therefore, has an important effect upon the legislative approach to this problem.

The second consideration relates to the provisions of the respective agreements with reference to the signature thereof. These are to the effect that each government signing each agreement shall deposit with the depository government an instrument setting forth that the government has accepted the agreement "in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations" thereunder.⁵⁶ This provision requires each government to adopt certain domestic legislation in order to become an active participant in the institutions. The pending bill would provide the necessary domestic legislation, in the case of the United States, in addition to that which exists under previously enacted laws, to enable this country to adhere to these agreements in accordance with their respective terms, and, incidentally, to permit the making of the required certification upon the signature of the agreements on behalf of the United States. In other words, if a particular provision of either agreement would require certain action of a member and the existing legislation of the United States does not provide the legal basis or authority for such action, additional legislative authority is required and would be provided under this bill.

As has been exhaustively discussed above, the Bretton Woods agreements are within the general framework of legislation previously enacted and policies adopted by the Congress in the field of banking and currency and foreign exchange. Some of the undertakings in the agreements are consistent with existing legislation and consequently may be carried out by the Executive without further authority from Congress. In these cases, therefore, no provision has been included in the pending bill.

In a few instances, modifications of existing laws are required to carry out the purposes of the agreements. Thus the provisions of the Gold Reserve Act of 1934 relating to the stabilization fund would be extended to permit the use of the resources of that fund in connection with our participation in the International Monetary Fund. The purposes of the two funds are substantially similar and no change in legislative policy would be involved in this amendment. Secondly, the Johnson Act would be modified to the extent necessary to permit the fund and bank to operate within the framework of our laws. Such a modification would be an essential consequence of the major policy decision to participate in these institutions.

If the pending bill is enacted into law, the President will be in a position to sign the agreements in accordance with their terms and to make the necessary certification with reference to the action taken by this Government to give effect to them. All of the legislative action required to place the President in this position is within the delegated powers of Congress under the Constitution.

The foregoing extended discussion may be briefly summarized as follows:

1. The pending legislation affects powers which under the Constitution are vested in the Congress.
2. The agreements and legislation are closely related to existing statutes enacted under these powers and are similar in purpose to previous attempts under such legislation to provide for joint action between nations in the field of international economic and financial affairs.
3. The agreements and legislation are so closely related to our domestic banking and currency structure as provided for under existing laws that they can best be considered through the same procedure as required for the enactment of domestic legislation in these fields.
4. Throughout this country's history Congress has exercised its delegated powers in matters affecting our foreign relations.
5. In particular, Congress has on numerous occasions exercised such powers to authorize or effectuate the participation of the United States in international organizations or agreements on a multilateral basis.

⁵⁵ Art. XV, sec. 1, articles of agreement of the fund; Art. VI, sec. 1, articles of agreement of the bank.

⁵⁶ Art. XX, sec. 2, articles of agreement of the fund; Art. XI, sec. 2, articles of agreement of the bank.

6. The Supreme Court has recognized the validity of agreements entered into with foreign nations by the Executive either with or without congressional action, and without resort to the treaty procedure. The Court has never held that an Executive agreement was invalid.

7. The supplementary legislative authority necessary to enable the Executive branch to carry out the Bretton Woods agreements, in addition to the authority vested in the Executive under existing legislation, is entirely within the scope of the delegated powers of Congress.

8. The Bretton Woods Agreements Act is, therefore, a valid constitutional approach to the effectuation of United States participation in these institutions.

V. DELEGATION OF POWERS

In addition to the considerations above there are several other points that should be discussed in connection with the incidental question that has been raised of whether H. R. 3314 and the articles of agreement of the fund and bank involve an unconstitutional delegation of legislative power to the international organizations or to foreign countries. A careful study of the bill and the agreements leads to the conclusion that no such delegation is involved but that the proposed legislation and the creation of the institutions is an effective and appropriate means to bring about the purposes underlying the agreements.⁶⁰

The powers conferred upon the executive branch of the Government are so limited that no question can be raised that such powers involve an unconstitutional delegation of the legislative function. This is particularly true in view of the broader scope for delegation to the Executive in the field of foreign relations.⁶¹

Provisions of the legislation and the articles of agreement which are pertinent to the authority granted to the fund and the bank and to foreign countries will be considered in the following three categories: (1) Those provisions conferring upon the fund and bank a legal status and certain privileges and immunities; (2) those provisions relating to the payment of the subscriptions of the United States; and (3) those provisions which commit the United States to refrain from specified actions while it is a member of the international organizations.

Status, privileges, and immunities

To enable the fund and bank to carry out their functions properly, the United States and the other member countries are required to grant them a series of privileges and immunities which are set forth in the agreements, in addition to granting them status as legal entities. Both institutions must be treated as having the capacity to make contracts, to acquire and dispose of property, and to bring suit in our courts.⁶² The fund will be immune from suit except when it consents to be sued and, although the bank will be subject to suit, it will be protected against having its property attached in advanced of judgment.⁶³ Both the fund and bank must be protected against searches, requisitions, confiscation, and so forth, and the archives must be fully protected against interference.⁶⁴ Their property will be kept free of restrictions and controls to the extent necessary

⁶⁰ It has always been recognized that Congress has substantial discretion in selecting the manner of effectuating its purposes. As stated by the Supreme Court in *McCulloch v. Maryland* ((1819) 4 Wheat. (17 U. S.) 316 at p. 408), in connection with the establishment of a United States bank: " * * * a government, intrusted with such ample powers, on the due execution of which the happiness and prosperity of the Nation so vitally depends, must also be intrusted with ample means for their execution. The power being given, it is the intent of the Nation to facilitate its execution. It can never be their interest, and cannot be presumed to have been their intention, to clog and embarrass its execution by withholding the most appropriate means."

Chief Justice Marshall added, at p. 421: "Let the end be legitimate, let it be within the scope of the Constitution, and all means which are appropriate, which are plainly adapted to that end, which are not prohibited but consist with the letter and spirit of the Constitution are constitutional."

⁶¹ *U. S. v. Curtiss-Wright Export Corp.* ((1936) 299 U. S. 304). See also *Field v. Clark* ((1892) 143 U. S. 649).

Moreover, the purposes and standards set forth in the Bretton Woods agreements and the act are sufficiently precise so that there can be no question of "the purpose which the Congress seeks to accomplish and the standards by which that purpose is to be worked out" (*United States v. Rock Royal Cooperative, Inc.* ((1939) 307 U. S. 533, 574). Accordingly, the standards set forth in Supreme Court cases to determine whether the Congress has fulfilled its legislative function would be met. See *J. W. Hampton, Jr. & Co. v. United States* (1928) 276 U. S. 394; *N. Y. Central Securities Corp. v. United States* (1932), 287 U. S. 12; *Opp. Cotton Mills v. Administrator* (1941), 312 U. S. 126; *Yakus v. United States* (1944), 321 U. S. 414.

⁶² Articles of agreement of the fund, art. IX, sec. 2.

⁶³ *Ibid.*, art. IX, sec. 3, and articles of agreement of the bank, art. VII, sec. 3.

⁶⁴ Fund, art. IX, sec. 4; bank, art. VII, sec. 4.

to carry out their operations, and their communications will be treated in the same manner as those of foreign governments.⁶⁵ The organizations themselves will be tax immune, their employees will be protected against double taxation on their incomes, and securities of the organizations will be protected against discriminatory taxation.⁶⁶ Persons connected with the institutions will be immune from legal process with respect to their official acts, and so far as immigration, alien registration, and conscription laws are concerned, they will be treated as diplomats.⁶⁷

It is intended that in many respects member countries should treat the fund and bank in the same way that they treat foreign governments. The effort in this direction is limited, however, to the minimum necessary for the institutions to function properly. The privileges and immunities granted to the fund and the bank are those customarily granted by the United States to foreign governments and their employees.⁶⁸ Moreover, some privileges and immunities of citizens of the United States have even been granted by commercial treaties to citizens of foreign countries who do not have diplomatic status.⁶⁹

Accordingly, the action of Congress in specifically granting privileges and immunities to the fund and bank will be the repetition of a practice which Congress has followed consistently in the past. Legislative action of this nature is customary in the conduct of our foreign relations.

Payment of subscriptions

The articles of agreement of the fund prescribe the quota of the United States, and the articles of agreement of the bank allocate a fixed number of shares of stock to be subscribed by the United States. H. R. 3114 contains the provisions necessary to enable the United States subscription to be paid.⁷⁰

There is nothing unusual involved in the Congress appropriating money for payment to international institutions. We have done this many times in the past. Notable examples are the United Nations Relief and Rehabilitation Administration,⁷¹ the Pan American Union,⁷² and the International Labor Organization.⁷³ The appropriation of funds to be contributed or subscribed to international organizations has never been held to be an unconstitutional delegation of legislative power.

Justice Story effectively answered any contention to the contrary in his dissenting opinion (the majority did not disagree on this point), in the case of *The Proprietors of the Charles River Bridge v. The Proprietor of the Warren Bridge et al.*⁷⁴ In answering the contention that the charter to the proprietors of the Charles River Bridge was a restriction upon legislative power he said at page 603:

"This charter is not * * * any restriction upon the legislative power, unless it be true that because the legislature cannot grant again what it has

⁶⁵ Fund, art. IX, secs. 5 and 6; bank, art. VII, secs. 5 and 6.

⁶⁶ Fund, art. IX, sec. 9; bank, art. VII, sec. 9.

⁶⁷ Fund, art. IX, sec. 8; bank, art. VII, sec. 8.

⁶⁸ See: *The Schooner Exchange* ((1812) 7 Cranch 116) (sovereign immunity of foreign governments generally); (R. S. 4063, U. S. C., title 22, sec. 252) (immunity from suit of foreign ambassadors, public ministers and their "domestics"); *Compania Espanola v. Navemar* ((1938) 303 U. S. 68), and *Berizzi Bros. Co. v. The Pesaro* ((1926) 271 U. S. 562) (vessels of a foreign government immune from suit); act of February 15, 1938 (U. S. C., title 22, sec. 255a) (prohibiting interference with the duties of foreign diplomatic representatives); sec. 116 (c), Internal Revenue Code (U. S. C., title 26, sec. 116 (c)) (exemption of income of foreign governments from income tax); sec. 116 (b) Internal Revenue Code (U. S. C., title 26, sec. 116 (b)) (compensation of employees of foreign governments exempted from income tax under certain conditions.)

⁶⁹ See, for example, in two of the more recent treaties, article I of the treaty with Liberia (1938), Department of State Treaty Series, No. 956, and the following provision from article I of the treaty with Siam (1938), Department of State Treaty Series No. 940: "The nationals of each of the high contracting parties shall receive, in the territories of the other, the most constant protection and security for their persons and property, and shall enjoy in this respect the same rights and privileges as are or may be granted to nationals of the state of residence on their submitting themselves to the conditions imposed upon nationals of the state of residence. They shall also enjoy in this respect that degree of protection and security that is required by international law. Their property shall not be taken without due process of law or without payment of just compensation."

⁷⁰ Sec. 8.

⁷¹ 58 Stat. 122.

⁷² See, for example, 43 Stat. 1621; 44 Stat. 1186, 57 Stat. 278.

⁷³ See, for example, 57 Stat. 30; 57 Stat. 278. For other appropriations to be paid to international organizations see ch. 7 of title 22 of the United States Code.

⁷⁴ (1837) 11 Peters (36 U. S.) 420.

already granted, the legislative power is restricted. If so, then every grant of the public land is a restriction upon that power; a doctrine that has never yet been established nor (as far as I know) ever contended for. Every grant of a franchise is, so far as that grant extends, necessarily exclusive; and cannot be resumed, or interfered with. * * * But the legislative power remains unrestricted. The subject matter only (I repeat it) has passed from the hands of the Government. If the legislature should order a Government debt to be paid by a sale of the public stock, and it so paid, the legislative power over the funds of the Government remains unrestricted, although it has ceased over the particular stock which has been thus sold."

Commitments of the United States restricting its future action

The only pertinent portion of the articles of agreement which remain for consideration are the policy commitments which the United States is required to make in accepting membership in the fund and bank. All of these commitments merely limit the action which the United States could otherwise take while a member of the two institutions.

Many treaties and international agreements entered into by the United States have been characterized by similar negative commitments. In order to obtain the agreement of a foreign government to restrict its actions in certain respects deemed desirable by this Government, the United States in turn agrees to circumscribe its actions in the same field.

In 1794 the United States entered into the Jay treaty⁷⁵ with Great Britain which provided that the citizens of the United States and Canada as well as the Indian tribes could not have their ability to pass and repass freely between the respective territories restricted by either nation. This provision was never held to be unlawful as restricting the power granted by the Constitution to Congress "to regulate commerce with foreign nations."

An exchange of notes in 1817 consummated an executive agreement between the United States and England⁷⁶ limiting the naval forces on the Great Lakes. Another limitation upon the right to build the number of naval vessels which the participants might otherwise desire to build was contained in the 1936 treaty limiting naval armaments.⁷⁷ It has not been contended that either of these agreements constituted an unconstitutional delegation of the power of the legislature "to provide and maintain a Navy."

The Constitution grants to the Congress the power "to lay and collect taxes, duties, imposts, and excises." However, Congress has not felt that it was unlawfully restricting its power in this respect by authorizing the Executive to enter into reciprocal income tax exemption agreements with foreign governments.⁷⁸ This is another instance in which Congress has agreed not to exercise its powers in return for a corresponding forbearance on the part of other governments.

In the field of multilateral agreements, the United States entered into the Hague Convention Respecting the Laws and Customs of War on Land⁷⁹ which impliedly obligated the United States not to take any inconsistent action with respect to the armed forces of the United States while the Convention was in effect. It has never been contended that this action constituted an unconstitutional delegation of the power of Congress "to make rules for the Government and Regulation of the land and naval forces."

In the case of the Bretton Woods agreements and in the examples discussed above the principle is the same. Each participating country agrees to give up its right to act in a particular manner in return for the corresponding commitment of one or more other countries. The only commitment contained in the bank agreement, aside from the privileges and immunities and the subscription, is that the United States and other countries agree not to restrict the use that a borrower can make of their respective currencies borrowed from or through the bank.⁸⁰ Similarly the United States and other countries, while members of the fund, may not restrict the use of their respective currencies acquired from the fund.⁸¹ In the case of the fund agreement the United States and other member

⁷⁵ 1 Malloy, 590, 592.

⁷⁶ 1 Malloy, 628.

⁷⁷ 4 Malloy, 5548.

⁷⁸ See for example the agreement with Canada. Department of State Executive Agreement Series No. 4 (1928). The legislative authorization is contained in the Revenue Act of 1921 (42 Stat. 227, 239) and subsequent revenue acts.

⁷⁹ (1907) 2 Malloy, 2269.

⁸⁰ Art. IV, secs. 1 and 2.

⁸¹ Schedule D, 6, and schedule E, 8.

countries are also committed not to buy and sell gold beyond a range based upon the par value of their currency;⁸² not to change the value of their currency except as provided in the agreement;⁸³ not to permit exchange transactions at rates beyond the prescribed range⁸⁴ (this commitment will be fulfilled by the United States if it continues the present policy of buying and selling gold freely for the settlement of international transactions); not to impose restrictions on current international transactions;⁸⁵ and not to engage in discriminatory currency arrangements or multiple currency practices.⁸⁶

No question has ever been raised that treaties and agreements containing a commitment not to take certain specified actions involve an unconstitutional delegation of legislative power. In fact, if treaties and agreements of this kind were so construed, the United States would be gravely hampered in its negotiations with other countries, as it is difficult to imagine an international compact of any importance that would not involve at least a commitment of the United States not to engage in activities inconsistent with the treaty or agreement in question.

It is equally clear that nothing in the fund agreement, the bank agreement, or H. R. 3314 will give the fund, or the bank, or any foreign country any power over the value of the dollar or any power over the foreign commerce of the United States. With respect to the power of Congress over the value of the dollar, two things must be considered. First, Congress can affect exchange rates only by changing the value of the dollar. Other countries are free, in the absence of an international agreement, to change the values of their own currencies and thus affect dollar exchange rates. Under the provisions of the articles of agreement⁸⁷ and H. R. 3314,⁸⁸ no change can be made in the value of the dollar without authorization by Congress. Thus, the power of Congress to coin money and regulate the value thereof will remain in Congress and neither the fund nor foreign countries will have any power in this respect. Secondly, the reference in the Constitution to the power of Congress to regulate the value of foreign coin can relate only to physical coins which may be in circulation in the United States. Obviously, it was not intended to do the impossible by conferring upon Congress power to regulate the value of another country's money.

So far as the bank is concerned, its only effect on our foreign commerce will result from the loans it makes and guarantees. If these are made in dollars our commerce will be affected. But Congress will not have made this possible by giving up its power over foreign commerce. It will have accomplished this through the exercise of its own power to appropriate the funds which the bank may lend or use as a reserve for its guaranties, and by exercising its power to authorize international agreements limiting the right of the United States to impose restrictions on the use of dollars borrowed from or through the bank.

Similarly, the fund will have no power which can interfere with the exercise by Congress of its right to regulate the foreign commerce of the United States. As indicated above the limitations on the freedom of action of the United States, including those relating to scarce currencies, are imposed by virtue of the agreement itself and are not powers conferred upon the fund. For example, when the United States is a member of the fund, it can sell gold only within the prescribed range. It will comply only because it is obligated by an international agreement to do so and not because the fund has required the United States to do it. The fund itself has no such authority. The same thing is true of all the other commitments which the United States makes by accepting the fund agreement. With respect to the effect on our foreign commerce of the use of dollars acquired by foreign countries from the fund, the principle involved is the same as that involved in the loans made by and through the bank. Our commerce will be affected by the use of the dollars, and these effects will result from the exercise by Congress of its power to appropriate funds and the exercise of its power to authorize an international agreement limiting the right of the United States to restrict the use of dollars so acquired.

It has been suggested that the provisions of article VII, dealing with scarce currencies, will permit foreign countries to regulate American exports if the dollar becomes a scarce currency. It is alleged, therefore, that there is involved

⁸² Art. IV, sec. 2.

⁸³ Art. IV, sec. 5.

⁸⁴ Art. IV, sec. 4.

⁸⁵ Art. VIII, sec. 2.

⁸⁶ Art. VIII, sec. 3.

⁸⁷ Art. IV, sec. 5 (b).

⁸⁸ Secs. 5 and 6.

in the fund agreement a delegation to the fund and to foreign countries of the power of Congress over the foreign commerce of the United States. There is no foundation in fact for this suggestion or for this allegation. At the present time all foreign countries have the right at any time and for any reason to impose restrictions upon the freedom of exchange transactions between their own currencies and the dollar. Their right in this respect can be limited by international arrangement but not by congressional action. The most that Congress can do is to enact legislation designed to minimize the effect of restrictions which other nations may impose. It should be kept in mind that foreign countries can exercise this power whether the dollar is a scarce currency or not. Under the fund agreement foreign countries do not acquire any additional power with respect to imposing restrictions on dollar transactions, and in fact their power is limited by the fund agreement. If the fund declares the dollar to be a scarce currency foreign countries will be permitted to impose limitations on the freedom of exchange transactions in dollars, but the limitations can be no more restrictive than is necessary to limit the demand for dollars to the supply held by and accruing to the country imposing the restrictions, and they must be relaxed and removed as rapidly as conditions permit.⁹⁹ It is apparent, therefore, that the power of foreign countries to restrict transactions between their currencies and the dollar is not acquired by delegation from the Congress of the United States, but is a power which they have today and which will be limited rather than increased by the fund agreement.

Section 5 of article VII commits the United States not to invoke any prior international arrangements in a manner which will prevent the operation of the scarce currency provisions. Obviously this is not a delegation of legislative power to the fund but is an agreement by the United States to restrict its right to insist upon compliance with earlier arrangements with other countries which are inconsistent with the articles of agreement. Even if the extreme view were taken that some agreements to which the United States is a party would, in effect, be revoked by this provision, it still would not involve an unlawful delegation since its effect would merely be to terminate the existing international arrangements.

The conclusion necessarily follows that the articles of agreement and H. R. 3314 do not involve an unlawful delegation of legislative power to the fund, to the bank, or to foreign countries.

JOSEPH J. O'CONNELL, Jr.
DEAN ACHESON.

Mr. WHITE. Senator, may I correct an impression? That is a combined Treasury and State Department report, prepared jointly.

The CHAIRMAN. Very well. Are there any other questions?

Senator TAFT. Mr. White, there was a statement you were to put in the record regarding the gold that would probably come into the fund. Have you prepared that statement?

Mr. WHITE. Yes, that is ready. Did you send it in [addressing Mr. Bernstein]?

Mr. BERNSTEIN. I haven't submitted it yet, but I have it completed and will submit it today.

Mr. WHITE. We will submit it in the record. Would you like to receive it directly, Senator?

Senator TAFT. No. I hope you have an extra copy.

Mr. WHITE. We will see that you get an extra copy this afternoon. (The above-mentioned statement is as follows:)

GOLD SUBSCRIPTIONS TO THE FUND

The gold subscription of the members of the fund is determined by their net official holdings of gold and United States dollars. Each country will subscribe 25 percent of its quota, or 10 percent of its net official holdings of gold and United States dollars, whichever is less.

⁹⁹ Art. VII, sec. 3 (b).

(a) The following countries have official gold and dollar resources in an amount either about or below their quotas in the fund:

Australia	India	Panama
Czechoslovakia	Iraq	Poland
Ethiopia	Luxemburg	
Greece	New Zealand	

The aggregate quotas of these countries amount to 964.5 million dollars. Their total gold subscription to the fund will be approximately 8 percent of this amount.

(b) The following countries have official gold and dollar resources in an amount greater than their quotas but probably less than two and a half times their quotas:

Chile	Haiti	Union of Soviet Socialist Republics
China	Netherlands	United Kingdom
Dominican Republic	Paraguay	Yugoslavia
Egypt	Peru	

The aggregate quotas of these countries amount to 3,517 million dollars. Their total gold subscription to the fund will be approximately 18 percent of this amount.

(c) The following countries have official gold and dollar resources in an amount than two and a half times their quotas in the fund:

Belgium	El Salvador	Nicaragua
Bolivia	France	Norway
Brazil	Guatemala	Philippine
Canada	Honduras	Commonwealth
Colombia	Iceland	Union of South Africa
Costa Rica	Iran	United States
Cuba	Liberia	Uruguay
Ecuador	Mexico	Venezuela

The aggregate quotas of these countries amount to 4,318.5 million dollars. Their total gold subscription to the fund will be 25 percent of this amount.

Senator TAFT. I do not know whether there is anything else to be put in the record or not.

Mr. WHITE. You did——

Senator TAFT. The lend-lease statement has been put in, has it?

A VOICE. Yes, sir; it has.

(The following statement was offered for the record by Senator Taft:)

PART I.—Some aspects of American experience in foreign lending

	Table I. Bretton Woods quotas		Table II. Foreign government indebtedness to U. S. government (war debts), Jan. 1, 1945	Table III. Outstanding foreign-dollar bonds (publicly and nonpublicly offered) issued, or guaranteed by governments or political subdivisions thereof principal amounts outstanding as of Dec. 31, 1940		Table IV. Status of American portion of foreign-dollar loans (public and private issue, government and corporate), Dec. 31, 1935			Table V. Status of American portion of foreign-dollar bonds (amounts outstanding, partial and complete defaults) as to interest service at end of 1943			
	Fund	Bank		Outstanding	In default	Total taken in (1897-1935)	Bonds outstanding Dec. 31, 1935	Bonds in default as to interest	Bonds in partial defaults		Bonds in complete default	Total amount of bonds outstanding
									Through adjustments	Through reduced rates		
						(1)	(2)	(3)	(1)	(2)	(3)	(4)
Australia.....	\$200,000,000	\$200,000,000		\$243,589,000		\$271,200,000	\$252,704,000					\$389,300,000
Belgium.....	225,000,000	225,000,000		34,833,200	\$9,544,000	188,000,000	151,515,000				\$3,000,000	12,400,000
Bolivia.....	10,000,000	7,000,000	\$499,421,077.80	60,852,927	60,852,927	63,445,000	54,524,000	\$54,524,000			53,600,000	53,600,000
Brazil.....	150,000,000	105,000,000		352,498,145	352,498,145	379,050,000	309,151,000	288,102,000		\$208,900,000	6,000,000	214,900,000
Canada.....	300,000,000	325,000,000		1,922,208,265	88,586,312	2,040,765,000	21,822,763,000	\$78,334,000	\$53,400,000		1,000,000	1,133,700,000
Chile.....	50,000,000	35,000,000		170,208,500	170,208,500	256,378,000	228,068,000	228,068,000	20,800,000	138,900,000		181,200,000
China.....	550,000,000	600,000,000		11,427,512	11,427,512	1,771,000	1,771,000	1,771,000			2,200,000	2,200,000
Colombia.....	50,000,000	35,000,000		137,955,774	135,001,321	177,318,000	144,220,000	144,220,000	25,400,000		89,100,000	125,900,000
Costa Rica.....	5,000,000	2,000,000		8,077,188	8,077,188	9,800,000	8,781,000	7,193,000			6,800,000	6,800,000
Cuba.....	50,000,000	35,000,000		101,982,900	32,245,100	175,508,000	115,218,000	72,497,000	17,600,000			24,500,000
Czechoslovakia.....	125,000,000	125,000,000	172,778,593.22	4,236,800	4,236,800	37,750,000	29,042,000	3,284,000			2,000,000	2,000,000
Denmark.....	(1)	(1)		125,488,000		155,521,000	134,380,000	995,000				44,900,000
Dominican Republic.....	5,000,000	2,000,000		14,853,000	3,348,000	19,000,000	15,464,000					5,300,000
Ecuador.....	5,000,000	3,200,000		12,262,700	12,262,700							
Egypt.....	45,000,000	40,000,000										
El Salvador.....	2,500,000	1,000,000		12,081,525	12,081,525	7,000,000	4,492,000	4,492,000			9,900,000	9,900,000
Ethiopia.....	8,000,000	3,000,000										
France.....	450,000,000	450,000,000	4,563,112,799.40	13,099,600		248,610,000	148,423,000					1,000,000
Greece.....	40,000,000	25,000,000	36,655,615.10	36,044,500	36,044,500	25,000,000	24,636,000	24,636,000			14,800,000	14,800,000
Guatemala.....	5,000,000	2,000,000		2,710,100	1,344,100	550,000	435,000	435,000	1,600,000			1,600,000
Haiti.....	5,000,000	2,000,000		7,948,051	7,948,051	20,273,000	9,809,000					5,600,000
Honduras.....	2,500,000	1,000,000										
Iceland.....	1,000,000	1,000,000										
India.....	400,000,000	400,000,000										
Iran.....	25,000,000	24,000,000										
Iraq.....	8,000,000	6,000,000										
Liberia.....	500,000	500,000		1,429,000		2,192,000	2,192,000					
Luxemburg.....	10,000,000	10,000,000				8,000,000	6,007,000					
Mexico.....	90,000,000	65,000,000		303,832,453	303,832,453	116,900,000	116,900,000	116,900,000	39,000,000		85,500,000	124,500,000

Netherlands.....	275,000,000	275,000,000	-----	-----	-----	44,149,000	43,310,000	-----	-----	-----	-----	-----	-----
New Zealand.....	50,000,000	50,000,000	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Nicaragua.....	2,000,000	800,000	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Norway.....	50,000,000	50,000,000	-----	107,729,000	-----	175,655,000	150,435,000	-----	-----	-----	-----	25,000,000	-----
Panama.....	500,000	200,000	-----	17,604,552	14,172,052	18,800,000	16,895,000	12,217,000	8,300,000	1,200,000	200,000	13,500,000	-----
Paraguay.....	2,000,000	800,000	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Peru.....	25,000,000	17,500,000	-----	85,656,500	85,656,500	80,142,000	74,143,000	74,143,000	-----	-----	53,200,000	53,200,000	-----
Philippine Commonwealth.....	15,000,000	15,000,000	-----	-----	-----	88,263,000	86,262,000	2,500,000	-----	-----	1,500,000	24,000,000	-----
Poland.....	125,000,000	125,000,000	302,915,014.20	77,661,543	77,661,543	139,255,000	96,559,000	-----	-----	-----	45,400,000	45,400,000	-----
Union of South Africa.....	100,000,000	100,000,000	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----	-----
Union of Soviet Socialist Republics.....	1,200,000,000	1,200,000,000	443,152,568.89	75,000,000	75,000,000	29,000,000	29,000,000	29,000,000	-----	-----	-----	5,400,000	-----
United Kingdom.....	1,300,000,000	1,300,000,000	6,339,714,782.58	-----	-----	143,000,000	20,067,000	-----	-----	-----	-----	-----	-----
Uruguay.....	15,000,000	10,500,000	-----	54,673,324	2,709,500	54,937,000	51,039,000	51,039,000	37,000,000	-----	700,000	38,600,000	-----
Venezuela.....	15,000,000	10,500,000	-----	-----	-----	10,000,000	10,000,000	10,000,000	-----	-----	-----	-----	-----
Yugoslavia.....	60,000,000	40,000,000	63,242,656.28	53,112,190	50,302,700	50,500,000	47,411,000	-----	-----	-----	23,400,000	29,400,000	-----
Total.....	6,050,000,000	5,925,000,000	12,425,993,107.27	4,052,106,249	1,555,091,429	5,036,737,000	4,205,616,000	1,251,768,000	204,000,000	349,000,000	404,200,000	2,288,500,000	-----

¹ Shall be determined after Danish Government is ready to sign agreement.

² Includes Newfoundland.

³ Includes Oceania.

PART II.—Some aspects of American experience in foreign lending

Non-Bretton Woods countries	Table II. Foreign government indebtedness to U. S. Government (World War I debts), Jan. 1, 1945	Table III. Outstanding foreign-dollar bonds (publicly and nonpublicly offered) issued or guaranteed by governments or political subdivisions thereof, principal amounts outstanding as of Dec. 31, 1940		Table IV. Status of American portion of foreign-dollar loans (public and private issue, government, and corporate) Dec. 31, 1935			Table V. Status of American portion of foreign-dollar bonds (amounts outstanding, partial and complete defaults) as to interest service at end of 1943			
		Outstanding	In default	Total taken in United States (1897-1935)	Bonds outstanding Dec. 31, 1935	Bonds in default as to interest	Bonds in partial default		Bonds in complete default	Total amount of bonds outstanding
							Through adjustments	Through reduced rates		
		1	2	3	4	5	6	7	8	9
Argentina.....		\$228,036,165	\$13,861,790	\$338,844,000	\$325,589,000	\$74,815,000	\$53,600,000		\$600,000	\$180,100,000
Bulgaria.....		16,634,500	16,634,500	13,500,000	12,916,000	12,916,000			4,800,000	4,800,000
Danzig.....		4,367,885	4,367,885	3,000,000	2,590,000				1,800,000	1,800,000
Estonia.....	\$24,205,435.81	3,271,500		4,000,000	3,552,000				1,300,000	1,300,000
Finland.....	8,842,109.88	13,893,000		42,000,000	32,106,000		1,300,000			3,700,000
Germany.....	26,024,539.59	511,797,553	490,320,400	1,121,728,000	755,381,000	752,381,000			73,100,000	73,100,000
Hungary.....	2,707,752.98	17,695,600	11,197,100	65,100,000	48,294,000	48,294,000			31,600,000	31,600,000
Ireland.....		816,500		15,000,000	1,805,000					800,000
Italy.....	2,049,722,534.34	102,149,400	102,149,400	341,483,000	239,343,000	3,781,000			66,300,000	66,300,000
Latvia.....	8,965,371.04									
Lithuania.....	8,956,356.95	4,700,694	4,700,694	1,846,000	1,846,000				400,000	400,000
Rumania.....	74,018,719.94	88,394,350	88,394,350	10,000,000	9,115,000	9,115,000			4,400,000	4,400,000
Armenia.....	26,891,371.09									
Japan.....		296,854,000		416,879,000	323,717,000				98,800,000	98,800,000
Total.....	2,231,364,191.62	1,288,595,147	731,626,119	2,423,377,000	1,756,264,000	901,302,000	54,900,000		283,100,000	446,600,000

SOME ASPECTS OF AMERICAN EXPERIENCE IN FOREIGN LENDING

EXPLANATORY STATEMENT

One of the main purposes of the Bretton Woods monetary agreements is to provide a pool of credit from which member countries may buy (borrow) foreign currencies to stabilize the exchanges. In actual operation, governments would be entitled (with certain limitations) to borrow from the fund a sum approximately equal to their initial quotas.

This fund is made up of gold and foreign currencies (quotas) subscribed by the member countries; these quotas represent the approximate amounts that each country would be able to borrow in other currencies. Thus Canada, which subscribed \$300,000,000, might buy (borrow) \$300,000,000; the United Kingdom, \$1,300,000,000; France, \$450,000,000; the United States, \$2,750,000,000; etc. This total pool of credit (excluding the United States) is \$6,050,000,000. (Shown by country in table I.)

The American quota in the fund is \$2,750,000,000. This sum, representing an investment of the United States Government and its taxpayers, will go into the pool of credits and can be borrowed by foreign governments. From the standpoint of good banking principles, is this a good investment?

In domestic banking or lending, the soundness of the loan is tested by the credit standing of the borrower. No creditor will lend money to a man who in the past has consistently defaulted on other debts. The same principle should apply to international finance. Countries which have consistently defaulted on loans—whose credit standing is weak—are not sound applicants for further credit.

It is only reasonable to assume that the United States should take stock of her international investment position, determine the effect of her past lending experiences, before she embarks upon a new venture of credit financing.

Some Aspects of American Experience in foreign lending attempts to show how the United States has fared with respect to her loans to foreign countries. Part I concerns itself with those countries signatories to the Bretton Woods proposals; part II, other foreign nations.

The various tables show in detail, country by country, the amounts of loans outstanding and in default at specified times as a result of American lending to the individual foreign countries.

Table I

Table I gives the quotas of foreign nations to the Bretton Woods International Monetary Fund. The credit thus available to all countries under the fund is \$6,050,000,000.

The table also shows the subscriptions of each country to the bank. The total of subscriptions is \$5,925,000,000.

The aggregate pool of credit in the fund and bank is \$11,975,000,000.

Source: United Nations Monetary and Financial Conference, Final Act and Related Documents, State Department Publication No. 2187, Conference Series 55, Washington, D. C., 1944, pages 60, 94.

Table II

Table II, "Foreign government indebtedness to the U. S. Government," shows the money owed on January 1, 1945 by foreign governments to the United States as a result of loans made by the United States to the Allied Governments before and after the armistice which ended World War I. These were loans made in connection with the prosecution of the war and also covering the sale on credit of surplus war and relief supplies by the United States to various European nations.

These debts include amounts of the unpaid principal, the interest postponed and payable under the moratorium agreements, and the interest accrued and unpaid under funding and moratorium agreements. The unpaid principal includes the principal postponed under moratorium agreements and principal amounts not paid according to contract terms.

The indebtedness of Germany to the United States on account of costs of Army of Occupation and awards under settlement of War Claims Act of 1928 are not included.

On January 1, 1945, World War I debts owed by various countries (which have signed the Bretton Woods agreement) to the United States totaled \$12,425,993,107.27. World War I debts owed by countries not signatories to the Bretton Woods agreement were \$2,231,264,191.62.

This \$12,000,000,000, in all probability, will never be repaid; it represents a complete and unqualified loss to the United States. This figure taken at the

beginning of 1945 does not, however, represent the total loss as a result of unpaid war debts over the period of years; the original loans have been pared down; terms have been readjusted; revisions have been made. The actual amount of money which was lost by Americans as a result of the First World War financing is greater than the 12 billions given in the table.

Source: Memorandum covering the world indebtedness of foreign governments to the United States (1917-21) and showing the total amounts paid by Germany under the Dawes and Young plans, Treasury Department, fiscal service, Bureau of Accounts, revised January 1, 1945, "Statement showing indebtedness of foreign governments to the United States, January 1, 1945."

Table III

Table III, "Outstanding foreign dollar bonds (publicly and nonpublicly offered) issued or guaranteed by governments or political subdivisions thereof," shows the general credit standing of the foreign governments in respect to all foreign dollar bonds issued by them up to the end of 1943. These figures include bonds, issued or guaranteed by foreign governments or subdivisions thereof, which have been publicly offered and in respect of which default exists or is threatened. They are loans floated by national, state, provincial, departmental, municipal, or corporate entities. All outstanding dollar bonds are included; no break-down is made of the American-owned portion of these dollar bonds.

Bretton Woods countries.—On December 31, 1940, the countries participating in the Bretton Woods plans had foreign dollar bonds outstanding amounting to \$4,052,106,249.

Of these bonds outstanding, \$1,555,031,429 were in default as to interest and/or sinking fund. Funding bonds are included in this figure. In other words, at the end of 1940, foreign borrowers participating in the Bretton Woods plans had failed to meet their obligations on over 38 percent of the outstanding dollar bonds issued or guaranteed by their governments.

Non-Bretton Woods countries.—In the case of countries not participating in Bretton Woods plans, foreign dollar bonds outstanding at the end of 1940 amounted to \$1,238,595,147.

Of these bonds outstanding, \$731,626,119 were in default as to interest and/or sinking fund.

These countries had defaulted on about 55 percent of their obligations on dollar bond issues.

Source: Foreign Bondholders Protective Council, Inc., annual report, 1940, page 71.

Table IV

Table IV, "Status of American portion of foreign dollar loans (public and private issue, Government and corporate)," shows the status of foreign securities issued and taken in the United States during the 38-year period 1897-1935. It includes not only publicly issued bonds and shares but also those privately taken—insofar as the latter could be identified. The figures in this table exclude all American corporate securities; all issues of foreign corporations in which there is a minority American interest of the "direct investment" type; and World War I debts.

Bretton Woods countries.—Column 1 of the table indicates the total amount of foreign dollar bonds floated and taken in the United States between 1897 and 1935. It shows that American investors loaned during this period to the individual foreign entities a sum of \$5,036,737,000.

Column 2 shows the amount of foreign dollar bonds outstanding as of December 31, 1935. These were the foreign loans which had not been crossed off the balance sheet. American investors held at this time \$4,205,616,000 in foreign dollar bonds.

Column 3 lists the total bonds, at par value, in default as to interest. At the end of 1935, foreign borrowers had failed to pay interest on \$1,251,766,000 worth of loans made by American investors. Of the total foreign dollar bonds held by Americans at this time, approximately 30 percent were in default. This takes no account of losses sustained by period adjustments of principal.

Non-Bretton Woods countries.—Column 1 shows that between 1897 and 1935 American investors took \$2,423,377,000 worth of these foreign bonds.

Column 2 lists the bonds outstanding at the end of 1935 as a total of \$1,756,264,000.

Column 3 shows that the total outstanding, \$901,302,000 were in default as to interest due on American holdings.

Source: Lewis, Cleona, America's Stake in International Investments, Brookings, Washington, D. C., 1938, page 659.

Table V

Table V, "Status of American portion of foreign dollar bonds (amounts outstanding, partial and complete defaults) as to interest service at end of 1943," lists the American holdings (estimated) of foreign dollar bonds. These bonds include all publicly and privately placed issues, regardless of whether they are Government guaranteed, which have come to the attention of the Department of Commerce. They do not include World War I loans. These bonds are issued by foreign entities (corporations, governments, private individuals) and are payable in American money.

Bretton Woods countries.—According to the figures in column 4, the total amount of bonds outstanding at the end of 1943 was \$2,288,500,000.

Of this \$2,288,500,000 worth of bonds, \$404,200,000 was in complete default as to interest (col. 3). In other words, over 17 percent of the foreign dollar bonds held by American investors paid no interest service whatsoever.

Bonds whose total par value was \$204,000,000 were in partial default (col. 1). The interest on these bonds was serviced with dollars but at adjusted terms for the borrower. The investor received some payment of interest but not the full amount on the original face value of the bond he first bought.

On \$349,000,000 of the total American-held foreign dollar bonds there was partial default by virtue of the fact that they were serviced with dollars at reduced rates (col. 2). This amounted to a loss of 14 percent of the total loans outstanding as of the end of 1943.

Non-Bretton Woods countries.—The total amount of bonds outstanding for these countries was \$446,600,000 (col. 4).

Of this sum, \$283,100,000 was in complete default as to interest (col. 3).

A further sum of \$54,900,000 was serviced with dollars, but at adjusted terms (col. 1).

Source: "Estimated U. S. Holdings of Foreign Dollar Bonds, at End of 1943, According to Status of Interest Service," International Payments Unit, Bureau of Foreign and Domestic Commerce, June 13, 1945.

Lend-Lease

For purposes of aiding the Allies in the prosecution of this war, the United States Government extended vast credits under the system of lend-lease. No accounting, country by country, is available to show the distribution of these loans; the following gives a partial break-down and allocation to various governments; January 1, 1945:

United Kingdom	\$12,775,392,000
Union of Soviet Socialist Republics	8,409,695,000
Africa, Middle East, Mediterranean	3,813,058,000
China and India	2,023,339,000
Australia and New Zealand	1,237,089,000
Latin America	226,850,000
Other countries	805,025,000

Total 29,310,457,000

In the course of these 4 years, some of these foreign government have supplied the United States with war materials, supplies approximating 5 billions of dollars. Following is the break-down:

United Kingdom	\$3,352,247,000
France	200,000,000
Belgium	48,000,000
Australia	720,673,000
New Zealand	171,419,000
India	411,976,000
Total	4,904,315,000

¹ Already supplied, or contracts placed to supply.

By January 1, 1945, the United States has loaned this system of war aid, \$29,000,000,000; the foreign governments have loaned (or repaid) to the United States \$5,000,000,000. This leaves a net balance of American advances on lend-lease of \$24,000,000,000. These lend-lease debts, like the debts of the last war, will probably never be repaid.

Source: Nineteenth Report on Lend-Lease Operations, March 31, 1945.

Mr. WHITE. There was a lend-lease statement. I don't remember whether that was available, unless Mr. Ferguson, I believe—

A VOICE. Yes.

Mr. WHITE. You did ask, or I think you asked—I am not sure—for a list of the various British monetary agreements that were in existence.

Senator TAFT. Yes; I did; or someone did.

Mr. WHITE. I think so. And we are preparing that in summary form.

Senator TAFT. That is, the agreements between England and various countries.

Mr. WHITE. We will submit a summary of each of the agreements.

The CHAIRMAN. When will that be put into the record?

Mr. WHITE. Well, we hope it will be either today or tomorrow.

The CHAIRMAN. Very well.

(The following statement was furnished by Miss Coogan in response to a question by Senator Taft on June 22 (see p. 441):)

CITATIONS OF SOME OF THE UNITED STATES BANKING STATUTES AND THEIR INTERPRETATION IN BANKING PRACTICE—ADDITIONAL STATEMENT BY GERTRUDE M. COOGAN, ECONOMIC AND FINANCIAL ANALYST, CHICAGO, ILL.

Under H. R. 3314 there are two separate and distinct commitments of the United States Government:

1. United States subscription quota.
2. United States participation.

Section 8 (a) and (b), of H. R. 3314 provides for the payment of the United States subscription to the fund and also to the International Bank.

The United States Government subscription to the fund is to be paid in as follows:

1. 8 billion dollars gold and currencies in the stabilization fund set up in 1934.
- 0.95 billion dollars raised by the Treasury selling United States Government bonds to the American public for their savings, or by putting United States Government bonds into the domestic commercial banks to get a deposit (to the account of the United States Treasury) of the newly created and additional dollars.
2. 75 billion dollars United States subscription to the fund.

The entire United States Government subscription to the International Bank, which subscription could be up to 3.175 billion dollars would be obtained exactly as the 950 million dollars payment to the fund as explained in the preceding paragraph. H. R. 3314, section B, line 2, page 9, authorizes the Treasury to increase the public debt by \$4,125,000,000 to pay \$950,000,000 of the 2.75 billion dollars United States subscription to the fund and the 3.175 billion dollars United States subscription to the bank ($0.95 + 3.175 = 4.125$ billion dollars).

The participation comes only after the subscription quotas have been paid into the fund and into the bank.

The manner of getting the money for the United States participation in both the fund and the bank is provided for in section 8 (c) of H. R. 3314.

First, section 8 (c) authorizes issuance of up to 5.925 billion dollars United States notes; to the fund 2.75 billion dollars and to the bank 3.175 billion dollars.

The 5.925 billion dollars United States special notes are an additional increase in the public debt and are over and above the 4.125 billion dollars increase in the public debt authorized in section 8(b), lines 6, 7, and 8 (H. R. 3314), making a total authorized increase in the public debt of 10.05 billion dollars under the provisions of H. R. 3314.

These United States special notes are an extended liability of the United States Government (Government debt) issued under the Second Liberty Bond Act (sec. 8 (c), lines 22 to 25, p. 9, H. R. 3314).

The face amount of the United States special notes issued by the Secretary of the Treasury to the fund for participation "shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the fund

and the face amount of such notes issued to the bank and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the bank under article II, section 7 (i) of the articles of agreement of the bank" (H. R. 3314, sec. 8 (c)).

This participation is to be by the Secretary of Treasury issuing United States special notes to the fund and the bank "in exchange for dollars."

The United States Government participation, i. e., 2.75 billion dollars in the fund and up to 3.175 billion dollars in the bank, would be equal to 100 percent of the United States Government subscription.

"The face amount of special notes issued to the fund under the authority of this subsection and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the fund * * * and shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the bank under articles of agreement of the bank (H. R. 3314, sec. 8 (c)).

The "shall not exceed in the aggregate the amount of the subscription * * *" means 'equivalent to' or "equal to" or "corresponding to" the paid-in capital subscription as traditionally used in the United States Revised Statutes in conveying by Congress to banks the powers to create new and additional dollars (deposits) in an aggregate sum equal to the paid-in capital and unimpaired surplus.

The United States special notes could not be given to the fund "in exchange for," that is for the Treasury to get back any of the gold or currency paid in by the United States Government as its quota subscription.

Since, to get the United States special notes issued by the Treasury as the United States Government participation, the fund does not give up the gold and currency paid in as subscription quota, the term "in exchange for dollars" (line 19, p. 9, sec. (c), H. R. 3314) means that the Treasury gives up the United States special notes to the fund and to the bank and receives a deposit (dollars equal to the face amount of the United States special notes) on the books of the fund and the bank. These new and additional dollars (deposit) did not exist prior to this transaction.

Where else could the fund or the bank get the dollars for the United States Government participation in either the fund or the bank?

Thus under this provision (sec. 8 (c), H. R. 3314) Congress would authorize both the fund and the bank to take in United States special notes and create new and additional dollars (deposits, just as Congress, under the National Bank Act and amendments, Federal Reserve Act and amendments, and the Liberty Bond Act and amendments, conveyed to the domestic banks identical power to create new and additional dollars (deposits).

Were these 5.925 billion dollars United States special notes redeemed by the United States Treasury supplying Federal reserve balances, as provided in article III, sec. 5; H. R. 3314, 8 (c), lines 2 and 3, page 10, the total commitments of the United States Government to the fund and the bank would be 17.77 billion dollars and this additional 5.925 billion dollars could be used by the fund to claim gold from the Federal Reserve banks.

In his prepared statement as published in part I of the hearings before the Committee on Banking and Currency, United States Senate, on H. R. 3314, June 14, 1945, Mr. Harry D. White, Assistant Secretary of the Treasury, admitted that the subscription quotas stay in the fund:

"Each member must subscribe gold and its own currency in an amount equal to its quota. This subscription is returned to the member when it leaves the Fund after meeting all its obligations" (p. 58).

"Supposing country X has a quota of around a hundred million dollars; it starts by putting a hundred million dollars in the fund, some gold, some of its local currency, whatever the name of its currency might be. Now, that remains in the fund. Supposing country X during the first year comes to the fund to buy sterling, dollars, francs, various currencies, or any one of them, up to the maximum which it is permitted under usual circumstances, namely, 25 percent of its quota; in other words, during the course of the first year it buys \$25,000,000 worth of dollars, if you like. Country X would have put in \$25,000,000 of its local currency" (p. 64).

Mr. White did not explain where the fund would get the \$25,000,000 that it lends or sells to country X upon that country's sale or pledge of its own local currency to the fund.

The fund would create a deposit of 25,000,000 new and additional dollars that did not exist previous to this transaction.

Thus in addition to creating new and additional deposits (dollars) to take in United States special notes up to "a sum not to exceed in the aggregate the amount of United States subscriptions actually paid to the fund" (sec. 8 (c), H. R. 3314), the fund could create new and additional deposits (dollars) to buy foreign currencies or to lend dollars to foreign countries up to a sum equivalent to 200 percent of the subscription quota of each purchasing or borrowing country (The Articles of Agreement, art. V, sec. 3 (iii), the fund, p. 8).

The fund quota of all foreign countries is equivalent to 6.05 billion dollars, and 200 percent of this sum would be 12.1 billion dollars.

When the fund takes in 2.75 billion dollars, United States special notes for the United States participation in the fund, the fund would create 2.75 billion dollars new and additional "deposits" (dollars). This newly created 2.75 billion dollars deposit (dollars) credited to the United States Treasury on the books of the fund would be paid by the Secretary of the Treasury to the Federal Reserve banks as the United States Government participation in the fund.

The Federal Reserve bank would then show the following:

"Deposits 2.75 billion dollars—United States participation fund."

Likewise all new and additional dollars (deposits) created by the fund would be transferred to the books of the Federal Reserve banks for credit to the deposit account of the Treasury of the borrowing country.

In addition to the 3.175 billion dollars the international bank could create by taking in United States special notes "in exchange for dollars," the bank would also have power to create new and additional deposits (dollars) "by making or participating in direct loans out of its own funds corresponding to its unimpaired paid-up capital and surplus" (art. IV, sec. 1 a (i), Articles of Agreement—the bank).

The entire paid-in capital of the International Bank would be equivalent to 9.1 billion dollars.

Please note well that the paid-in capital subscription of the United States Government to the bank is 3.175 billion dollars, but there is no limitation to prevent the bank creating new and additional dollars (deposits) up to a total sum equivalent to the paid-in subscription of all member countries, which is equivalent to 9.1 billion dollars.

Both the fund and the bank will operate in dollars and all excess foreign-trade balances in all member countries will be cleared against dollars. When there are not enough dollars to pay for exports (from the United States) more dollars will be created. In other words the American people will be levied upon—their earned American dollars will be diluted (will purchase less goods). Americans' earned wages and earned incomes will buy less goods and services.

The new and additional dollars (deposits) created by either the fund or the International Bank would be counted by the central banks (of any country) as Central Bank monetary reserves, just the same as gold certificates, silver certificates, and United States notes and certain United States Government bonds now issued only under direct acts of Congress can be counted as legal monetary reserves by the Federal Reserve banks.

"(a) A member's monetary reserves means its net official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the fund may specify" (art. XIX (a) p. 34, the fund).

"(d) A member's holding of convertible currencies means its holdings of the currencies of other members which are not availing themselves of the transitional arrangements under article XIV, section 2, together with its holdings of the currencies of such nonmember as the fund may from time to time specify.

"The term currency for this purpose includes without limitation coin, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding 12 months" (art. XIX (d), p. 35, the fund).

Thus for the first time the monetary reserves in the United States will not be confined as now to United States lawful money and United States Government obligations now issued only under direct acts of the United States Congress, but will consist of foreign currencies and foreign government I O U's and foreign central bank I O U's (all countries).

The powers of the International Fund and also the powers of the International Bank to create new and additional deposits (dollars) is identical with the powers to create new and additional dollars (deposits) conveyed by the United States Congress to the domestic commercial banks under the National Bank Act of 1864 and amended by the Federal Reserve Act of 1913 and its amendments.

POWERS CONVEYED BY UNITED STATES CONGRESS UNDER THE NATIONAL BANK ACT AND AMENDMENTS, FEDERAL RESERVE ACT AND AMENDMENTS, AND THE LIBERTY BOND ACT AND AMENDMENTS

Section 5202, Revised Statutes (National Bank Act), placed limitations on the banks' indebtedness:

SEC. 5202. No association shall at any time be indebted, or in any way liable, to an amount exceeding the amount of its capital stock at such time actually paid in and remaining undiminished by losses or otherwise, except on account of demands of the nature following:

First. Notes of circulation.

Second. Moneys deposited with or collected by the association.

Third. Bills of exchange or drafts drawn against money actually on deposit to the credit of the association or due thereto.

Fourth. Liabilities to the stockholders of the association for dividends and reserve profits. (Please note the use of the word except, in above statement.)

Section 5202, Revised Statutes (National Bank Act), has always been interpreted to mean that a bank could create new and additional deposits (dollars), as loans or "to buy" qualified securities, over and above all deposits arising out of the banks' customers actually bringing in their moneys or checks drawn on other banks, up to total sums corresponding to 100 percent of the bank's paid-in capital and surplus. In plain words, each bank could create new and additional dollars (deposits) up to an aggregate sum equivalent to (i. e., 100 percent of) the total amount of its own paid-in capital and earned surplus.

"In exchange for dollars," i. e., for a deposit the bank could take in the customer's notes or acquire (buy) securities qualified by the United States Comptroller of Currency, up to sums equal to 100 percent of the bank's paid-in capital and earned surplus.

This 100 percent limitation of the power of national banks to create deposits (dollars) as loans or "to buy" securities remained in force until the passage of the Federal Reserve Act, December 23, 1913 ("to buy" means "in exchange for").

All national banks had to become members of the Federal Reserve System.

Section 13 of the Federal Reserve Act incorporated section 5202 of the Revised Statutes and added to it a fifth exception:

"Fifth. Liabilities incurred under the provisions of the Federal Reserve Act."

Section 24 of the Federal Reserve Act increased the powers of national banks to create new and additional dollars (deposits) by making loans on farm lands "in an aggregate sum equal to 25 percent of its capital and surplus or to one-third of its time deposits."

Thus the powers of national banks to create new and additional deposits (dollars) were increased to 125 percent of paid-in capital and surplus or 100 percent plus a sum equal to one-third of its time deposits.

Section 13 of the Federal Reserve Act which incorporated section 5202 of the Revised Statutes has been amended until there are now 10 exceptions under which banks which are members of the Federal Reserve System can create new and additional dollars deposits).

On March 27, 1917, the Federal Reserve banks took in \$50,000,000 2-percent Treasury certificates of indebtedness and created dollars (deposits) to lend to the United States Treasury. Of this \$50,000,000, \$20,000,000 was taken by the New York Federal Reserve Bank. (See Annual Report of the Federal Reserve Board, 1917, p. 3.)

This was the first time United States Government notes or certificates of indebtedness were taken in directly from the Treasury by Federal Reserve banks and dollars (deposits) created as loans to the United States Treasury.

On April 24, 1917 (Liberty Bond Act, sec. 7), the Secretary of the Treasury was authorized to issue directly United States certificates of indebtedness to member banks (of the Federal Reserve System) and other qualified depositaries (non-member banks) in exchange for dollars (deposits).

The following is the copy of a form issued to banks authorized to create new and additional deposits (dollars) for the United States Treasury:

"Qualified depositaries will be permitted to make payment by credit with certificates allotted to them for themselves and their customers up to an amount for which each shall have qualified in excess of existing deposits * * *." (From Annual Report of the Secretary of the Treasury, 1920, p. 295, N. B., "payment by credit.")

This was the first time since the passage of the National Bank Act (1864) that the commercial banks were allowed to create new and additional dollars (de-

posits) for the United States Treasury. This was the beginning of deficit financing which has been carried on since in ever-increasing volume; and under the Bretton Woods agreements and H. R. 3314, deficit financing would be carried on internationally.

Today, the total amount of new and additional dollars (deposits) created by the commercial banks in the United States as Government deficit financing has practically no relation to the paid-in capital and unimpaired surplus of the banks; and the commercial banks are not required to keep reserves against the new and additional dollars (deposits) created for the United States Treasury.

The above-cited parts of the United States Revised Statutes and parts of the National Bank Act, the Federal Reserve Act, and the Liberty Bond Act, of April 24, 1917, demonstrate that the conveyance by Congress of powers to create new and additional dollars (deposits) have never been in direct statements as such.

But through the terminology used and understanding those terms and understanding the implied powers conveyed to banks, the interpretations of the banking statutes have been clear to those persons familiar with banking law, terminology, procedure, and traditional practices.

And banks have certainly operated to create new and additional dollars (deposits) under the United States laws.

All but a very small part of the total circulating media in the United States has been created by banking operations; that is by the commercial banks creating dollars (deposits) as loans or "to buy" qualified investments.

The same powers to create new and additional dollars (deposits) would be conveyed by Congress to the International Fund and the International Bank under the terms of H. R. 3314 and the Bretton Woods agreements.

Submitted to United States Senate Banking and Currency Committee, June 27, 1945.

Senator FULBRIGHT. Mr. Chairman, I want to ask a question.

The CHAIRMAN. Certainly.

Senator TAFT. I have one when you get through.

Senator FULBRIGHT. I want to ask one on that question of the long- and short-term loans. I thought that section 13 of the House bill was designed to reconcile the differences, and when it became—when you say "long"—that is, we will say, medium, 3 or 4 years or something of that nature—that the bank was authorized, or would be, under that interpretation, to make the loans for stabilization purposes.

Mr. WHITE. Well, quite so, Senator. We think that already was contained in the articles of agreement, but to make it certain that there would be no doubt as to its—

Senator FULBRIGHT. Well, in regard to your discussion you just had, why is it, then, if the bank is going to do that, necessary to have the fund also empowered to make the loans or to consider them being made for 8 or 9 years or 6 or 7 years?

Mr. WHITE. Well, when we speak of a long-term stabilization loan, we have in mind a longer period than 5 or 6 years. It may be a 15- or a 20-year loan. A long-term stabilization loan might well be called for, Senator Fulbright, when a country, in the opinion of the fund, at least, doesn't see the near prospect of being able to repurchase the currency which it had bought. It couldn't tell that to begin with. It may appear that way to the fund at the end of the second year; it may be that there is some improvement in the third and fourth years, or it may be in the sixth year; but anywhere along that period, if in the opinion of the fund the repurchase is going to be too long delayed, then it recommends—

Senator FULBRIGHT. Well, isn't the real significance of the idea that this should be paid in 18 months that it is an effort to get away from the automatic feature here? In other words, in many cases of a line of credit the banks don't expect the borrower actually to repay and call it quits at the end of 18 months, but they want him to come in and

report his progress, and then they usually renew it. Isn't that what is actually involved there?

Mr. WHITE. Well, that is what is involved in most bank loans, which, as you say, are usually renewed; but one of the important differences in the fund is that we are asking the countries to forego unilateral action on important things. We are asking them to cooperate on certain matters which involve restriction on their privilege of unilateral action. Now, they feel, and we think justly, that we can ask that of them only if they have assurance of a second line of reserves; and an assurance of a second line of reserves, in matters of shaping the monetary and commercial policy of a country, is not met by an advance of 18 months together with the possibility of renewal. There is no doubt in my mind that the incorporation of a limitation of that character would prevent acceptance of the fund document by many countries.

Senator FULBRIGHT. What you are really after is some control over it, that is, some protection against abuse or their using it for purposes other than genuine stabilization. Isn't that what is really true?

Mr. WHITE. That is true, and we think we have achieved that.

Senator FULBRIGHT. What is the best—how do you feel about the protection against the abuse now in that regard?

Mr. WHITE. Senator Fulbright, we think we have given the maximum protection against abuses by giving authority to the fund to indicate when in its opinion, in the fund's opinion, in the majority of the votes opinion, a country is not utilizing the resources of the fund in accord with the purposes; and one of the purposes would take care of the point that you raise. The fund could decide that a country is not utilizing the resources of the fund properly and could take any of a number of safeguarding steps indicated in the agreement. The authority rests with the fund, and it is an authority that is set forth in sufficiently broad terms so that the fund at any time, if there are any grounds for such decision, can decide that a country is not using the resources of the fund properly and take appropriate action.

Senator MILLIKIN. Mr. Chairman.

The CHAIRMAN. Senator Millikin.

Senator MILLIKIN. Would you let me interpose just one question, Senator?

Senator FULBRIGHT. Certainly.

Senator MILLIKIN. Would that not automatically exclude Russia from participation in the fund?

Mr. WHITE. No, Senator; it would not. There seems to be some confusion about Russia's role in the fund and the contribution which the fund can make toward Russia's stability. Russia has an interest which is equal to that of most countries, I believe, in seeing that we have a reasonably high level of world trade. She expects to sell goods, and she expects to buy goods. It is true that she has an advantage over many of the other countries in trading. She can offer the goods that she wishes to sell abroad at virtually any price and take the loss, whereas exporters in countries like the United States or England can't do much of that. Yet Russia prefers not to sell at a loss unless she is forced to do so. If faced with a shortage of foreign exchange she doesn't want to be forced to dump her commodities on the world, and we don't want her to dump her commodities on the world. She

can either depreciate her exchange or sell her goods at much lower prices; whereas other countries do not have that choice. Other countries have to promote deflation or reduce their exchange rate if they want to sell their goods at a much lower price. But because Russia has that choice doesn't mean that she will pursue either course unless she has to, and we want to make the situation such that she does not have to, because—

Senator TAFT. Well, then the question is, What possible different advantage does Russia get out of the fund that she does not get out of the bank or any other loan? As far as Russia is concerned, what is the difference between the fund, the bank, and any other loan?

Mr. WHITE. I will come to that. I'll finish this statement, and then I'll take that point up.

So that it is in our interest to see that no country is forced to take those steps which result in a curtailment of trade of other countries and results in accentuating disruption which may have already been initiated. And Russia, because she has the choice of methods, is probably potentially a greater danger than other countries, and we feel one of the merits of the Bretton Woods is that it received the support of the Russian representatives. The inclusion of Russia to a general code of what we would regard as fair international economic undertakings would be, we feel, a victory for all.

Now, the answer to the specific question:

Senator TAFT. By what one of them are they bound? What possible thing does Russia give up by joining the fund? What possible right did they give up by joining? What have you got out of Russia for her being in the fund?

Mr. WHITE. What we would get from Russia is, first, an agreement that she will not utilize her exchange depreciation as a means of obtaining competitive advantage.

Senator TAFT. She has no such exchange, so that's out.

Mr. WHITE. Well, that is not true. She has an exchange problem as every other country has. One difference between Russia's currency and some other country's currency is that she may be able to alter its value more easily. Some countries, like the United States, require legislation, others can do it by decree, and still others by treasury decision. The other difference lies in the fact that Russia has state trading, and therefore the individual citizen is not directly affected by exchange alterations. The individual producer in Russia is not affected as he would be in other countries. Nonetheless, she may have a problem of her exchange rate, whether to change it or not, just the same as any other country.

Senator TAFT. I still say your answer does not show that Russia has given up a single thing by joining this fund. She has not given up the right to do one thing that she wants to do under any circumstances.

Mr. WHITE. You said that, and I was trying to answer it.

Senator TAFT. Yes; and you haven't.

Mr. WHITE. And you interrupted my answer. I think when I finish you may disagree with my answer, but at least I shall have stated to you why we think that Russia has agreed to undertakings the same as others and why that agreement is a significant and desirable thing for us. She has agreed not to undertake competitive depreciation. That means that if she is going to utilize any method for securing an

undue competitive advantage over the other countries she would be forced to cut her prices and adopt the method of dumping.

Senator TAFT. The only method that is available to her, anyway.

Mr. WHITE. I say—

Senator TAFT. There is no currency. The ruble isn't quoted on any market in the world.

Mr. WHITE. That is not true, and in any case is not very significant in this context. The ruble has quotations as to value, and Russia can change the value of that ruble. She can change the value of the ruble just the same as England can change the value of her pound or France can change the value of her franc.

Senator TAFT. It would have no effect whatever on the foreign trade of anybody.

Mr. WHITE. It would make Russian goods to foreign countries different in price, in the same way that a change in sterling would make prices different.

Senator TAFT. No; because the Russian Government sells its goods and accomplishes that purpose by changing the price of the goods instead of changing the price of the money.

Mr. WHITE. It has that alternative, but that alternative is a serious matter for her, and for every country.

Senator TAFT. It is no more serious than depreciating the currency, just exactly the same.

Mr. WHITE. That is right. And if we stop her from resorting to competitive depreciation of her currency, we have obtained one objective. We have removed one undesirable channel.

We would also have her agreement not to undertake discriminatory restrictions in providing exchange except during the transition period. Now, it is true that a state trading country can largely determine the direction of its trade.

Senator TAFT. Certainly. Brazil is one of them. They pay us one thing for cotton; they pay somebody else something else for cotton. That does not violate this agreement. Anyway, that is what they would do. That is the way that they would have to exercise their discriminatory power.

Mr. WHITE. I don't understand what you are saying.

Senator TAFT. There is a third alternative, of course.

Senator MILLIKIN. What Senator Taft is saying is that although Russia is bound absolutely not to engage in discriminatory currency practices, there is no obligation not to engage in discriminatory pricing of her goods.

Mr. WHITE. I was coming to that.

Senator TAFT. Yes, and that is the only weapon that Russia uses, anyway, so what is the difference about it?

Mr. WHITE. I was merely pointing out that so far as her exchange rate is concerned she is under the same obligation as any other country. Now, if she undertakes the second choice, namely, of so shifting the price of her commodities so as to cause disruption in the balance of payments of other countries, then that matter is a subject for the fund's concern, and possibly the fund's action.

Senator MILLIKIN. Where precisely does that appear in the document?

Senator TAFT. What would they do?

Mr. WHITE. There are two—

Senator TAFT. You cite a case.

Mr. WHITE. What?

Senator TAFT. I ask you to cite a case where that would apply.

Mr. WHITE. Well, one would have to cite hypothetical cases.

Senator TAFT. Yes, of course.

Mr. WHITE. Supposing Russia were to decide by virtue of a critical shortage of exchange that she was going to dump timber and wheat on the foreign market, undersell Canadian competitors or Norway competitors. Suppose as a consequence of her action the balance-of-payment situation for Norway and for Canada was seriously impaired.

Senator TAFT. Do you mean supposing she successfully competed with Norway by underselling her?

Mr. WHITE. I think there is a distinction between successful competition and dumping. We drew such a distinction in our own laws; we are able to impose the countervailing duties in cases where we find dumping. So there is a distinction.

Senator TAFT. Well, what has that to do with this fund? Do you mean to say that we can deal with dumping by putting somebody out of the fund; if some fund member were to sell below cost, that we can, therefore, exclude them from this fund?

Mr. WHITE. Yes; if the dumping is to an extent which imposes a serious burden on the balance of payments of other countries. There are two sections under which that could come before the fund.

Senator TAFT. Well, let me ask you: Suppose that we found the only possible way we can sell cotton is to subsidize cotton, which we are now doing, the only possible way we can export cotton. Do I understand that if that interfered with the sale of cotton by Brazil we would then be subject to this restriction on the manner in which we sold our cotton?

Mr. WHITE. Well, in the first place, existing subsidies would be excluded from the supervision of the fund. In the second place, we would not be coming to the fund for assistance.

Senator TAFT. Does not the fact that subsidies are excluded mean dumping is excluded? Subsidies are excluded, but you said dumping wasn't excluded?

Mr. WHITE. No. Subsidy is something that goes on right along. Dumping is different.

Senator TAFT. You are drawing a distinction that does not exist. You say Russia can dump, but we can't dump by subsidizing our cotton. Those are just inconsistent statements.

Mr. WHITE. Well, Senator, if you want to regard cotton subsidies as equivalent to an action—

Senator TAFT. To dumping.

Mr. WHITE. To an action undertaken by a country to get foreign exchange quickly by dumping a lot of goods and thereby causing a lot of trouble, you may. It seems to us to be different.

Senator TAFT. There is no difference between them.

Senator BUTLER. The objective in each case is the same.

Mr. WHITE. The objective of all economic action is to have a higher national income or higher employment, but it makes a difference how one attempts to achieve the objective. There are some actions which are short-sighted and serve to have adverse consequences upon other countries. There are other actions, I think, that we would all agree are sound in the long run as well as in the short run; and the

purpose of the fund is to direct policy toward those measures which are sound long-run policies and do not serve to disrupt world trade.

Senator FULBRIGHT. Mr. Chairman, I have one other question, I thought, that was important, that I had better get to, and that is that I was impressed by Mr. Williams' testimony—I believe you heard it—about the necessity for solving the British question, that is, a necessity for the fund to operate. In the first place, do you think that is true?

Mr. WHITE. Do I think what is true, Senator? What is it?

Senator FULBRIGHT. Solution of the British problem. I mean the necessity for a solution. I think you heard him. He said that he would be in favor of extending a \$3,000,000,000 loan. He used that as an estimate.

Mr. WHITE. Yes.

Senator FULBRIGHT. That is essential to get the British back on their feet so to speak, in order that they may come back.

Mr. WHITE. Well, Senator, I don't know how you would like me to handle that. I could discuss it more freely and more intelligently in executive session, which I will be glad to do, because we have information that is confidential. It is a matter that is rather delicate, and I should prefer, unless you rule otherwise, Mr. Chairman, that it be taken up in executive session.

The CHAIRMAN. I am sure the Senators do not object to that.

Senator FULBRIGHT. I would like to hear it in executive session, because that to me was quite a persuasive point as to the timing of this.

Mr. WHITE. It is an important point, Senator, and I should like to be able to lay before you whatever facts we have which bear on the point.

The CHAIRMAN. We shall have an executive session this morning.

Mr. WHITE. I shall be glad to discuss just that one point, when you have an executive session.

Senator FULBRIGHT. There is another point before we get on. In article VII, section 5, I think Mr. Hemingway made the point that that amounts to the power to cancel reciprocal trade or any other agreements. Is that true?

Mr. WHITE. Oh, no. The reason for that provision is of some interest. When we arranged trade agreements with various countries, we included a provision in the early agreements that if a country were short of dollar exchange, and if it rationed that exchange, they would have to treat the United States the same as other countries. We wanted to protect ourselves against the possibility that country X, having a shortage of gold, in its judgment, would say to its nationals, "You have to cut down your purchases from the United States by 10 percent, but you don't have to cut down your purchases from country Z, Y, and so on." That would be in our judgment discriminatory, and we wanted to protect ourselves against that, so we in effect said that "If you cut ours down, you have to cut others down; or rather you can't cut ours down more than you cut others down."

However, that worked well and was satisfactory so long as there was what we call multilateral clearing, so long as any one currency could be exchanged for most other currencies. That was the situation which prevailed in the twenties and prior to World War I, but in the thirties, because of the various restrictions on the transfer of currencies, some currencies, many currencies, could not be transferred.

We therefore found that instead of that provision helping us it hurt everybody, because we, in effect, were saying, "If you have to curtail your dollar purchases because you don't have enough dollars, you must also curtail your purchases of marks and francs and milreis even though you can get plenty of those currencies." The situation had changed. No longer could one exchange milreis for dollars, sterling for francs or marks freely and at a fixed price. So that the protective clause no longer had effectiveness or desirability other than to say, "You can't use a shortage of exchange as an excuse for unreasonable restrictions."

Now, the fund agreement provided a way of sliding out of a situation which had largely become a dead letter. We substituted for it more effective provisions with regard to the scarcity of foreign exchange and the extent of permissible restrictions.

Senator FULBRIGHT. Well, most of the opposition seems to center around that section 7. Do you feel that is a vital—

Mr. WHITE. Section 7?

Senator FULBRIGHT. Article VII, I mean, scarce currencies. Do you feel that is a vital part of this agreement, or do you think it might be left out and still have a very effective agreement?

Mr. WHITE. It is vital in the sense that if you didn't permit countries to impose restrictions on exchange, they just couldn't operate; the countries couldn't operate. For example, let us take an outstanding case. Take England. If England were not permitted to put some restrictions on the demand for dollar exchange and for certain other exchanges, after the war, she would soon be in trouble. Her dollar reserves would flow out very rapidly, and it would be accompanied by a flight from sterling, and sterling would begin to depreciate, and the more it depreciated the more pressure would there be on her currency. You would have a chaotic monetary and trade situation which England wouldn't for one moment permit. It would be bad for us if she did. They have to have the right to restrict exchange transactions, unless we want to supply them indefinitely with all the dollars they want. If we gave it to them they would be doubtless glad to take it.

Senator TAFT. Mr. White, referring to Senator Fulbright's question before that, section 5 of that agreement—

Mr. WHITE. Section 5?

Senator TAFT. That is what I thought.

Mr. WHITE. Section 5, article VII.

Senator TAFT. I thought—I wasn't sure whether you were explaining that or not.

Members agree not to invoke the obligations of any engagements entered into with other members prior to this agreement in such a manner as will prevent the operation of the provisions of this article.

And he asked you whether that didn't nullify the reciprocal trade agreement, for instance, by which they agreed to lower their tariffs, we will say.

Mr. WHITE. No, I don't think that is the meaning of the provision.

Senator TAFT. Lower the tariffs on imports.

Mr. WHITE. That is not the meaning of this article. It has reference to a special exchange provision which we incorporated in many of our trade agreements.

Senator TAFT. It says "obligations of any engagements." It doesn't say any currency engagements or anything else. It says "any engagements entered into."

Mr. WHITE. "In such a manner as will prevent the operation of the provisions of this article." That is quite definitely a limiting factor which doesn't apply, I shouldn't think, to the matters you stated. I think there are probably no—

Senator TAFT. Well, couldn't they put on such restrictions that you can't successfully import anything into those countries?

Mr. WHITE. This had reference, as I say, to those special provisions. I think it is fair to say that the State Department is probably as eager as any other organization in the Government to guard the effectiveness of the trade agreements it entered into, and this article was entirely satisfactory to them.

Senator TAFT. Also it covers, supposing they had agreed to pay, supposing they had obligations out in this country, guaranteed by the bank, and they said that "We have no dollars. We have no dollars to pay with, and therefore we won't pay them," and this would excuse them from paying; wouldn't it?

Mr. WHITE. I don't think so.

Senator TAFT. I don't quite see why not. It seems a sweeping, all inclusive phrase. I can't see any possible way to except any undertaking, international undertaking. They seem to be excused from all of them if they require dollars on their part.

Mr. WHITE. Well, Senator, it doesn't seem so to me. I am not a lawyer. I would be glad to turn the question over to Mr. Luxford. Do you see any aspect of the case that might give cause for concern in that regard?

Mr. LUXFORD. No, Senator. As Mr. White has indicated, the origin of this provision can be traced back to provisions in previous agreements relating to exchange controls. That was all that was ever discussed in the course of the preparation of this section. This is evident, too, from the context in which section 5 appears. You will note that it is a part of article VII—it is by context associated with the exchange control provisions of the fund. That is all that anyone at any time had in mind.

Senator TAFT. Let me ask you this question, Mr. Luxford: Supposing a nation has outstanding in this country various bonds, or supposing its nationals have bonds which are payable—the interest is payable in dollars, and the dollar is declared scarce, and that country imposes immediately exchange restrictions. Cannot they exempt themselves while the currency is scarce from paying their debts to the United States and paying interest on the bonds and anything else they wish to?

Mr. LUXFORD. Those are obligations of member countries, I take it?

Senator TAFT. Oh, they are the governments', or they refuse to give their nationals any dollars to pay their debts. Why doesn't article VII, if put into effect, relieve any nation and its nationals from obligation to pay their interest on bonds that fall due in the United States?

Senator MILLIKIN. Senator Taft, there are foreign obligations which provide three ways in which they can be paid; they can be paid in Canadian dollars or United States dollars, or pounds.

Mr. LUXFORD. The waiver here is only with respect to governments— to agreements with other governments. It has nothing to do with agreements by private corporations in another country agreeing to pay this Government or nationals of this Government. It is an agreement with the Government.

Senator TAFT. All right, suppose a government bond was sold to the people of this country. Would they be forgiven?

Mr. LUXFORD. Definitely not. That was never under contemplation in connection with section 5.

Senator TAFT. Apart from section 5, isn't the necessary effect of the scarce currency provision that you can impose restrictions and refuse to pay dollars?

Mr. LUXFORD. Oh, yes; that is quite a different matter; they have that authority.

Senator TAFT. It applies to all securities in this country, if they don't happen to have any dollars here and presumably they wouldn't.

Mr. LUXFORD. Under the conditions stipulated in article VII a country has a right to impose exchange restrictions on the payment or withdrawal of profits or interest. But if a country has an obligation to foreign bondholders to pay dollars, that would not in any way be affected by that and the government would not in any way have any authority under this act which would clear it from that obligation.

Senator TAFT. It could impose restrictions on the use by itself or any of its nationals of any dollars in which it might be in default, and I am sure it would be in default. This expressly authorizes them to impose limitations on the freedom of operations in scarce currencies. It seems to me it may be lawful for them to say we will not pay any dollars into the United States and if they do, that it definitely follows that the obligations, which are all subject to this agreement and this is the law, may be repudiated legally.

Mr. LUXFORD. Senator, I think the point that should be brought out is that section 5 doesn't add one whit to a country's right to abrogate any obligations to pay its obligations on a bond indenture of any kind. That has nothing to do with bond indentures. It has only to do with the right of a country to impose exchange restrictions on dollars if there is a scarcity of dollars, and the right of the United States to raise the question of these reciprocal trade agreements as an argument.

Senator TAFT. I agree that section 5 applies to government agreements. I agree to that. But doesn't the right to impose exchange restrictions actually excuse them and their nationals from the payment of debts in this country?

Mr. LUXFORD. No, under the bank agreement, for instance, you have the guaranty of the Government also against exchange restrictions.

Senator TAFT. I am not talking about the guaranty of the Government.

Mr. LUXFORD. That is very important, Senator. You cannot overlook it. When you enter into a bond indenture which the International Bank is going to guarantee one provision in that agreement is that the Government will not impose exchange controls on the payment by its nationals of the funds due.

Senator TAFT. To the bank?

Mr. LUXFORD. Or under bank indentures.

Senator TAFT. Yes; but what about private debts?

Mr. LUXFORD. Those are private debts.

Senator TAFT. They are guaranteed by the bank?

Mr. LUXFORD. They can still be private debts, though.

Senator TAFT. I think it has been generally agreed by all of us that the right to impose exchange restrictions when a currency is declared scarce relieves the debtors in that country from the payment of their debts in this country.

Mr. LUXFORD. Unless they are in preferred status, and it doesn't relieve them of any obligation, either. It is only if they haven't got the money to pay it there is no way they can pay it.

Senator TAFT. Well, you cannot sue them.

Mr. LUXFORD. There is this distinction: This could never be pleaded in a court of law because the agreement is not between two governments.

Senator TAFT. I am talking now about the other part of the act which says they may impose exchange restrictions of any kind on their currency.

Mr. LUXFORD. Then I take it you refer to the bank obligations—

Senator TAFT. I may say that Lord Keynes also thinks it has that effect.

Mr. LUXFORD. I am trying to define the way in which that might occur. First, it cannot occur by virtue of section 5 of this document.

Secondly, they will not occur in obligations guaranteed by the bank.

Senator TAFT. It would apply to section 5 of this document if it were a debt owed to the United States.

Mr. LUXFORD. Government to government?

Senator TAFT. Government to government.

Mr. LUXFORD. Unless there was some provision in that which gave the United States priority. In other words, you have to examine the terms of that obligation.

Senator TAFT. Unless you nullified this agreement—I am saying what this agreement provides. Of course, if you nullify it by another agreement, that is a different question.

Mr. LUXFORD. By virtue of section 5 all it could affect would be the United States and what other government was involved.

Senator TAFT. All right.

Mr. LUXFORD. And I say there, in order to determine whether it might apply, would depend on that document.

Senator TAFT. That is true, of course, but I am saying what this document provides; if there isn't anything in the document it relieves them from the payment of a debt that is a direct government debt. Now, under 3-b they have a right to impose limitations on the freedom of exchange operations in scarce currencies, and that would mean, I suppose, that they could forbid anybody in that country from paying dollars out to pay their debts in the United States.

Mr. WHITE. They can do that anyhow, Senator.

Senator TAFT. Well, I know, but here we lawfully and legally authorize them to do it, so it seems to me we cannot bring a suit on the debt.

Mr. LUXFORD. There isn't any question of legally authorizing them. This Government has no right whatever to legislate on what another sovereign government wants to do in the way of imposing exchange restrictions. It is not within our power to tell them what to do.

Senator TAFT. But if there is no agreement and they impose exchange restrictions it doesn't relieve anybody from any debt in this

country. Their obligations are still here; they have to pay their debts and their interest or they go in default.

Mr. LUXFORD. That is right.

Senator TAFT. And my suggestion is that after this agreement goes into effect they are no longer in default because they are expressly excused by this agreement from paying their debts.

Mr. LUXFORD. No.

Senator TAFT. I don't see why not.

Mr. LUXFORD. This doesn't affect relations between private parties. It is only that we are not invoking certain rights.

Senator TAFT. We are talking about 3-b now.

Mr. LUXFORD. We are talking about 3-b now. It says you would have the right to impose exchange controls under certain conditions. That doesn't in any sense mean if a plaintiff in our courts wanted to sue on a bond indenture and could attach in one way or another the assets of his debtor, that the debtor could plead this agreement.

Senator TAFT. Well, if he cannot find dollars—

Mr. LUXFORD. That is true anyway, if he cannot find dollars.

Senator TAFT. If your dollars are scarce it seems to me you recognize my right not to do it.

Mr. LUXFORD. The United States has recognized your right to impose exchange controls, a right you had always. In other words, it has been a legal right prior to the inauguration of the fund. We had case after case through our courts where creditors in this country tried to collect against assets in this country held by a debtor and the debtor was prevented by exchange controls from paying. Repeatedly the courts have held that if you can get the money you can have it. That has not been changed one iota by this agreement.

Senator TAFT. Well, here you expressly authorize this thing. We approve it. We say in effect we are to blame, it is the United States fault if there is a scarcity of dollars. Even the dollars that they have here, a foreign country may forbid them to transfer dollars that are in this country.

Mr. LUXFORD. Here is what happens. Let us take country X. Prior to entering into this agreement every country has the right to impose exchange controls. Under the courts' decisions in this country, however, if an American creditor can find assets of a debtor he can attach them and get a judgment notwithstanding the exchange regulations. On the other hand, the courts certainly have recognized the right of a country to impose exchange controls. They have never said it could not.

Now the fund comes along and the Government of the United States and Government X agree that under certain conditions they are going to waive their right to impose exchange controls. Under the agreement they are waiving that right. The agreement then provides that in the event another contingency occurs we go back to where we were before. You say by virtue of that the courts are now going to take a different approach and say that although you revert to what you had before, the legal position of American creditors is changed.

Senator TAFT. I would suggest this: In the former case we did not recognize the right of a foreign nation to tell a man in that country he could not transfer dollars to pay his debts. Now we recognize that right.

Mr. LUXFORD. And you would be the first man to recognize the right of another government to impose exchange controls on its nationals.

Senator TAFT. No. Not in this country.

Mr. LUXFORD. Wait a minute—

Senator TAFT. I say that in this country if a Dutchman has dollars here and we have no exchange restrictions, but the Dutch Government says you cannot pay those dollars in payment of your debts in the United States, I say we can attach them.

Mr. LUXFORD. We always have and after the fund we can.

Senator TAFT. After the fund I don't think you can. Well, anyway, that is rather argumentative. Senator Butler has a memorandum here which he would like to put in the record.

The CHAIRMAN. I was going to make the suggestion that I don't think we are through with Dr. White. I think we ought to meet tomorrow morning in executive session because Senators Fulbright and Downey want to ask some questions which we regard as more or less confidential. So will you be here again tomorrow, Dr. White?

Mr. WHITE. I will be glad to, Senator.

The CHAIRMAN. I was going to ask for an executive session of a few moments now.

Senator TAFT. May I add one thing while we are here?

Senator Butler wants to put this statement in the record.

Senator BUTLER. The other day I asked what possible effect the adoption of the agreement here might have on the operation of such agreements as our sanitary pacts, international sanitary pacts, which is a very important item. At the suggestion of Attorney Luxford he submitted a memorandum, a two-page memorandum, which I would like to have inserted in the record in reply to the question I asked at that time. Then I submitted this memorandum from Attorney Luxford to Mr. F. E. Mollin, who is Executive Secretary of the American National Livestock Association of Denver, and I would like to insert the reply from Mr. Mollin. There is a further communication I would like to put in the record in connection with the same thing on the subject of the foot and mouth disease, so that you will know what the sanitary pact does.

(The memorandum to Senator Butler by Mr. Luxford of the Treasury Department in reply to a question about possible effect on sanitary laws and pacts, is as follows:)

JUNE 23, 1945.

MEMORANDUM

Article V, section 4, of the articles of agreement of the fund, which deals with the waiver of conditions on which member countries may purchase foreign exchange from the fund, permits the fund to take into consideration a member's willingness to pledge as collateral security gold, silver, securities, or other acceptable assets. Article IX requires certain privileges and immunities to be granted the fund by the members, and in this connection a question has been raised whether the fund could accept goods as collateral security and import them into the United States for sale here in contravention of the tariff laws, of the narcotic laws, or of the sanitary laws.

The first section of article IX imposes a limitation upon the scope of the privileges and immunities required to be conferred upon the fund. It reads:

"To enable the fund to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this article shall be accorded to the fund in the territories of each member." (Italics supplied.)

It is not the function of the fund to interfere with laws which are in effect in other countries. It is not designed to have any direct effect whatever, either direct or indirect, on laws relating to narcotics, sanitation, etc.

It is not necessary, however, to rely upon this general limitation in reaching the conclusion that the question raised above must be answered in the negative.

With respect to tariffs, article IX, section 9 (a), provides that

"The fund, its assets, property * * * shall be immune * * * from all customs duties."

This language was prepared at Bretton Woods by the drafting committee of Commission I and was reported by that committee to the Commission where it was approved and recommended for adoption by the Conference. The Conference acted favorably upon the Commission's report. In transmitting the draft of the articles of agreement, the drafting committee included in its report the following statement:

"* * * the drafting committee, in submitting the text of article IX, section 10 (our numeration) dealing with immunities from taxation, desires to place on record certain assumptions regarding its interpretation of the intention underlying this article. These assumptions are as follows: (a) *The fund is not entitled to import goods free of customs duty without any restriction on their subsequent sale in the country to which they were imported.* (b) The fund enjoys no exemption from duties or taxes which form part of the price of goods sold. (c) The fund enjoys no exemption from taxes or duties which are in fact no more than charges for services rendered." (Italics supplied.)

Obviously, the customs immunity is intended to cover only such materials as may be imported by the fund for its own consumption and use and not such materials as might be imported for resale as a result of a foreclosure against collateral security.

With respect to narcotics and sanitary laws, section 6 of article IX must be considered. It provides:

"To the extent necessary to carry out the operations provided for in this agreement, all property and assets of the fund shall be free from restrictions, regulations, controls, and moratoria of any nature."

The clear intention of this section, which can be ascertained from its language, is that the financial assets of the fund should always be free for use in the purchase of goods within the country to which they relate. If the fund holds currency, it should be freely available for the purchase of goods within the country of issue by any other member that requires the currency from the fund. Similarly, if the fund has a deposit in a bank it should not be subject to a moratorium. A further example is the use of exchange controls which may be consistent with the articles of agreement. Such controls could not be exercised against currency holdings of the fund. These are the types of restrictions, regulations, controls, and moratoria which could interfere with the legitimate operations of the fund agreement.

Narcotic laws, sanitary laws, etc., are not, however, an interference with the legitimate operations of the fund. They are not directed at problems with which the fund is designed to deal. They are enacted entirely without reference to such matters and for purposes which are entirely a matter of domestic policy, and any effort on the part of the fund to circumvent them would be a clear violation of its powers.

(The telegram from Mr. Mollin is as follows:)

A two-page explanatory statement about powers granted in Bretton Woods agreement which might supersede tariff or sanitary laws received. Explanation seems adequate as to tariffs but consider it quite unsatisfactory with regard to sanitary laws. See no reason whatsoever why there should not be added a specific exemption to section 6 article 9, clearly stating that the freedom from restrictions, regulations, and controls mentioned therein does not apply to existing sanitary regulations. In the explanation in the final two paragraphs on page 2, reference is made to the fact that the financial assets of the fund should always be free for use in purchase of goods; and while it may be true that it is not intended such goods could be imported into this country in violation of our sanitary embargo, there is no clear statement to the contrary, and certainly the language of the article itself could be construed as removing all restrictions, regulations, and controls. Writing you further.

F. E. MOLLIN,

Executive Secretary, American National Live Stock Association.

(The article from the Chicago Daily Drovers Journal of Saturday, June 23, 1945, is as follows:)

THE ANSWER

With increasing meat shortage, many city people are clamoring for the admission of fresh beef from the Argentine. The answer to that they do not understand, but it will be found in a recently issued Government report as follows:

"Known for centuries to be one of the world's most contagious and devastating livestock maladies, foot-and-mouth disease has been curbed in the United States by veterinary science. The United States has repelled eight invasions of this disease and since 1929 has been entirely free from it. Under legislative authority, and with aid from livestock and other interests, Federal and State veterinary officials have cooperated in maintaining a rigid national quarantine to exclude infection from outside sources and in promptly eradicating outbreaks.

"Eradication has consisted in applying quarantine measures, slaughtering infected and exposed animals, burying or cremating the carcasses, and disinfecting premises. Though effective, this policy was sometimes questioned as being too drastic and critics urged that some less severe method, such as those employed in certain countries of Europe, be used. Accordingly, the United States Department of Agriculture proposed to Congress in 1924 the appointment of a commission to study this disease in European countries. It was necessary to do the work abroad, since experimentation in the United States would have endangered the Nation's livestock. The Commission went to Europe in May 1925 and visited 11 countries, making special studies of methods of control.

"The malady is caused by a virus so infective that it will cause the disease in dilutions as great as 1 to 10,000,000. Practically all cloven-footed animals are susceptible. In malignant form, foot-and-mouth disease may kill or render valueless fully half the animals in a herd. The disease also permanently impairs the productivity of animals less severely affected. Active virus may occur in the meat, blood, lymph, saliva, milk, and other parts and secretions of the body. Man is fairly resistant to the infection but sometimes acquires it. He may also carry it on his clothing. Infection has been traced most commonly to affected animals—their fresh meat, milk, and offal—unsterilized garbage, and other contaminated products. Disinfecting with sodium hydroxide (caustic soda) in a 1- to 2-percent solution is highly effective for destroying virus on infected premises after the disposal of affected animals. The Commission's study showed definitely that the slaughter method of eradication is best for the United States. It is based on the reasoning that the sacrifices of a few animals is much wiser than to allow so costly a disease to become permanently established."

Mr. LUXFORD. I take it if we wanted to add anything after we have examined that material there would be no objection?

The CHAIRMAN. Certainly. You will have that privilege.

Senator TAFT. In this memorandum is a reference to the drafting committee, a statement made at Bretton Woods by the drafting committee. I wanted to ask Mr. White whether there are minutes of the various subcommittees of the drafting committee that are going to be used in the future, perhaps, in determining the interpretations of this agreement. If there are, I think we ought to have them in the record here.

Mr. LUXFORD. That question arose also in the House hearings, and they asked us to bring down the minutes and the various documents from Bretton Woods. They were very voluminous, but we brought them down to the House, and anyone that wanted to look them over had the opportunity. We could do the same thing here if anybody were interested in going through them.

Senator TAFT. What do you propose to do with them?

Mr. WHITE. I think the State Department will print them.

Senator MILLIKIN. Are they indexed so that you can find the particular subject you want to refer to?

Mr. WHITE. They will be indexed.

Senator MILLIKIN. They are not indexed now?

Mr. WHITE. Part of them are, and part of them are not. They are very voluminous.

Senator TAFT. We ought to have the opportunity to find out what these committees may have said. It seems to me that with an agreement of this scope these minutes should be printed at some time.

Mr. WHITE. As a matter of fact, Senator, they were distributed in mimeograph form as of that time, just a day-to-day documentation of what was going on; not transcripts, but the minutes of the various meetings. As I say, that was all in the House, and they had an opportunity to go over it. There is no disposition on our part to prevent anyone looking over them.

Senator TAFT. It is a tremendous job to go through them. I realize that.

The CHAIRMAN. The committee will go into executive session.

(The following statements, etc., were later received for inclusion in the record:)

NEWARK, N. J., June 25, 1945.

SENATE BANKING AND CURRENCY COMMITTEE,

Washington, D. C.

NOBLE SENATORS: The Honorable Albert W. Hawkes, our Senate representative for the State of New Jersey, has presented you with a short treatise of the writer's modern finance plan, which would eliminate destructive taxation and borrowing from banks.

As it is impossible to give a full account of the merits of the writer's novel method of how to finance a government, I desire to add a few important factors to my statement which I respectfully ask you to add to my statement about the Bretton Woods International Bank scheme.

The adoption of the writer's plan in every nation would enable each and every nation to finance itself without asking one single dollar from any source.

If adopted by our solons, the results would be as follows:

1. The war could be financed without adding one single dollar to the Nation's tax bill.

2. All nuisance taxes could be immediately eliminated.

3. All Federal taxes could be immediately cut 50 percent.

Unfortunately our Treasury Department is completely dominated by the international bankers. The mere fact that they adopted a foreign-instigated finance scheme to enslave all the workers of the world, proves conclusively that they are at the mercy of these international bankers and do not possess one single original idea. I consider these international bankers in our Treasury Department as internationalists first and Americans second, and as stated in one of my previous requests, I will positively demonstrate to your honorable committee that these officials are not worth the trust of the American people.

I regret exceedingly that I have been prevented to appear before your committee and that all orthodox thinkers have been given the privilege which was denied to me.

Yours very respectfully,

AUGUST WALTERS.

MODERN FINANCE PLAN

NOBLE SENATORS: All arguments so far submitted by advocates or opposers regarding the Bretton Woods financial propositions have at their foundation age-old orthodox principles.

The writer has made how to finance a government without destructive taxation a life study and respectfully presents herewith definite proof that the present method of financing a national budget will never bring about a solution of the world's economic and fiscal difficulties.

The world is dominated by two philosophies. Both are based on fallacies, illusions, and wrong economic thinking. Capitalism and communism. The claim of the international bankers that they furnish the finances for any national budget is false and wholly preposterous. It is an age-old myth based completely on illusions, which are cleverly taken advantage of and successfully fool and deceive people who know nothing about money.

The bankers furnish nothing, they use the peoples' deposit money, the Nation's currency and the national credit, all of which to use costs the bankers nothing. If they decide to pay a small interest for the use of these resources, they control the rate of interest. In America this capital amounts to about \$125,000,000,000; 100 billions in the banks and 25 billions in currency. Consequently, when the bankers pay a check, whether it is governmental or private, it is always paid with the peoples' deposit money.

The bankers working capital costs the bankers nothing.

The entire banker-held national bond issue was given to them under the illusion that they furnish the finances, and the people pay interest on a national debt, which really does not exist if correctly analyzed. Instead of a bond issue, the bankers are only entitled to a service charge.

The writer's modern finance plan, How to Finance a Government, is an original thought and revolutionary. It stands to reason that the orthodox thinkers reject this modern monetary conception and the world today is just as reactionary as it was 450 years ago when Copernicus, Giordano, Bruno, Galilei, and many others demonstrated the fallacies of their age. Now everybody admits the truth proclaimed by these men and the world looks upon the orthodox of their time as defiant, stupid, and ignorant. The world has not changed since that time. The writer faces similar orthodox opposition.

The latest scheme of the orthodox bankers to enslave all the workers of the world and make them pay interest on the false and casuistic claim that they furnish the finances for any national budget is the Bretton Woods finance plan. Over 40 nations sent their orthodox financial advisers to listen to that English-hatched orthodox finance trick.

It is concocted by the same "experts" who advised us to borrow ourselves out of debt and prime the pump with borrowed money. That in itself should have been sufficient to condemn the scheme and go slow. Nobody with unorthodox ideas was permitted to present a sane finance system.

The Bretton Woods enslavement act is so confusing and contradictory that even a Philadelphia lawyer could neither make head nor tail out of it. It is the final effort of the orthodox experts to support a tottering finance system which has wrecked and ruined the world. It is the final result of experts who can only think in terms of borrowing and taxing.

The writer suggests therefore that another conference should be called where men with original ideas about finance will be permitted to present facts which will prove to the world that it cannot be saved with orthodox palliatives based on illusions and wrong economic thinking.

Any government can be financed with the following outlined system if adopted:

1. Pay all expenses connected with financing the National Budget with a Treasury check.
2. The recipient of such a check deposits it with his bank.
3. The banker returns the Treasury check to the Treasury Department where the banker receives national credit on the books of the Treasury.
4. The banker then opens bankers credit for the depositor.
5. The banker receives a service charge for handling the Treasury checks.
6. To protect the banker against any losses he receives a national credit bond for the total amount of Treasury checks he has either cashed or credited during the month.

The adoption of this simple, honest finance plan would immediately solve all fiscal and most economic difficulties for any government. No government would be compelled to borrow one single dollar from any international banker or any other source.

The benefits accruing would be as follows:

1. The contractor gets paid for having rendered goods or services.
2. The banker gets paid for handling the Treasury checks.
3. The Nation does not create national debts.
4. Interest payments would be eliminated.
5. Federal taxes could be reduced 50 percent at once and nuisance taxes canceled.

All people are treated alike, nobody loses 1 cent, and the living standard is raised. The nations are freed from economic slavery by the international bankers.

The politicians of all nations should take action and at once and cancel all participation in that international finance swindle the Bretton Woods proposals.

The world cannot be saved or improved with orthodox palliatives or banker tricks. The writer is also ready to prove to the nations that international balances can be paid without transferring 1 ounce of gold. To stabilize all currencies, only 1 ounce of gold deposited in the Weights and Measurement Offices would establish the price of gold for all nations upon which all currencies could be stabilized.

The world-wide confusion is due to the wrong use of the national credit in any nation which creates unpayable debts. The writer's plan would enable any government to finance itself with its own resources and actually make a profit for the government.

Solve the money problem and you solve all.

The writer recommends another world-wide monetary conference where he can establish the whole truth and technique of this original American idea how to finance a government.

If your Treasury official should decline to give you their objections to this modern method of financing a government, the time would be on hand to choose other bankers with progressive ideas and willing to admit the truth.

CHAMBER OF COMMERCE OF THE UNITED STATES OF AMERICA.

Washington, D. C., June 25, 1945.

Hon. ROBERT F. WAGNER,

Chairman, Committee on Banking and Currency,

United States Senate, Washington, D. C.

DEAR SENATOR WAGNER: The position of the Chamber of Commerce of the United States, as announced by the board of directors, with regard to the proposed International Monetary Fund and International Bank for Reconstruction and Development, is set out in the enclosed report of the finance department committee entitled, "Bretton Woods Program."

This report was published prior to the hearings of the House Committee on Banking and Currency upon the enabling legislation.

Our finance department, after passage by the House of H. R. 3314, which is now pending before the Senate Committee on Banking and Currency, gave consideration to the enabling legislation. The department has prepared the enclosed memorandum commenting upon the measure in the light of the Chamber's position.

We are aware of the desire of your committee to close its hearings. Instead of asking you to continue the hearings to permit the appearance of Chamber witnesses, we respectfully request that the enclosed committee report and finance department statement be printed in the hearings upon the measure.

We shall deeply appreciate it if you will obtain the necessary consent for this action.

Sincerely yours,

HOWARD L. VOLGENAU.

(Enclosures.)

BRETTON WOODS PROGRAM

INTERNATIONAL MONETARY FUND AND INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT OF FINANCE DEPARTMENT COMMITTEE APPROVED BY BOARD OF DIRECTORS

(Chamber of Commerce of the United States, Washington 6, D. C., April 1945)

FOREWORD

This report deals with the proposal that the United States Government adhere to the International Monetary Fund and the International Bank for Reconstruction and Development as devised at the Bretton Woods Conference.

The report was prepared by the finance department committee of the Chamber of Commerce of the United States in consultation with subcommittees of the foreign commerce department committee and the committee on international postwar problems.

The board of directors of the chamber, on March 23, 1945, held the report to be in pursuance and effectuation of chamber policies, commended it to the favorable consideration of the membership of the chamber, and authorized its presentation to Congress.

BRETTON WOODS PROGRAM

The finance department committee has given consideration to the proposals of the Bretton Woods Conference for an International Monetary Fund and an International Bank for Reconstruction and Development with a view to recommendations in harmony with declared policies of the Chamber of Commerce of the United States.

CHAMBER COMMITMENTS

Several positions established by the constituent organizations of the chamber by referendum or in annual meetings are pertinent to the general subject. These deal with (1) international collaboration, (2) world trade, and (3) monetary policy.

International collaboration.—Referendum votes on three separate occasions during 1944 placed the chamber on record for political and economic collaboration by the United States with other nations in a solution of postwar problems.

Under the first of these, approved in January 1944, the membership of the chamber favored the creation of an international political organization for the maintenance of peace and security, with the proviso that the organization should be based upon the principle of reciprocal collaboration among nations and should not take the form of a superstate.

In a second declaration, approved in March 1944, the chamber urged appropriate participation by the United States Government in the international program for the relief and rehabilitation of countries devastated by war.

In the third of the series of actions, the chamber, in May 1944, approved by referendum various measures to promote international law and order. One of seven separate proposals has special bearing on economic problems. Under this declaration the chamber favored "prompt consideration by the United States, with other United Nations, of those specific political, economic, or social questions, the solution of which may be accomplished or at least definitely planned in advance of the cessation of hostilities."

World trade.—Commitments of the chamber include a number of resolutions favoring measures to promote an expansion of world trade, but with due consideration of the interests of domestic industry and agriculture. These include declarations approved by referendum in 1944 and others at the annual meeting in 1943 and in each of the previous annual meetings within the period during which declared policies of the chamber remain in effect.

A 1943 resolution declared that, as soon as war conditions permit, it should be the objective of the Government to pursue a policy that will maintain and increase the volume of export trade and foreign business transactions of American enterprises. Another 1943 resolution held that the policy of the Trade Agreement Act should be continued, with adequate authority for the negotiation of effective agreements for the reciprocal and selective adjustment of tariffs, quota restrictions and other obstacles to the reasonable flow of goods and services.

In a 1944 referendum, the chamber declared that Government controls of foreign trade should be relaxed, simplified, and eliminated as soon as possible, with a return of such trade to private enterprise under conditions assuring to American firms a fair and reasonable competitive position abroad. This resolution enunciated the principle of greater production and wider distribution of goods at lower prices to all peoples of the world as a means of improving the level of world prosperity so essential for lasting peace.

The 1944 declaration held that, to encourage other nations to refrain from excessive tariffs such as followed the last war, the United States should pursue a constructive, liberal and realistic tariff policy. Earlier commitments by the chamber at annual meetings in 1941 and 1943, which remain in effect, approved tariff laws, including adjustments under the Trade Agreement Act, to assure reasonable protection for American industries and agriculture subject to destructive competition from abroad.

Monetary policy.—Principles which should be observed in the formulation of monetary policy in the international sphere were approved by the membership of the chamber in a referendum in June 1944. The vote was 2236 to 14. This action was taken just prior to the conference at Bretton Woods, N. H., July 1 to 22, 1944.

The declaration on monetary policy reiterated the belief of the chamber that restoration of a satisfactory international monetary standard and faith in the

integrity of currencies are vital needs which must be met. Stability of currencies was held to be necessary for an adequate revival of private international trade, with its postwar benefits to the people of the United States and of other countries.

The gold standard was stated to be the only international monetary standard which has commanded any general acceptance. Restoration and maintenance of a satisfactory standard were declared to be dependent upon the development of confidence, the balancing of public budgets, and the ultimate removal of restraints upon foreign exchange.

The United States, it was asserted, should provide the necessary steadying influence internationally by assurance of stability of the dollar, free of exchange restrictions. Stability of the dollar, the declaration said, would require abandonment of policies which are designed to encourage deficit financing, repeal of the authority to issue greenbacks, and prohibition upon the exercise of Executive power which would weaken the currency standard established by Congress.

The declaration further stated that endeavors should be encouraged to establish definite rates between the dollar and pound sterling, with subsequent relation thereto of currencies of other countries as they make necessary adjustments. Stability of these currencies was held to demand resolute determination by the respective governments to establish sound domestic policies, with reliance upon their own efforts to the utmost extent possible and the avoidance of inflationary processes or attempts to obtain mercantile advantage through monetary manipulations.

The declaration stated that in connection with currency stabilization some international institution might prove to be desirable, perhaps utilizing existing machinery. With respect to such agency, it was asserted to be of the highest importance to insist upon proper limitations of power, sufficient national freedom of action in monetary policy, and adequate safeguards in credit extensions.

INTERPRETATION OF POLICIES

The finance department committee, with the assistance of members of the foreign commerce department committee and the committee on international postwar problems, has studied the Bretton Woods proposals with a view to determining the extent to which they are consistent with the above declared policies of the chamber with respect to international collaboration, the expansion of world trade, and principles of monetary policy.

The committee is of the opinion that these commitments of the chamber justify and require a most sympathetic attitude toward proposals for international collaboration to promote stabilization of currencies and to facilitate the extension on a sound basis of credits for reconstruction and development.

The committee believes that the Bretton Woods Conference had beneficial effects. It helped to stimulate common thinking by delegates from countries with widely diverse interests. It served to advance the practice of consultation among the nations on matters relating to currency and credit. The discussions contributed to greater public realization of the need of effective participation in the functioning of the world economy.

Desirable objectives.—The committee feels that the broad objectives of the Bretton Woods Conference are consistent with the declared policies of the chamber. Questions properly may be raised as to the means by which the attainment of objectives would be sought, especially with respect to the proposed Monetary Fund.

Commendable purposes in connection with the Bretton Woods plan for a stabilization of currencies include the promotion of international monetary cooperation through a permanent institution, expansion, and balanced growth of international trade, the furthering of exchange stability, maintenance of orderly exchange arrangements among the nations, avoidance of competitive exchange depreciation, promotion of a multilateral system of payments, elimination of foreign exchange restrictions, correction of maladjustments, and lessening of the degree of disequilibrium in balances of payments.

Similarly, commendable purposes in connection with the Bretton Woods proposal on long-term credits include a stimulation of the investment of capital for productive purposes, the restoration of economies of war areas, the reconversion of productive facilities to peacetime needs, the development of resources in other regions, encouragement of private foreign investment, the promotion of a long-range balanced growth of international trade, and the maintenance of equilibrium in balances of payments.

Monetary stabilization and long-term credits for reconstruction and development are closely related. Both contribute to equilibrium in balances of payments. A narrowing of the fluctuations in values of foreign exchange reduces the risks in international investment. Long-term credits provide assistance in the development of the economies of nations. Through such development, expansion of both export and import trade is made possible. A balanced growth of trade promotes stability in values of currencies.

Because of this relationship between foreign investment and monetary stabilization, the committee is of the opinion that the general policies of the chamber with respect to international collaboration, expansion of world trade and monetary policy provide a foundation for recommendations with respect to long-term credits as well as currencies.

Approval of banks.—The committee recommends the early establishment by the nations of the proposed International Bank for Reconstruction and Development. This institution has been soundly conceived. Its activities, under the articles of agreement, would be directed toward the promotion of private rather than governmental lending. Both in the field of long-term credits and otherwise, the bank could be of assistance in stabilization of currencies. Indeed, emergency loans for stabilization purposes would seem to be possible under a provision of the articles of agreement permitting loans and guaranties in special circumstances for purposes other than specific projects of reconstruction and development. The stated powers of the bank appear to be sufficiently broad to warrant its attention to the general problem of currency stabilization.

The committee has serious doubts as to the advisability or necessity of immediate action by Congress on the plan for an International Monetary Fund. It is of the opinion that further study of this and alternative methods of currency stabilization is desirable. The Board of Governors of the proposed International Bank would be well fitted to make such a study and to report its recommendations to the nations.

The committee is not impressed by the argument that any action other than approval of both the fund and the bank would require another world conference, with probable failure of the entire program. The only change in the articles of agreement for the bank which would be necessitated by establishment of the bank in advance of action of the fund is the elimination of a clause making membership in the bank contingent on membership in the fund. No general conference of the nations should be needed to obtain consent to this slight amendment to the articles of agreement.

Establishment of the bank should be accomplished more speedily under this program than if immediate action by the nations on both institutions were needed. Sentiment with respect to the bank is favorable in other countries as well as in the United States. Serious doubts as to the fund have been expressed elsewhere, as in this country. Such recommendations as might be made by the Board of Governors of the bank with respect to a permanent stabilization program would carry weight in all the nations.

Deferment of Fund.—The committee's conclusion that action on the Monetary Fund should be deferred is based, first, on various objections appropriate for further study by the Board of Governors of the bank, such as are involved in differences of interpretation and opinion regarding policies affecting exchange rates, credit rights of the nations, and continuance of exchange controls and bilateral agreements; second, on the apparent recognition that little would be expected of the fund during a transitional period of from 3 to 5 years; and third, on the desirability of awaiting certain highly necessary adjustments in domestic and international policies before setting up an institution in which the process of granting credits might be regarded as somewhat automatic.

The objections advanced against the fund are such as to make it impossible for the committee at present to view the plan as meeting the criteria of the chamber's resolution on monetary policy.

Authority for the continuance of exchange controls in the early years of the fund, limitations with respect to the use of its resources for relief, rehabilitation, and war indebtedness, and the unlikelihood of immediate attainment of certain essential prerequisites, combine to negative any argument for urgency.

The highly necessary adjustments, which should take place before the fund could be effective, include the adoption of proper commercial policies and other measures favorable to an expansion of world trade, toward which the chamber consistently has directed its efforts.

The committee believes that a deferment of action on the fund need not prevent the development of a practical program for the postwar stabilization of

currencies. On the contrary, it is its belief that such a deferment would lead to a sounder initial valuation of currencies, with an ultimately greater chance of enduring stability.

The very substantial cost of the Bretton Woods program has not been a determining factor in the recommendations of the committee. There should, however, be full disclosure of proposed postwar loans and other international financial undertakings of the United States as a means of gaining a proper perspective. It is likely that such undertakings will be of considerable magnitude.

SOUND MANAGEMENT

The committee is impressed with the importance of sound management by experienced officials, if an international institution, whether intended for monetary stabilization or long-term credits, is to be successful. With proper management, the nations could have assurance that whatever powers were granted would be exercised with caution. Without such management, incalculable harm might be done.

The committee is of the opinion that the legislation authorizing the creation of any such institution should be carefully drawn with a view to assuring the appointment of American representatives with experience in international finance and with ability of a high order and that provision should be made for a consultative body within our Government.

Effective management of two world institutions would require a careful integration of their operations. There is a serious question with respect to possible operation of the fund and the bank at cross purposes, due to different regulations applicable to them. This is an additional reason for further study of the stabilization program before final action is taken upon it.

CRITICISMS OF MONETARY FUND

The plan for an international monetary fund involves the establishment of a new and complicated mechanism. Much uncertainty as to its operation exists among those experienced in the field of foreign exchange.

In support of the recommendation for a deferment of action on the fund, pending a study by the Board of Governors of the bank, the committee cites a few of the criticisms which have been made. These pertain to such matters as (1) stability or instability, (2) adequate safeguards, (3) essential prerequisites, and (4) proper limitations of power.

Stability or instability.—Apprehension is expressed that the extreme flexibility in exchange rates under the fund mechanism, together with the authorized continuance of exchange controls and bilateral agreements during the postwar transition period, would result in further instability of currencies and that stability would not be obtained.

Experience has demonstrated that the fixing of values of currencies in terms of gold is an essential for exchange stabilization. In other words, gold provides the necessary common denominator.

While the par values of currencies would be established in terms of gold or United States dollars under the fund, it would be relatively easy to make changes. The fund would be under a mandate to concur in a change to correct a "fundamental disequilibrium" without regard to whether it might be the outgrowth of domestic social or political policies.

The widely differing interpretations of the plan in the United States and the United Kingdom provide basis for doubt as to what may be expected. The emphasis in this country upon stability of currencies in contrast with the British emphasis upon flexibility gives valid reason for uncertainty as to the policies which might be pursued by the Board of Governors of the fund. Similarities to the gold standard are stressed in the United States while the leading British delegate has said that the plan is "the exact opposite of the gold standard."

While one of the purposes of the plan is stated to be the elimination of foreign exchange restrictions which hamper the growth of world trade, member nations are authorized to maintain restrictions or impose new ones for a period of 3 or 5 years or even longer. It has been admitted that the powers given the fund to enforce the withdrawal of restrictions are weak.

The continuance and condonance of restrictions would give encouragement to discriminatory trade agreements such as have prevailed in the sterling area.

Trade agreements of a bilateral nature are contrary to the idea of a multilateral basis of payments, which is a major objective of the Bretton Woods program.

No less an authority than Lord Keynes has assured the British people that bilateral trade agreements within the sterling area would not be prohibited under the plan. The British are skeptical of their ability to expand their export trade after the war without agreements under which the nations from which they buy agree to purchase British goods in preference to those of other countries. Under agreements of this type, those selling to the United Kingdom might receive sterling which could not be converted into dollars for purchase of American goods. Such arrangements would tend to be discriminatory and in violation of the purposes of the fund and would result in injury to American trade.

Varying interpretations in the United States and the United Kingdom on this and other points in connection with the Monetary Fund have been cited in a letter from Robert Boothby, member of the British Parliament, to the editor of the New York Times. Mr. Boothby said that "nothing could be more deleterious to the future of Anglo-American relations than that the two countries should sign an agreement, each thinking that it means something different."

The board of directors of the chamber recently gave publicity to a statement of the Foreign Commerce Department Committee that the maintenance of currency areas was a menace to the healthy growth of world trade after the war and calling upon the United States Government to insist that all nations adhere to the principles of multilateral nondiscriminatory trade which were endorsed in the Atlantic Charter and subsequent declarations of the United Nations. The statement urged the elimination of exchange controls and other barriers to trade.

The finance department committee notes with approval that the pending bill for ratification of the Bretton Woods program would prohibit concurrence by representatives of the United States, without specific authorization by Congress, in a uniform change in the values of all currencies as permitted under the fund. World-wide inflation through a debasement of currencies would be contrary to American standards of sound monetary policy. The bill, however, would not prevent depreciation of currencies, other than the dollar, in keeping with domestic programs of an inflationary nature. No change in the gold content of the dollar would be possible without specific action by Congress, under the terms of the pending bill.

Adequate safeguards: There is strong and widespread opinion that adequate safeguards in credit extensions are lacking under the mechanism of the Monetary Fund.

The fund would be essentially a credit institution, although the loans would be termed purchases of foreign exchange, for which payment would be made by a member nation in its own currency or, in exceptional circumstances, in gold. Injurious consequences to the world economy from our excessive loans in the twenties and subsequent sharp contraction of lending in the thirties demonstrated the folly of foreign credits which are not for productive purposes or of such a character as to give rise to the foreign exchange necessary for payments of principal and interest.

While certain limitations are imposed upon borrowing from the fund, their character differs to a marked degree from those applied to borrowing from the bank. Members of the fund are supposed to borrow only for purposes consistent with the provisions of the agreement, but any excess of imports over exports might be represented as justifying credit in the form of foreign exchange.

Proponents insist that the management of the fund would have full power to deny credit to any nation which was following unsound policies. It appears to be a fact, however, that no rules are established requiring determination as to the credit worthiness of the borrower or governing the exact use of exchange. There is an annual limit on borrowing, based on a member's quota, but this and other restrictions could be waived in the discretion of the fund. Member nations lack the safeguard of a veto power over credit in their own currencies, such as provided in the articles of agreement of the bank.

The inference is being widely drawn that members would consider themselves entitled to the amounts of their quotas and would expect no refusals. These quotas were fixed at Bretton Woods, with political and military factors tending to outweigh other considerations, even those of a highly important economic character, including trade prospects.

The credits available through the fund are intended for adjustments of balances of payments among nations rather than for specific projects. It would seem impossible, however, to segregate foreign exchange used for one purpose from that used for the other.

Certain countries are said to interpret the rules to permit the importation of capital goods through use of the fund.

There seems good reason to give close attention to the possibility of excessive borrowing which might lead to collapse of the fund and adverse consequences to the world economy.

Essential prerequisites.—The success of an scheme for world currency stabilization is to important to be jeopardized by commencing operations before conditions are favorable. Hence, the timing of the creation of the proposed Monetary Fund requires careful consideration. In the light of present chaotic conditions and the specific limitations upon the fund during the postwar transitional period, great haste does not appear to be necessary or desirable.

The fund could do little toward accomplishment of the stated objectives in the early years of its operation. Its influence would be restricted by the continuance of exchange controls and also by the stipulation that its resources should not be used for relief and reconstruction or for the absorption of international indebtedness growing out of the war. Such stabilization of currencies as is accomplished in the transition period would be brought about to a large extent outside the operations of the fund.

Before the fund could operate successfully certain prerequisites with respect to both domestic and international policies would be essential.

First of all, there must be assurance of peace. The plan for a general international organization to maintain peace and security, associated with the conferences of Dumbarton Oaks and San Francisco, may provide the necessary foundation for economic advancement, but this remains to be seen. In the light of the questions raised as to various features of the Monetary Fund plan and the likely continuance of war conditions for a considerable period, a postponement pending the establishment of an effective organization for peace and security would appear to be good judgment.

Stability of world currencies is a reflection of stable domestic conditions. International stability of exchanges will occur only when sound fiscal and economic policies have been established by the nations and the more pressing of their political problems solved.

Confusion has existed in each of the countries liberated from Axis domination. Officials have found it difficult to fix exchange rates for currencies which represent their real values in terms of other currencies.

Most of these countries have quotas in the fund and bank. Governments in exile represented them at Bretton Woods. Already, some of these governments have been supplanted after being unable to establish order or show sufficient strength to survive as against rival regimes.

Stability of world currencies depends also upon international policies which facilitate an exchange of goods and services among the nations. Adjustments must be made of such matters as World War I debts and World War II lend-lease obligations. Commercial policies of the nations must be revised with a view to the elimination of unnecessary trade barriers. Bars to foreign investment must be removed.

The greatest contribution which the United States can make to world financial stability is through actions assuring the integrity of the dollar in terms of its fixed value in gold. Among the measures which would contribute to this end are a postwar balancing of the Budget and avoidance of inflationary policies.

Obviously, domestic policies conducive to economic stability have not as yet been established in the great majority of the countries which would participate in the Monetary Fund. Nor is it reasonable to expect their adoption in the near future.

Pending a clearing up of some of present uncertainties, the logical first step toward currency stabilization is through the method favored in the chamber's monetary resolution of June 1944. Under this so-called key countries approach, definite rates would be established first between the dollar and pound sterling, with subsequent relation thereto of the currencies of other countries as they made necessary adjustments. The proposed International Bank might provide the leadership in working out such a program.

Proper limitations of power.—Voluntary action rather than compulsion offers the best promise of favorable results in any economic or financial program requiring international collaboration. Experience has shown that controls beget more controls. Enforcement becomes increasingly difficult unless a totalitarian economy is established. Such an economy would not be tolerated in the United States. Nor would this country participate in a world organization with super-state characteristics.

International institutions should be based, as was stated in the chamber declaration concerning a general organization for the maintenance of peace and security, upon the principle of reciprocal collaboration among nations and should not take the form of a superstate.

Questions raised with respect to the powers which might be exercised by the Monetary Fund require careful study. While some of these powers merely are pressures which could be exerted upon member nations, the possibilities are of a disturbing character.

If dollars become scarce in the fund, due to greater purchases by other nations of American goods than can be balanced by our imports of foreign goods, representations might be made to this country by the fund with respect to changes in our policies. Such representations might involve a lowering of our tariffs, a more liberal foreign investment policy, or the restriction and regimentation of our exports.

Whatever may be the merit of contentions advanced upon these questions, the United States will desire to preserve its sovereignty upon matters of vital significance to industry, labor, and agriculture.

THE INTERNATIONAL BANK

The proposed International Bank for Reconstruction and Development offers an agency which might give early attention to a program for currency stabilization as well as to long-term credits for reconstruction and development. The bank plan has general support. Questions which seem to offer a reason for postponement of action on the fund have not been raised with respect to the bank.

As against the ultraliberal conditions applying to credits through the fund, the proposed International Bank would operate on a strictly business basis. The bank's outstanding guaranties, participations, and direct loans would be limited to a maximum of 100 percent of unimpaired subscribed capital, reserves, and surplus. Loan projects would be investigated and approved only on the basis of a favorable report by a competent committee. Arrangements would be made to ensure that proceeds of loans were used only for purposes intended, with due attention to considerations of efficiency and economy, and without regard to political or other uneconomic influences. Consideration would be given to the prospect of repayment. Loans to private borrowers would be guaranteed by a governmental agency. A member nation would have a veto power with respect to loans in its currency. Loans would be made only when not obtainable from private sources.

The safeguards written into the articles of agreement for the bank tend to minimize the possibility of losses. The policies of the institution would be directed toward the support of rather than encroachment upon private enterprise.

The bank, with its broad international representation, would be in a favorable position to study and develop for approval of the nations ways and means of currency stabilization and to bring about the introduction of these plans when they appeared to be feasible and desirable.

RECOMMENDATIONS

The Finance Department Committee, on the basis of its consultations with members of the Foreign Commerce Department Committee and the Committee on International Postwar Policies, recommends:

I. That the United States participate in the International Bank for Reconstruction and Development.

II. That the board of governors of the bank make a study of the question of monetary stabilization with a view to submission of recommendations to the nations concerning (a) any necessary broadening of its powers to include the negotiation of stabilization agreements and arrangements for stabilization loans, (b) the International Monetary Fund, or (c) some other mechanism, with operations of the fund or other agency properly integrated with those of the bank.

III. That the bank assume such interim stabilization activities, including agreements and loans, as may be permitted by its articles of agreement, which give definite authorization for loans and guaranties in special circumstances for purposes other than specific projects of reconstruction and development.

IV. That Congress defer action on the participation of the United States in an International Monetary Fund pending submission of recommendations by the Board of Governors of the bank with regard to the stabilization of exchanges.

Such a program, in the judgment of this committee, offers a constructive approach to the attainment of the highly praiseworthy objective of the Bretton Woods Conference.

FINANCE DEPARTMENT COMMITTEE

Robert M. Hanes, chairman, president, Wachovia Bank & Trust Co., Winston-Salem, N. C.

C. W. Allendoerfer, president, First National Bank, Kansas City, Mo.
J. Stewart Baker, chairman of board, Bank of the Manhattan Co., New York, N. Y.
Edward E. Brown, chairman of board, First National Bank of Chicago, Chicago, Ill.¹

Dunlap C. Clark, chairman of board, American National Bank, Kalamazoo, Mich.
R. H. Davis, president, Denver National Bank, Denver, Colo.

John S. Fleek, Hayden, Miller & Co., Cleveland, Ohio.

Robert V. Fleming, president, Riggs National Bank, Washington, D. C.

R. E. Harding, president, Fort Worth National Bank, Fort Worth, Tex.

W. L. Hemingway, president, Mercantile Commerce Bank & Trust Co., St. Louis, Mo.

Francis P. Matthews, chairman of board, Securities Acceptance Corporation, Omaha, Nebr.

Walter S. McClucas, chairman of board, National Bank of Detroit, Detroit, Mich.
Frank S. McWilliams, president, Federal Savings and Loan Association, Spokane, Wash.

Charles A. Mullenix, president, Cuyahoga Estates Co., Cleveland, Ohio.
John J. Rowe, president, Fifth-Third Union Trust Co., Cincinnati, Ohio.

Charles E. Spencer, Jr., president, First National Bank of Boston, Boston, Mass.
Lyman E. Wakefield, president, First National Bank & Trust Co., Minneapolis, Minn.

Oscar Wells, chairman of board, First National Bank, Birmingham, Ala.
H. Lane Young, president, Citizens & Southern National Bank, Atlanta, Ga.

Charles F. Zimmerman, president, First National Bank, Huntingdon, Pa.

Ellsworth C. Alvord, ex officio, Alvord & Alvord, Washington, D. C.

FINANCE DEPARTMENT, CHAMBER OF COMMERCE OF THE UNITED STATES.

June 25, 1945.

MEMORANDUM ON BRETTON WOODS AGREEMENTS BILL

The finance department committee of the Chamber of Commerce of the United States, in a report approved on March 23, 1945, by the board of directors, gave full support to the objectives of the Bretton Woods Conference.

The committee favored prompt establishment of the proposed International Bank for Reconstruction and Development but deferment of action by the Congress upon participation by the United States in the proposed International Monetary Fund. It suggested that the board of governors of the bank under powers permitted in the articles of agreement assume interim responsibilities for currency stabilization while preparing recommendations to the nations for a permanent program involving either a broadening of its own authority or the perfecting of the monetary fund plan.

The chamber's position is set forth in the report of the finance department committee, published in pamphlet form in April 1945 under the title "Bretton Woods Program" and in testimony on May 9 before the House Banking and Currency Committee, which appears in the hearings on the Bretton Woods Agreements Act, volume 2, pages 1127-1177.

The chamber's recommendation that action on the monetary fund should be deferred was based upon a number of important considerations. First, it was held that further study should be given serious objections, including marked differences of interpretation and policy regarding exchange rates, credit rights of the nations, and continuance of exchange controls and bilateral agreements.

¹ Mr. Brown, who favors early adherence to the fund and bank, dissents from the recommendations and reasoning of the report.

Second, it was emphasized that there is widespread opinion that little could be expected of the fund during a transitional period of from 3 to 5 years. Third, it was held desirable to await certain highly necessary adjustments in domestic and international policies before setting up an institution in which the process of granting credits might be regarded as somewhat automatic.

Several witnesses with extensive experience and high standing in the field of foreign exchange, who have testified before the Senate Banking and Currency Committee during the past 2 weeks, have urged deferment of action on the fund for these and similar reasons. Their testimony supports the opinion of the chamber committee that the successful operation of the fund would be more certain if its establishment were delayed until conditions become more favorable. These witnesses agreed with the Chamber committee that this program would in no way retard such progress toward currency stabilization as would be possible during the transition period.

The House of Representatives, in passing H. R. 3314 on June 7 with significant changes recommended by its Banking and Currency Committee from the provisions of the original H. R. 2211, gave recognition to some of the weaknesses and dangers in the monetary fund plan.

International considerations of a political nature appear to have contributed to the judgment of the House that efforts should be directed toward safeguarding the operations of the fund within the framework of the Bretton Woods agreements rather than by major alterations which might be implied in the initial establishment of the bank and a deferent of action on the fund.

In the light of the present legislation situation, it is appropriate to offer suggestions for a further strengthening of the provisions of the enabling bill as passed by the House and now under consideration by the Senate committee.

It is the purpose in this statement to appraise the House bill from the perspective of the criticisms in the report of the chamber committee and to point out possible ways of improvement of the measure. The criticisms in the report were in connection with such questions as whether the fund would create instability rather than stability, whether there were adequate safeguards, whether there could be assurance of essential prerequisites, and whether there were proper limitations of power.

STABILITY OR INSTABILITY

Apprehension was expressed by the committee that the extreme flexibility in exchange rates under the fund mechanism would create instability rather than stability of currencies. It was noted that while the elimination of competitive depreciation of currencies is a stated purpose of the fund, changes almost without limitation in values of currencies are given official sanction. Furthermore, it was pointed out that while the abolishment of exchange controls and the establishment of a multilateral system of payments are objectives, retention of present controls and imposition of new ones are authorized and there is no interference with bilateral trade agreements.

Differences in the American and British viewpoints with respect to emphasis, respectively, upon stability and flexibility and with respect to the gold standard, the committee further declared, form ground for concern in connection with the future determination of policies by the Board of Governors of the fund.

The bill as passed by the House clarifies the situation as regards these particulars only to such extent as it tends to strengthen the management of the fund by interpretations, directives to the American representatives, and by provision for bringing to bear the force of American opinion through an advisory council. New language making it more certain that the fund management would exercise discretionary authority, as suggested hereafter in connection with a strengthening of interpretative provisions, would help to lessen present dangers.

NEED OF CREDIT SAFEGUARDS

* The chamber committee in its report cited a strong and widespread opinion that adequate safeguards in credit extensions were lacking under the mechanism of the monetary fund. It was pointed out that no rules are established requiring determination as to the credit worthiness of the borrower or governing the exact use of exchange and that members might consider themselves entitled to the amounts of their quotas. The committees noted that it would be difficult to determine the actual use to be made of foreign exchange obtained from the fund.

Several provisions in the House bill are intended to protect the resources of the fund against abuse. The interpretations, if actually effective, and other new provisions would meet some of the more serious objections to the fund.

The interpretations in sections 13 and 14 of the bill are commendable in purpose but not sufficiently precise in terms. Section 13 seeks to establish the authority of the bank to make or guarantee loans for programs of economic reconstruction and for long-term stabilization of currencies, with a view to lessening the pressure for such loans from the fund. Section 14 is intended to impose a more definite prohibition against the use of resources of the fund for purposes other than temporary adjustments of balances of payments. To the degree that the interpretations actually would accomplish the purpose, they represent an important step toward maintaining the revolving character of the pool of currencies in the fund.

Two points may be noted. One is the possibility that the interpretations may not be accepted by the management of the fund. The other is the possibility that the interpretation applying to the fund may not be construed, in the light of the inclusion of the word "cyclical," as requiring a limitation of credits to those normally considered short term.

Cyclical fluctuations in the balance of payments, according to the common use of the term, may extend over a considerable number of years. Consequently, it is not entirely clear as to exactly what is meant by "temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions."

The possibility that the interpretations would not be accepted by other nations could be obviated by making their approval a condition of our participation in the fund and bank.

Doubts as to the meaning of the limitation applying to the fund could be cleared up by a prohibition of the sale of foreign exchange by the fund except when there is a reasonable expectation of the repurchase by a member nation of its own currency within a specified short-term period, not to exceed 2 years, and by the elimination of the word "cyclical."

If the interpretations are such as to be acceptable to the fund after its establishment, there seems no reason why they should not be approved by the other member nations in advance. The procedure for approval of the agreements by other nations, with acceptance of our conditions, would involve no complications or necessitate another world conference.

A more definite limitation upon advances by the fund to short-term adjustments of balances of payments would tend to make credits and other actions less automatic in character. The effect would be to require the fund to examine closely the internal and external position of a borrowing nation and to exercise its discretion to a greater extent than might be considered obligatory under the articles of agreement. If a nation were continuing to exercise exchange controls, that fact should be taken into consideration in determining its right to the use of resources of the fund.

It would be desirable to broaden the interpretation or reservation to include a definite requirement for an examination of the economic status of an applicant for foreign exchange, particularly during the transition period.

Strengthening of sections 13 and 14 along these lines should be considered a most urgent need in connection with the pending bill.

ESSENTIAL PREREQUISITES

The chamber committee stressed the recognized fact that before the fund could operate successfully certain prerequisites with respect to domestic and international policies would be essential. There must be assurance of peace. International stability of exchanges will occur only when sound fiscal and economic policies have been established by the nations and the more pressing of their political problems solved. Stability of world currencies depends also upon international policies which facilitate an exchange of goods and services among the nations.

Amendment of sections 13 and 14 as proposed would be a means of providing greater assurance that the management of the fund would take into account these essential prerequisites and that it would refuse to grant credits when not justified by domestic or world conditions.

PROPER LIMITATIONS OF POWER

The chaubert committee expressed concern over the possible exercise of power by the fund in a manner which would be an encroachment upon our sovereignty, particularly under article VII, the scarce currencies provision of the articles of agreement.

In the likely event of the scarcity of the dollar, representations to the United States under the machinery for dealing with a scarce currency might be directed toward an additional contribution to the fund, a lowering of our tariffs, or a more liberal foreign investment policy, and might result in the restriction and regimentation of our exports and imports.

Aside from a possible coercion of this country in policies affecting domestic conditions, the operations under the scarce-currencies provision might tend to perpetuate controls over our foreign trade. The effect of apportioning the supply of dollars among member countries would be not merely to restrict our exports but to change the flow of our trade between nations as to specific commodities. Competitor countries would benefit from the refusal of the fund to make available dollars to a nation in the habit of buying certain kinds of American goods.

Not only might the fund apportion dollars, but it could grant to the various member countries the power to impose exchange controls upon the use of dollars. These exchange controls inevitably would affect other currencies and hence have a bearing on the character of our import trade. Adoption of a program by the fund requiring a limitation of our exports would tend to cause the United States to impose controls on its own responsibility. These controls, involving governmental domination of export and import trade, would have adverse effects upon some of our domestic industries and lead to other evils associated with a totalitarian economy.

Whatever may be the merit of contentions advanced upon these questions affecting our domestic affairs, the United States will desire to preserve its sovereignty upon matters of vital significance to industry, labor, and agriculture.

The bill should be amended to prevent or limit exertion of pressure upon this country with respect to our tariff investment and trade policies under article VII of the agreement.

MANAGEMENT OF THE FUND AND BANK

Several provisions in the bill as passed by the House seek to strengthen the management of the fund and bank, a matter of primary importance.

The provision under which the President would appoint the same person as governor of the fund and of the bank is a step toward an integration and coordination of the activities of the two institutions. A further amendment to the bill to require appointment of the same person as the executive director of the fund and he bank would be highly beneficial.

Similar action with respect to these appointments should be urged upon other nations. In fact, our adherence might well be conditioned upon the adoption of the same procedure by all members of the fund and bank.

Another provision in the House bill which deserves commendation is that for the creation of a National Advisory Council on International Monetary and Financial Problems. The Council, composed of key officials in various branches of our Government, should be able to exert a strong influence not only upon policies of the fund and bank but also toward a better coordination of all activities of the United States in the field of international finance.

It is worthy of note that the House Banking and Currency Committee in revising the provision of the original draft of the enabling bill relating to the furnishing of information eliminated proposed authority for continuance in peacetime of wartime inquisitorial powers and heavy penalties under the Trading-With-the-Enemy Act. The House bill in its present form authorizes the President through such Government agencies as he may designate to obtain information desired by the Monetary Fund but the data so acquired shall not be furnished to the fund in such detail as to disclose the affairs of any person or corporation. No authority is granted, as originally proposed, to use inquisitorial powers for purposes other than the actual needs of the fund.

FISCAL ASPECTS

Too little attention has been given to the fiscal aspects of the Bretton Woods program. This is a subject which deserves the closest study, not only because

of the postwar Budget problem in general but also because of the probable proposals for large additional amounts for international purposes in the form of loans, grants, and continuing administrative costs.

The financing scheme in section 8 of H. R. 3314 is so devised as to make the burden upon the United States appear less than it actually would be.

By reason of the use of gold from the Exchange Stabilization Fund and authority to make further subscriptions as public-debt transactions, no part of the total would appear as an ordinary expenditure in the Budget. There would be no opportunity for consideration of either revenue-raising or appropriation aspects by the committees of Congress with jurisdiction in these fields.

Consideration should be given to possible amendments designed to bring the financing methods into line with procedure which will make the taxpayers fully cognizant of the actual cost of the projects. Furthermore, there should be a canvass of all proposals for expenditures in connection with world affairs.

SUMMARY

In summary, the bill as passed by the House goes a considerable distance toward safeguarding the operations of the Monetary Fund. To such extent the purpose is identical with that of the chamber's committee in proposing immediate establishment of the International Bank but deferment of action on the fund pending a clarification of various doubtful points and attainment of more favorable conditions.

The safeguarding provisions in the bill as passed by the House include interpretations broadening the lending powers of the bank and limiting those of the fund, a requirement for the appointment of a single person as the governor of the fund and of the bank, creation of an Advisory Council within our Government, and a modification of proposed inquisitorial powers of an obnoxious character.

Additional provisions of this nature are the limitations retained from the original draft of the House bill with respect to the exercise by American representatives in the fund and bank without specific sanction of Congress of authority relating to increased financial contributions to either institution, changes in the par values of the dollar or uniform action applying to all currencies, and amendments to the respective articles of agreement.

Dangers in connection with the operation of the Monetary Fund would be further lessened if the enabling bill were amended in the following particulars:

(1) Strengthening of the interpretative provisions in sections 13 and 14 by (a) requiring their acceptance by other nations in advance of the establishment of the fund and bank, (b) placing a time limitation upon the use of resources of the fund and eliminating cyclical fluctuations in balances of payments from those for which temporary assistance may be granted, and (c) adding a definite requirement for consideration by the management of the fund of the economic status of borrowing nations.

(2) Better coordination and integration of the activities of the fund and the bank by appointment of the same person as the American executive director of the two institutions as is provided in the House bill with regard to the respective governors. Other nations should be requested, or if advance commitments are deemed feasible, obligated to appoint the same persons on the management of the two institutions.

(3) Modification of the enabling bill to prevent or limit exertion of pressure upon the United States with respect to tariff, investment, and trade policies under the scarce-currencies provision of the fund agreement.

(4) Revision of financing provisions with a view to adoption of a procedure by which our contributions would be a budget expenditure rather than a public-debt transaction. There should be a canvass of all proposals for expenditures in connection with world affairs and avoidance of methods designed to conceal the costs from the taxpayers.

The proposals for American participation in an International Monetary Fund and an International Bank for Reconstruction and Development are too important to be acted upon without the fullest opportunity for discussion. Before a final vote is taken in the Senate there should be sufficient time for study by interested persons throughout the country of the voluminous hearings before the two committees in Congress.

The objectives of the Bretton Woods Conference are not at issue. Points of difference involve details of the proposals and safeguarding provisions. Public

discussion of the widest possible character will be conducive to our participation in the Monetary Fund and International Bank on a basis most favorable to our interests and to the economic welfare of the world.

JOHN J. O'CONNOR,
Manager, Finance Department.

ALEXANDRIA, VA., June 24, 1945.

Senator ROBERT F. WAGNER,
*Chairman, Banking and Currency Committee,
Senate Office Building, Washington, D. C.:*

It would be greatly appreciated if you would let the record of the hearings before your committee on the Bretton Woods agreements show the strong endorsement by the National Farmers Conferences. We earnestly hope that the committee will report the legislation without substantial amendment and that the Senate will adopt it in like manner.

In our view the Bretton Woods agreements are the most important economic measure that has been made possible by the victory in Europe. Stable levels of international currency and workable means of providing credit for reconstruction and development are the two critical prerequisites to building a structure of lasting economic peace and order. We have seen that economic war and military war are twins, that where one exists so does the other. As one of the fruits that our sons have fought to give to their generation and those following, therefore we strongly urge approval of the agreements.

We particularly oppose the two principal amendments that have been proposed by the national grangemaster, Mr. A. S. Goss, and by bankers. Both the bankers and Mr. Goss have asked that the bill approving the agreements provide that the Executive Director of the fund also shall be the Executive Director of the International Bank. We believe that either of those jobs is more than big enough for one man and hope the committee will provide for a different executive head for each of the two international institutions.

But of far greater significance is another amendment proposed by the bankers and Mr. Goss. This is the amendment limiting to 18 months the use of the fund's resources in its stabilization operations. This is of the first importance to agriculture since depressions always reach farmers first and leave them last. It would be impossible if this amendment were adopted for the fund to combat such depressions with its full strength and to full benefit if such operations were limited to 18 months since depressions have never been so limited; in fact any attempt to limit use of the fund chronologically seems to us to reduce to an absurdity since such an attempt implies that depressions themselves have neat time periods. We know this is not true and it seems clear therefore that the present descriptive limitations or directions as to the use of the fund's resources should be retained. We strongly urge the committee to reject the proposal.

Indeed, we hope the committee and the Senate will reject any amendments to the legislation other than the interpretative provisions adopted by the House.

NATIONAL FARMERS UNION,
RUSSELL SMITH,
Legislative Secretary.

CONGRESS OF INDUSTRIAL ORGANIZATIONS,
Washington, D. C., June 25, 1945.

Senator ROBERT F. WAGNER,
*Chairman, Senate Banking and Currency Committee,
United States Senate, Washington, D. C.*

DEAR SENATOR WAGNER: Before the Senate Banking and Currency Committee closes hearings on the Bretton Woods agreements, I would like to submit for the committee's record an expression of the CIO's support for the bill as passed by the House of Representatives.

As far back as last November, at its seventh annual convention in the city of Chicago, the Congress of Industrial Organizations went on record by resolution in support of the Bretton Woods proposals. We believe that both the International Monetary Fund and the International Bank for Reconstruction and Development are necessary and integral parts of any structure for international economic cooperation after the war. We further believe that international

cooperation in economic matters is as vital to the preservation of peace as cooperation between nations in the political field.

I would therefore like to take this opportunity on behalf of the 6,000,000 Members of the Congress of Industrial Organizations, to urge the Senate Banking and Currency Committee to report favorably to the Senate the bill embodying the Bretton Woods agreements as it was passed by the House of Representatives. I would greatly appreciate it if the enclosed testimony submitted for the CIO before the Banking and Currency Committee of the House, might also be inserted into the record of the Senate Committee.

Sincerely yours,

PHILIP MURRAY, *President.*

STATEMENT OF JAMES B. CAREY, SECRETARY-TREASURER, CONGRESS OF INDUSTRIAL ORGANIZATIONS

The CIO stands squarely behind the International Monetary Fund and the International Bank for Reconstruction and Development proposed at the United Nations Monetary and Financial Conference held last summer at Bretton Woods, and now before your committee in H. R. 2211. It is our considered opinion that both the fund and the bank should be endorsed by the United States without further delay and without amendments or changes.

Bretton Woods represents one of the most important cornerstones on which full international cooperation so essential to winning and maintaining the peace must be built. Throughout America and in the CIO Bretton Woods means jobs and security. Our President, Philip Murray, has estimated that some 5,000,000 jobs for Americans can be found in export trades after the war, if the Bretton Woods proposals are adopted.

In addition, Mr. Murray has pointed out that the Bretton Woods proposals mean not only jobs for American workers but markets and profits for American business and American farmers. In the CIO Reemployment Plan, he states:

"The continued prosperity of Americans is directly tied to the prosperity of people of all other nations. In addition to a domestic program for full production in the United States, there must be a vigorous, long-term program of international commerce.

"We must develop the new foreign markets which will appear after the war for our capital goods and our durable consumers' goods, for steel, railway and public utility equipment, machines, automobiles, household equipment.

"The war has wrought havoc in the factories and railways of Europe. Millions of homes have been destroyed by bombing. And there are vast areas in Asia and Latin America which have long been in need of industrialization.

"* * * Our foreign investments should be in harmony with the plans and programs worked out by the agencies of international cooperation which will be set up as the war comes to an end. Investments made in accordance with international economic plans will be more secure and there will be less danger that the Federal Government will have to make good on the guaranties."

May I also quote here the resolution on Bretton Woods passed at the Seventh CIO Convention held in Chicago last November:

"A prosperous postwar with full production and the 60,000,000 jobs promised by President Roosevelt will also depend upon the expansion of world trade.

"The Bretton Woods Conference has further created the foundation for the stabilization of the currencies of the various nations to encourage international trade and for the mobilization of the necessary credit and facilities for immediate payments with which the war-devastated countries and undeveloped nations can secure the capital and purchase the goods they need. The rehabilitation and reconstruction of Europe and the industrialization of Africa, Latin America, China, and other economically backward nations open a vista for expanding world trade which can unquestionably assure increasing prosperity for all peace-loving nations. We, therefore, heartily endorse the program and policies formulated at the Bretton Woods Conference and urge Congress to authorize the full participation of this country."

Jobs and economic security are not the only benefits that we expect will flow from adoption of the Bretton Woods plan for freeing and increasing world trade. We confidently expect that the expanded world trade that will result from Bretton Woods, and the freeing of trade from restrictive practices such as were employed before this war, will go a long way toward preventing World War III.

Everyone who remembers the lean depression years of the late twenties and

the thirties will recall the restrictive practices of the nations that drove world trade out of existence. Competitive currency depreciation, multiple currency practices, bilateral agreements that shut out certain countries in favor of others, the infamous system of blocked marks employed by the Germans, were all steps in the economic preparation for war that preceded the actual aggression of 1939. Without these economic steps, the military aggression would not have been possible. Germany was able to arm and stock-pile raw materials by literally robbing smaller countries of their resources through blocked accounts. This must not be permitted to happen again.

Currency depreciation, practiced by every country before World War II, is inevitably paid for by the wage earners and the people of low income. For a while, a country gains a temporary advantage in world trade. This illusory advantage, however, is quickly wiped out when other countries retaliate. When currency depreciation takes place, the ability of the country to import is seriously cut down. For countries which import much of their food, as many European countries must do, this means that workers and other low-income groups suffer a real loss in the standard of living. This was particularly true of England in the decline of world trade in the thirties.

When the standard of living of the workers and farmers in foreign countries falls, our standard of living follows in the same downward direction. We cannot maintain full employment at adequate incomes in this country without a large volume of exports. We cannot expect to export to countries where the people do not have enough to meet the barest necessities of life. Yet if these countries—our future foreign markets—again are compelled to engage in restrictive trade practices, in depreciated currencies, in blocked accounts, and all the other means of strangling trade, we cannot expect that they will furnish a market for the huge volume of goods that we are prepared to make.

The proposed International Monetary Fund will make it possible to end these evil and restrictive trade practices. It will be a means whereby a country whose currency is threatened can secure help in time and in sufficient quantity to keep it stable. No longer will an economically strong and ruthless country, such as Germany was before World War II and such as she will endeavor to become again, be able to dominate and wreck the currency and the economy of smaller countries and thereby make them into her satellites for wars of aggression.

Application of the International Monetary Fund will also protect countries from outside interference with their internal affairs. It is no secret that certain international bankers in this country and in England openly used their power to intervene against democracy and on the side of fascism in more than one European country. This must not be permitted to happen again. Freedom of nations to conduct their own affairs in accordance with the wishes of the majority of their people is a cornerstone of the world security organization that we are trying to build at San Francisco. Yet freedom can be only a hollow mockery if smaller countries are to be financially dependent on private interests who may choose to use their power to dominate them.

For all these reasons of economic and political security, of stabilized currencies and a continued flow of foreign trade, and of a rising standard of living throughout the world, we in the CIO endorse wholeheartedly the proposed International Monetary Fund as an integral part of any program for economic cooperation with the rest of the world.

The Bretton Woods proposals, however, do not end with the International Monetary Fund. The world stands in need of more than a program for currency stabilization. The greater part of the continent of Europe has been devastated by war. The liberated countries of Europe cannot carry on even a semblance of normal commercial and industrial activity until they can build up their factories, cultivate their fields, and develop their national resources. There also exist in the world countries not physically ravaged by the war whose economic possibilities remain undeveloped and who want and need air in raising the level of their economic life. The need for reconstruction and development is apparent. The benefit of such reconstruction and development to the United States and indeed to the whole world is hardly less apparent.

It is in this field that the Bank for Reconstruction and Development will operate to facilitate loans and capital investment for productive purposes. It perhaps should be emphasized here that the bank, as set up in the Bretton Woods proposals, does not encroach upon private banking, but rather stimulates greater activity on the part of private banking interests by guaranteeing loans and by supplying loans where they cannot be made through normal channels at reason-

able rates. This will be done, of course, under the most rigid safeguards. No money will be used or no loans guaranteed to prop up shaky unpopular regimes, as was done before this war, or for the maintenance of offensive armies and navies. The money will go for the two purposes named in the title—reconstruction and development.

Through our participation in the Bank for Reconstruction and Development we will be helping to build markets for the goods which our own factories produce. We must not fear that by aiding other countries to develop industrially we will be creating competition for our own goods. Experience in the past has shown that our best customers have been those nations with the developed economies and therefore higher living standards and greater purchasing power.

When the economy of the rest of the world is in bad shape, the workers of the United States know that the continued prosperity of this country is jeopardized. American businessmen and farmers cannot have and, I am confident, do not expect to find steady and profitable markets unless we help to set the economy of Europe and Asia to functioning again. Our goal is the maintenance of full employment in an American economy of high-level production, and that means an expanding world economy.

The CIO, like all other groups of Americans, wants to see this undertaking abroad properly safeguarded. And we feel that it is so safeguarded in the Bretton Woods agreement. We need to remind ourselves that this document was signed by representatives of 44 nations, and was the result of several years previous drafting. We feel that the world cannot afford to cast aside lightly any part of a document which has finally achieved the concurrence of the experts of 44 nations. We should begin to operate at once under its provisions, and if from time to time perfecting amendments are needed the document amply provides for that.

Among the safeguards in the agreement, the provisions for membership and management organization of the fund are guarantees that the interests of the United States are protected. The membership and management of the bank similarly protect us. Meanwhile the possibilities of universal participation provided for in the agreement guarantee that under Bretton Woods as under Dumbarton Oaks, the nations of the world are launched upon a great cooperative undertaking for mutual self-help.

The fund is hedged about with the most detailed regulations as to its use. The bank is similarly safeguarded. Borrowers cannot even have access to the bank's assistance unless they can show unusual need. And members cannot abuse the facilities of the fund without being brought up short by the directors and governors of the fund.

In summary, it seems correct to say that the fund and the bank are indispensable to the orderly development of an expanding United States economy in an expanding world. The nations of the globe today, on the morrow of VE-day, have for the first time in 6 years a horizon of hope. Billions of dollars of American money, thousands of young American lives, and similar billions of the world's resources and millions of its lives have been sacrificed in this destructive war. Yet there are those who are questioning the need for pledging a small fraction of our remaining resources to undo the damage the Axis has done to us all.

These resources in the bank and the fund are not being spent, as were our earlier hundreds of billions. These fractions of our previous expenditure are merely to be pledged to guarantee this new cooperative undertaking. It is difficult to believe that any hard-headed and practical person can fail to see the need for moving ahead as rapidly as possible on these measures for reconstruction, development, and the promotion and maintenance of high levels of economic activity throughout the world.

[From Foreign Affairs, January 1945]

BRETTON WOODS AND INTERNATIONAL COOPERATION

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 had 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 cooperation.

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 cooperation may assume—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 nonpartisan 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 cooperation 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 cooperate 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 cooperate or that they do not know how to achieve cooperation. 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 cooperation 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 cooperation 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, 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 cooperation. Without monetary cooperation, international economic cooperation in other spheres will at best be short-lived; and it may not be too much to add that without monetary cooperation, international cooperation in noneconomic spheres may be short-lived also. The Bretton Woods agreements are also the most difficult step in international economic cooperation 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 than 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 cooperation 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 cooperation 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 2 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 involving 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 wholehearted 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 \$9,000,000 to \$1,200,000,000 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 cooperation. 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 other 42 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 2 countries. There is a vague promise in this alternative that other countries might in time be added to the select group whose cooperation was regarded as desirable. But even these countries would be expected to cooperate by attaching themselves to a dollar bloc or a sterling bloc. If we should exclude the greater part of the world from cooperation on these problems and postpone for 10 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 cooperation.

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 cooperation are conflicting philosophies—that somehow or other men of different nations cannot work together without sacrificing the interest of their particular nation. There has been talk of this sort—and from people who ought to know better—concerning the international cooperative 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 cooperation."

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 Conferences 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 appeasements 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 cooperation, 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.

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THE MONETARY FUND: SOME CRITICISMS EXAMINED

By H. D. White

Perhaps no economic measure has ever received the careful consideration, extensive discussion, and painstaking labor that went into the formulation of the proposal for an international monetary fund. The preparations for the United Nations Monetary and Financial Conference were a model of democracy in action. During the 2 years that elapsed between the emergence of the proposal in its original form and the final draft drawn up at Bretton Woods, literally hundreds of conferences were held with experts of some 30 nations. Hundreds more took place among American experts—from the staffs of the Treasury, the Federal Reserve Board, the State Department, and other agencies of the Government—and among interested groups of businessmen, bankers, and labor. Comments pouring in from all over the country were studied with care. The original documents went through more than 20 drafts, several of which were published here and abroad and widely distributed for study. Before the Conference was called, foreign experts had many months to study the proposals and to discuss them with appropriate groups at home.

In June 1944, about 60 representatives of some 15 major nations met with a score of American experts at Atlantic City and for 2 weeks worked to improve the proposals. Finally, in July 1944, representatives of 44 nations met at Bretton Woods. These representatives included finance ministers, officials of central banks of most of the countries, treasury officials who help to shape monetary

policy in the major countries and to administer the large stabilization funds of the world, scores of monetary experts, economists, legal authorities, bankers, and almost all of the hundred or so technical representatives of foreign countries who for more than a year had participated with the American experts in consideration of the various drafts.

For 3½ weeks these experts labored 14 to 16 hours a day in committees and subcommittees, going over every provision, studying every suggestion, discussing in greatest detail every point of difference. Each line of each provision was subjected to the closest scrutiny. In the light of all this, the attempt which has been made by certain commentators, familiar with the background, to convey the impression that the monetary proposal was the hastily compiled and visionary blueprint of a handful of men inexperienced in the real problems of foreign exchange and finance is somewhat puzzling. The charge that it was thrust full-born upon the public without giving it an opportunity to examine, criticize, or make recommendations can be interpreted only as a maneuver to undermine confidence in the soundness of the proposal.

Fortunately this criticism comes from a small, albeit powerful, group. The bulk of expert and informed opinion approves the proposals, and the number of supporters multiplies as the plan is studied and understood. This is due to the fact that, once understood, the proposals are recognized as effective machinery for achieving ends the desirability of which has been driven home by painful experiences of the last quarter century.

The proposal for an international monetary fund rests on two premises. The first is the need for stability, order, and freedom in exchange transactions; without these we cannot have the expansion of world trade and the international investment essential to the attainment and maintenance of prosperity. The second is that stability in the international exchange structure is impossible of attainment without both international economic cooperation and an efficient mechanism for implementing the desire for such cooperation among the United Nations. Once these premises are accepted, the proposed international monetary fund is recognized as the necessary instrument for securing cooperation on international monetary and financial problems and the most logical and effective means for adopting and maintaining mutually advantageous policies.

Owing to the essential simplicity of the framework, the area of agreement was broad almost from the beginning. It is with respect to the technical details, from their nature complex, that agreement had to come slowly. That it was reached at last was unquestionably due to the wide discussion the proposal received and to the careful and earnest consideration given to every criticism and suggestion.

Many of the criticisms and suggestions proved invaluable. Certain others, however, had to be rejected for the reason that they did not meet the need or did not offer a practical basis for cooperation on international monetary and financial problems. I should like to consider some of these suggestions and criticisms and explain just why they are unacceptable.

II

A suggestion frequently offered is that exchange stability can be most effectively established by restoring the gold standard in other countries, particularly England. To these critics the automatic functioning of the gold standard on pre-1914 levels appears as the ultimate desideratum of international monetary policy.

Now it is true that the decades before the First World War were a period of relative stability in international economic relations, and that in part the stability was a consequence of the gold standard. However, that gold standard was never, even in its heyday, an automatic and self-correcting mechanism, but one requiring a considerable amount of supple management. The gold standard could not have been maintained even to the extent that it was unless there had been cooperation among the leading central banks, particularly at critical junctures.

Fundamentally the stability of the decade before the First World War was due not to the gold standard but to the fact that the world economic structure was sufficiently resilient and adaptable to permit playing the game according to gold standard rules. Unfortunately, the world today is much more complicated than the world of the nineteenth century, and the economic problems with which it confronts us are much less amenable to simple and rigorous solutions. To expect the restoration of the gold standard to bring back the resiliency of bygone days is, therefore, to put the cart before the horse.

That is not to say that there were not real advantages in the old gold standard. It did give assurance to businessmen that the exchange policy of a country would conform to a prescribed pattern of stability and freedom in exchange transactions. That is a worth-while advantage insofar as it contributes to a high level of international trade and investment; but unless the economic structure of the great industrial countries and of the countries producing primary raw materials has the degree of flexibility and adaptability requisite for the operation of the gold standard, it will not be possible to continue maintaining the gold standard in periods of stress. The gold standard has repeatedly broken down under the strain of acute emergencies. Twice within a generation the gold standard has been abandoned by the very countries that had struggled to restore it. It is no use to argue that if countries would only make the "necessary adjustments" the gold standard could be maintained. The countries involved regard such adjustments as adjustments to a Procrustean bed.

The restoration of the gold standard in the leading countries is not a policy that we can hope to see widely accepted. Few countries are again willing to commit themselves irrevocably always to undertake restoration of equilibrium in their balance of payments wholly via the route of wage and price deflation or through import restrictive devices. In Britain, for example, the public is convinced that the difficulties of the 1920's and the 1930's were due to the restoration of sterling to its prewar parity and to the overvaluation of the pound. So long as these views are widely held, no British Government will assume the responsibility for restoring the gold standard. In a debate in the House of Commons, the Chancellor of the Exchequer said most emphatically: "Certainly the attitude of His Majesty's present Government would be one of most vehement opposition to any suggestion that we should go back to the gold standard." The representatives of many other countries have likewise indicated that a return to the old gold standard is politically impossible in their countries.

But while a return to the old gold standard is of doubtful wisdom for some countries and impossible for many countries, there is no reason why we should not obtain its advantages without imposing its rigidities on countries unwilling to accept it. That is precisely what the International Monetary Fund does. It requires countries to define their currencies in terms of gold, to maintain exchange rates stable within a range of 1 percent above and below such parity, to make no alterations in the parity of their currencies except after consultation with the fund, or with its concurrence, and to impose no restrictions on current transactions except after consultation with the fund, or with its approval. While some countries are not prepared to adopt the gold standard, they are willing to take cooperative measures of this kind to provide stability and order in international exchange transactions. Those countries which elect, as does the United States, to adhere to the gold standard can, of course, do so without in any way complicating the operations of the fund.

It should be pointed out that even if countries were to adopt the gold standard there would be no assurance that they would maintain it. It would do little good to have countries repeat the experience of the 1920's, struggling to restore the gold standard only to abandon it under the impact of a great depression. It is far better to obtain an agreement through international monetary cooperation, and to establish a stable if moderately flexible exchange structure which has good chances of being maintained, than it would be to impose on other countries an ephemeral and involuntary restoration of the gold standard which they will abandon at the first opportunity or pretext.

III

Some critics object to the fund because it permits flexibility in exchange rates; they seem to believe that, once established, the parity of a currency has the sanction of moral law.

The articles of agreement for the International Monetary Fund provide that one of the purposes of the fund is "to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation." Stability of exchange rates is not, however, identical with rigidly fixed rates that cannot be changed under any circumstances. The difference between stability and rigidity in exchange rates is the difference between strength and brittleness. It is the difference between an orderly adjustment, if conditions warrant it, and eventual break-down and painful adjustment. The assumption that rigidly fixed exchange rates are always advantageous is no longer held to be axiomatic. It is true that if countries permit wide fluctuations of

exchange rates in response to temporary changes in their balance of payments, the level of international trade and international investment will be adversely affected. But when the economic position of a country shifts because major factors have affected the world's demand for its exports, the proper remedy may be an adjustment in exchange rates.

The world needs assurance that whatever changes are made in exchange rates will be made solely for the purpose of correcting a balance of payments which cannot be satisfactorily adjusted in any other way. The world needs assurance that exchange depreciation will not be used as a device for obtaining competitive advantage in international trade; for such exchange depreciation is never a real remedy. It inevitably leads to counter measures, and the ultimate effect is to reduce the aggregate volume of trade. This is precisely what happened in the period of the 1930's when competitive exchange depreciation brought wider use of import quotas, exchange controls, and similar restrictive devices.

The fund gives the assurance the world is asking for; it provides a method of obtaining orderly exchange adjustments if they are needed to correct a fundamental disequilibrium. Such adjustments can be made only on the proposal of a member and only after consultation with the fund. The fund cannot object to a proposed change if, together with all the previous changes—whether increases or decreases—it does not exceed 10 percent of the initial par value of the currency. All other changes in exchange rates can be made only with the concurrence of the fund. In the postwar period initial exchange rates will have to be set for countries that have been cut off from world trade during the war, and a procedure has been provided to adjust promptly any error made in the selection of initial parities. Such adjustment is preferable to allowing a persistent overvaluation or undervaluation of a currency.

The purpose of exchange stability is to encourage trade. We should defeat this purpose if we insisted on rigid exchange rates at the cost of severe deflation, which would reduce world trade and investment and spread depression from country to country. While the fund would have every reason to object to exchange depreciation as a means of restoring equilibrium better achieved in other ways, it would not force upon a country a rigid exchange rate that can be maintained only by severe deflation of income, wage rates, and domestic prices. Nor if a change in exchange rates is necessary to correct a fundamental disequilibrium, could the fund object on the grounds of the domestic social or political policies of a country; it cannot be placed in the position of judging such policies of its members. It could not forbid countries to undertake social security programs or other social measures on the ground that such measures may jeopardize a given parity. Englishmen have not forgotten that in the sterling crisis of 1931 social services were cut in the attempt to maintain a fixed sterling parity. To use international monetary arrangements as a cloak for the enforcement of unpopular policies whose merits are demerits rest not on international monetary considerations as such but on the whole economic program and philosophy of the country concerned, would poison the whole atmosphere of international financial relations.

These provisions of the fund assure a stable and orderly pattern of exchange rates without retroactive rigidity. It puts the sanction of international agreement on stable and orderly exchange arrangements. If any change in rates is made after the fund has expressed its objection, the number becomes ineligible to use the resources of the fund; and if the difference between the member and the fund continues, the member may be compelled to withdraw from the fund. Altogether, the fund provides greater assurance of exchange stability than would be possible under the gold standards.

IV

It has been asserted that the fund is only a device for lending United States dollars cheaply and that the money will be wasted or lost; that other countries just want to get our dollars, and that there is nothing to stop them from quickly draining our dollars from the fund.

This is an argument that could be made only by persons who either have not carefully studied the fund document, or are attempting to frighten people into economic isolationism. The fact is that from article I to article XX safeguards have been written into this agreement to make sure that the fund's resources cannot be dissipated or lost. Some of these safeguards are briefly discussed below.

The fund will not accept an initial par value for the currency of any country if, "in its opinion the par value cannot be maintained without causing recourse to the fund on the part of that member or others on a scale prejudicial to the fund and to members." In fact, the fund will "postpone exchange transactions with any member if its circumstances are such that, in the opinion of the fund, they would lead to use of the resources of the fund in a manner contrary to the purposes of this agreement or prejudicial to the fund or the members."

To meet an adverse balance of payments for approved purposes, a country is entitled, subject to certain quantitative and qualitative limitations, to purchase the needed exchange from the fund. The purchases of exchange must not cause the fund's holdings of the members' currency during a 12-month period to increase by more than 25 percent of its quota nor to exceed by more than 100 percent the quota of the country. The fund may waive these limitations, especially in the case of members with a record of avoiding large or continuous use of the fund's resources. The fund may also require the pledge of collateral as a condition of waiver, and it may prescribe whatever other terms and conditions it regards as necessary to safeguard its interests.

Some critics have spoken of these provisions on the sale of exchange as confirming automatic credit rights to countries who are not what they call "credit worthy." The criticism is wholly unjustified. The technique of conditionally permitting a country to buy foreign exchange to a limited amount is commonly used in stabilization operations. It is included in all of the bilateral arrangements under our own exchange stabilization fund and in the Anglo-Belgian, Anglo-Dutch, and Belgo-Dutch exchange agreements recently announced. The safeguard is that this conditional right can be terminated whenever it is not used for the purposes of the agreement. It is specifically provided that a member acting contrary to the fund's purposes may be declared ineligible to use the resources of the fund.

Apart from these general limitations, there are special provisions designed to assure the liquidity of the fund and the revolving character of its resources. Members purchasing foreign exchange from the fund are expected to use their own reserves of gold and foreign exchange in an equal amount, provided their monetary reserves exceed their quotas. When their balance of payments become favorable members are expected to use half of the increase in their reserves in excess of their quotas to repurchase their currencies held by the fund. The provision that a country must use one-half of the increment in its reserves to repurchase its currency from the fund is the counterpart of the provision that a country must meet one-half of the deficit in its balance of payments by use of its own reserves. The fact is that if over a period of time all countries were to maintain their international payments in equilibrium, the distribution of the fund's resources would not only be restored to its original position, but, because of the growth in monetary reserves, even strengthened.

The fund has other provisions to assure the revolving character of its resources. A country purchasing exchange from the fund with its currency must pay a service charge of three-fourths of 1 percent. This is a relatively heavy charge and it will induce countries, as intended, to place primary reliance on their own resources rather than the fund's. Further, the fund levies charges on its balances of a member country's currency; these charges rise steadily as the balances held by the fund increase and the period over which they are held lengthens. When the charge rises to 4 percent on any of the fund's holdings, the member and the fund must consider means of reducing the fund's holdings of the currency.

Finally, there is a specific provision safeguarding the gold value of the fund's assets. No country can diminish its obligations to the fund through depreciation. Whenever the par value of a member's currency is reduced, or its foreign exchange value depreciates to a significant extent, the member must pay to the fund an amount necessary to maintain the gold value of the fund's assets.

Some critics fear that other nations are not interested in maintaining a sound fund, that the fund will be managed by debtors and that the United States will have only a minority voice. This fear is hardly warranted by the facts. The United States will have 28 percent, and the United Kingdom, the British Dominions, and India together, will have 26 percent of the total voting power. Provision is made for having the two largest creditor countries on the executive directorate. In all voting involving the sale of exchange, the votes of creditor countries are adjusted upward and the votes of debtor countries are adjusted downward. These are quite obviously ample safeguards to protect the creditor countries. But the greatest safeguard is the common interest of all countries in

maintaining a fund that will become the basis for stable and orderly exchange arrangements without which the world cannot have the expansion of international trade and the resumption of international investment essential to a prosperous world economy.

In the period after the war the world may need more dollars for imports from the United States and other payments to the United States than will be available; a number of countries may experience a scarcity of dollars. If we attain a high level of employment in this country after the war and resume international investment on an adequate level, the dollar will not become a scarce currency; the volume of imports and the purchase of services from abroad should be sufficient to cover all legitimate foreign demands for dollars. Failing such action, however, there is the real possibility that dollars will become so scarce that the fund will not be able to sell as much dollar exchange as members wish to buy. This is not likely to happen quickly: (1) the fund would have large resources of dollars and gold; (2) there are quantitative and qualitative limitations on the purchase of exchange from the fund; and (3) member countries are required to use their own resources of gold and dollars when making use of the fund. But in time, if the balance of payments becomes too one-sided, there may be a shortage of dollars. Such a shortage, if it develops, will not be because of the fund but in spite of fund. Some critics have argued as if the fund itself would be the cause of the scarcity in dollars. The fund cannot create a shortage of dollars. On the contrary, the fund inevitably postpones a shortage of the currency most in demand, even when it doesn't prevent it.

Long before any acute scarcity of a currency develops, the fund would have considered the situation and taken whatever steps were feasible to remedy it. The fund might find that the principal cause of the difficulty was excessive imports by countries utilizing the fund, and it would require corrective measures as a condition of continued use of the fund's resources by such countries. The fund might find that the causes of the scarcity were high trade barriers in the country whose currency was scarce, or a failure to undertake adequate international investment, and it would propose appropriate remedies. In the meantime, if the fund should find that the difficulties were of a temporary character, it could use its gold resources or borrow the scarce currency under terms agreed with the country.

If, notwithstanding the delaying and corrective action of the fund, a general scarcity of a particular currency is developing, the fund may issue a report to member countries setting forth the causes of the scarcity and making recommendations designed to bring it to an end. This report may be issued while the funds still has that currency and means of obtaining more. When the fund finds that it will not be able to meet the prospective demand for a member's currency, the fund will declare that currency scarce and thereafter apportion its existing and accruing supply of the scarce currency with due regard to relative need of members, the general international economic situation, and other pertinent considerations. The fund would, of course, never exhaust its dollar supply. It would have a continued inflow of gold and dollars from its other transactions which would be available for sale to members. These provisions make the resources held by and accruing to the fund available for dollar payments in the United States. The over-all utilization of dollars is sure to be larger under the fund than it could be without it.

When a country is short of dollars, it is certain to take steps to limit the demand of its nationals for dollars. Without the fund this action would take the form of establishing whatever controls the country wished. Under the fund agreement, the limitations on the freedom of exchange operations that a country may impose with respect to a scarce currency are definitely prescribed and are undertaken only after consultation with the fund. They must be no more restrictive than is necessary to limit the demand for the scarce currency, and the limitations must be relaxed and removed as rapidly as conditions permit. Furthermore, a member must give sympathetic consideration to the representations of other members regarding such restrictions.

Very definitely this country assumes no moral responsibility for a scarcity of dollars. The technical representatives of the United States have made it clear to other countries in a number of memoranda that a scarcity of dollars cannot be accepted as evidence of our responsibility for the distortion of the balance of payments. I quote from such a memorandum: "It should not be overlooked that the disequilibrium in the balance of payments cannot be manifested as a problem peculiar to one country. Whenever the supply of a member country's currency is scarce, this scarcity is likely to be accompanied by excessive supplies

of the currencies of other countries. In such cases the responsibility for the correction of the maladjustment is not a unilateral one. It will be the duty of the fund to make a report not only to the country whose currency is scarce but also to the member countries who are exhausting or are using the resources of the fund in a manner which is not consistent with the purposes of the fund."

Some critics have expressed the view that once the fund's holdings of dollars have fallen considerably below the subscription of the United States, it will not be able to function. This is completely wrong. The fund will continue to be the means for international monetary cooperation and for maintaining stability and order in exchange transactions. The fund will hold all currencies, except the dollar, in adequate amounts and will continue to sell such currencies to members. From its transactions, the fund will also have dollars accruing to it, which it will sell in limited amounts to other countries. In time, of course, the fund's position with respect to dollars will be fully restored if the United States does not have a persistently large favorable balance of payments. The United States can always acquire whatever currency it needs from the fund. Furthermore, its position as a subscriber to the fund is fully secured by the obligation of other countries to maintain unimpaired the gold value of their currencies held by the fund, and by their obligation to redeem in gold or dollars any currency that is distributed to the United States if the fund should be liquidated.

A view frequently expressed is that the proposal for the fund is too ambitious, that the problem can best be solved by stabilization of the key currencies—the dollar and sterling and perhaps some few others—and that other currencies can achieve some degree of stability by adherence to the dollar or sterling.

In part this exclusive concern with the key currencies reflects a fear that exchange stability and freedom in exchange transactions are not universally desirable policies; that many countries should be permitted to have fluctuating currencies and to use exchange control to manage their international payments. Whether this objection to the fund is well taken is a matter of opinion. Regardless of the degree of stability or freedom one may prefer, few will deny that orderly exchange arrangements are essential, and such arrangements are practicable only through cooperation on a multilateral basis.

The emphasis on the key currencies in which international payments are made seems to me completely mistaken. The dollar and sterling are, of course, the most important currencies; but the currencies of other countries also are important to the extent that they affect volume of international trade and investment.

Some illustrations may help. Taking the sum of exports and imports, England's trade in 1937 was about 15 percent of the world total and the United States' trade was about 12 percent of the world trade. Is it of no importance to achieve currency stability in the countries carrying on nearly 75 percent of world trade among themselves? Only 11.5 percent of our trade in 1937 was with England and only 23 percent with British Empire countries other than Canada. Is it of no consequence to us to obtain currency stability in the countries with which we have more than 75 percent of our trade?

The fact is that we are directly interested in the exchange rates of all countries, because all countries are either our customers, competitors, or suppliers. The problem of the American cotton exporter offers a helpful illustration of the importance of general exchange stability. He is interested, of course, in the exchange rates of cotton-importing countries, cotton-exporting countries, and textile-importing countries—in other words, he is interested in the exchange rates of England, Japan, Germany, India, Egypt, Brazil, Mexico, and a host of other nations. What happens to the price of cotton in the United States when the exchanges depreciate in these countries? The answer can be found in the sharp fall in the spot price of cotton in New Orleans from 9.08 cents in May 1931 to 6.06 cents in October 1931, when currency depreciation occurred in nearly all of these countries.

Some critics carry the key currencies concept so far that they completely identify postwar monetary problems with the British balance of payments in the postwar period. They propose that the United States and England enter into a bilateral agreement for stabilization of the dollar-sterling exchange rate, and that Britain remove restrictions on exchange transactions and fund the abnormal sterling balances accumulated by India and the Dominions as a result of Britain's war expenditures. To enable England to meet the need for foreign exchange that such a program would involve, it is proposed that the United States lend \$5,000,000,000 to Britain.

There are, of course, a number of variations of this approach, all of which miss completely the real postwar problem in Britain, the United States, and elsewhere. The net change in Britain's foreign exchange position on capital account is large, and in time Britain will want to restore her international economic position. But that problem is neither as urgent nor as great as the question of her current balance of payments after the war. To facilitate the restoration of balance in her international accounts Britain needs an expansion of world trade. A loan to Britain to enable her to establish exchange stability and freedom from exchange control will not of itself help significantly with Britain's problem, or with the world's problem of establishing a sound postwar pattern of international payments. Such a loan might burden Britain with a dollar debt while making no real contribution toward balancing Britain's international payments. On the other hand, the fund and the bank, by providing the favorable conditions necessary for expanding world trade and investment, would be of real help in establishing a sound postwar pattern of international payments and would contribute substantially to prosperity in this country and abroad.

VI

With those critics who say that additional measures are necessary no one disagrees. The position of the United States Government from the beginning has been that the fund and the bank must be supplemented by other measures. There is every reason to expect that these other measures will be taken, and that they can be taken with greater confidence because of the Bretton Woods program.

The maintenance of stable and orderly exchange arrangements will be best assured if the great industrial countries pursue policies for maintaining a high level of business activity. Under such conditions international payments can be kept in balance without difficulty, for the greatest distortion in the balance of payments occurs during periods of business depression, when international trade and investment fall off.

It would be helpful, of course, to lower the barriers to international trade. The United States has been pursuing the policy of reducing tariffs through reciprocal trade agreements. More can be done, and will be done, to achieve a general relaxation of trade barriers. But this cannot be done until there is assurance of orderly exchange rates and freedom in exchange transactions for trade purposes. A depreciation in exchange rates is an alternative method of increasing tariff rates; and exchange restriction is an alternative method of applying import quotas. With the fund, countries can undertake reciprocal tariff reduction knowing that such agreements will not be defeated by offsetting action on the exchanges. It should be noted that with high levels of business activity countries will not be tempted to follow the false road of trade restrictions to provide more employment at home.

Nearly every critic has said that stability of exchange rates is possible only if countries put their economies in order. Nobody disagrees with this view, certainly not those who were at Bretton Woods. The countries that were occupied by Germany have a difficult but not insuperable problem in restoring their economies. In western Europe the Germans retained wage and price controls in order to exploit production more effectively in these countries. Because of these controls the monetary system did not get out of hand, and with energetic measures it will be possible to attain international economic stability. In eastern Europe the situation has deteriorated so far that completely new monetary systems will probably be necessary. The measures that will be taken for monetary stability can be effective only if the public has confidence in the currency. Can there be any doubt that reconstruction and stabilization in these areas will be more prompt and more effective with the bank and the fund to give confidence to the people of these countries?

To those who sincerely believe that the fund should not be instituted until after the period of postwar transition, it must be pointed out that while the fund is not intended to provide resources for relief, reconstruction, or the settlement of wartime indebtedness it does have a most valuable function to fulfill during the transition period. Quite apart from the special problems of the transition, the world will have the same problems of exchange and payment as before, and the fund is essential for dealing with them. It is of vital importance that the postwar pattern of exchange rates should be initially determined by consultation between the fund and member countries, and that whatever adjustments become necessary should be made through and with the fund. Most significant, during

this period of transition the general lines of international monetary policy will be definitely determined, and it would be a tragic error to allow a relapse to the monetary disorders of the 1930's through inaction and delay.

The plea that we should wait several years before attempting any comprehensive program for international monetary collaboration has been made by a few economists whose objectives are admirable and whose approach is careful and responsible. But it is the approach of perfectionism: Let us postpone action until more evidence is in—next month, next year, some years hence. Unfortunately, this counsel of caution plays directly into the hands of those who are not disinterested. There are, in true, economic isolationists as well as political isolationists. One tactic of political isolationists is the attempt to kill all concrete and specific proposals for international political security and cooperation not by forthright opposition—the public would too soon recognize such opposition—the public would too soon recognize such opposition for what it is—but by a plea for postponement. They hope that the passage of time will multiply frictions among the United Nations, and that they can effectively use the time thus gained to create friction and aggravate points of potential difference; therefore, they reason, the very deferment of agreement will make the attainment of agreement more difficult. To them delay is merely a subterfuge to facilitate sabotage of our plans for an international security organization. The economic isolationists hope that the general environment may somehow become unfavorable for measures of international economic cooperation. We must answer them in the same way as we are answering the political isolationists—by going straight ahead with the implement of the program for international economic as well as political cooperation. The American people have unequivocally endorsed that program.

Quite recently, the suggestion has been made that the fund be dropped and that the bank be authorized to make stabilization loans. There is in this suggestion a basic error—the assumption that the principal purpose of the fund is to provide additional exchange resources. Primarily, the fund is the means for establishing and maintaining stability, order, and freedom in exchange transactions. The resources of the fund are only for the purpose of helping countries to adopt and keep such policies. Long-term stabilization loans would defeat this purpose. We need constant, continued, and general cooperation on exchange problems and exchange policies, and this is possible only through the fund. Both the fund and the bank have important but distinct functions in maintaining a high level of international trade and sound international investments. While each could function alone, they supplement and strengthen each other. Together they could make a great contribution to a prosperous world economy.

The world is in desperate danger of reverting to economic isolation after the war, and economic isolation will inevitably breed political isolation. Those who talk of waiting and of bilateral arrangements with one or two countries are in fact proposing that we do nothing, that we allow the world to drift back to the restrictions and the disorders of the prewar decade. This is a risk neither we nor the rest of the world can afford. We have the opportunity to put into effect the fundamental principle which must be the basis for a peaceful and prosperous world, the principle that international problems are an international responsibility to be met only through international cooperation. The fund and the bank are concrete applications of this principle in the international currency and investment spheres.

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SCARCE CURRENCIES AND THE INTERNATIONAL MONETARY FUND

E. M. Bernstein

I

The provisions of the proposed International Monetary Fund dealing with scarce currencies¹ have recently received considerable attention. Because of the importance of the problem, the extensive discussion of the scarce currency provisions of the fund should be welcomed. This paper is concerned primarily with those particular aspects of the problem covered by the provisions of the fund and with the criticisms that have been made of these provisions.

¹ Articles of Agreement (Washington, U. S. Treasury, 1944), art. VI, pp. 13-15.

The concept of a scarce currency is used to connote a large and prolonged surplus in the balance of payments of one country, accompanied by deficits in the balances of payments of a considerable number of other countries.² Because of the special character of the problem, the general scarcity of a currency must be distinguished from the scarcity of exchange resources experienced by one or more countries as a result of persistent deficits in their balances of payments with many other countries. It must also be distinguished from a temporary scarcity of exchange resources resulting from fluctuations in the balance of payments in which countries with alternating surpluses and deficits in their international accounts may, during the periods of deficit, be short of foreign exchange. The distinctive feature of the scarcity of a currency is the pervasive character of the need by other countries for additional foreign exchange resources to be used to make payments to one particular country. As a practical matter, it should be noted that a real scarcity can occur only in the currency of a great trading and investing country, since only such a country can develop a surplus in its balance of payments of sufficient magnitude to affect significantly the exchange resources and the exchange policies of many other countries.

The scarcity of a currency in any period is an objective fact apparent from an examination of the pattern of international payments. It does not in any sense imply that the causes of the scarcity are necessarily to be found in the policies of the surplus country, nor, for that matter, in the policies of the deficit countries. The causes of the scarcity in any particular case are likely to be complex, and the scarcity may be the resultant of the interaction of a number of factors. Certainly, whatever scarcity there may have been in the dollar in the 1930's cannot be attributed to any one cause in any one country. All the international monetary developments in the 1930's were related in innumerable ways to the economic and political disorders of the period. In a world economy with multilateral payments the causes of the scarcity of a currency can be determined only from a complete analysis of the whole pattern of international payments—not only the balances of payments of the country whose currency is scarce and of the countries with the larger deficits but also the balances of payments of other countries with moderate surpluses of deficits.

A large and prolonged surplus in a country's balance of payments on current and capital account can cause pressure to develop on the exchanges in many countries, and its currency may then be said to become scarce. When this happens, the countries in need of the scarce currency have no alternative except to deplete their monetary reserves or to take measures to restrict their obligations in the scarce currency. The developing scarcity of the currency may be evident from any one or more of the following conditions: The accumulation of unusually large amounts of gold by the surplus country, the general depreciation of other currencies relative to the scarce currency, the widespread use by other countries of exchange controls on current transactions, the imposition of tariff and other restrictions on imports, or the deliberate adoption of a policy of deflation in a number of countries. Obviously, the use of such techniques to reduce or limit the incurring of obligations in a currency, if they are successful, will correct the scarcity. The restrictions imposed for this reason would then be evidence of a previous scarcity or of an impending scarcity of a currency.

If countries held very large monetary reserves and were in a position to use such monetary reserves to meet deficits in their balances of payments, it might be possible for them to maintain orderly exchange arrangements and avoid restrictive measures, while the scarcity of a currency is corrected. In fact, however, few countries are prepared to use any considerable quantity of their monetary reserves in this way. While the aggregate monetary reserves outside the United States will perhaps amount to as much as \$16,000,000,000, in gold and United States dollars, after urgent postwar needs have been met, it is unlikely that these countries will be prepared to use more than a small part of these reserves, say \$5,000,000,000, to meet deficits in their balances of payments with the United States. In the uncertain postwar period the use of reserves of this magnitude might not be adequate to maintain the exchanges if there were a scarcity of a major currency, and countries would not continue to draw down their monetary reserves when there is no prospect of reversing the trend. It is almost certain that, after a considerable decline in monetary reserves, nearly all countries would

² It is, of course, possible to have a scarcity of two or more currencies. As the number of countries with a surplus in their balances of payments grows larger, the problem becomes one of widespread disequilibrium in international payments rather than one of scarcity of currencies.

feel impelled to take other measures to halt the reduction in their monetary reserves and to restore balance in their international accounts.

In the absence of the fund, how would countries go about restricting their demand for a scarce currency? Presumably, they would use the same techniques as in the 1930's, although, no doubt, with greater ingenuity, with greater promptness, and with greater severity. The control of exchange transactions to prevent a flight of capital would be inevitable. There would certainly be restrictions on imports from the country whose currency becomes scarce either through exchange control or through trade devices. In addition, there would probably be moratoria on the transfer of earnings from investment, the repayment of debts, and the outward repatriation of capital. There would also be some exchange depreciation, although this is not likely to be an effective method of dealing with a scarce currency, because the adjustment of the balance of payments in this way may take time and may not be entirely predictable. In some instances countries might attempt to restore their export position by a planned reduction in domestic prices and costs. But the cases would probably be few.

It is doubtful whether many countries would be content to meet the problem, as some did in the 1930's, merely by a severe restriction of payments in the scarce currency. Countries in need of imports for their industries and consumers would have to find alternative sources of supply. They would undoubtedly seek such supplies through direct arrangements that would not involve a drain on their depleted monetary reserves—that is, through barter agreements, bilateral clearing arrangements, or other devices that divert trade from their normal channels.³ Such bilateral measures, while not necessarily resulting in a reduction in the aggregate volume of trade, would unquestionably mean a loss of some of the advantages of international specialization. They would, of course, be in direct conflict with the purposes of the fund to establish stable and orderly exchange arrangements which would facilitate a multilateral system of international payments and which would eliminate exchange restrictions that hamper world trade.

II

Apart from periods of war, there has apparently never been a scarcity of a major currency except during a few years in the 1930's.⁴ In the 1930's the dollar did become scarce, for a number of reasons. The largest factor in the scarcity of the dollar in this period was the perverse movement of capital to the United States. A contributing factor was the deep depression in this country.⁵ Many of the exchange practices of the 1930's, which the fund is expected to help eliminate, were, in part, a consequence of the serious distortion in the pattern of international payments which was marked by the scarcity of the dollar. The fund cannot neglect, therefore, to make provision for dealing with the scarce currency question. The international economic problems of the postwar period are certain to be exceptionally difficult, and the fund must take account of the possibility that the scarcity of a major currency may develop. The fund agreement is intended to provide a practical and reasonable basis for dealing with a scarce currency within the framework of the policy of cooperation on international monetary problems.

The possible scarcity of a currency is but one of a number of international monetary problems which can be settled intelligently only by establishing harmonious international economic relations that will contribute to the realization of the broader objectives of economic policy. Fortunately, there is general recogni-

³ On this point, see E. F. Shumacher, *The New Currency Plans*, Bulletin of the Institute of Statistics (Oxford), V, supp. No. 5 (October 7, 1943), 22-23.

⁴ Despite Kindleberger's interesting discussion, I find no real evidence of a chronic scarcity of dollars before the 1930's. See C. P. Kindleberger, *International Monetary Stabilization*, *Postwar Economic Problems*, ed. S. E. Harris (New York, 1943), pp. 375-395.

⁵ From 1934 to 1938 the net inflow of gold to the United States amounted to 6,973 billion dollars. The relevant net items in the balance of payments accounting for this inflow of gold are approximately as follows: Current transactions (including silver imports), 0.903 billion dollars; capital transactions, 4.456 billion dollars; residual, 1.614 billion dollars. The greater part of the residual is likely to reflect unrecorded capital movements (The United States in the World Economy [Washington: Department of Commerce, 1944], appen., table I).

In analyzing the change in capital movements during this period to determine its relationship to the scarcity of the dollar, a distinction should be made between the building-up of official balances in this country (which do not, in fact, deplete the monetary reserves of other countries), the flight of private funds to this country, the repatriation of American funds from abroad, and the halt in American investments abroad.

On the current-account side, it should be noted that, while the surplus of the United States from 1934 to 1938 was moderate in size, the current-account surplus was undoubtedly kept down by extensive use of exchange control.

tion in all countries that the primary objectives of economic policy after the war must be the maintenance of high levels of employment and rising standards of living. In nearly every country the contrast of inadequate employment and production in the early 1930's with the enormous expansion of employment and production during the war has made the public conscious of the necessity of positive measures to realize the objectives of economic policy. While such measures must be largely domestic in character, their success will be facilitated by international cooperation to assure a large volume of international trade, adequate international investment, and an appropriate pattern of international payments. Otherwise, some countries will find that the measures they take to attain the objectives of their economic policy will be ineffective because of conflicting measures in other countries. For this reason, it is essential to have a common international monetary policy. The fund provides the basis for harmonious international economic relations by assuring cooperation to establish a common international monetary policy.⁶

The scarcity of a currency would reflect a serious distortion in the pattern of international payments which must ultimately lead to a disruption of international trade and investment if measures are not taken to prevent a breakdown of exchange relationships. One of the purposes of the fund is to help restore the interconvertibility of currencies and multilateral settlements for current international transactions. Unless the fund provides other methods of adjustment, the scarcity of a currency, under such conditions, might result in a general limitation by other countries of their external payments and in a consequent large reduction in international trade. When payments are reduced to countries other than the one whose currency is scarce, the burden of adjustment is merely shifted to them. This process of general limitation increases the pressure on other countries and compels them to take restrictive measures on their part. The widespread reduction in international payments which would be brought about in this way could not correct the scarcity of a currency except to the extent that it would directly affect payments to the country whose currency is scarce. Obviously, any attempt to correct the scarcity of a currency through generally restrictive measures would disrupt the economy of many countries. Therefore, the fund must find means of dealing with the scarcity of a currency in a manner in conformity with its purposes and not destructive of international trade and investment.

The provisions of the fund agreement establish standards for exchange policy which would make it possible to deal with the scarcity of a currency with a minimum of disturbance to international trade and investment. The members of the fund would undertake to maintain stable and orderly exchange arrangements and freedom in exchange transactions, and the fund would make its resources available to help countries that pursue such exchange policies. Obviously, these exchange policies are possible only if countries succeed in establishing and maintaining a pattern of international payments in which each country would find that the receipts from its international transactions on current and capital account are, on the average, adequate to provide for its international obligations. With such a pattern of international payments no currency would be scarce in the sense that it could be acquired to the extent needed only by an excessive reduction in the monetary reserves of other countries, and countries would not find it necessary to take restrictive measures to reduce promptly their obligations to provide foreign exchange for current transactions.

With an appropriate pattern of international payments the balance of payments of each country would depend upon the structure of its economy and the present and prospective state of its economic development. Without elaborating its characteristics in detail, such a pattern of international payments would permit each country enjoying a high level of employment to maintain a balance of payments that would assure the normal growth in its monetary reserves and that would not compel adjustments which might lead to inflation or deflation. It would mean that the balance of payments of each country on current account, after allowing for growth in its monetary reserves, would be adjusted to the need of some countries for foreign capital for development and the capacity of other countries to provide capital for foreign investment. Finally, the balance of payments in each country would be gradually adjusted to its international economic position, thus preventing the development of a scarce currency and avoiding the need for extreme measures that would generate inflation or deflation in the world economy.

⁶ W. M. Bernstein, *A Practical International Monetary Policy*, *American Economic Review*, XXXIV (1944), pp. 771-784.

In a fundamental sense, the only way to prevent or to correct the scarcity of a currency is to maintain or restore an appropriate pattern of international payments. But the purpose and the effect of such a pattern of international payments are far more significant than its relation to the scarcity of a currency. Such a pattern of international payments is essential to the harmonious international economic relations which can assure each country that the measures it takes to maintain high levels of employment and rising standards of living will not be neutralized or defeated by contradictory measures in other countries. The fund is intended to help establish and maintain such a pattern of international payments. When, for any reason, international payments become unbalanced, temporarily or for an extended period, the fund would help countries to restore balance in their accounts in an orderly manner without resorting to competitive exchange depreciation, restrictive exchange controls, or other measures that reduce the volume of international trade and discourage international investment. The scarce-currency provisions of the fund are designed to help member countries to maintain stable and orderly exchange arrangements during a period of serious distortion in the pattern of international payments while they adopt corrective measures in harmony with the purposes of the fund.

III

The fund deals with two phases of the scarce-currency problem. The first is a general scarcity, when the distortion of the pattern of international payments results in large and persistent deficits in the accounts of a considerable number of countries with a surplus country. A general scarcity must be tested in three ways: by the size of the surplus, by the pervasiveness of the deficits, and by the persistence of the unbalance. If, for example, the United States were to have an aggregate surplus in its international accounts on the order of 2 billion dollars a year, on current and capital account, with some 15 or 20 countries, and such a surplus should persist for about 3 years, the fund would have to consider whether this balance of payments were likely to be reversed or to persist.⁷ If there were reason to believe that the distortion in the pattern of international payments would persist, the fund would have to deal with a general scarcity of dollars. The fund could so inform members and issue a report setting forth the causes and the recommendations designed to bring the scarcity to an end.⁸

The second phase, a scarcity in the fund's holdings of the currency, is not likely to occur until a general scarcity in the currency has existed for a long time. This is simply a reflection of the quantitative relationship between the total deficits with a general scarcity and the amount of the fund's resources. Assume that 20 countries with aggregate quotas of 4 billion dollars have deficits of 6 billion dollars in their current and capital accounts with the United States over a 3-year period. Assume that the balance of payments of all other nondeficit countries, on current and capital account, permits them to acquire monetary reserves equal to 1.1 billion dollars during this 3-year period and that the deficits to these countries are met without having recourse to the fund. Unless the fund were to restrict the use of its resources by the 20 deficit countries, they could in this period acquire up to 3 billion dollars from the fund for their local currencies within the quantitative limitations based on their quotas and use these resources to meet part of their deficits with the United States. To do so, however, they would have to reduce their own monetary reserves by an equivalent amount, provided their reserves exceed their quota. This would mean that the larger part of the newly mined gold in this 3-year period, say 2.8 billion dollars, would have to be used for payments to the United States. The deficit countries could finance the remaining 3.2 billion dollars by using the fund's resources (net) to the extent of, say 2 billion dollars and by drawing down their own reserves to the extent of 1.2 billion dollars.⁹ Such a balance of payments for the United States would clearly be a case

⁷ Note that in the 5 years from 1934 to 1938 the surplus on current and capital account amounted in all to nearly 7 billion dollars and did not reach 2 billion dollars in any year. After 1938, war conditions dominate the balance of payments, and it is not possible to apply the concept of a scarce currency. See note 5, above.

⁸ Articles of Agreement, art. VII, sec. 1, pp. 13-14. The fund is not required to issue a report on a general scarcity. If it should decide to issue such a report, a representative of the member whose currency is scarce would participate in preparation of the report.

⁹ Ample allowance is made in these figures for countries whose monetary reserves are less than their quotas and who are not required to use their reserves in equal amount with their purchases of exchange from the fund. On the other hand, no allowance is made in this illustration for acquisition by the fund, through repurchases, of any part of the 1.1 billion dollars in newly mined gold produced outside the United States which is acquired by other nondeficit countries.

of a general scarcity of the dollar; yet very little more than half of the fund's resources of gold and dollars would be used in meeting deficits of this magnitude.

When the funds own holdings of a currency appear to be inadequate to meet the expected demand of member countries, the fund can replenish its holdings of the currency by selling gold to the member, by borrowing the currency from the member on terms and conditions agreed between them, or, with the approval of the member, by borrowing the currency from some other source.¹⁰ If the fund will not or cannot replenish its holds of the currency, it must formally declare the currency scarce and apportion its existing and accruing supply among member countries. In apportioning its sales of a scarce currency the fund would take into account the relative needs of each country, the general economic situation, and such other considerations as seem pertinent. It should be noted not only that the fund will hold a supply of the scarce currency at the time it is declared scarce but that, through the operations of the repurchase provisions and through the imposition of charges, the fund will have a constant flow of the scarce currency and gold available for sale to members.

When a formal declaration of the scarcity of the funds holdings of a currency has been made, all members are authorized temporarily to impose limitations on the freedom of exchange operations in the scarce currency. It should be noted that this authorization is not limited to countries that have a deficit in their balance of payments in the scarce currency, and countries with adequate monetary reserves are permitted to impose limitations on the freedom of exchange operations in the scarce currency. This is necessary because, if the deficit countries impose limitations on transactions in a scarce currency—say dollars—while the nondeficit countries do not, it would be possible for the deficit countries to acquire imports payable in dollars indirectly through the other countries. Unless the nondeficit countries supervised and controlled reexports, they could be compelled to use their monetary reserves in financing the surplus in the balance of payments of the country whose currency is scarce.¹¹ To avoid such a drain on the monetary reserves of countries whose accounts do not show a deficit in the scarce currency, permission is given to all countries to limit the freedom of exchange operations in the scarce currency.

The authorization to control exchange transactions in the scarce currency is not unqualified.¹² Such limitations may be no more restrictive than is necessary to reduce the demand for the scarce currency to the supply held by, or accruing to, the member in question. In the case of a country which has a surplus in its balance of payments in the scarce currency, the limitations that country imposes would be confined to preventing a drain on its monetary reserves through re-exports and other devices. Any member limiting exchange transactions in a scarce currency must give sympathetic consideration to representations of the other country regarding the administration of such restrictions. The authorization for such control of exchange transactions expires when the fund declares the currency to be no longer scarce.

Some critics have expressed the view that the authorization to limit transactions in a scarce currency is prejudicial to the United States.¹³ When a currency becomes scarce, there is no practical way to limit the scarcity except to allow some restrictions in exchange transactions in that currency. The only alternatives would be a general limitation on international payments through increased trade barriers or a widespread depreciation of exchanges (or an application of the scarce currency), which may be wholly undesirable, particularly if the

¹⁰ Articles of Agreement, art. VII, sec. 2, p. 14.

¹¹ This is the answer to Jacob Viner's inquiry as to why it would not be proper "to limit the right to apply such regulations to countries which are not only short of such currency but are also currently not having a net accrual of gold." See the essay by Viner in *International Financial Stabilization*, ed. Murray Shields (New York, 1944), p. 59.

For this same reason some bilateral monetary agreements, such as the Belgo-Netherlands agreement, exclude from the arrangements the financing of reexports. It should be noted that, through the repurchase provisions of the fund, countries accumulating the scarce currency or gold would put at the disposal of other countries part of the increment in their monetary reserves.

¹² Articles of Agreement, art. VII, sec. 3 (b) and (c) and sec. 4, pp. 13-14.

¹³ See, e. g., Leonard P. Ayres, *The International Monetary Fund* (Economists National Committee on Monetary Policy) (New York, 1944), pp. 13-14.

Ray B. Westerfeld sees the scarce currency provisions as the "threat of imposition of exchange controls" for the purpose of "forcing a creditor country to lend freely, to cut exports, or to accept more imports" (article in *International Financial Stabilization*, p. 78).

scarcity can in time be corrected in other ways.¹⁴ Under such circumstances it is far wiser to permit a temporary limitation on exchange transactions. Such restrictions would necessarily be imposed in the absence of the fund. With the fund the restrictions are limited to the extent necessary to adjust demand to the scarce supply; they are under the supervision of the fund; and the member country whose currency is involved has an opportunity to be heard regarding the administration of the controls. Furthermore, the amount of restriction is bound to be less with the fund, because the funds resources supplement the reserves of members, the fund has accruing resources which are available to mitigate the scarcity, and the fund is in a position to facilitate a correction of the conditions causing the scarcity.

IV

The apportionment of a scarce currency by the fund and the authorization to limit exchange transactions in a scarce currency are obviously temporary measures. They are intended merely to assure the maintenance of stable and orderly exchange rates while fundamental remedies are worked out through the fund. The principal responsibility of the fund in connection with scarce currencies is not to improvise and supervise such emergency measures as rationing and control. Rather, it must try to prevent the development of a scarcity in a currency; and, if a scarcity does develop, the fund must try to find means of correcting it.

A number of provisions of the fund agreement are intended to prevent the development of scarce currencies. The fund can refuse to accept an initial par value which involves overvaluation or undervaluation of a currency and which might cause excessive recourse to the fund by the member or by other countries.¹⁵

Furthermore, the provisions for a change in the par value of a currency permit orderly exchange adjustments, if they become necessary, without incurring the risk of competitive depreciation.¹⁶ Special provision is made with respect to exchange rates and exchange controls for countries that must deal with the problems of relief or reconstruction and that may need some time to reestablish their international economic position in the postwar transition period.¹⁷ The fund may postpone exchange transactions with any member if it is believed that such transactions would merely serve to maintain a fundamentally unbalanced position, and the fund may declare a member ineligible to use the resources of the fund if the country is using them in a manner that prevents the restoration of balance.¹⁸ The fund will be fully informed of the facts, and it will be in a position to communicate its views to members.¹⁹

All this should help the fund in preventing the development of a scarce currency. If a general scarcity of a currency should, nevertheless, develop, the fund could issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. What measures would the fund recommend? What countries would the fund expect to take corrective action?

The view has been seriously urged that it is the obligation of a country whose currency becomes scarce to expand its imports and investments until it provides in these ways a sufficient supply of its currency to pay for all of the import requirements and other obligations of other countries. This is clearly an untenable position. Such a policy might impose upon a country a large expansion of money income until prices have risen so far that its imports have reached a level where, together with investment, they will restore balance in its international accounts. In a country in which demand for imports is not very sensitive to relative prices at home and abroad, an enormous expansion of money income might be necessary to end the scarcity of its currency. There is a reasonable basis for saying that a country whose currency becomes scarce ought to maintain a high level of employment and to lower the barriers to trade. But a country cannot be expected to encourage domestic inflation in order to balance its international accounts.

¹⁴ This view has been well expressed by Professor Viner, "If a particular country's currency is generally scarce, restrictions in the form of exchange licenses or import licenses applied only against transactions with that country, seem clearly preferable to the most likely alternative, such as exchange depreciation or general increases in trade barriers, which would have equally unfavorable impacts on the trade of countries whose currencies are not scarce as on the scarce-currency country" (article in *ibid.*, p. 59).

¹⁵ Articles of Agreement, art. XX, sec. 4 (b), p. 39.

¹⁶ *Ibid.*, art. IV, sec. 5, pp. 5-6.

¹⁷ *Ibid.*, art. XX, sec. 4 (d), (e), and (f), pp. 39-40; and art. XIV, pp. 29-30.

¹⁸ *Ibid.*, art. XX, sec. 4 (i), p. 41; and art. V, sec. 5, pp. 9-10.

¹⁹ *Ibid.*, art. VIII, sec. 8, pp. 17-18; and art. XII, sec. 8, p. 28.

Adjustments in international accounts are the common responsibility of all countries.²⁰ This is certainly the principle recognized in the fund agreement. When one country has a large surplus in its international accounts, it follows that a considerable number of other countries have deficits in their international accounts. While the scarcity of a currency may be due in part to inadequate imports by that country, it may also be due to excessive imports by other countries. This view has been clearly expressed in an American memorandum, available to the countries represented at Bretton Woods. The memorandum states:

"It should not be overlooked that a disequilibrium in the balance of payments cannot be manifested as a problem peculiar to one country. Whenever the supply of a member country's currency is scarce, this scarcity is likely to be accompanied by excessive supplies of the currencies of other countries. In such cases the responsibility for the correction of the maladjustment is not a unilateral one. It will be the duty of the fund to make a report not only to the country whose currency is scarce but also to the member countries who are exhausting or are using the resources of the fund in a manner which is not consistent with the purposes of the fund. The report should provide a comprehensive analysis of the causes of the scarcity and practical recommendations for remedying the situation."

The extent to which adjustments should be the responsibility of the countries with the surplus or the deficit in the balance of payments would depend on the facts in each case. The fund will be in a unique position to know the facts and to urge on members the necessary remedies.

In considering remedies the immediate objective of the fund must be to assure an environment in which measures can be successfully taken to restore a reasonable balance in international payments. Such an environment must include the maintenance of high levels of employment in member countries. Unless the great industrial countries maintain high levels of employment, they cannot be expected to buy the volume of imports necessary to maintain an appropriate pattern of international payments. The distortion in the balance of payments is exceptionally large during a world depression, for the decline in national income is not the same in all countries; and, in addition, there are large differences among countries in the sensitivity of their imports to changes in national income. Furthermore, at such times all countries are under pressure at home to expand their exports to maintain employment. The greatest danger of a scarcity of a currency is during a period of intense and prolonged depression in the great industrial countries—for only during a severe depression can imports and foreign investment decline by an amount sufficiently large to cause widespread disequilibrium, and only a great industrial country can have a surplus in its balance of payments sufficiently large to cause a scarcity of its currency.

Sudden changes in the international flow of capital may be of primary importance in the scarcity of a currency. Here, too, intense and prolonged depression is likely to be the cause of a reversal in capital movements. In a period of severe depression the economic and psychological handicaps to foreign investment are extremely strong. This is particularly the case when the depression is accompanied by a distortion in the pattern of international payments and deficit countries face difficulties in securing sufficient foreign exchange to meet their obligations. The enormous influx of capital into the United States in the 1930's, while this country had a surplus on current account, is an extreme instance of this kind. These perverse capital movements, although in large part of a political character were also partly due to the distortion in the pattern of international payments resulting from the great depression. If the development of a scarcity in a major currency is to be prevented, countries with a surplus on current account, after allowing for the normal growth in their monetary reserves, must be prepared to use the surplus for international investment.

The adjustments that are necessary to restore an appropriate pattern of international payments can best be made if there is a high level of international trade and investment. For this purpose it is not only essential to maintain employment and production in the industrial countries, but it is also necessary to reduce the barriers to international trade and the handicaps to international investment. The establishment of the fund will encourage countries to take further steps in the gradual relaxation of the barriers to trade. With assurance of stable and orderly exchange arrangements, countries will be more willing to reduce tariffs. A good deal must also be done to relax trade restrictions in the

²⁰ See the discussion by Joan Robinson, *The International Currency Proposals*, *Economic Journal* LIII (1943), 161-75.

form of import quotas and other administrative devices. The expansion of trade will of itself facilitate the growth of international investment. On the positive side, the International Bank for Reconstruction and Development can undoubtedly be an important factor in encouraging international investment. Together, the fund and the bank can help to bring about a high level of international trade and investment if the industrial countries maintain employment.

In such a favorable environment it would be possible for countries to take the steps necessary to restore an appropriate pattern of international payments. It is extremely difficult to attempt to reestablish the international economic position of a country through exchange adjustment when the volume of trade and investment is too small.²¹ Because of the relatively inelastic demand for imports, in terms of price, when the volume of international trade is small, the principal effect of the depreciation of a country's exchange rate at such a time may be to turn the terms of trade against the country. Furthermore, with a small volume of trade any given depreciation of a country's exchange rate can have only a relatively small effect on the balance of payments. On the other hand, with a large volume of trade it is much easier to secure an adjustment in international payments through a moderate change of exchange rates. The elasticity of demand for import goods, in terms of price, is greater at such times; and the sensitivity of international trade to exchange rate is correspondingly increased. In fact, there may be no satisfactory remedy for the scarcity of a currency in a world of depression and of inadequate trade. At such times only exchange control or import quotas may be effective in equating the demand for the scarce currency with the accruing supply.

A change in the relative prices of import and export goods can be helpful in restoring international equilibrium. Exchange adjustment does this primarily by acting on the prices of import goods in each country. Unless a deficit country is pursuing an inflationary policy, there is not much that can or should be done to affect the prices of its export goods through a reduction of wages. The fact is that in many countries a reduction of wages can be secured only by severe deflation and prolonged unemployment, and no countries are prepared to subscribe to such a policy. The most promising method of lowering costs in export industries without risking serious depression is through the rationalization of industry. Of course, in a surplus country, some upward adjustment of wages may be possible, although primary emphasis should be placed on measures to expand employment. On the whole, wage adjustments cannot be relied on as an important means of restoring international balance, although minor adjustments of wages may be helpful, particularly when supplemented by other measures.

It is impossible to predict which of these various remedies the fund would recommend to the surplus and deficit countries without knowing all the facts at the time the scarcity of a currency develops. The effectiveness of the remedies will differ in the various countries. It may be that none of the remedies would be adequate to restore equilibrium in a few deficit countries, which might then be permitted by the fund to continue for a longer time some measure of general exchange control after international accounts have been reasonably well balanced in all other countries. Whatever the precise remedies the fund would recommend, there can be no doubt that their effectiveness will depend on establishing a favorable environment for adjustment—that is, the maintenance of employment in the great industrial countries, a high level of international trade, and adequate international investment.

V

In considering the provisions of the fund agreement for dealing with a scarce currency, it should be borne in mind that the fund is not intended to provide resources that would prevent a currency's becoming scarce regardless of the degree of distortion in the pattern of international payments. It is not to the advantage of any country to offset a large and continued scarcity of a currency by unlimited use of monetary reserves, whether the member's or the fund's. The resources of the fund are most effectively used to meet adverse balances where an adjustment in international accounts can be made within a few years. When a general scarcity of a currency develops, the fund must attempt to restore an appropriate pattern of international payments without meeting in full all the requests for the purchase of the scarce currency. It is precisely for this reason

²¹ On the difficulty of adjustment through exchange depreciation, see G. Crowther, *Anglo-American Pitfalls*, Foreign Affairs, XX (1941), II.

that the fund is empowered to apportion its sales of the scarce currency and to authorize limitations by members on transactions in the scarce currency.

Under the circumstances, it is difficult to see any justification for the criticism that the fund, as projected, could not meet the expectations of other countries for the acquisition of dollars in a period of scarcity. The aggregate gold and dollar holdings of the fund at the time of its establishment are expected to be nearly 4 billion dollars. The quotas of all countries other than the United States would be about 6 billion dollars; and the difference between the fund's holdings of their currencies and 200 percent of their quotas would amount, in the aggregate, to about 7.25 billion dollars. The ratio of the gold and dollar holdings of the fund to this total of unused quotas would be approximately 55 percent. Is there anything dangerous or undesirable in such a ratio? It should be noted that this is the largest ratio of its kind in the fund. For example, the same ratio for sterling would be about 32 percent, and for other currencies correspondingly less. It would require deficits in the balance of payments of all countries with the United States to the extent of about 10 billion dollars over a 3-year period before the fund would exhaust its gold and dollar holdings. The fund's resources are not intended to cover such enormous deficits due to any one country. They are more than adequate to meet large deficits over a longer period if they should be due to a number of countries.

Neither the United States nor other countries can have any reason for permitting deficits in the balance of payments of this magnitude to develop with this country in a 3-year period. Such a large and persistent surplus in the balance of payments of a country is intended to be dealt with as a scarce currency. There is no merit in having countries exhaust their own reserves and the fund's resources in meeting a persistent scarcity of one currency. If the pattern of international payments in the postwar period should be such that over a short period 10 billion dollars is due on current and capital account to one country or a small group of countries, the fund would be fully justified in restricting the development of such a distortion in the pattern of international payments. The continuation of such deficits in the international accounts of a considerable number of countries would increase the difficulty of restoring an appropriate pattern of international payments. The fund cannot be expected to encourage or permit such large balance of payments deficits by making available the resources to meet them. That is clear to all countries.

Is it possible to have a scarcity of dollars if the international payments of this country are nearly balanced? J. H. Williams writes:

"The greatest weakness of the fund, from a mechanical standpoint, is that while other countries in paying for their exports would use up the fund's supply of dollars our own payments for imports would not replace these dollars. Thus, even though this country had an even balance of payments position, the fund's holdings of dollars would be rapidly exhausted."

As a consequence, he sees the fund "constantly threatened with a shortage of dollars and constantly in danger of being glutted with other currencies." The difficulty, as he sees it, is that the dollar is a key currency and our payments are made in dollars, not in other currencies.²²

Let us suppose that one group of countries (A) has a surplus in their balances of payments with the United States of 1 billion dollars, and that their balances of payments with another group of countries (B) is even, whereas the United States has a surplus in its balance of payments of 1 billion dollars with the B countries and a deficit of 1 billion dollars with the A countries. As a consequence, the policy of the United States being not to use the resources of the fund, the A countries would accumulate 1 billion dollars in gold or dollars regardless of whether our imports were invoiced in dollars or in foreign currencies. On the other hand, the B countries could acquire from the fund 1 billion dollars in dollars to meet their deficit with the United States.

In the first instance the fund would have 1 billion dollars less in dollars and 1 billion dollars more in other currencies. But the countries that have used the fund's resources must repurchase their currencies from the fund until the net decrease in their holdings of monetary reserves is equal to the increase of the fund's holdings of their currencies. If, therefore, the B countries accumulate as much as 1 billion dollars in gold, they would be obligated to repurchase all of the fund's increase in the holdings of their currencies. Assuming that there has been

²² International Monetary Plans: After Bretton Woods; *Foreign Affairs*, XXIII (1944), 46-47.

no increase in their gold holdings, the newly mined gold having all gone to other countries, the B countries would still be obligated to repurchase one-half of the fund's acquisitions of their currency, until their monetary reserves are equal to their quotas—that is, a maximum of 500 million dollars. Assuming also that the A countries have received none of the newly mined gold, they would have to repurchase their currencies from the fund to the extent of one-half of the increase of 1 billion dollars in their gold and dollar reserves, until the fund's holdings of their currencies are equal to 75 percent of their quotas—that is, a maximum of 500 million dollars. If, therefore, the A countries and the B countries were subject in full to the repurchase requirements, the fund would receive 1 billion dollars in gold and dollars through these provisions. Other factors, such as inadequate monetary reserves in the B countries or inadequate holdings of the A currencies by the fund, may limit the extent of the repurchases; and, as a consequence, the fund may acquire from the A and B countries, through the repurchase provisions, less gold and dollars than the amount of dollars it sold.²²

Even if the fund's holdings of dollars are reduced for a time, there should be no objection to financing with dollars the surplus in the balances of payments of the A countries. After all, the initial gold resources of the fund, amounting to about 1.8 billion dollars, are subscribed by all countries in order to finance a surplus in the balance of payments of any country. The use of dollar resources of this amount would be fully justifiable in meeting a surplus in the balances of payments of other countries. In practice it is clear that a net reduction of 1.8 billion dollars in the fund's dollar resources could not occur if the United States were to have an even balance of payments. On the contrary, at such times the gold and dollar resources of the fund would be likely to grow. It is not easy to conceive of the A countries absorbing for a number of years all of the newly mined gold outside the United States, a considerable amount of the monetary reserves of the B countries, and a few billions from the fund. But if such a situation should develop, the fund can treat it as a general scarcity of the A currencies, issue its report, and make its recommendations. The realities of the situation make it entirely unlikely that, if the United States maintains reasonable balance, there will be a scarcity of dollars.

The view has been expressed that the fund would break down if the dollar should become scarce. This appears to be a mistake in judgment on the significance of the functions of the fund. A scarcity of dollars in the fund would mean two things: the fund would no longer sell dollars under the provisions of article V, section 3 (a); and members would be authorized temporarily to limit exchange transactions in dollars. In all other respects the fund would function in precisely the same way as if there were no scarcity. Exchange rates and exchange policies would continue to be subject to the provisions of the fund agreement. The fund's exchange transactions would go on much as before. It would have adequate holdings of the 43 currencies other than the dollar, and it would sell such currencies to members to meet deficits in their international accounts. The fund would never suspend its sales of dollar exchange, although, like member countries, it would have to limit its sales of dollars. The fund would have some gold and dollars at the time the scarcity is declared, and it would receive additional gold and dollars from its other transactions. These resources would be sold under article VII, section 3 (a), by apportioning the fund's existing and accruing supply. In the meantime, the fund would report on the situation and make such recommendations as it found necessary. In fact, the need for the fund would be most acute, and its work would be of the greatest importance, when a major currency becomes scarce. At such a time the world might otherwise be threatened with serious exchange disorders. For-

²² The repurchase provisions are of major significance in maintaining the liquidity of the fund and the revolving character of its resources. Limitation of space prevents a full discussion of the details of these provisions in this paper. The question will be discussed fully in another paper, now in preparation.

In general, gross obligations to repurchase currencies from the fund exceed one-half the sum of the increases in the fund's holdings in the currencies of countries with deficits in their international accounts. This is due to the fact that the production of newly mined gold increases the monetary reserves of all countries by approximately that amount. The net repurchase obligations fall short of the gross repurchase obligations because they do not apply to a country whose monetary reserves are less than its quota or to a country whose currency the fund holds in an amount less than 75 percent of its quota. Net obligations to repurchase are also diminished when there is a flow of monetary reserves from member countries to nonmember countries. Because of the working-balance provision, private holdings of reserves do not, in fact, affect net repurchase obligations.

tunately, the fund provides a fair, orderly, and effective means of dealing with the problem.

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THE CASE FOR BRETTON WOODS AGREEMENTS

An analysis for the layman by Seymour E. Harris, associate professor of money and banking, Harvard University, author of *Monetary Problems of the British Empire*, etc.

The Bretton Woods agreements have been before the public for almost a year and they are now before Congress for ratification. Before we begin the discussion of the Bretton Woods program, we should be clear on a few elementary principles and facts of economics.

I

1. Every since Adam Smith's day, economists have almost unanimously endorsed the principle of free trade and international division of labor. On purely economic (and political) grounds, this division of trade is desirable: it yields more goods, more diversification of goods, and more goods for a given amount of work. We still seek maximum goods at minimum costs. Scotland could produce grapes but, as Adam Smith said, at a very high cost.

2. Export trade is vital to most countries of the world. For Great Britain, Chile, Denmark, Bolivia, and many others, the level of export trade, more than any other single factor, is likely to determine the economic conditions of the day. Where export trade accounts for 20 percent and in some cases even 40 percent of the national income, this point does not have to be labored. Of this we may be sure: Unless the British, for example, recover their export markets to a substantial degree, a completely planned British economy is almost certain to emerge. (There is considerable doubt in some quarters even now that the British can afford the luxury of economic freedom.) With a further reduction of the contribution of export trade to her national income, strong measures will be required by the state to assure full use of labor and capital at home, the most equitable distribution of income, etc. We had an obvious stake, actuated by self-interest, in the revival and maintenance of British export trade. A planned economy for Britain is not going to make it easier for us to maintain our system of private enterprise.

3. Export trade is important also to the United States. At one time it accounted for 10 percent of our income, and in the thirties for less than 5 percent. For particular industries, export trade accounts for a much larger part of total income. Our loss of export trade in cotton, wheat, and tobacco, for example, had serious effects on our rural population; and perhaps even more serious, the loss of this trade resulted in policies which stemmed from confused economics.

Any help that we can get from an expansion of export demand will indeed be welcome. And we should not too readily assume that additional imports are made at the expense of sellers of domestic goods—and jobs. Our spending is not fixed; our imports of bananas, caviar, and British woollens do not necessarily decrease our purchases of Florida oranges, Massachusetts fish, and Vermont woollens. To a large extent, our imports are complementary to, not competitive with, articles of domestic production, e. g., tin, coffee, cocoa, foreign travel.

II

We come to the agreements—a program directed especially toward facilitating the increase of world trade.

In July 1944 representatives of 44 nations met at Bretton Woods and finally approved the establishment of an International Monetary Fund and International Bank for Reconstruction and Development. Participating nations provide 8.8 billion dollars to the fund—our share is 2.7 billion dollars, and 9.1 billion dollars of capital for the bank—our share is 3.2 billion dollars. Actual payments will be substantially less than the amounts suggested here; and significant amounts are payable in currency, not gold. It is anticipated that the major part of the resources of the bank will come from private sources, loans made out of private funds to be guaranteed by the bank.

III

There is no better way of understanding the need for and purpose of the agreements than to sketch the historical background. Bretton Woods is an attempt, above all, to bring about some order in our currency relations; to renew capital lending across national frontiers; through a greater degree of exchange stability and more lending, to expand foreign trade and through an expansion of trade, to improve the standard of living of the masses and, at least to some extent, increase the amount of employment.

Let us first consider the exchange history of the interwar period. Exchanges were unstable. When the value of the dollar varies too much and too frequently in terms of other currencies, trade is discouraged. An exporter of American typewriters, uncertain as to how many dollars his pounds sterling or francs will buy, will hesitate to export. Even more important, governments compete in the degree of exchange depreciation; the more depressed the dollar, the cheaper are United States goods on world markets likely to be and, therefore, the greater our sales. At \$5 for every pound sterling, British woollens are very expensive. Not so at \$3.50. Competing countries do not stand by and allow this or other countries to obtain a competitive advantage. This is evident in the abandonment of gold by one country after another and the spread of depreciation—these are methods of meeting international competition. Thus, whereas in 1922 eight countries were on the gold standard (a fixed price for its currency in gold and in currencies tied to gold), by 1928 there were 44 countries on the gold standard. Then came the holocaust of 1929. By 1933 only 8 countries were on gold, and they were on a dollar rather than a gold standard. In that year the dollar and pound sterling were worth but 60 percent as much in gold as in 1914; the Japanese yen, less than 40 percent; the Italian lire and French franc, less than 20 percent. We shall not even mention the degree of depreciation of the Bolivian boliviana, the German mark, and the Russian ruble. It is clear that these and other cut-throat practices in world trade do not improve international relations.

What does the monetary fund propose to do to stabilize exchanges? Foreign currencies and gold will be made available to central banks and governments. If a currency is weak—the explanation may be a harvest failure, a softening of prices of important exports, a deterioration of the competitive position—the country may borrow foreign currencies, thus bolstering up its currency. (To this extent it will not have to dump its currency, thus avoiding the resultant harmful rise of prices of foreign currencies and the depression of the value of its own currencies.) These loans are available on terms; exchange depreciation not justified by condition of international disequilibrium is not to be tolerated; exchange control is scorned; advances are restricted as to amount, and penalties are imposed according to the duration of loan. In short, the borrowing countries are given a breathing space and thus may be spared exchanged depreciation, or given time in which to adjust their economies. In return, the participating countries agree to play the game of international monetary cooperation.

IV

Now we turn to capital movements and the International Bank provided in the agreements. A continued flow of capital across national frontiers is a *sine qua non* for a high level of trade and in addition contributes toward political stability. In a highly dynamic world, the poor countries must be able to look forward to an improvement in their standard of living. Latin America, for example, will not for all time be amenable to a per capita national income of \$50 to \$100 while this country enjoys a per capita income of \$1,200. Give them some hope that conditions will steadily improve, and an important contribution is made to political stability. More than anything else, the less industrialized nations need capital; and Europe and Asia require large amounts of capital for reconstruction. This country alone will be able to provide only a small part of the 150 to 200 billion dollars which one research agency estimates is required in the first 10 years after the war. Yet if we provide 20 to 30 billion dollars over a period of 10 years—and this may be 2 to 3 percent of our income over this period—we shall have made an important contribution.

Although our losses on foreign loans have been smaller than many suspect, there have been substantial losses, and the American public is not prepared to resume foreign lending entirely under private auspices. What is required now is the establishment of a priority system in the borrowing countries, each proposed loan to be assessed in terms of its income and foreign exchange potential. The International

Bank provides for that. The borrowing country will give the green light to those borrowers who will make the largest contribution to its economy; and these entrepreneurs and their enterprises will be scrutinized by their government, since the government is required to guarantee the loans. What is also required is a fair rate of interest of 3 to 5 percent, not rates perhaps twice as high which prevailed frequently in the past. The dangers of defaults and unproductive use of capital are substantially increased at high rates of interest.

The proposed bank promises scrutiny of loans, the favoring of loans that will yield income and foreign exchange (through a rise of export potential presumably), and reduced rates of interest.

What will the United States, the lending country, gain from this? We, on our part, will gain through the expansion of exports which accompanies the rise of capital loans. Borrowing countries want machinery, rails, consumers' goods, engineering services, and the like; and in the next 10 years these will be obtained in this country. We cannot and should not expect a long-run excess of exports over imports—that is, unless we want to give goods away. Ultimately we must face a future with an excess of imports. It is not a very dismal future: If the object of economic life is consumption, then the more we import, the more we have and the less work we are required to do in order to obtain a given standard of living. In the meanwhile, the temporary excess of exports will serve as a cushion to protect us against the disappearance of \$75,000,000,000 of Government war spending and a decline from our present unprecedented exports of \$14,000,000,000 annually.

V

With relative exchange stability, the eventual disappearance of exchange controls, and a renaissance of the capital market, foreign trade should once more rise above the low levels of the thirties.

World export trade fell from \$65,000,000,000 in 1929 to \$26,000,000,000 in 1932. In the thirties it was generally \$45,000,000,000 or less. A loss of 20-30 billion dollars of export trade is catastrophic; it may well account for a reduction of world income of 20 percent or more. As export industries are confronted with declining incomes, they contract purchases and thus the initial losses are spread over the whole economy and with a multiple effect. Reduced trade brings reduced income; and the latter in turn affects trade adversely. Similarly, if the bank and fund contribute toward a rise of trade in periods of potential or actual unemployment, they will be responsible for a multiple expansion of income; and if through the favorable effects of the inflow of additional capital, they contribute toward a rise of income abroad directly, the rise of income in turn will expand trade.

Not only did world trade fall in the thirties, but our share fell disproportionately. Our exports fell from \$5,000,000,000 in 1928 and 1929 to 1.5 billion dollars in 1932. Our export trade in the thirties averaged around 2¼ billion dollars. Our percentage share of export trade declined by 26 percent from 1928 to 1934. Our system of government, our adherence to multilateral trade principles, and our inability and unwillingness to bargain by using Fascist methods proved disastrous to our trade. By 1938, Germany alone had 36 clearing agents and Italy, 28. The net effect of these bilateral agreements is to close, to countries which refuse to make special agreements and concessions available only to the contracting parties, the markets of the countries adhering to bilateral trade practices. We insist upon buying in the cheapest markets and we insist that foreign owners of dollars be free to use them in the cheapest markets.

VI

Up to this point, we have concentrated on the significance of exchange instability, interwar trade practices, and the reduction of capital movements to the disappearance of trade. Institutions provided at Bretton Woods should, through their effects on these, improve trade.

In the space that remains, I deal with some important problems that are related to the trade and capital movements of the interwar period. First, there is the perennial scarcity of dollars. Foreigners obtain dollars primarily through the sale of goods or through capital movements from this country. Our \$22,000,000,000 of gold are evidence of the scarcity of dollars: unable to obtain dollars, our debtors pay us in gold. Our tariff policies, which keep goods out, and our haphazard lending policies, have contributed to the scarcity of dollars. Actually, in the years 1934-41, this country, the richest in the world, imported

\$7,000,000,000 of capital from the impoverished world. I dwell upon this subject because unless the flow of dollars is once more adequate, exchange instability, bilateralism, one-way gold movements, and collapse of trade are bound to follow. When a foreign country cannot obtain dollars to cover its requirements, it has recourse to exchange control (rationing of dollars), exchange depreciation (increasing the price of imports and reducing export prices), or to bilateral agreements (we shall buy from you if you buy from us).

Can Bretton Woods solve the dollar problem? Through loans to nations short of dollars, the institutions set up by Bretton Woods will improve the competitive position of these countries. What is required is that their position improve relative to ours. They must sell more and at lower prices. Thus they will obtain more dollars and need relatively fewer dollars. We are too strong; our products are too much in demand; and we are relatively not greatly dependent on foreign sources of supply. Relative improvement of foreign economic strength is, let us emphasize, quite consistent with absolute improvement in this country and greater world trade for all.

VII

Second, we should consider the costs of carrying out the Bretton Woods agreements. Even the most pessimistic are dubious that we shall lose as much as \$6,000,000,000 over a period of 12 years. Our losses are likely to be considerably less, and against these losses are to be put the much greater gains in trade, income, and especially political stability and probable outlay for war. The total sum of \$6,000,000,000 to be spent in a campaign for peace is small indeed as compared with \$300,000,000,000 actually spent on war. Let us not forget, moreover, that over a period of about 20 years our imports of gold have averaged around \$1,000,000,000 per year. This import of gold has cost us \$20,000,000,000 of goods and capital—that is, right to future goods. Are these losses any less real than the loss of \$6,000,000,000 under Bretton Woods, if realized? How much of this gold will foreign nations buy from us in the next 20 years? They cannot eat gold, and gold provides neither warmth nor shelter. What we dispose of 50 years from now is of little value today.

I am, in short, not concerned over the costs of the Bretton Woods program. They are likely to be small—it will be unexpected if they average a few hundred million dollars annually—and the costs involved are small compared to the costs of alternatives. Either we can trade as in the past and continue to import a billion dollars of gold annually—a process that is about as costly as the loss of a billion dollars annually. Or we can provide a mechanism for correcting the one-sided gold movements—as proposed at Bretton Woods.

VIII

What if, as seems most unlikely, Bretton Woods should have failed of enactment? We shall then be confronted with exchange depreciation, exchange control clearing agreements, and the whole arsenal of Fascist international economic techniques. Curiously enough, in this country the so-called planners favor Bretton Woods. (And many others besides. Ninety percent of the economists of the United States, replying to a poll on Bretton Woods, approved the Bretton Woods program.) In contrast, however, in England it is the planners especially who oppose Bretton Woods. Their opposition stems from a fear that Bretton Woods would stop them from introducing the degree of planning which they think is required. They want absolute freedom to manipulate the supply of money and exchanges. They will be relieved if this country turn its back on Bretton Woods.

IX

Finally, let us never lose sight of the fact that Bretton Woods is a bargain. This country needed and asked for relative exchange stability, and multilateral trade practices, because we had not fared too well under the bilateralism of the thirties. Most of the rest of the world insisted upon freedom to manufacture the amount of money which their domestic economies seemed to require. To them, money was a means to jobs and utilization of resources. From their viewpoint, any restraints imposed by exchange stability might be at the expense of jobs.

A compromise was made at Bretton Woods: The countries intent on free monetary policies agreed to some restrictions; but in return they insisted upon the availability of help in case their domestic policies embarrassed them. This help,

if it is made available, should not be restricted by conditions which impair the sovereign rights of the participating nations.

In short, Hot Springs, Dumbarton Oaks, Bretton Woods, and San Francisco form a mosaic of international cooperation and peace. We can now choose the road to relative exchange stability, more trade, higher employment, and higher standards of living, or the road to bilateralism, economic warfare, reduced standards of living and, ultimately, World War III. The broad issues are plain to every intelligent layman, and he would do well to leave unimportant technical flaws to the economists.

PERCY L. GREAVES, Jr.,
New York 1, N. Y., June 25, 1945.

Senator ROBERT A. TAFT,
Senate Building, Washington, D. C.

DEAR SENATOR: Many thanks for the time you and your fellow committee members gave us last Thursday. I hope our contribution was of some assistance to you.

I shall send Mr. Smith a copy of the Bretton Woods analysis I made for the use of the National Economic Council. However, in view of Professor Williams' testimony concerning England's needs, I should like to call your attention to one section that was not put in the record.

"Article V, section 4 provides a waiver of 'any of the conditions prescribed' and therefore could permit higher borrowings in the first year.

"Here is just one way it might happen. Twelve billion pounds sterling are frozen or blocked in England; that is, the owners outside of England can't get them because of exchange controls. These owners are people of almost every nation. They want their money for rehabilitation or development. England can't get it to them without endangering the pound's value.

"Neither England nor the owners want to see the pound lose its present pegged international value. So suppose they vote that the fund lend dollars against the blocked pounds. The fund's dollars would be gone in 24 hours."

Sincerely yours,

PERCY L. GREAVES, Jr.

STATEMENT OF MRS. AGNES WATERS, WASHINGTON, D. C.

To: The Banking and Currency Committee of the United States Senate.

From: Mrs. Agnes Waters, Washington, D. C., only woman candidate for President of the United States and legislative representative of millions of mothers of America whose boys and girls are in the armed services, dying in the war.

I represent the National Blue Star Mothers of America whose pensions would be wiped out with this bill.

In opposition to the so-called Bretton Woods bill. I am the widow of a United States veteran and the mother of a United States soldier, and I speak for millions of other widows and mothers opposed to this bill. I oppose this bill on the ground that it is a threat to the security of the United States of America. It would destroy the widows' and orphans' pensions, and wipe out the soldiers' benefits. It would finance a world government and destroy the sovereign rights of this our beloved Republic. It would divest this Nation not only of millions of dollars in gold for the international bankers, but it would bankrupt the United States and set-up a world currency to take the place of our good old American dollars and it would make our United States currency worthless and useless and it would destroy our financial foundations and make our United States bonds and other securities valueless, and it would not only destroy this Nation financially, but it would make starvation to stalk our land and to destroy our great American people. I charge that this bill would wipe out the pensions and benefits of our boys. I charge that this bill is a part of an international plan and is a part of a world plot to knock down this Republic and to destroy every nation the world over so as to build a world government for the Socialist Soviet Republics, such as is now being done in San Francisco, and to make of this Nation a feeding trough for the have-nots of the world. This is the plan of Lenin for world domination for 1940 and this war is not a war, but is a world revolution for communism. I saw these so-called world savers at work trying to wreck this Republic with these bills as long ago as 1939. I was present at the Shoreham

Hotel in April 1939 when the Reds met and blueprinted this plan to wreck America. And at that time I so notified the United States Senate of these plans. I warned the Senate first in 1939 that 100 witnesses for the repeal of the embargo who appeared before the House Foreign Affairs Committee and before the Senate Foreign Relations Committee in April 1939 were members of the Third International's "One Hundred Club" who met at the Shoreham Hotel and blueprinted these steps to war and world domination by Communists. I demand that this bill, Bretton Woods, be killed. I also demand that the San Francisco World Charter stuff be thrown out and this bloody revolution be stopped. Bring home our boys.

AGNES WATERS.

THE VIEWS OF JACOB Viner, UNIVERSITY OF CHICAGO

It is proper, especially for economists, to appraise the Bretton Woods agreements from a strictly technical point of view, in terms of their ideal appropriateness, independent of special time and political circumstance, for their special technical purposes. But final judgment should be based on a much broader, and less exacting range of considerations. These agreements were but a first installment of what, if the negotiations progress favorably, will undoubtedly be a long series. The negotiators must obtain complete international agreement on rules and agencies in the face of only fractional agreement on principles and objectives. That agreement should be reached is as important as the content of such agreement.

The American official objectives with respect to the pattern of postwar international economic relations are in their general outlines clear. These objectives are a postwar world in which: trade barriers will be as moderate and as non-discriminatory as governments and peoples, including our own, can be persuaded to make them; exchange rates between national currencies will have assured stability; currencies will be freely convertible into each other, at least with respect to transactions on ordinary current account; long-term capital will move from capital-rich to capital-poor countries in quantities and on terms mutually satisfactory to creditor and debtor; ways of international collaboration aiming at maintenance of high-level employment will be devised; abundant scope will be preserved for the exercise in the international economic field of competitive private enterprise, subject to standards and rules intended to prevent abuse but not to stifle and suppress private initiative.

The American public, no doubt, on the whole shares these objectives, but how ardently and unqualifiedly, with what degree of willingness to undertake the obligations essential for even their partial realization, remains wholly uncertain. It is abundantly clear, however, that few other countries want many of these things badly or soon, that some countries do not want some of them at all and will accept them only under pressure or for compensation, and that most countries will not assume firm and specific commitments even to move in the direction of these objectives until the whole American program becomes visible in some detail and the extent and reliability of American commitment thereto can be safely estimated.

SCOPE OF THE PROGRAM

The American public seems to have little awareness of the scope of the official American program and of the magnitude of the stakes involved in its success or failure. The United States is in effect, and, as concerns leadership, very nearly singlehanded, trying to reverse the whole trend of policy and practice of the world at large in the field of international economic relations since 1914 and especially in the ill-fated years since 1929. It is attempting to do this, moreover, in the face of a skeptical world, undecided as to its objectives, and in particular lacking solid faith in the virtues of a pattern of international economic collaboration which can be reconciled with difficulty, if at all, with the comprehensive national planning of domestic economies to which most of the Governments are strongly committed. The really important decision still to be made by us is whether we really wish these objectives to be seriously pursued. The question of the most effective ways and means for promoting their realization is only of secondary importance.

This paper's primary concern is the contribution which acceptance of the Bretton Woods draft agreements would make to the attainment of a pattern of

postwar international economic relations such as our Government is aiming at. Its emphasis is therefore wholly on the long-run future.

The Bretton Woods agreements have been criticized on the ground that they should have been preceded by agreements on other more fundamental matters. But the Bretton Woods agreements are patently but the first segment of a larger whole. The order of tentative negotiation has probably been fortuitous, and in any case does not seem to be a matter of great import. The ideal procedure would perhaps have been to negotiate the whole program simultaneously, but it would have been a wholly impracticable procedure, if for no other reason than that most countries have insufficient qualified personnel available for such an enterprise and must use the same talent over and over again on different parts of the program. Whatever other part of the program had been first negotiated, those determined to find fault could with equal force claim that it could not be judged until we knew what the pattern of international monetary and financial relations was to be. We can rest assured that even if our Government should have any intentions of bringing the Bretton Woods agreements into effect before substantial progress had been made in the formulation and negotiation of the remainder of the program, other governments would insist upon delay.

The strictly monetary provisions of the International Monetary Fund agreement deal with only two essential matters: (a) the rules which should govern national foreign-exchange policies, and (b) the institutional arrangements for applying these rules and for providing financial aid to enable countries to conform to these rules without undue burdens on their economies. As between the rules and the institutional arrangements, it is the rules which are by far the more fundamental, but the tendency of American public opinion to take the principles implied by these rules for granted as in the American and the world interest and to be blind to the extent to which they are questioned or rejected outright outside the United States has led American discussion to be overwhelmingly concentrated on the institutional arrangements.

THE PROBLEM OF EXCHANGE STABILITY

It is one of the stated purposes of the fund "to promote exchange stability." But as that extremely ambiguous term "stability" is nowhere defined in the text of the agreement, the only safe procedure in interpreting it is to examine the specific obligations with respect to the exchanges which member countries must assume. Upon entrance into the fund, each country¹ will be required to maintain a par value for its currency in terms of gold fixed initially at the rate prevailing 60 days before entry into force of the agreement or, alternatively, at the option of the member or of the fund, at some other rate agreed upon between the fund and the member. To enforce actual adherence to authorized parities, each country is obliged to prevent exchange transactions within its territory at rates departing from parity, for spot exchange, by more than 1 percent in either direction.² Changes, upward or downward, in the exchange value of a particular member's currency may be made only on its initiative and only to correct a "fundamental disequilibrium" (not defined). For changes not exceeding cumulatively 10 percent of the initial par value the fund may not object. For greater cumulative changes the fund must not object if it is satisfied that it is necessary to correct a fundamental disequilibrium, and in particular if so satisfied must not object "because of the domestic, social, or political policies of the member proposing the change."

New national economic policies of wide scope are in modern times always presented as "social" policies. Whether so presented or not, they are always "political" policies. They are often such as to have "fundamental disequilibrium" in the international balance of payments as a byproduct unless compensatory action is taken in the form of drastic tariff increases or exchange control or exchange depreciation. In such cases, the Bretton Woods agreements will not stand in the way of resort to exchange depreciation. The role of the fund with respect to exchange-rate changes will probably be largely confined to aiding countries in avoiding undesired exchange depreciations, in requiring members to consult the fund before committing themselves to any exchange depreciations going beyond 10 percent of the initial rate, and to arranging that when exchange

¹ There are special provisions for occupied countries.

² It is to be hoped that this will not be interpreted to apply to small over-the-counter transactions.

depreciations do occur they shall be "orderly,"³ as noncontagious as possible, and as moderate as the countries concerned can be persuaded to make them.

This would be a substantial accomplishment. If it is much less than we seem to be promised in some of the language of the draft agreement and of supporting statements, it is much more than countries have ever committed themselves to in the past.

On the other hand, the agreement by implication gives more sanction to exchange-rate variation as a normal procedure for relieving pressure on international balances than was standard in the past or than I think we should welcome. Stronger commitments to exchange stability than those embodied in the agreement were presumably not obtainable. In other countries, these commitments are regarded as much too rigorous rather than as too lax. But if our Government would have preferred stronger provisions had they been procurable, I see good reason why it should say so when the time comes for signature of the agreement, or sooner.

Exchange stability can be maintained in form while absent in substance if exchange control prevents exchange transactions at the prescribed rates and in the desired quantities from being consummated. Exchange control also lends itself readily to use as an instrument of discrimination between countries, firms, individuals, as an aid to monopolistic bargaining, as a means of forcing lending on other countries, as an accessory to the defrauding of foreign creditors, as a promoter of bilateralism in trade, as a weapon of economic warfare, as an element in the process of transfer of control of the workings of the economic system from private hands to the State, and so forth, all of which, of course, have their defenders as well as their opponents.

THE PROBLEM OF EXCHANGE CONTROL

The draft Monetary Fund agreement proposes both to impose new international restrictions on and to grant new international sanctions to exchange control. The agreement provides that each member country shall maintain free convertibility for current account purposes at the parity rates between its currency and the currencies of other members. On the other hand, the whole spirit and trend of the fund agreement is definitely favorable to exchange control as far as transactions on capital account are concerned. Debtors to the fund must not make net use of the fund's resources to meet a large or sustained outflow of capital and upon request of the fund must set up appropriate controls to prevent such use. Members are expressly authorized to exercise such controls as are "necessary [undefined] to regulate international capital movements," but must not exercise these controls in "a manner which will restrict payments for current transactions or which will unduly [undefined] delay transfers of funds in settlement of commitments."

If the fund, moreover, declares a particular currency to be "scarce," any member country becomes free to restrict exchange operations in that currency by any means it pleases, even with respect to current account transactions, provided only that the limitations on such transactions "shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question and * * * shall be relaxed and removed as rapidly as conditions permit." Prior engagements not to restrict exchange transactions (the exchange control provisions in Hull trade agreements would be relevant here) must not be invoked in such manner as to check the operation of these provisions. Furthermore, "exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this agreement shall be unenforceable in the territories of any member," members may agree to cooperate in measures to make the exchange control regulations of either member more effective; and the provision (art. VIII, sec. 2) which prohibits members from imposing restrictions on payments for current international transactions "without the approval of the fund" may be intended to be interpreted as constituting a wide-open authorization of the fund to grant such approval.

I am not enamored of these provisions. But my fears of exchange control in most of its extant and prospective forms would be regarded as morbid by

³ It is arguable that no types of exchange depreciation are as capable of producing economic disorder, other things equal, as "orderly" ones thoughtfully planned ahead in international mass meeting or managed in accordance with some fixed formula.

many of my professional colleagues and, no doubt, by all the exchange controllers who have been at it long enough to acquire proper pride in their craft. I do not know whether these provisions were pressed on reluctant American negotiators. Similar provisions in earlier American drafts seem to have aroused no criticism from anyone else except on the ground that they were too restrictive of exchange control. As far as transactions on capital account are concerned, there have existed in the past no contractual limitations whatsoever on exchange control outside of temporary and limited bilateral agreements, so that those contained in the draft Monetary Fund agreement are a net contribution⁴ to persist in my whistling in the face of the wind of the future, I regret that the draft agreement did not at least suggest that exchange controls, even if limited to capital transactions, are not inherently beyond need of international supervision and regulation. If there is to be hope of a revival of international private investment on a large scale, a supplementary international agreement will now be more than ever necessary to formulate a code defining the rights of the international private creditor. And if exchange transactions on current account are not to be hampered or restricted by exchange controls purporting to be capital controls, the governing body of the Monetary Fund will have to take seriously the practical and logical difficulties involved in determining whether particular exchange transactions are on "current" or on "capital" account.

The scarce-currency provisions seem to me to be more easily defended. If a particular country's currency is generally scarce, restrictions in the form of exchange licenses or import licenses applied only against transactions with that country seem clearly preferable to the most likely alternatives, such as exchange depreciation or general increases in trade barriers, which would have equally unfavorable impacts on the trade of countries whose currencies were not scarce as on the scarce-currency country. But in spite of the probability that 43 countries can't all be wrong, the agreement might well have made provision for the exceptional case where a country's currency becomes generally scarce, not because that country is deflating or setting up greater trade barriers or drawing too heavily on the capital of the outside world, but because it is maintaining its economy on an even keel while the rest of the world is embarked on an inflationary spree. Why put such a country into monetary quarantine? Nor can I see why it would not have been proper to provide that the form and degree of restrictive regulation permitted with respect to scarce currencies should be subject to fund approval (the scarce-currency country, perhaps, being made ineligible to vote on this issue) and to limit the right to apply such regulation to countries which are not only short of the scarce currency but are also currently not having a net accrual of gold. A still better treatment of the problem would have been to require the scarce-currency country to appreciate its currency, thus leaving unimpaired whatever general code of restrictions on discriminatory trade regulation, exchange controls, and quantitative trade restrictions may have been laboriously built up through other multinational or bilateral agreements. But since it is commonly assumed, rightly or wrongly, that in the future it is the dollar which is most likely to become generally scarce, I support that if such a proposal had been made the American negotiators would have felt obliged to oppose it in defense of American monetary sovereignty.

The Monetary Fund agreement provides also for financial aid from the resources of the fund to members in need of such aid for external payment purposes. Without access to assured external credit facilities far beyond those available in the past, it is wishful thinking to expect most of the countries of the postwar world to be willing to accept serious stable-exchange and free-exchange-market commitments, to say nothing of obligating themselves to return to a rigid international gold-standard basis. Were it proper to regard the Monetary Fund negotiations as negotiations between the United States on the one hand and the rest of the United Nations on the other hand, the bargain tentatively reached is obviously one under which the other countries make commitments with respect to exchange stability and freedom of exchange markets from restrictive controls while we in turn pledge financial aid to countries needing it to carry out these commitments.

⁴Normal short-term banking and credit facilities, payments of moderate amount for amortization of loans or for depreciation of direct investments, and moderate remittances for family living expenses are by definition excluded from "capital account" transactions in the draft agreement, and therefore made subject to the restrictions on exchange control with respect to "current account" transactions.

CRITICISMS OF THE FUND

The Monetary fund agreement has in the United States been severely criticized in certain influential quarters on the ground that: (a) the proposed resources of the fund are unnecessarily large; (b) the American contribution to the fund's resources is disproportionately large; (c) access to the fund's resources is made too easy for undeserving members. These criticisms will be taken up in the order indicated, although without any intention of suggesting that this is also the order of their importance.

(a) Is the fund too large for its purposes? If all of the United Nations participate, the aggregate "resources" of the fund will be about \$9,000,000,000. For a pure stabilization fund, limited in its operations to granting only very short-term credits to tide countries in normal times over casual or fortuitous deficits in their current international balances of payments, genuinely lendable capital resources of \$9,000,000,000 would obviously be far greater than could conceivably be needed. But this would be a misleading interpretation both of the functions of the fund and of the nature of its resources.

In the first place, the fund is more than a pure stabilization fund designed to operate under normal conditions. It is intended also to operate during the transition period from war conditions to stable peacetime conditions, a period when any approach to exchange stability and free-exchange markets is likely to be impossible without large-scale aid to the countries under strain from the countries with internationally liquid assets and favorable balances of payments. The credits it may grant, moreover, are not limited as to maturity, except indirectly by the requirement that "charges" shall be imposed graded according to the percentage of quota used and the length of the period of use. Even for a country using over three-fourths of its permitted borrowing quota, the charges do not reach 5 percent per annum until the seventh year of such use, and for use of the first quarter of a quota the charges reach 5 percent only in the tenth year. The Monetary Fund must be regarded as designed to be not only a monetary stabilization fund for normal times, but also an intermediate credit fund for both the transition period and subsequently.⁵ That these very diverse functions should be merged in a single agency and left wholly undifferentiated in its charter, has from the first seemed to me unwise. But given that the agency is to be set up in this manner, perhaps for good political or other reasons which in due time will be made known, \$9,000,000,000 would not be obviously excessive as compared to the possible size of the fund's task.

Secondly, the \$9,000,000,000 figure gives an exaggerated representation of the true lendable resources of the fund. The fund is set up as a "mutual credit" fund, including in its membership both prospective creditors and prospective debtors, and the \$9,000,000,000 figure represents merely the mechanical addition of the maximum lines of credit with the fund available to the respective members. Moreover, the fund need provide credits in terms of particular currencies only to the extent of its holdings of such currencies, and the member country quotas represent their maximum obligations to contribute to the resources of the fund as well as their maximum rights of recourse to the fund for credit. The maximum lending power of the fund in United States dollars and gold will not much exceed \$3,000,000,000, and \$5,000,000,000 would appear to be the theoretical maximum figure, altogether unlikely to be reached, for aggregate net indebtedness of all countries debtor to the fund. The burden of proof is on those who, professing sympathy with the objectives of the fund, nevertheless hold that these are excessive figures.

(b) Is the proposed American contribution to the fund, i. e., 2.75 billion dollars excessive? If there is belief in the objectives of the fund, there should be willingness to endow it with the resources necessary for its proper functioning. There is general agreement that at least during the transition period what will be in especially short supply will be United States dollars or its practical equivalent, gold. Aside from the United States, there are nowhere any large stocks of internationally liquid assets clearly in excess of what the holding countries may need to meet their urgent external obligations in the transition period. Given the actual distribution of disposable internationally liquid assets, the American contribution strikes me as a very moderate one. Liquid assets cannot be expected to be provided by those whose international lack of liquidity the fund

⁵ That the fund is not designed as a pure monetary stabilization fund, if not sufficiently obvious otherwise, is surely demonstrated by the participation of the Soviet Union with a quota of \$1,200,000,000, given the nature of Soviet monetary relations with other countries.

is intended to relieve. It is not an irrelevancy to point out that, in the 15 months following the armistice of 1918, the United States extended financial assistance to other countries to an amount well in excess of \$4,000,000,000, and that all major drains on the gold and other internationally liquid assets of Europe in modern times have been to the United States and, except for a few of the years in the 1930's, have been predominantly the consequence of the unstable operation of our own economy and the restrictionist character of our own commercial policy.

It may well turn out that the fund is larger than will be needed after the transition period is over, especially if international mobility of private capital reestablishes itself and if trade barriers return to reasonably moderate levels. If so, it will be easy then to reduce the scale of contributions to the fund, including the American contribution.⁶

(c) Is access to the funds resources made too easy for undeserving members? There is nothing in past experience to warrant the assumption that no member countries will ever mismanage their monetary and financial affairs. Mismanagement may be deflationary as well as inflationary. But it is only inflationary mismanagement which will tend to result in calls upon the fund for aid, and the critics who are foremost in criticizing the fund on this score no doubt have only this type of mismanagement in mind. There are obvious difficulties in the way of a diplomatic agreement providing for overt rating of sovereign countries according to their credit worthiness. Moreover, as far as the monetary-stabilization function of the fund is concerned, much of its potentialities would be destroyed if the member countries could not count in advance on immediate access to aid when needed for legitimate exchange stabilization purposes. On the other hand, to grant completely automatic access to what are essentially intermediate-term credits without any discretion on the part of the credit agency to limit or to withhold would appear to be unreasonable disregard of valid prudential considerations. Given the plural-purpose character of the fund, it is not to be expected that there should have been found a logical and generally accepted formula which exactly and demonstrably hits the golden mean between undue laxity and undue restrictiveness. Is there valid ground, however, for maintaining that its provisions err grossly on the side of laxity? As against this proposition, it can at least be said that the right to net use of the resources of the fund is never wholly automatic. Several provisions of the agreement endow the management of the fund with discretionary powers to restrict such use, which may in practice prove ample for all purposes. The more important of these are as follows:

(a) The fund need not grant the request of any member that it be given the currency of another member from the fund in exchange for its own currency if, without such exchange, the funds' holdings of such member's currency exceeds, or with such exchange would exceed, its holdings 12 months previous by more than 25 percent of its quota.⁷

(b) Members may not make net use of the funds's resources to meet a large or sustained outflow of capital.

(c) When a currency has been declared to be scarce, the fund is authorized to allocate its supply of the scarce currency with due regard to the relative needs of members.

(d) "Whenever the fund is of the opinion that any member is using the resources of the fund in a manner contrary to the purposes of the fund," it may limit or stop altogether the use by that member of the resources of the fund. At least one of the stated purposes of the fund, "to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members," would seem to be pertinent in this connection. Inflationary monetary or fiscal practices, internal political commotion, the maintenance of the national

⁶ I put no stock in the forecasts of a "chronic" shortage of dollars in the post-transition period. It could occur if the trend of foreign demand for American goods were steadily rising relative to the trend of American demand for foreign goods, due to inventions, the trend of tastes, etc., or if the trend of fiscal or tariff policies in the United States as compared to the outside world were such as to lead consistently to an undervalued dollar in the exchange markets at the prevailing, presumably stable, exchange rates. Without an elaborate set of crystal glasses, I don't see how any confident forecasts can be made as to the net outcome of such a complex of utterly unpredictable factors. Were it not for our huge accumulation of gold, it seems to me that exchange pressure on the dollar would be just as likely to prevail in the post-transition period as "dollar scarcity" for all we can now foresee.

⁷ Art. V, sec. 3 (iii). This is not exactly what the provisions says, but it seems to be what it was intended to say.

currency on an overvalued exchange level, all of these would both operate to create disequilibrium in the international balances of payments of members and to push the country in question into heavy use of the fund's resources. Other provisions of the agreement would prevent the fund, in the case of an overvalued currency, from asking for a devaluation, and in the other cases, from disapproving an exchange depreciation proposed by the country in question if the exchange pressure were the result of measures taken to carry out a social or political policy. But there would seem to be nothing in the agreement to prevent the fund in any of these cases from refusing further access to the use of its resources.

(e) "The fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the fund, they would lead to use of the resources of the fund in a manner contrary to the purposes of this agreement or prejudicial to the fund or the members." Since the period of postponement is not specified, this would seem to give to the fund complete discretionary power to protect itself against all abuses.

These provisions (and other minor ones), taken together and reasonably interpreted, should provide the management of the fund with sufficient authority to protect the fund against serious misuse of its resources under almost all conceivable eventualities. The fund despite these provisions may still fall short of meeting what is to some critics an essential requirement of a respectable financial institution, namely, that all its routine operations shall involve a cold-eyed dispenser of funds sitting at one side of a desk and a humble supplicant standing hat in hand at the other side. But if we are to have intergovernmental financial institutions, we will have to reconcile ourselves to the necessity of permitting them to depart somewhat from the conventional standards and procedures of private finance. It should be noted, moreover, that the fund is to be so constituted that it cannot run great financial risks whatever may be the credit worthiness of its members. The financial liabilities to the fund of members consist of the obligations: (a) To permit the fund to dispose of its holdings of their currencies; and (b) to compensate the fund for any exchange loss resulting from such disposal. As far as (a) is concerned, default short of repudiation is not technically possible, and repudiation is a grave step which, I believe, no debtor nation has ever taken except in connection with a revolutionary change in government.

THE BANK

The draft agreement for an International Reconstruction and Development Bank is a much less complex document and has aroused much less criticism than the Monetary Fund agreement. It can, therefore, be dealt with more briefly. The essential function of the bank will be to provide international financing for specific long-term projects to the extent that such projects involve directly or indirectly (if identifiable) imports by the borrowing country. The financing is to be provided either directly from the resources of the bank, or from the proceeds of the issue of its own debentures by the bank, or through guaranty by the bank of loans floated by the borrowers in the private money market. The bank may loan to governments or firms, but all the loans it makes or guarantees to firms must also carry the guaranty of their governments. The authorized capital of the bank is to be 10 billion dollars, of which only 20 percent is to be paid in or subject to call for the regular purposes of the bank, and the remainder is to be subject to call only when and as needed to meet obligations of the bank resulting from defaults of debtors and their guarantors. The aggregate commitments of the bank are limited to a 1-to-1 ratio to its aggregate authorized capital. Member countries share in the risks in proportion to their capital subscriptions to the bank. The bank can operate only for the benefit of members and only members of the Monetary Fund are eligible for membership in the bank.

The bank is to be so set up as to permit in each specific transaction and in the aggregate transactions of the bank an altogether different allocation as between the member countries of, respectively, the assumption of capital risks, the provision of actual financing, and the supply of the capital goods used in the projects financed.

Tied-loan clauses are not permitted in connection with either the direct loans of the bank or those guaranteed by it. Approval of the member countries concerned is required, however, before the bank can make a loan from its holdings of a particular country's currency obtained by it as subscription to its capital, and also before the bank can issue its debentures or guarantee a loan to be sold in a particular country or to be denominated in the currency of a particular country. Member countries, consequently, can restrict their real participation in the

financing of the bank's operations to such transactions as will involve major expenditure of the proceeds of the loans within their own territory. The bank, in fact, throughout the greater part of its possible field of operations can operate only with the consent of the particular countries directly concerned as creditors, and will constitute a genuine multinational pooling of capital resources only if and as the individual member countries permit it. Where the bank is permitted to operate at all, however, there will be a genuine multinational pooling of risk assumption, since all member countries will share in all risks in proportion to their subscription to the bank's capital.

The agreement is drafted on the realistic assumption that free reciprocal convertibility of the various currencies cannot be taken for granted. It contains carefully drawn provisions for the maintenance of the currency identity of the funds it handles, and there are also provisions of the gold-clause or gold-value-clause type to protect the bank against loss as the result of exchange depreciation.

There is no automatic access to the bank's facilities. Its board has complete discretion to refuse any proposition made to it. The bank is to act only as a residual lending agency, for it is required not to lend nor to guarantee any loan unless it is satisfied that the borrower would be unable otherwise to obtain the loan under reasonable conditions. It is required "to pay due regard" to prospects of repayment and to "act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole." The presence in the bank agreement of provisions such as these and their absence from the Monetary Fund agreement no doubt goes far to explain the less frigid reception given to the bank agreement by American financial circles. In any case, there is wide agreement that the design for the bank is an ingenious and intelligent one, and that if circumstances are even moderately favorable it will have a very useful function to perform in reviving the essential process of international long-term investment. Its special field of operation will be in areas and types of investment where capital needs are especially great but the absence of established credit reputation or of adequate credit facilities or of both makes reliance on unaided private investment at least temporarily impracticable. Risks of capital loss will, of course, be incurred, but the risks of economic loss to the world as a whole will be still greater if this responsibility is evaded.

Some of the details of the bank agreement have been and can be questioned. It has been maintained, for instance, to my inexperienced judgment with some plausibility, that the requirement with respect to loans guaranteed by the bank that it reserve the right to redeem such loans at par before maturity in case of default on interest by the borrower will have the effect of lessening the marketability of such loans where the appeal to the investor lies wholly or predominantly in the bank's guaranty and not at all or only slightly in the credit standing of the borrower. On loans guaranteed by the bank, the commission which the bank may charge is limited to from 1 to 1½ percent per annum on the amount of the loan outstanding. It will be only low-grade risks in terms of money market ratings who will have strong incentives to use the bank's guaranty facilities.⁹ In such cases the rate at which the guaranteed bonds will be salable will depend much more on the credit rating of the bank—which should be very high—than on that of the borrower. This may result in financially weak countries being able to do such of their financing as they are permitted to do through the bank on better terms than those available to many of the countries which are obliged to share the risk of loss to the bank if its guarantee commissions prove too low. The wisdom of such limitation on the commission which the bank may charge seems debatable. But these are not major issues.

There remains the major question of the adequacy of the bank's resources for its purposes and of the adequacy of the resources of the bank and the fund (and UNRRA) combined to serve such urgent international postwar financial needs as private capital and unilateral government loans cannot be relied upon to meet.

Critics of the Bretton Woods agreements are referring to both fund and bank as "grandiose" institutions. Even the proposal that the United States can adequately do its part in financing the restoration of world prosperity with a fund of \$500,000,000 in the manner in which Poland was "saved" after the last

⁹ I take it for granted that countries with high credit rating will feel that resort to the bank's guaranty will impair such rating and also that the bank will not regard as entitled to the use of its facilities countries able to do their financing in the private investment market at moderate rates.

war merely by the aid of a few million dollars and some good moral advice has been taken seriously in some quarters. If we assume that the loans which the bank will make or guarantee will for the most part run longer than 10 years and that the bank will not want to let itself run dry of financing facilities at any time, it will not be able to make or guarantee loans at a much greater rate than \$1,000,000,000 per year. Instead of regarding the fund and bank proposals as grandiose, we should seriously consider whether the financing agencies planned so far are adequate to meet the urgent capital needs of the transition period. In particular, the bank and the fund together do not seem to me to provide Great Britain with the assured line of credit it will need if it is with any degree of safety to follow a free exchange, multilateral trading, nondiscriminatory economic policy in the postwar period rather than a Shachtian one.

We are to make an investment in the fund and the bank not merely in the hope that they will directly and indirectly promote American employment and prosperity by promoting American exports but in the grander hope that with the leadership our dollars confer upon us we may succeed in establishing a postwar pattern of international economic cooperation and collaboration favorable to world prosperity and to world peace. It is largely an American blueprint for the postwar economic world which is in process of being drawn. It seems to me a magnificent blueprint. If it is to be rejected, to be torn into shreds, at least let it not be by American hands.

THE AUTHOR

Born: Montreal, Canada, May 3, 1892. Education: Bachelor of arts, McGill University, 1914; master of arts, Harvard, 1915, doctor of philosophy, 1922; doctor of laws, Lawrence College, Appleton, Wis., 1941. Instructor in economics, University of Chicago, 1916-17; Special expert, United States Tariff Commission, 1917-19, and United States Shipping Board, part of 1918; with University of Chicago from 1919 as assistant professor of economics until 1923, associate professor 1923-25, professor 1925, Morton Hull distinguished-service professor since 1940; visiting professor, Inst. Universitaire de Hautes Etudes Internationales, Geneva, Switzerland, 1930-31 and 1933-34; visiting professor, Yale University, 1942-43; special assistant to Secretary of the Treasury, March to December 1934. Consulting expert, United States Treasury, 1935-39; special assistant to Secretary of the Treasury, parts of 1939 and 1942. Fellow in American Academy of Arts and Sciences, American Philosophical Society; member of American Economic Association (president, 1939). Author: *Dumping—A Problem in International Trade*, 1923; *Canada's Balance of International Indebtedness*, 1924; *Studies in the Theory of International Trade*, 1937. Editor of *Journal of Political Economy*.

A STATEMENT IN OPPOSITION TO S. 540 AND H. R. 2211 SUBMITTED BY JOHN B. TREVOR ON BEHALF OF THE AMERICAN COALITION TO THE COMMITTEE ON BANKING AND CURRENCY OF THE UNITED STATES SENATE

MARCH 6, 1945.

HON. ROBERT F. WAGNER,

Chairman, Committee on Banking and Currency,

United States Senate, Washington, D. S.

MR. CHAIRMAN: Permit me to submit for the consideration of the Committee on Banking and Currency of the Senate a resolution unanimously adopted at the last annual convention of the American Coalition, held in Washington, D. C., on January 12, 1945, in opposition to the Bretton Woods Agreements.

"BRETTON WOODS AGREEMENTS

"Whereas the monetary stability of a nation's currency is dependent upon its internal economic strength; and

"Whereas the economic strength of the United States is dependent upon the maintenance of our existing tariff laws; and

"Whereas the two agreements adopted by the delegates to the United Nations Monetary Conference at Bretton Woods give power to international bodies to nullify our tariff laws and thus constitute a grave threat to the monetary stability of the United States dollar; Be it

"Resolved, That the American Coalition, in annual convention assembled, is opposed to the ratification of the Bretton Woods Agreements for the establishment of an International Monetary Fund and an International Bank for Reconstruction and Development, or the adoption of any other device for circumventing our tariff laws; and be it further

"Resolved, That the American Coalition, in annual convention assembled, holds that our existing tariff is essential for the protection of American labor from competition by the products of slave, compulsory, or other labor operating under conditions below the American standard of living."

With your permission also, Mr. Chairman, I would like to submit for the information of the committee, a statement which amplifies the argument set forth in the preamble of the resolution referred to above.

Before dealing specifically with the various phases of the legislation to implement the Bretton Woods Agreements, which are now before your committee, it seems to me proper to point out that in the President's message of February 12, which has given rise to the immediate consideration of S. 540, there is an inconsistency which demands some consideration.

In the third paragraph of the President's message, he says—" * * * we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation. The cornerstone for international political cooperation is the Dumbarton Oaks proposal for a permanent United Nations."

In a later paragraph, I find these words: "It is time for the United States to take the lead in establishing the principle of economic cooperation as the foundation for expanded world trade. *We propose to do this, not by setting up a super-government, but by international negotiation and agreement, directed to the improvement of the monetary institutions of the world and of the laws that govern trade.*" [Italics supplied.]

I do not see how the legislation now before the committee can be held to be other than a part of the foundation of a supergovernment notwithstanding the statement of the President, which I have just quoted from his message. I say this because an examination of the purposes of the Dumbarton Oaks Charter, chapter 1, paragraph 3, recites among its purposes, "to achieve international cooperation in the solution of international economic, social, and other humanitarian problems."

This paragraph of chapter 1 is amplified by section C, of chapter IX, of the charter, which sets forth the functions and powers of the Economic and Social Council. Section C, paragraph 1-c says that it is the purpose of the Economic and Social Council "to receive and consider reports from the economic, social, and other organizations or agencies brought into relationship with the Organization, and to coordinate their activities through consultations with, and recommendations to, such organization or agencies."

Section D, paragraph 1, amplifies this directive. It provides that "the Economic and Social Council should set up an economic commission, a social commission, and such other commissions as may be required. These commissions should consist of experts. There should be a permanent staff which should constitute a part of the Secretariat of the Organization."

Now, it is perfectly obvious that either there is going to be a definite conflict between the agency which S. 540 would set up, if passed by Congress, or it is going to be coordinated by the Economic and Social Council provided for under the Dumbarton Oaks Charter.

In a still later paragraph in the President's message, he enumerates a number of other proposals which he will shortly submit for your consideration. Among these are "the establishment of the Food and Agriculture Organization of the United Nations, broadening and strengthening of the Trade Agreements Act of 1943, international agreement for the reduction of trade barriers, the control of cartels, and the orderly marketing of world surpluses of certain commodities, a revision of the Export-Import Bank, and an international oil agreement, as well as proposals in the field of civil aviation, shipping, and radio and wire communications. It will also be necessary, of course, to repeal the Johnson Act," and then in the following paragraph the President makes this important assertion: "They are all parts of a consistent whole."

Under these circumstances, I think, I am justified in contending that the Committee on Banking and Currency must have all these matters before them, because they are all, as the President stated, "parts of a consistent whole," and

I believe they all relate to the creation of powers to be conferred upon a super-government, which is provided for in the charter evolved at Dumbarton Oaks.

In setting forth the dangers of considering S. 540 by itself, and not as a part of this consistent whole, I realize that I cannot elaborate on those other matters but must confine myself to a discussion of such features of the Bretton Woods Agreements as I believe are in themselves dangerous to our future welfare.

It can, I think, be stated as a political and economic axiom that the credit of a nation can only be determined by the action of its own government; in other words, the stability of the currency of any given country will depend not on the United States pouring out its wealth to support that government's finances, but upon the determination of the government of that country to live within its means, and to purchase only in foreign markets those commodities for which it can find the means of payment in an immediate future.

In 1933 the President in discussing monetary stabilization stated that old fetishes of so-called international bankers were being replaced by new policies. Among other things he said:

"The sound internal economic system of a nation is a greater factor in its well-being than the price of its currency in changing terms of the currencies of other nations.

"* * * Let me be frank in saying that the United States seeks the kind of dollar which a generation hence will have the same purchasing power and debt-paying power as the dollar value we hope to attain in the near future. That objective means more to the good of other nations than a fixed ratio for a month or two in terms of the pound or franc."

An objective study of the financial policies pursued by the nations of the world over the past 100 years does not afford much encouragement, in my opinion, for the belief that, speaking generally, the governments now bankrupt will suddenly reform and abandon the vicious practice which has been built up over many generations of piling debt upon debt and borrowing further to pay the interest upon these debts.

There is nothing, of course, in this legislation which sets up any agency which can control the action of any government along these lines. It may protest. It may withdraw support, but in the ultimate it is only the action of an individual government, which will determine whether or not the credit of that country is economically sound.

Before going further possibly I should point out that what I am leading up to is not advocacy of a total withdrawal of the United States from the international scene, but a suggestion that before we make commitments, we should examine as to how far we might be able to aid the situation by unilateral action, dealing with each specific case upon its merits.

Now, Mr. Chairman, to come down to certain provisions which seem to me particularly harmful, I will first state generally, that American interests are obviously not properly safeguarded in the legislation before you.

The Bretton Woods agreements are clearly treaties. Obviously legislation to implement treaties should not be considered by Congress until the treaties themselves have been ratified in accordance with the procedure laid down in the Constitution of the United States. This contention is fortified by the fact that the international oil agreement, which presumably is the one referred to by the President in his message urging immediate action upon the Bretton Woods agreements and characterized as a part "of a consistent whole," is now, according to the press, being considered by the Foreign Relations Committee of the Senate as a treaty.

As for the reservations embodied in sections 5 and 6, of S. 540, it should be noted that these reservations are not in the agreements, and, therefore, are not binding upon the representatives of the foreign nations who adhere to the agreements. The reservations as set forth in S. 540 are, therefore, merely advisory to the American representative who may be appointed to the board of directors of the fund, or of the bank. It would certainly appear possible, if not probable, that the United States could be committed to policies at variance with the reservations set forth in sections 5 and 6 of S. 540 if the American representative on the board of directors of the fund, or of the bank, should cast his vote contrary to those reservations. Such a vote would be binding regardless as to whether it was cast through error, negligence, or willful disregard to the reservations.

In article V of the Bretton Woods agreement for the establishment of the fund, you will observe that this agreement permits sound American assets to be sold for foreign paper money. Granted that the purpose of these agreements is

to establish foreign paper money on a sound basis I contend there is nothing in the history of the handling of foreign paper currency by the governments of issue which gives any assurance that in some unforeseen emergency which may arise, any one of the governments that may be a signatory to the agreements, may not by its own action completely vitiate the force and effect of anything that the international fund or the international bank can do.

In making this criticism of the operations of foreign governments, perhaps I should inject at this point a comment that it was not until the United States entered upon the program of devaluation of the United States dollar, that anyone could point a finger at our government and assert that it was not pledged to the principle set forth by Alexander Hamilton, that honesty is the best policy. We are not, I regret to say, in the picture now with clean hands.

However this may be, let me proceed: The bank agreement, article III, section 5, paragraph (a) forbids any requirement that a loan of American money shall be spent in the United States; in other words, the money which we advance cannot be earmarked for the development of American exports, which presumably is one of the reasons why we are considering this question at all.

It will be observed that under the provisions of article VII, section 2, the fund agreement compels the United States in effect to provide an unlimited market for the world's gold production. It is, of course, indisputable that our devaluation of the American gold dollar and the general policy which our Government has pursued in the purchase of gold at an inflated price has constituted what may be frankly regarded as an enormous subsidy to the British, and, probably, also to Soviet Russia. The British Empire, as the members of the committee well known, is one of the chief producers of gold in the world. Here, I would like to point out to the committee a fact which seems to me extremely important. It appears now to be the policy of the Soviet Government to make a showing of great amity for the United States, but in spite of our enormous contributions to their war effort, and I do not in any way desire to detract from the value of that effort, we have never yet been able to get any information from Moscow in regard to gold production in Russia. I think, Mr. Chairman, I am justified in saying that this information is vital to a determination of just such facts as you gentlemen are being asked to legislate upon today. In this connection let me refer the committee to page 87, of the January 1945 issue of the Federal Reserve Bulletin. It is there set forth that "No regular Government statistics on gold production in USSR are available. * * *" In other words, you are asked to draw a blank check for the benefit of the Soviet Government on the assurance that if the Soviet Government ratifies the Bretton Woods agreements, it will then tell you what the gold production of Soviet Russia is, or, at least, they will tell you what they will want you to think it is. I do not want to be sarcastic in reference to the Soviet Government, but members of the committee must be well aware that although we have been carrying on a combined military effort, American military observers have not been allowed to go to the Russian front and see what is actually going on, with the exception of some special occasions. Indeed, I understand our military missions in Rumania and Bulgaria were actually expelled by the commanders of the Russian forces in those areas.

It seems to me that a fair interpretation of the fund agreement is that article I, paragraphs 5 and 6, and article VI, section 1, paragraph (b), give the administrators of the fund power to block United States capital investments abroad under certain conditions, and conversely, the fund agreement, in my opinion, gives power to forbid the repayment of war debts, if the administrators of the fund should consider such repayments injurious. In this connection, of course, the committee will bear in mind that we are dealing with a long series of defaulting debtors, some of whose representatives in the past have characterized the United States as Uncle Shylock.

The bank agreement while ostensibly forbidding any loan of our funds without our consent, in reality, in my opinion, does not do so. I say this because the bank is not restricted in its power to buy gold with our funds invested in the bank.

Article IV, section 2, paragraph (a), provides (omitting irrelevant matter) that "All other currencies available to the bank including * * *, those obtained by the sale of gold, * * * shall be used or exchanged for other currencies or gold required in the operations of the bank without restriction by the members whose currencies are offered." It would seem that thus by the purchase of gold and its subsequent sale, our funds might legally be removed from our control. In addition to that, the committee will note that any gold we contributed would be immediately free of any restraints from the United States.

Now I come to the point which I think is potentially one of the most dangerous features of these agreements to our American economy. If the committee will refer to article IX, section 2, of the fund agreement, it will observe that:

"The fund shall possess full juridical personality, and, in particular, the capacity:

"1. To contract.

"2. To acquire and dispose of immovable and movable property.

"3. To institute legal proceedings."

The committee will also observe that the phraseology just quoted is identical with article VII, section 2, of the bank agreement, except, of course, that in the bank agreement the word "bank" is substituted for "fund."

Now let me point out, that in the discretion of the fund, under provision of article V, section 4, of the fund agreement, it is possible for a member to obtain foreign exchange in unlimited quantities, particularly if the member is willing to pledge collateral consisting of "acceptable assets."

Furthermore, the committee will note that the bank has broad power to make or guarantee loans, including those of foreign exchange, so it would appear that the bank also could require the pledge of collateral.

Let me quote further. Article IX, section 9, paragraph (a), of the fund states: "The fund, its assets, property, income, and its operations and transactions authorized by this agreement, shall be immune from all taxation and from all customs duties. * * *

This phraseology is identical with article VII, section 9, paragraph (a), of the bank agreement, except here again I call your attention to the fact that the word "bank" is substituted for the word "fund."

Permit me at this point to quote from an analysis of the Bretton Woods agreements which appears on page 6834, of the Congressional Record, of August 8, 1944:

"Thus both the fund and the bank have the power, through their authorized agents, to acquire movable property abroad, and bring such property into the United States and dispose of it without the payment of any customs duty.

"Specific examples of what might happen under these agreements could be multiplied indefinitely but one should suffice. In the case of the fund, assume that a British shoe manufacturer wishes dollars to buy American machinery. His Government applies to the fund paying in pounds supplied by the manufacturer, but also posting the manufacturer's collateral of 10,000 pairs of shoes, which he is unable to sell profitably in the United States because of our tariff. The machinery is bought, but the manufacturer is unable to supply his government with dollars to repurchase the pounds. The fund then could sell the shoes in the United States without paying the duty, thereby replenishing its supply of dollars, and thereupon return the pounds originally paid in by the manufacturer.

"The only difference in procedure by the bank would be that it would lend dollars at the commencement of the transaction so that the manufacturer would default on a loan, rather than on a contract to repurchase pounds with dollars, and the bank would reimburse itself from the proceeds of the collateral. The only sufferers in either arrangement would be the American shoemakers."

Allow me, Mr. Chairman, to suggest that while section 5, clause (b), of S. 540, may prevent any change in value of the American dollar in terms of gold under the provisions of the fund agreement, yet in terms of foreign currencies the fund can alter the value of the dollar to suit the pleasure of the majority of its members. This could be done by altering the gold par value of any or all foreign currencies.

The effectiveness of our tariff system could be destroyed by raising the relative value of the dollar which, while making it impossible for us to sell our exports abroad, would also enable foreign products to be sold in our markets without being seriously hampered by our tariff imposts.

Under article VII of the fund agreement, relating to scarce currencies, it also would be possible for the fund to authorize restrictions upon our export trade. Thus, in the Bretton Woods agreements there are at least two ways of circumventing our tariff laws and of limiting our export trade so that it is evident that almost complete control of our trade, both domestic and foreign, can be taken out of our hands by a majority vote of the foreign-controlled bodies set up under these agreements.

The passage of legislation which would make possible foreign control over our commodity price system is a far cry from the policy laid down by the American delegates appointed by President Roosevelt to the World Monetary and Economic

Conference, held in London, in 1933. At that time our delegates declared " * * * We are interested in American commodity prices. What is to be the value of the dollar in terms of foreign currencies is not and cannot be our immediate concern."

Now, Mr. Chairman, I know that opinions in regard to the desirability of American tariff laws are as varied throughout the United States as are the interests of individuals affected by these laws, but I can assure you, that our organization being composed of representatives of patriotic societies regards this question not from the point of selfish interest, but solely from the viewpoint of its bearing on the national welfare. We do not believe that it is possible to maintain our American standard of living, if American labor is not protected from the competition of labor producing identical products in foreign countries under conditions, and for wages, utterly repugnant to American ideals of decency.

Mr. Chairman, it seems to me vital that the committee should remember that the majority of votes in the board of directors of the fund and the bank are to be held by the representatives of bankrupt nations who obviously will have the power to operate the fund and the bank in their own interest. This interest, of course, will militate against any opportunity being given for the United States to make use of the loopholes in the agreements which the majority may employ to our economic disadvantage.

A dispatch dated London, February 12, and published in the New York Times of Tuesday, February 13, 1945, makes it clear that the British do not propose to be caught in any such situation as I have envisaged. In this dispatch, Mr. Charles Waterhouse, parliamentary secretary of the Board of Trade, is quoted as saying that "Britain will retain the imperial preference policy in the postwar trading era, basing her international trade upon the policy of first consideration for the British Commonwealth." Then, asserting that Britain would willingly enter into trade agreements with the United States and Russia, he added that both countries must understand that Britain would not follow any subservient policy in concluding such agreements. There you have the British position stated quite frankly, and, Mr. Chairman, allow me to say to the committee that the position which Mr. Waterhouse takes is, from a British standpoint, wholly sound.

Now, Mr. Chairman, there remains in S. 540, submitted for your approval, one item which I will endeavor to deal with as briefly as possible. I refer to the repeal of the Johnson Act.

At our annual convention, to which reference has already been made, the delegates adopted a resolution unanimously which sets forth the American Coalition's emphatic opposition to this proposal. A copy of this resolution is submitted for the consideration of the Committee:

"JOHNSON ACT

"Whereas the people of the United States suffered grievous financial losses from investment in bonds of foreign nations, which subsequently went into default after the First World War; and

"Whereas many bankrupt nations wish to float new loans for the identical purposes which failed of their objective in previous attempts at economic rehabilitation of such nations; and

"Whereas the Johnson act has prevented any further flotation in the United States of loans by nations in default to the United States Government; and

"Whereas at the conclusion of this global conflict there will be greater need than ever before for protection of American interests in the premises; be it

Resolved, That the American Coalition, in annual convention assembled, opposes the repeal of the Johnson act; and be it further

Resolved, That the provisions of the Johnson act should be extended to include defaults by foreign nations on obligations to American citizens."

I appreciate, of course, that S. 540 provides for a qualified repeal rather than an absolute repeal, but that so far as we are concerned is a distinction without a difference. The repeal provided in the bill is confined, so far as the benefits it confers on foreign nations, to nations who choose to participate in the Bretton Woods plan.

As I analyze this plan, Mr. Chairman, I cannot imagine that any of the bankrupt nations will reject it. Why should they spurn such a gift? If they approve this plan and you repeal the Johnson Act, you will ratify all their previous defaults on their debts and open the way for the issuance of new obligations on the American market, which I venture to say, will be met or repudiated as conditions warrant when they mature.

To be sure, Mr. Chairman, the bill now before the committee aims to reestablish the solvency of the bankrupt nations of the world. Any one of these nations which determines to curb its expenditures to limits which are within its means, will automatically become solvent, and if it becomes solvent, there is nothing to prevent such a nation meeting its defaults, and thereby acquire the right to sell its securities in the American market. Let us not, therefore, repeat the follies of the nineteen twenties, when we tried to make bankrupt nations solvent by putting them further into debt.

I venture to say, Mr. Chairman, that if Congress repeals the Johnson Act, there will be a clear implication to American investors that foreign securities issued in future by the nations now in default will be sound. It does not seem to me that Congress should take one step forward to give such an impression to the American people. Let us not forget that American investors were encouraged to aid in the rehabilitation of Germany by buying the direct obligations of the Reich, its subdivisions, and municipalities. This course, let me say, was approved by all the "liberals" of France, England, and the United States, and this course resulted in just two things happening. First, we supplied a large part of the money which Germany was required to pay as indemnities for the destruction which she wrought during the last war; and, secondly, it helped toward the rearmament of the Reich and the resumption of hostilities which have not yet been brought to a successful close. When American, French, British, and Dutch bankers stopped lending, Germany stopped paying her reparations. Some cynic recently said that the only thing man has learned from history, is that he has learned nothing from history. I am hopeful, however, that in all these matters, we shall not be so obtuse as to blind ourselves to the financial record of these foreign states, and the record is consistently bad.

Surely, Mr. Chairman, this committee has not forgotten the scandal which arose from the sale of Peruvian bonds by a great New York financial institution. These bonds, you will recall, were issued at from 91½ to 96½, but after issue, it was not long before they had sunk to the price of 45%. This was aiding in the development of a backward state with a vengeance, but at a cruel cost to the American widow and orphan whose guardians were tempted to buy these bonds owing to the high rate of interest which they returned—I should say, were supposed to return.

The committee is aware, of course, that in recent weeks there has been renewed activity in bonds issued by the Russian Government in 1916 to help defray the cost of participation in the First World War against Germany. These bonds were repudiated, in defiance of international law, by the present Government of Russia upon its accession to power. However, in 1933 a joint statement was issued by President Roosevelt and Mr. Litvinov, representing the USSR, which reads as follows:

"In addition to the agreements which we have signed today, there has taken place an exchange of views with regard to methods of settling all outstanding questions of indebtedness and claims that permits us to hope for a speedy and satisfactory solution of these questions which both our Governments desire to have out of the way as soon as possible.

"Mr. Litvinov will remain in Washington for several days for further discussions."

Now the American investors who may have placed reliance upon this pledge are the subject of a statement by Hon. Harry D. White, Assistant Secretary of the United States Treasury, and one of the chief exponents of the legislation now before you, in which he referred to them as "suckers." Furthermore, he is quoted as saying "No deals are being made; none has been made, and none is planned now."

Mr. Chairman, I respectfully suggest that if it is to be the policy of the executive branch of our Government to characterize American investors in foreign bonds as "suckers" and display brazen indifference as to their fate, it behooves Congress to guard our people against any future sales in the American market of bonds issued by foreign governments now in default upon their debts. What you are now being asked to do, gentlemen, is to ratify such defaults, and open the way for more of them, by the passage of S. 540.

In conclusion, Mr. Chairman, let me sum up our objections to S. 540:

1. S. 540 constitutes, in our opinion, an effort to evade the constitutional provision which requires the ratification of treaties by a vote of two-thirds of the Members of the Senate present.

2. The Bretton Woods Agreements, implemented by S. 540, are lamentably inadequate in setting up safeguards for vital American interests.

3. The Bretton Woods Agreements, implemented by S. 540, would give power to the representatives of foreign nations to destroy the American export markets.

4. The Bretton Woods Agreements, implemented by S. 540, would place the control of our tariff policies in the hands of representatives of foreign nations and open the American domestic market to an influx of foreign products.

5. The Bretton Woods Agreements, implemented by S. 540, would in effect compel the United States to provide an unlimited market for the world's production of gold.

6. S. 540 in effect would ratify the defaults of all foreign debtors who adhere to the Bretton Woods Agreements.

7. S. 540 would open the American market to sale of foreign securities of nations whose record of prior defaults is bad, and, in some cases, shameless.

8. S. 540 would inevitably merge the sovereignty of the United States in the machinery of a supergovernment.

For all these reasons, Mr. Chairman, I oppose on behalf of the American Coalition, favorable action on S. 540.

JOHN B. TREVOR.

MEMORANDUM TO THE SENATE COMMITTEE ON BANKING AND CURRENCY ON THE BRETTON WOODS PROPOSALS FOR AN INTERNATIONAL MONETARY FUND AND FOR AN INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT BY ELISHA M. FRIEDMAN, NEW YORK, N. Y.

I

The Bretton Woods proposals constitute the most extensive plans for international cooperation in history.—They reveal a large international conception which is necessary if the world is to have peace and prosperity.

I favor the adoption of the Bretton Woods proposals. With the aims and purposes there is universal agreement. The differences revolve about the machinery and the methods. Admittedly, these are not ideal. However, if there is full opportunity for free and frequent amendment, there should be continuous improvement in the machinery and methods as the result of experience. When the Federal Reserve System was established, it also was far from perfect. As the result of experience and trial and error, the Federal Reserve Bank Act was revised about 30 times since 1914. And it is not yet perfect. The important fact was that the Federal Reserve System was established and the possibilities for amendment were ever present.

The critics denounce the Bretton Woods proposals as based on paper currencies. True, paper currencies fluctuated wildly when determined solely by nationalist policy. Beside, the lack of a gold base left a paper currency country without any limit on budget deficits, national debt, and the convertibility of paper into gold. However, it should be possible to have more stable currencies, even on a paper basis if some international body could set up certain principles for the internal economy and to guide internal policy.

There is nothing sacred about a price level. Tooke's History of Prices since 1800 shows a long-term trend of steadily rising prices. Our present price level is much higher than a century ago. It will probably be still higher in another century. The only requirement is that change should be gradual and slow. Violent changes in price level upset the relationship between debtor and creditor and, more important, between wages and selling prices. When selling prices rise faster than wages, a boom results. When selling prices fall faster than wages, depression results.

Nor is there anything sacred about exchange parities. The attempt to retain an old exchange parity for currency is the most expensive form of national vanity. This truism the British learned through painful experience in pushing the pound sterling up from approximately \$140 after the last war to \$486 in 1923. Very slow and small changes in exchange rates are the mark of a dynamic society. Large and violent fluctuations in exchange rates disturb both the domestic and the international economy. The relation between internal and external creditors is upset. The relation between imports and exports is disturbed with violent repercussions on production.

The adherents of a strict gold standard overlook its vital defect. The supply of gold determines the price level, and boom or depression. Yet, the supply of

gold is an accident of history. From the end of the Civil War down to 1893 this country suffered long and frequent depressions and serious unemployment. It was the great discovery of gold in South Africa and in Alaska that determined the course of world economy. We should be able to emancipate ourselves from gold if we succeeded in setting up and executing firm principles for monetary controls such as gold exercises. It should not be impossible to set up rules to prevent the evil of uncontrolled paper currency.

The alternatives are clear. Either we put all countries on a gold basis, and that would be impossible, or else we try out for a limited period a basis of exchange control still retaining gold as the means of settling international balances but not having the free circulation of gold in individual business transactions.

II

Exchange rates are merely indicators.—To attempt a cure of basic economic maladjustments by control of exchange rates is as futile as trying to heat the house by putting a match near the thermometer bulb.

What determine the rates of exchange? The experience of Europe after the last war supplies the answer. Exchange rates fluctuated wildly.

A. The percentage of gold to notes and deposits is the chief determinant of exchange rate. If notes and deposits can be redeemed in gold both internally and externally, obviously the exchange rate will be the gold parity. If notes and deposits cannot be redeemed, the exchange rate will fluctuate.

B. Budget balance or budget deficit constitute also a determinant of the exchange rate. When a country had large budget deficits, its exchange rate fell in the world markets. The reason is obvious. Budget deficits were usually accompanied by printing paper money or by forcing government bonds into the banks and thus increasing government deposits. Therefore, notes and deposits could not be redeemed in gold.

C. Another determinant of exchange rates is the international balance of payments of a country. Credits in the international balance of payments result from merchandise exports, tourist expenditures, foreign remittances to residents, and foreign loans.

Debits result from imports, remittances abroad, and payments of interest or principal on foreign loans. These should balance. If the debits exceed the credits, gold flows out of the country. Therefore, notes and deposits may not be redeemable in gold. Therefore the exchange rate falls.

If the International Monetary Fund and the International Bank will deal with these basic causes and help the country to achieve budget balance and balance in the international payments, exchange rate stability will follow automatically. It would certainly be futile to attempt to stabilize exchanges by any such mechanical device as giving a country access to a quota in the International Monetary Fund. If the drafts on the fund are not automatic and as an inherent right of the borrowing country but if all such drafts are subject to conditions to be imposed by the fund, the International Monetary Fund could be successful. Otherwise, it is likely to fail. Of course, the International Fund cannot interfere too greatly in any country's domestic policy. On the other hand, the right to draw on the International Fund imposes corresponding obligations on the borrower to be credit-worthy. The right to have small and gradual devaluation of the currency is an experiment worth trying.

The world suffered from large and unilateral devaluation in the 1920's and the 1930's. The London Economic Conference in 1933 was called to consider some international cooperation on exchange rates. The unilateral devaluation by Great Britain in September 1931 deflated the United States and other countries. The unilateral devaluation by the United States in March 1933 deflated the little gold bloc—France, Holland, Belgium, Switzerland, and other countries.

Is it better to have international agreements on devaluation or unilateral action disregarding the effect on other countries?

Given a long period of peace, it should be possible to have fairly stable commodity prices and fairly stable exchange rates. There would then be less need for the International Monetary Fund. For a long period before 1914 there was comparative economic and political stability and therefore corresponding relative monetary stability. The basic maladjustments, economic and political, resulting from war, cannot be cured by mere jiggling of the exchange rates.

Stabilization, however, is possible under conditions of peace and economic balance. Any attempt to stabilize exchange rates by monetary devices without restoring economic balance is not likely to succeed.

Too much faith should not be placed in monetary management. It was government management that broke the gold standard. Here is a striking fact that is not generally understood. The pound sterling was fluctuating at around \$4.40 for several years after the war. In 1925 the British thought it to be a good idea to raise the pound sterling to \$4.86. Since England was a creditor nation, the rise in the pound sterling did increase the purchasing power of payments of interest and principal. However, this rise in the gold value of sterling of about 10 percent made British goods prices too high on the world markets. Therefore, to compete, British selling prices had to be deflated. To avoid deficits, British companies had to deflate wages. Thus monetary management by government proved to be a great failure.

By 1927, the position of sterling had gotten so insecure that Governor Montagu Norman, of the Bank of England, arranged with Benjamin Strong, head of the Federal Reserve Bank of New York, to create an artificial demand for sterling by lowering interest rates in New York. As a result, dollars moved from New York to London to take advantage of the higher interest rates. In other words, depositors sold their dollars and bought sterling. This demand for sterling kept it at the artificial price of \$4.86. But that program was merely tinkering with the symptoms. Great Britain itself was in a depression as a result of overvaluation of sterling. The United States, which had had a boom since 1921 and should have had a minor recession for a year or two, developed a violent boom based on too-easy money. This culminated in the panic of 1929 when business and the markets collapsed.

Did anybody blame the government? Did anybody show the effect of the Norman-Strong agreement for low money rates in New York? No. The whipping boy was Wall Street. The stock market was blamed for carrying out the results of a policy framed by the Federal authorities. Apparently monetary management was not successful in the past. But perhaps we may have learned from its errors and experience.

The resolutions adopted at the Bretton Woods Conference recognize that the goals of the Fund cannot be realized merely through machinery. Obstacles to international trade must be reduced. Staple commodities must be marketed in an orderly way at fair prices. Policies of the member states must be harmonized to promote and maintain high levels of employment.

The alternatives are clear. During the nineteenth century we had fairly stable exchange rates among the principal countries but this stability was bought at a price. Economic conditions were compelled to conform with the requirements of stable exchange. When gold was flowing out, interest rates were raised. As a result, selling prices were deflated. Wages were reduced, and unemployment was widespread. The other alternative is to achieve steady employment, stable prices, low interest rates, and let the exchanges be unstable. Perhaps the truth is half-way between.

Certainly the Monetary Fund with its short-term stabilization cannot cure long-term disequilibria. The experience of the Strong-Norman agreement shows the futility of exchange agreements to cure disequilibrium between internal purchasing power of a currency and its external purchasing power or exchange rate. When sterling was artificially pushed up to \$4.86 and then kept there artificially by the Strong-Norman agreement, the resulting depression in Great Britain lasted until September 1931, when the pound sterling was pushed from its gold base because the long-term economic disequilibria had not been solved. There is danger in attempting to deal with symptoms instead of causes.

Temporary fluctuations in exchange rates can be handled by the Monetary Fund. Such temporary fluctuations were covered between private banks after the last war. After the last war, the Norwegian krone fluctuated violently. Lumber and pulp were exported in the early part of the year and the Norwegian krone would rise sharply. Food was imported in the latter part of the year and the krone would fall sharply. I saw Mr. Rygg, president of the Norgas Bank, the central bank of issue, and suggested that a short-term stabilization loan with the United States would solve that problem. In 1922 such an exchange stabilization credit was opened with a New York bank. Similarly, I saw the Czechoslovak Minister of Finance, Mr. Raczin, in 1922. The Czech krone was also fluctuating violently. An exchange stabilization loan was opened with a New York

bank. Such private exchange stabilization loans could be arranged now to take care of short-term fluctuations of exchanges of countries which are fundamentally sound economically. Of course, the International Monetary Fund could supplement but not necessarily replace such private transactions.

The United States was a beneficiary of such short-term loans. Before the establishment of the Federal Reserve System, money rates in the United States would become tight in the autumn in financing the movement of crops from the farm. Money rates would ease in the spring. This seasonal tightening and easing of money rates was offset by clean bills of finance drawn on London. In other words, London sent dollars to New York in the autumn and the loan was paid in the spring. There is no reason why this tested financial device should not be performed under the aegis of the International Monetary Fund for those countries requiring such aid.

III

International monetary cooperation has a long history.—All previous attempts ended in failure because the causes were not controlled. The International Monetary Fund and the International Bank for Reconstruction and Development can succeed if they deal with basic causes.

Monetary unions date back to the Greek cities in the fourth century B. C. In the Middle Ages there were monetary unions in the principalities of Germany and the city-states of northern Italy. The Latin Monetary Union, an important one, was formed in 1865. Its members were France, Belgium, Switzerland, and Italy. Greece joined later. They had a common currency, the franc, which circulated throughout all the member states. The union broke down as a result of World War I. The currencies of the member states were affected by changes in the national debt, currency circulation, and varying degrees of depression of the currency; except for Switzerland, which stayed at gold parity.

Proposals for international monetary agreements were made in 1892 at the Brussels Conference by Julius Wolf. The aim was to avoid international shipments of gold by issuing international bank notes or certificates. In 1907, Luigi Luzzatti suggested the issue of international certificates to eliminate the movement of gold and urged that the central banks cooperate to this end. The Genoa Conference of 1922 suggested cooperation between central banks to economize in gold and to eliminate gold shipments by keeping centralized gold balances. The establishment of the Bank of International Settlements in 1930 continued the attempts at international monetary cooperation.

Fixed values for foreign exchange cannot be maintained during wars. Not only the Latin Monetary Union broke down but sterling declined after the war from its fixed value, maintained for an entire century previously. Violent fluctuation in prices of raw materials resulting from war played havoc with the foreign exchange values of the young countries exporting raw materials like the Latin-American countries and Australia. Stable commodity prices are essential to maintain the currency of countries which are heavy exporters of a limited number of raw materials. The Bretton Woods proposals recognize this situation when they attempt to stabilize the prices of basic raw materials.

IV

The Brussels Financial Conference¹ dealt with the problems discussed at Bretton Woods.—The Council of the League of Nations in February 1920 decided to "convene an international conference to study the international crisis and to find means of remedying and mitigating the dangerous consequences arising from it." The Brussels Conference met in September and October of 1920.

Prominent economists of the various countries of Europe submitted a joint memorandum, which is significant today:

"A. INFLATION

"1. It is essential that the inflation of credit and currency should be stopped everywhere at the earliest possible moment.

"2. To this end government spending must be cut down, the conduct of government enterprise at less-than-cost and the payment of subsidies on par-

¹ Friedman, Elisha M., *International Finance and Its Reorganization*, New York, Dutton, 1922; ch. XVIII, *The Brussels Financial Conference*, pp. 617-637.

ticular commodities and services must as soon as possible be abolished, and military and naval expenditure stringently restricted.

"3. The equilibrium of state budgets must be restored and loans must not be employed to meet ordinary current requirements.

"4. Artificially low bank rates out of conformity with the real scarcity of capital, and made possible only by the creation of new currency, must be avoided.

"5. Floating debts should, as soon as practicable, be funded.

"B. EXCHANGES

"6. The level of the exchanges tend to correspond with the relative internal values of the currencies of the several countries. The serious depression of certain exchanges beneath their real parities would be ameliorated by (a) the funding of floating debts held abroad in the form of notes; (b) the restoration as soon as practicable of normal trade intercourse between the different countries.

"C. INTERNATIONAL CREDITS

"7. The grant of credit (whether through an international loan or system or guaranties to private lenders or otherwise) to distressed countries must naturally be conditional upon some priority being given to those credits and upon other claims being postponed until those credits have had time to exercise an influence upon production.

"8. The grant of credits should be conditional: (a) upon their being used only for the most immediately remunerative purposes, including the provision of means of subsistence for the laboring population, and (b) upon the borrowing countries doing everything in their power to cooperate in the work of restoring economic life.

"9. The capacity of the lending world to grant credits will depend in great measure upon the restoration of real peace and normal conditions of international trade.

"(Signed) G. BRUINS, *Netherlands*,
GUSTAVE CASSEL, *Sweden*,
CHARLES GIDE, *France*,
M. PANTALEONI, *Italy*,
A. C. PIGOU, *Great Britain*."

A. The Committee on Currency and Exchange made the following recommendations: All attempts to limit fluctuation in exchange by artificial control were condemned. Such measures merely disguise underlying evils and prevent operation of self-correctives. The fixing of currency values was opposed until the economic revival of the several countries had progressed sufficiently to warrant it. The adoption of an international unit of account was opposed because it would not remove any of the exchange difficulties and would serve no useful purpose.

B. The Committee on Public Finance made important recommendations: All artificial measures which hide the defective economic situation should be abandoned, such as subsidies on food, coal, and other cost-of-living subsidies, and the maintenance of charges for railway and postal service insufficient to cover the cost. Borrowing for budget deficits should cease. Governments should begin to repay or refund the short-term debt. All superfluous expenditure should be eliminated. Budgets should be balanced. Military expenditures should be reduced. Taxes should be raised to meet recurring expenses. Loans for capital purposes should come out of savings of the people.

C. The Committee on International Trade favored prompt settlement of international financial accounts. International policies were recommended to restore trade. Loans directly by governments were opposed. Interchange of commodities should not be restricted by artificial economic barriers. Financial assistance should be rendered to those countries that cooperate in restoring their economic life. Ter Meulen, member of the Dutch banking firm of Hope & Co., evolved a plan for international loans provided the borrowing countries check inflation and provided the new credits have priority over outstanding obligations. Loans would have to be limited to productive purposes and be given on a commercial basis.

The official statement of the International Financial Conference at Brussels indicated how modest was its appraisal of its results. Spokesmen for 39 countries, representing about 75 percent of the population of the world, met and discussed international problems and gave advice, but there was no machinery set up

to do anything. The Bretton Woods Conference sets up the machinery. However, it is to be hoped that the sound principles enunciated at the Brussels Financial Conference will guide both the International Monetary Fund and the International Bank.

V

The critics say that Bretton Woods provided the machinery but did not stress sufficiently basis causes.—Ordinarily, a country or a corporation seeking credit must be credit-worthy in the opinion of the lender. In the Monetary Fund a member would automatically have the right to borrow regardless of the opinion of the other countries as to the need for or usefulness of the loan. Any member may borrow if it has an adverse balance of payments. A loan based on the automatic right of the borrower to borrow may well be unsound. However, unlike the Monetary Fund, the International Bank would set up important tests of credit-worthiness of the borrower.

These tests follow: The proposed loan must be for a specific purpose, and must be examined by a special committee. There must be a promise and a possibility of repayment. The lending country has a veto power. The bank will guarantee loans made through the securities markets. The International Bank will not make loans which can be made through private means. These are sound principles and might well be extended to the fund.

VI

International loans,² even intergovernmental, will not solve any problems without prerequisite internal economic reforms.—A. Intergovernmental loans were urged after the last war. During the war, the inter-Allied loans were used as a means of financing. Therefore, after the war, the United States was urged to continue intergovernmental loans by Sir George Paish, of Great Britain; Prof. Charles Gide, of France; and Luigi Luzzatti, of Italy. This point of view was opposed by American statesmen. On January 23, 1920, Secretary of the Treasury Carter Glass said, "International guaranties and international measures for stabilizing exchange are utterly impracticable so long as there exist inequalities of taxation and domestic financial policies in the various countries involved. * * * We must depend on the independent activity of each person to repair his own fortunes with the assistance of his business connections in other countries."

Premier David Lloyd George likewise opposed Government loans. In an address in the House of Commons February 17, 1921, he said, "Everybody wanted the Government to assume the whole risk of the establishment of credits but that was unfair because it was the risk of the taxpayer."

The memorandum of June 15, 1920, recommending the calling of the Brussels Financial Conference set forth the principles of international lending. The credit supplied should be reduced to the minimum absolutely necessary. Assistance should leave national and international trade free from the restrictive control of governments. The supply of credit and the development of trade through normal channels should be encouraged. Issues to the public should attract the savings of the individual to avoid inflation. The borrowers should provide security. Loans should range ahead of all other indebtedness. Borrowers should set aside special security as a guaranty for the payment of interest and amortization.

Proposals that loans should be made either by governments or by an international body were urged by Prof. J. M. Keynes and George Paish, of Great Britain. Frank M. Vanderlip, of the National City Bank of New York, urged loans by private investors on strong security. Others proposed the issuance of loans by an international bank whose directors would represent various governments. Strict standards were set up for the granting of such loans. Such proposals were advocated by the Belgian Prime Minister Delacroix and Prof. A. C. Pigou, of Great Britain. The establishment of an international bank and the issue of international bonds through government intervention were urged by Dr. G. Vissering, president of the Bank of the Netherlands, and Carl Thalbitzer, a Danish financial authority and editor. Nothing came of these several plans. The post-war loans were all made through the private banking channels.

¹ Friedman, *ibid.*, ch. XIX, International Loans for the Restoration of Europe, pp. 638-658.

² Federal Reserve Bulletin, February 1920, pp. 137-139. Also, Annual Report, Secretary of the Treasury, pp. 80-84.

VII

The lack of a bankruptcy court is a basic defect of all proposals for loans to foreign governments.—The International Bank for Reconstruction and Development may make direct loans, participate in loans, or guarantee loans to a member state or to its political subdivisions or to enterprises in its territories.

Amazingly enough, of the 44 States or governments represented at Bretton Woods, 18 governments were in default in 1939 on the loans they borrowed from the United States. This is an absurd situation. Here are defaulting debtors and their creditor meeting to arrange for new loans and not a word has been said about curing the old default.

The structure of private credit exists and functions only because a defaulting debtor may be haled to the bankruptcy court. He is then subject to an examination of his assets. The judge of the bankruptcy court decides what percentage of his debt he is able to pay. A sheriff and a jail are ready to see that he does pay. Here you have credit based on faith with force in the background.

But governments are bound by no such code of honesty. A government defaults not because it cannot pay out because it does not wish to pay. There is no ethical code or legal principle which can compel it to make reasonable payment. There is no ultimate force which can compel it to do so. This is international anarchy. The euphemism of sovereignty is used as a cloak for dishonesty. In 1933 Germany unilaterally defaulted on her debt to American bondholders. The funds available to pay interest were used to buy copper and manganese and tungsten and other war materials. Messrs. Schacht, of the Reichsbank, and Messrs. Schmitz and Bosch, of the I. G. Farbenfabrik, came to the United States to inquire what would be the effect. When they found they could default without harm to Germany, they recommended such action. The world stood by and did nothing.

A Latin-American country owing \$50,000,000 to American bondholders defaulted on its debt. The price of its bonds fell to less than \$10. It proceeded to buy up the bonds, and for the last few bonds paid par. Meanwhile, its exports grew greatly after the European war broke out. It accumulated dollar balances in New York. As part of the good-neighbor policy, we allowed American bondholders to be cheated while abundant cash was available to pay the American bondholder. How long would private credit last under such crazy conditions?

The International Bank and all its proposals are worth very little unless the Permanent Court of International Justice will have jurisdiction over defaulting governments. If international law and international force are applied to defaulting governments, international credit will rise and it will be less necessary to have the International Bank for Reconstruction and Development. When loans to governments become safe, investors will lend. The business of capital is to get to work. Idle capital is a contradiction in terms.

In all the literature on the Bretton Woods proposals, not one word has been said about giving the creditor on a government loan the elementary rights that the creditor has in all private loans; namely, the right to enforce the collection of his debt. A faint reference is mentioned by Arthur K. Kuhn in his paper, *The Bretton Woods Recommendations in the Light of International Law* (Proceedings of the Institute of Money and Law held at New York City January 15, 1945).

"We are living in a period of economic strain, and we should not leave out of account the possibility that one or another of the parties to the Bretton Woods agreements may at some time default upon some of their undertakings. There should be a more comprehensive procedure for enforcement or at least for a judicial pronouncement of the obligations of the parties. Governments come and go. States remain but new governments may have different fiscal policies." * * * "Having in mind the proposed permanency of the institutions elaborated at Bretton Woods, it is to be hoped that the fund and bank shall not be allowed to develop in a vacuum, but that there shall repose somewhere a responsibility to some organ of the International Authority" * * *. As these institutions are to be created by international legislation, their economic and political future will depend upon integration with the general structure of international cooperation."

When governments show the same good faith that private borrowers do, when bankruptcy courts take jurisdiction of governments as they do of cor-

porations, when the fiction of sovereignty, which is abridged when the government borrows, continues to remain equally abridged when the government refuses to pay, when dishonest governments can be brought to book, and when honest defaulting governments can be assessed to make partial payment, the structure of international credit will rise. The International Bank will have little need to lend or to participate in private loans or to guarantee private loans.

VIII¹

Let us survey national bankruptcy, its prewar status, its history, and proposals for its adjudication. The Foreign Bondholders Protective Council of the United States numbers among its officers and directors some of the leading diplomats, bankers, and university professors. Its annual report for the year 1938 gives a prewar picture. Of the 5.5 billion dollars outstanding dollar bonds of foreign governments or their political subdivisions, 2 billion dollars was in default, or about 37 percent of the total. Of the national bond issues, 40 percent were in default. Of the provincial and municipal issues, about 36 percent were in default. And of the government guaranteed corporate issues, about 27 percent were in default. The defaults, whether of national, provincial, municipal, or corporate bonds, involved 23 countries, 16 in Latin America, from the Rio Grande border to Cape Horn; 10 countries of Europe, chiefly southeastern but including Germany; and China and Liberia. (See Annual Report, pp. 1132-1138.)

Why did the Bretton Woods discussions ignore these facts and make not a single proposal for curing outstanding defaults or bringing future defaults within the jurisdiction of international law? The Annual Report of the Council of Foreign Bondholders of Great Britain gives the history of defaults for about 100 years, for Britain has been investing abroad longer than we have. Several countries, like Honduras and Peru, borrowed and defaulted almost recklessly. In the nineteenth century Spain defaulted seven times, Austria five times, Germany five times, Turkey and Portugal three times, and Greece twice. The South American countries defaulted even more freely. Colombia announced its bankruptcy 13 times from 1820 to 1916.

An individual debtor is bankrupt when he cannot pay and is declared a bankrupt by the court. But a sovereign state decides it is bankrupt when it does not choose to pay.

How were foreign creditors protected in the past? At the beginning of international investment, governments offered specific security. But even the great powers like Great Britain and France put up collateral during World War I for loans in the United States. Generally, however, no great power in peacetime gave specific security.

Intervention was a means of collecting the debt of a defaulting state. In 1838 Lord Palmerston, then British Secretary of Foreign Affairs, issued a statement of policy on intervention, rather equivocal. "The British Government has considered that the losses of imprudent men * * * would prove a salutary warning to others * * * but nevertheless nonpayment of interest upon loans made by British subjects to foreign governments might become so great that it might become the duty of the British Government to make these matters a subject of diplomatic negotiation." But in 1871 Lord Granville, Secretary of Foreign Affairs, wrote the Council of Foreign Bondholders that "Her Majesty's Government would at all times be ready to give her unofficial support to bondholders in the prosecution of their claims against defaulting states." In 1903, Premier Campbell-Bannerman took the position that foreign investors in Venezuela, which defaulted, knew the risks involved and therefore could not expect Government support for incautious and inexperienced foreign investors.

The French attempted to bring defaulting foreign debtors before a French court but failed.

A state borrowing or guaranteeing a loan makes a legal contract and thereby limits its sovereignty. Yet, there are few effective means of collection. Protests are of no avail. Delisting from the stock exchange does not hurt a government that does not need to borrow again. Economic discrimination leads to reprisals. Rupture of diplomatic relations may prove a boomerang because rivals of the creditor's government profit. The loss of the funds of the creditor may be less harmful than seizure of property or the landing of troops in the debtor country.

¹ Friedman, Ellsha M., *ibid.*, ch. XIV, National Bankruptcies, pp. 523-538.

Protective committees have tried to be helpful. The Corporation of Foreign Bondholders of London was established in 1868 and subsequently the Government was given representation on its board. Similar organizations were established in other countries. The Foreign Bondholders Protective Council was formed in the United States in 1933 at the request of the Secretary of State, the Secretary of the Treasury, and the Federal Trade Commission. The procedure of all these organizations is the same. They form protective committees for each security and issue annual reports. They furnish interesting information but secure no action.

Proposals for an international court for defaulting foreign debtors date back about 70 years. In 1875 an international court for settling disputes due to bankruptcy was discussed at the Congress for the Reform of International Law. The International Statistical Institute in the 1890's investigated the question of default of foreign loans but made recommendation to prevent further defaults. An International Congress on Securities met in Paris in 1900 but had no practical result. At the Bern Peace Conference of 1902 a proposal was made that all contracts for foreign loans should bind the borrowing government by the decisions of a court to be created. No result followed. The First Hague Conference in 1899 grappled with the question of international default but achieved nothing due to the trite reservations concerning "national honor and vital interests." A dishonest bun also affects pride when he does not wish to pay.

At the Second Hague Conference in 1907, nations agreed to refrain from force in collecting debts unless the debtor refused to arbitrate. A debtor, invoking legal proceedings, might limit the use of force by creditors. However, the agreement provided no machinery to execute decisions of the court. Amusingly enough, during the sessions at the Hague Conference, Venezuela refused to repay a Belgian loan of 10,000,000 francs and simultaneously offered proposals to limit intervention.

The Pan-American countries showed a similar record of futile effort. In 1902, 17 American countries signed an agreement in Mexico to adjudicate disputes arising out of financial claims. This agreement was renewed at the Pan-American Congress in Rio de Janeiro in 1906 and extended through 1912. But in 1938, according to the report of the Foreign Bondholders Protective Council, defaults, whether national, provincial, or municipal, were listed for Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, Cuba, Dominican Republic, Ecuador, Guatemala, Haiti, Mexico, Panama, Peru, Salvador, and Uruguay. Yet these countries sat at Bretton Woods to decide on the machinery for further loans to themselves and other defaulting debtor countries.

The Covenant of the League of Nations provided for a world court but not for the adjudication of bankruptcy. International finance is expected to play a major role in the reconstruction and development of foreign countries after the war, but it is operating in a vacuum. The Bretton Woods proposals for an International Bank for Reconstruction and Development will either end in futility or burden the taxpayer who becomes an unwitting and unwilling investor when the representative of his government undertakes commitments which properly belong in the field of private investment. The private capitalist, small and large, would welcome the opportunity to invest abroad if the law afforded him the same legal process which brings a private corporate borrower to book.

IX

The Monetary Fund and the International Bank should be approved by the Senate Committee on Banking and Currency.—It is too late to decide how a perfect machine might be created. The Monetary Fund has some serious defects. But they are not incurable. The International Bank has fewer defects. They could easily be corrected. We are not now at the beginning of a discussion. We are at the end of several years of painstaking preparation and many months of arduous study. Let the Senate committee give its approval in principle and urge the amendments noted above. Particularly important is the need for a bankruptcy court to deal with international loans. The defects in both the Monetary Fund and the bank can be overcome by top-notch management. If the Board of the fund and the bank composed of practical men with experience in private international banking or in central banking, the defects in method can be cured. Certainly the flight of capital from country to country which upset the currencies in 1920 and 1930 will cease to menace the world economy.

Sterling was pegged too high at \$4.86, and Great Britain lost gold and was deflated. The French franc was pegged too low and France accumulated huge gold reserves abroad and enjoyed a period of vigorous business activity. Some international cooperation such as provided by the Monetary Fund might have avoided both these errors.

With 100 years of experience in maintaining parity for sterling and its convertibility into gold, the British under the poor leadership of Montagu Norman overvalued sterling at \$4.86, subsequently suspended gold payments, and now are averse to the resumption of a gold standard. They burnt themselves on a hot plate and now they blow on a cold plate. They ignore 100 years of successful experience, until 1914, in favor of 8 years of error, ending in 1933. Perhaps experience with the Monetary Fund may reconvert the British to a better understanding of the gold standard and may also convert some of our die-hard American economists to the merit of an improved paper currency.

The least of the merits of the Monetary Fund will be that it will keep track of the debits and credits in the international balance of payments of every country. Had we done so in the 1920's we should not have made such unwise loans to Germany. For building a sports stadium in a German city does not provide foreign exchange to pay the interest to American bondholders. The Monetary Fund will be able to detect the beginnings of another war when a member state seeks exchange control. Neither Germany nor Italy could have embarked on war unless it had first withdrawn from the League, thus indicating a renunciation of reason and judicial process in favor of force and military adventure, and unless it had set up exchange controls and currency blocking as a means of economic autarchy and war economy.

The Monetary Fund and the International Bank can be instruments for peace. That there are differences over the fund is to be expected under any democratic system. Recall the violent disagreement in the Federal Reserve debates in 1913 and on the American Constitution after 1783. One can only be sympathetic to the critics of the fund who favor the approach through "key countries." In other words, let the United States and Great Britain set their foreign exchange values and let the smaller countries adjust to it. That has been the historic process in normal times. One can also be sympathetic with those critics who say that the machinery of the fund and the bank is too complex. However, amendments and time can cure that defect. Neither of these criticisms warrant disapproval of the fund or the bank by the Senate. As for the extreme critics who insist on the resumption of a full gold standard and worldwide deflation, it is doubtful whether the history of the past 30 years lends any support to their case. In fact, experience and history make their proposals meaningless.

(Senator Taft submitted the following excerpts from Department of State Publication 2187, Conference Series 55, entitled "United Nations Monetary and Financial Conference.")

[Pp. 21-27]

The Final Plenary Session was held on July 22, 1944. As a result of the deliberations, as recorded in the minutes and reports of the respective Commissions and their Committees and of the Plenary Sessions, the following instruments were drawn up:

INTERNATIONAL MONETARY FUND

Articles of Agreement of the International Monetary Fund, which are attached hereto as Annex A,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Articles of Agreement of the International Bank for Reconstruction and Development, which are attached hereto as Annex B.

Summary of the Agreements in Annex A and Annex B, which is attached hereto as Annex C.

The following resolutions, statement, and recommendations were adopted:

I. PREPARATION OF THE FINAL ACT

The United Nations Monetary and Financial Conference

RESOLVES:

That the Secretariat be authorized to prepare the Final Act in accordance with the suggestions proposed by the Secretary General in *Journal* No. 19, July 19, 1944;

That the Final Act contain the definitive texts of the conclusions approved by the Conference in plenary session, and that no changes be made therein at the Closing Plenary Session;

That the Coordinating Committee review the text and, if approved, submit it to the Final Plenary Session.

II. PUBLICATION OF DOCUMENTATION

The United Nations Monetary and Financial Conference

RESOLVES:

That the Government of the United States of America be authorized to publish the Final Act of this Conference; the Reports of the Commissions; the Minutes of the Public Plenary Sessions; and to make available for publication such additional documents in connection with the work of this Conference as in its judgment may be considered in the public interest.

III. NOTIFICATION OF SIGNATURES AND CUSTODY OF DEPOSITS

The United Nations Monetary and Financial Conference

RESOLVES:

To request the Government of the United States of America

(1) as depository of the Articles of Agreement of the International Monetary Fund, to inform the Governments of all countries whose names are set forth in Schedule A of the Articles of Agreement of the International Monetary Fund, and all Governments whose membership is approved in accordance with Article II, Section 2, of all signatures of the Articles of Agreement; and

(2) to receive and to hold in a special deposit account gold or United States dollars transmitted to it in accordance with Article XX, Section 2 (d), of the Articles of Agreement of the International Monetary Fund, and to transmit such funds to the Board of Governors of the Fund when the initial meeting has been called.

IV. STATEMENT REGARDING SILVER

The problems confronting some nations as a result of the wide fluctuation in the value of silver were the subject of serious discussion in Commission III. Due to the shortage of time, the magnitude of the other problems on the agenda, and other limiting considerations, it was impossible to give sufficient attention to this problem at this time in order to make definite recommendations. However, it was the sense of Commission III that the subject should merit further study by the interested nations.

V. LIQUIDATION OF THE BANK FOR INTERNATIONAL SETTLEMENTS

The United Nations Monetary and Financial Conference

RECOMMENDS:

The liquidation of the Bank for International Settlements at the earliest possible moment.

VI. ENEMY ASSETS AND LOOTED PROPERTY

Whereas, in anticipation of their impending defeat, enemy leaders, enemy nationals and their collaborators are transferring assets to and through neutral countries in order to conceal them and to perpetuate their influence, power, and ability to plan future aggrandizement and world domination, thus jeopardizing the efforts of the United Nations to establish and permanently maintain peaceful international relations;

Whereas, enemy countries and their nationals have taken the property of occupied countries and their nationals by open looting and plunder, by forcing transfers under duress, as well as by subtle and complex devices, often operated

through the agency of their puppet governments, to give the cloak of legality to their robbery and to secure ownership and control of enterprises in the post-war period;

Whereas, enemy countries and their nationals have also, through sales and other methods of transfer, run the chain of their ownership and control through occupied and neutral countries, thus making the problem of disclosure and disentanglement one of international character;

Whereas, the United Nations have declared their intention to do their utmost to defeat the methods of dispossession practiced by the enemy, have reserved their right to declare invalid any transfers of property belonging to persons within occupied territory, and have taken measures to protect and safeguard property, within their respective jurisdictions, owned by occupied countries and their nationals, as well as to prevent the disposal of looted property in United Nations markets; therefore

The United Nations Monetary and Financial Conference

1. Takes note of and fully supports steps taken by the United Nations for the purpose of:

- (a) uncovering, segregating, controlling, and making appropriate disposition of enemy assets;
- (b) preventing the liquidation of property looted by the enemy, locating and tracing ownership and control of such looted property, and taking appropriate measures with a view to restoration to its lawful owners;

2. RECOMMENDS:

That all Governments of countries represented at this Conference take action consistent with their relations with the countries at war to call upon the Governments of neutral countries

- (a) to take immediate measures to prevent any disposition or transfer within territories subject to their jurisdiction of any
 - (1) assets belonging to the Government or any individuals or institutions within those United Nations occupied by the enemy; and
 - (2) looted gold, currency, art objects, securities, other evidences of ownership in financial or business enterprises, and of other assets looted by the enemy;
 as well as to uncover, segregate and hold at the disposition of the post-liberation authorities in the appropriate country any such assets within territory subject to their jurisdiction;
- (b) to take immediate measures to prevent the concealment by fraudulent means or otherwise within countries subject to their jurisdiction of any
 - (1) assets belonging to, or alleged to belong to, the Government of and individuals or institutions within enemy countries;
 - (2) assets belonging to, or alleged to belong to, enemy leaders, their associates and collaborators; and
 to facilitate their ultimate delivery to the post-armistice authorities.

VII. INTERNATIONAL ECONOMIC PROBLEMS

Whereas, in Article I of the Articles of Agreement of the International Monetary Fund it is stated that one of the principal purposes of the Fund is to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy;

Whereas, it is recognized that the complete attainment of this and other purposes and objectives stated in the Agreement cannot be achieved through the instrumentality of the Fund alone; therefore

The United Nations Monetary and Financial Conference

- RECOMMENDS:

To the participating Governments that, in addition to implementing the specific monetary and financial measures which were the subject of this Conference, they seek, with a view to creating in the field of international economic relations conditions necessary for the attainment of the purposes of the Fund and of the

broader primary objectives of economic policy, to reach agreement as soon as possible on ways and means whereby they may best:

(1) reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;

(2) bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike;

(3) deal with the special problems of international concern which will arise from the cessation of production for war purposes; and

(4) facilitate by cooperative effort the harmonization of national policies of Member States designed to promote and maintain high levels of employment and progressively rising standards of living.

VIII

The United Nations Monetary and Financial Conference

RESOLVES:

1. To express its gratitude to the President of the United States, Franklin D. Roosevelt, for his initiative in convening the present Conference and for its preparation;

2. To express to its President, The Honorable Henry Morgenthau, Jr., its deep appreciation for the admirable manner in which he has guided the Conference;

3. To express to the Officers and Staff of the Secretariat its appreciation for their untiring services and diligent efforts in contributing to the attainment of the objectives of the Conference.

IN WITNESS WHEREOF, the following delegates sign the present Final Act.

DONE at Bretton Woods, New Hampshire, on the twenty-second day of July, nineteen hundred and forty-four, in the English language, the original to be deposited in the archives of the Department of State of the United States, and certified copies thereof to be furnished by the Government of the United States of America to each of the Governments and Authorities represented at the Conference.

For AUSTRALIA:

L. G. MELVILLE

For purpose of certification

For BELGIUM:

GUTT

For BOLIVIA:

R BALLIVIAN

For BRAZIL:

A. DE SZA. COSTA

For CANADA:

W A MACKINTOSH

For CHILE:

LUIS ALAMOS

For CHINA:

K'UNG HSIANG HSI [SEAL]

For COLOMBIA:

CARLOS LLERAS RESTREPO

For COSTA RICA:

LUIS D. TINOCO C

For Cuba:

E I MONTOLIEU

For CZECHOSLOVAKIA:

L FIERABEND

For THE DOMINICAN REPUBLIC:

A. COPELLO

For ECUADOR :
E. F. CARBO.
For EGYPT :
S. LACKANY
For EL SALVADOR :
AG. ALFARO.
For ETHIOPIA :
EPHREM T. MEDHEN
For THE FRENCH DELEGATION :
MENDES FRANCE
For GREECE :
K. VARVARESSOS
For GUATEMALA :
M. NORIEGA M
For HAITI :
A. LIAUTAUD
For HONDURAS :
JULIÁN R. CÁCERES
For ICELAND :
MAGNÚS SIGURDSSON
For INDIA :
A J RAISMAN
For IRAN :
DR. TAGHI NASSR
For IRAQ :
IBRAHIM KAMAL
For LIBERIA :
WILLIAM E DENNIS
For LUXEMBOURG :
HUGUES LEGALLAIS
For MEXICO
EDUARDO SUÁREZ
For THE NETHERLANDS :
J. W. BEYEN
For NEW ZEALAND :
E C. FUSSELL
For NICARAGUA :
GUILLERMO SEVILLA SACASA
For NORWAY :
WILHELM KELLHAU
For PANAMA :
A. G. ARANGO
For PARAGUAY :
N. CAMPOS ROS
For PERU :
P. G. BELTRÁN
For THE PHILIPPINE COMMONWEALTH :
A SORIANO

For POLAND:

LUDWIK GROSSEFELD

For THE UNION OF SOUTH AFRICA:

S. F. N. GIE

For THE UNION OF SOVIET SOCIALIST REPUBLICS:

M. S. STEPANOV

For THE UNITED KINGDOM:

KEYNES

For THE UNITED STATES OF AMERICA:

HENRY MORGENTHAU JR.

For URUGUAY:

MARIO LA GAMMA

For VENEZUELA:

The Venezuelan Delegation wishes to express that its signing of this Act does not imply any recommendation to its Government as to the acceptance of the documents herein contained. The Venezuelan Delegation shall present to its Government these documents for their careful examination within the broad spirit of collaboration that has always guided the acts of our Government.

RODOLFO ROJAS

For YUGOSLAVIA:

Dr. VLADIMIR RYBÁR

[SEAL]

WARREN KELCHNER
Secretary General

[Pp. 98-99]

ANNEX C

SUMMARY OF AGREEMENTS OF BRETTON WOODS CONFERENCE

This Conference at Bretton Woods, representing nearly all the peoples of the world, has considered matters of international money and finance which are important for peace and prosperity. The Conference has agreed on the problems needing attention, the measures which should be taken, and the forms of international cooperation or organization which are required. The agreements reached on these large and complex matters are without precedent in the history of international economic relations.

1. *The International Monetary Fund*

Since foreign trade affects the standard of life of every people, all countries have a vital interest in the system of exchange of national currencies and the regulations and conditions which govern its working. Because these monetary transactions are international exchanges, the nations must agree on the basic rules which govern the exchanges if the system is to work smoothly. When they do not agree, and when single nations and small groups of nations attempt by special and different regulations of the foreign exchanges to gain trade advantages, the result is instability, a reduced volume of foreign trade, and damage to national economies. This course of action is likely to lead to economic warfare and to endanger the world's peace.

The Conference has therefore agreed that broad international action is necessary to maintain an international monetary system which will promote foreign trade. The nations should consult and agree on international monetary changes which affect each other. They should outlaw practices which are agreed to be harmful to world prosperity, and they should assist each other to overcome short-term exchange difficulties.

The Conference has agreed that the nations here represented should establish for these purposes a permanent international body, *The International Monetary*

Fund, with powers and resources adequate to perform the tasks assigned to it. Agreement has been reached concerning these powers and resources and the additional obligations which the member countries should undertake. Draft Articles of Agreement on these points have been prepared.

II. *The International Bank for Reconstruction and Development*

It is in the interest of all nations that post-war reconstruction should be rapid. Likewise, the development of the resources of particular regions is in the general economic interest. Programs of reconstruction and development will speed economic progress everywhere, will aid political stability and foster peace.

The Conference has agreed that expanded international investment is essential to provide a portion of the capital necessary for reconstruction and development.

The Conference has further agreed that the nations should cooperate to increase the volume of foreign investment for these purposes, made through normal business channels. It is especially important that the nations should cooperate to share the risks of such foreign investment, since the benefits are general.

The Conference has agreed that the nations should establish a permanent international body to perform these functions, to be called *The International Bank for Reconstruction and Development*. It has been agreed that the Bank should assist in providing capital through normal channels at reasonable rates of interest and for long periods for projects which will raise the productivity of the borrowing country. There is agreement that the Bank should guarantee loans made by others and that through their subscriptions of capital all countries should share with the borrowing country in guaranteeing such loans. The Conference has agreed on the powers and resources which the Bank must have and on the obligations which the member countries must assume, and has prepared draft Articles of Agreement accordingly.

The Conference has recommended that in carrying out the policies of the institutions here proposed special consideration should be given to the needs of countries which have suffered from enemy occupation and hostilities.

The proposals formulated at the Conference for the establishment of the Fund and the Bank are now submitted, in accordance with the terms of the invitation, for consideration of the governments and people of the countries represented.

[Pp. 116-120]

STATEMENTS OF CERTAIN DELEGATIONS

CONCERNING THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL MONETARY FUND

STATEMENT BY THE DELEGATION OF AUSTRALIA

Article I

In the opinion of the Australian Delegation the purposes of the Fund, which provide criteria for its management, place too little emphasis on the promotion and maintenance of high levels of employment, and too much emphasis on the promotion of exchange stability and on shortening the duration and lessening the degree of disequilibrium in international balances of payments.

Article III, Section 1

In view of the fact that Australia has little gold and few dollars, the quota fixed for Australia will compel her to build up liquid reserves outside the Fund to meet the wide fluctuations in her balance of payments. In doing so she is likely to have to take action in conflict with the purposes of the Fund.

Article IV, Section 5(f)

The Australian Delegation considered that the Fund should be required to concur in a requested change in a par value when a country has a serious and persistent deficit in its balance of payments accompanied by a seriously adverse change in its terms of trade.

Article V, Section 3(a) (iii)

The Australian Delegation considered that in view of the wide fluctuations in the balance of payments of many agricultural countries, the annual drawing rights should be greater than twenty-five percent of the quota.

Article V, Section 8

The Australian Delegation considered the charges provided for in this Section are too high and questioned the principle of charging countries interest which have an adverse balance of payments while provision is made for the payment of two percent interest to countries with a favourable balance of payments. (See Article XII, Section 6(b).)

Article XV, Section 1

The Australian Delegation considered that the right of withdrawal should be protected from being made meaningless by membership of the Fund being made a condition of membership of other international bodies.

STATEMENT BY THE FRENCH DELEGATION

Article III, Section 1

Reservation as to the size of the French quota and of European quotas in general.

Article III, Section 3

Reservation as to the omission of a clause permitting enemy occupied countries to reduce their gold subscription by one-fourth.

Article IV, Section 7

Reservation on the veto power on uniform changes in par values accorded to members having 10 percent or more of the total of the quotas.

Article V, Section 3 (a) (iii)

Reservation as to lack of flexibility as a result of prescribing a definite quantitative limitation on the purchase of currency from the Fund to the extent of 25 percent of the quota in a 12-month period.

Article V, Section 7 (b)

Reservation as to the non-inclusion of a clause in favor of enemy occupied countries in connection with the provisions requiring a member to repurchase its currency from the Fund with gold or convertible currencies.

Article XIX (b) and (c)

Reservations as to the definition of "official holdings of monetary reserves."

Article XIX (i)

Reservation as to the definition of "current transactions."

Article XX, Section 3 (b)

Reservations as to the date mentioned for the selection of permanent executive directors which may not take sufficiently into account the situation of enemy-occupied countries.

STATEMENT BY THE DELEGATION OF INDIA

Reservation as to the size of the quota for India.

STATEMENT BY THE DELEGATION OF IRAN

Reservation as to the size of the quota for Iran.

STATEMENT BY THE DELEGATION OF PERU

Peruvian Law No. 7526 of 18th May 1932, which suspended the free conversion of the currency into gold, provided that the gold reserves existing at that time, viz., 16,338,711.15 kilos of gold, valued by law at 38,784,832.53 Peruvian Soles, were to be earmarked and kept in custody by the Central Reserve Bank, and were not to be used in any way or manner, nor were ever to become liable to seizure or disposal in any contingency whatsoever. ("Oro intangible" in the original Spanish wording of that Law.) Consequently, the gold thus set aside by Law No. 7526 cannot be taken into account, either for the purpose of estimating Peru's quota and its proportion to be paid in gold, or for use in any of the operations of the Fund, or to cover any contingent or eventual liability of Peru if it ceases to be a member or if the Fund is liquidated.

STATEMENT BY THE DELEGATION OF THE UNION OF SOVIET SOCIALIST REPUBLICS

In the opinion of the Soviet Delegation the following additions to, or alterations of language should have been made in the Articles of Agreement:

Article III, Section 3

"Any country represented at the United Nations Monetary and Financial Conference whose home areas have suffered substantial damage from enemy occupation or hostilities during the present war, may reduce its initial gold payment to 75 percent of the amount it would otherwise have to pay."

Article V, Section 8 (f)

To reword this paragraph as follows:

"Charges and commissions shall be paid partly in gold and partly in local currency of the member, or fully in gold—uniformly by all members—Independent of the amount of the monetary reserves of each member."

Article V, Section 7

The principle, that so long as a member's holdings of gold and gold convertible exchange exceed its quota, the Fund in selling foreign exchange to that country shall require that one-half of the net sales of such exchange during the Fund's financial year be paid for with gold, should be maintained in conformity with Article III, Section 7 (b) of the Joint Statement by Experts on the Establishment of an International Monetary Fund of the United and Associated Nations.

Article XIII, Section 2 (b)

After the words "in the depositories designated by the remaining four members" to add the words: "in each of the four remaining countries having the largest quotas, gold shall be held in the amount not less than the amount of their respective gold contributions."

Article XIX, (i) (4)

Not to include in the term "current transactions" the "remittances for family living expenses", having in view that the Fund may upon the agreement with the members concerned, determine whether certain specific transactions of such kind are to be regarded as current transactions or capital transactions.

Article XIX, (a) and (c)

Because of the centralization in the Union of Soviet Socialist Republics of banking operations concerned with international transactions, as a rule, in the Central Bank—the State Bank of the Union of Soviet Socialist Republics, which is performing the functions of financing foreign trade, the Fund in calculating the net foreign exchange holdings of the Union of Soviet Socialist Republics shall take into account the necessity for the State Bank to maintain working exchange balances abroad.

STATEMENT BY THE DELEGATION OF THE UNITED KINGDOM

Article XIII, Section 1

In the opinion of the British Government the location of headquarters of the Fund ought not to be considered without reference to the location of other international bodies which will be established. The same observations apply equally to the location of the projected Bank for Reconstruction and Development. The British Government may therefore find it necessary at some later date to ask that all such interrelated questions should be considered as a matter for decision between Governments rather than in a technical conference.

STATEMENTS OF CERTAIN DELEGATIONS

CONCERNING

THE ARTICLES OF AGREEMENT OF THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

STATEMENT BY THE DELEGATION OF THE UNITED KINGDOM

Article XIII, Section 1

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national bodies which will be established. The same observations apply equally to the location of the projected Bank for Reconstruction and Development. The British Government may therefore find it necessary at some later date to ask that all such interrelated questions should be considered as a matter for decision between Governments rather than in a technical conference.

STATEMENT BY THE DELEGATION OF THE UNION OF SOVIET SOCIALIST REPUBLICS

Article I (iv)

This section should be deleted.

Article III, Section 1(b)

After the words "an expediting the completion of such restoration and reconstruction" the following words should be added: "and shall establish favorable interest and commission rates for such loans."

Article V, Section 11(b)

The word "initially" should be deleted from the last clause of the second sentence.

(Whereupon, at 12:50 p. m., the committee went into executive session.)

X.