HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
March 16, 1945 - 2 P.M.
(Eighth day of hearings)

Mr. Edward E. Brown, Chairman of the Board of Directors of the First National Bank of Chicago, was the last witness to testify before the Committee this week. He mentioned that he had devoted several weeks to study and discussions in preparation for the actual Conference at Bretton Woods. He stressed the compromise nature of the Agreements finally reached at the Conference. He said that in the absence of something on the order of the Fund Agreement there would be little international trade, and the instability of currencies would produce economic chaos. In view of recent lending experience only a small volume of capital exports can be expected except under some form of guarantee. It is better to set up an international organization to make such guarantees partly because borrowing countries will be more likely to fulfill their obligations to such an organization and partly because the risks will be shared by all member countries.

He then mentioned that there has been little criticism of the Bank but that a series of objections have been raised to the Fund, particularly from banking and financial sources. He said he was thoroughly familiar with the objections because of his contacts with bankers' organizations, the Chamber of Commerce, and the Committee for Economic Development, and proceeded to discuss what he thought were the main points at issue. Bankers and businessmen find it difficult to understand why a member should have the conditional right, subject to certain limitations, to use the resources of the Fund. He said he shared the traditional idea that in general a lender should have a right to say how much and under what terms he will lend. But on the basis of the preliminary discussions he became convinced that the Fund could not be established unless member countries had such a conditional right. Russia and the United Kingdom would not accept the Fund without such a right. A compromise between the demands of an absolute right of members to the use of the Fund and leaving access to the Fund to the absolute discretion of the management was worked out through the imposition of definite limitations on the right of free access. The Fund can cut off access to its resources. In his opinion, any further restrictions in this respect would be unacceptable to many countries.

The other major contention of the opposition to the Fund was that the Fund should be postponed until the economies of the countries most affected by the war could be stabilized. In this connection Mr. Brown emphasized the provision of the Agreement according to which the Fund may postpone transactions with any member country in which conditions are such that it can not use the resources in accordance with the purposes of the Fund. He also pointed out that unless countries were helped to stabilize their exchange rates they would be unable to achieve internal stability. To postpone setting up the Fund would mean to destroy all hopes of stability for a generation or more.

Representative Sumner (R. Ill.) asked Mr. Brown whether he would agree with a statement of Dr. White that the motives of the bankers should be questioned. Mr. Brown said he did not agree with that statement. Mr. Brown said in reply to another question by Representative Sumner that the Association had officially declared its opposition to the Fund Agreement but that he did not think that the opposition was unanimous. In reply to another question of Representative Sumner's Mr. Brown said that he did not say that the Fund provided for automatic loans. He stressed the elaborate set of restrictions and conditions and also that the management of the Fund must determine whether in its judgment these conditions are met. Representative Sumner then mentioned that Secretary Morgenthau stated that the Fund did not make loans. Mr. Brown answered that this was pretty much a question of semantics, that technically the Fund does not lend but it does extend credits. The operation is similar to a case in which an American bank leaves money on deposit in another American bank for a few days. It is an extension of credit that helps the second bank but it is not exactly a loan. Later in answer to a question of Representative Talle (R. Iowa) Mr. Brown said that although in general a lender does want to know what a borrower is going to do with his money before making a loan in recent years large corporations have insisted on 4 or 5-year lines of credit.

Representative Sumner then read a quotation of an article by Mr. Brown in the Journal of Business of the University of Chicago (Vol. XVII, No. 4, October 1944) and inquired whether his statement that he hoped that before a scarcity of dollars arises, a radical change in our tariff policy would occur did not imply that we will have to have free trade. Mr. Brown answered that he had not said that we would have to have free trade. He merely hoped that we would receive more imports. Increased imports may result from a high level of prosperity in spite of high tariffs. He thought that an immediate radical reduction of tariffs is politically impossible, but that slowly and over a long period of years the tariff would have to be reduced. He said he disagreed with Representative Sumner who indicated that we would be unwilling to permit large imports. Mr. Brown said that it was precisely because he did not think a radical reduction of tariffs is possible in the near future that he objected to some critics of the Fund who suggest lowering tariffs immediately and making a big loan to England and France and others. This might be sound "theoretical economics" but it was certainly "political insanity."

Representative Sumner questioned Mr. Brown regarding his emphasis on the importance of Russia's joining the Bretton Woods Agreements. He pointed out that although under the Russian economic system the problem of exchange stabilization did not arise he considers Russia's obligation to refrain from multiple currency practices and to avoid disruptions of the currency systems of neighboring countries as very important. He said he was convinced that Russia would cooperate with the Fund because a peaceful world offers the greatest chance for a further development of Russia.

Representative Patman (D. Tex.) asked whether the existence of an International Fund and an International Bank during the 'twenties have had a material effect on preventing the present war. Mr. Brown answered that it would have prevented the breakdown of currency systems and lending for unproductive purposes. In his opinion the present war would probably not have occurred.

Representative Smith (R. O.) referred to the New York Times editorial of March 16, 1945, discussing England's intention of retaining bilateral trade agreements and inquired whether this could be reconciled with the Bretton Woods Agreements. Mr. Brown said that he would not consider this a basic issue and that the Agreement was subject to interpretation by the management of the Fund and the Bank. He did not know that bilateral trade agreements are expressly prohibited by the Agreements. In reply to a question about Imperial preferences, Mr. Brown said that he did not think the British Empire could be persuaded to give them up but that this would not defeat the purpose or the evolution of the Monetary Fund.

Representative Monroney (D. Okla.) asked how the American Bankers' Association had reached its decision to oppose the Fund, in particular whether there had been voting by individual banks. Mr. Brown explained that the Administrative Committee was authorized to express the opinion of the American Bankers' Association on the Bretton Woods proposals but that the findings of the Committee were not submitted to a referendum or a poll. In reply to further questions, Mr. Brown stated that all large and well-regulated banks in the country try to avoid speculative exchange positions but that many individuals speculated in foreign exchange.

Representative Talle (R. Iowa) asked whether information regarding the contemplated use of a loan for which Russia may apply at the International Bank would be freely accessible to the management. Mr. Brown answered that if he were manager of the Bank he would be primarily interested in Russia's balance of exports and imports and whether it could meet the interest on the obligation and that he would not make the loan if he could not get the necessary information. In reply to questions by Representative Folger (D. N.C.), Mr. Brown stated that in all financial transactions with his bank the Russian government had fulfilled its obligations, that Russia would be eager to get capital funds for reconstruction on a credit basis, and that Russia realizes that it is in her own interest to meet her obligations.

Representative Kilburn (R. N.Y.) inquired about the possibility that dollars may become scarce. In his answer Mr. Brown pointed out that without the Fund dollars would be scarce almost immediately after the war and that foreign countries would put up restrictions against the use of dollars. The Fund would postpone and might even avoid a scarcity of dollars.

Representative Buffett (R. Nebr.) asked whether the Committee would fulfill its responsibility if it attempted to pass on the Bretton Woods legislation without having full information about all existing and pending governmental financial commitments. Mr. Brown answered that the Bretton Woods Agreements could be considered without waiting for other related legislation.

In reply to a question about the relationship between the Bretton Woods program and commercial policies, Mr. Brown said that the Agreement did not deal with tariffs, export bounties, etc., but that nobody would pretend that the Fund and the Bank could solve all problems; many other problems of international economic relations would have to be solved.

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
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