

HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE

March 22, 1945 - 2 P.M.

(Twelfth day of hearings)

Representative Smith (R. O.) announced that members of the minority group were planning to call six witnesses in addition to those appearing on behalf of the American Bankers' Association.

Representative Crawford (R. Mich.) continued to question Mr. Leon Fraser. He asked the latter to comment upon the March 20 report of the Committee for Economic Development. Mr. Fraser said he believed the principles outlined in the report were unobjectionable and that he would agree with them except, perhaps, with the second one which was not very clear: he did not understand just what was meant by the phrase "currency transactions should be currency transactions". As for the conclusions, he found them somewhat contradictory. The C.E.D. agreed with the A.B.A. that the Bank should make stabilization loans, but they recommended that if the Bank were so empowered, then the Fund should be approved. Mr. Fraser did not understand the reasoning behind this. With excellent principles and unclear conclusions, the C.E.D. report reminded him of the Fund Agreement itself.

Mr. Crawford discussed the scarce currency provision and asked whether that did not permit other countries to impose any restrictions desired to cut down our exports. Mr. Fraser agreed, but pointed out that such restrictions could only be applied as long as the currency continued to be scarce and added that a comparable situation could also occur in the absence of a Fund if a currency were scarce. In answer to the question whether trade would be more free or less free under the Fund, Mr. Fraser suggested that the Fund would probably stimulate foreign trade in the short run -- when such stimulation would not be required -- but that this effect would pass and the debts created during the period would create a more difficult situation thereafter. In the long run we would have to take more imports to balance our exports or else make gifts. Mr. Crawford stated that the following problems would be outside of the Fund: 1) disposal of newly mined gold; 2) blocked currencies; 3) reparations; and 4) bilateral agreements already entered into. Mr. Fraser agreed and suggested that blocked currencies might be used as blocked marks had been used by Germany. As for newly mined gold the situation would be the same, Fund or no Fund, so long as we accepted gold imports.

Mr. Crawford asked what major countries were not included at Bretton Woods. Mr. Fraser mentioned Switzerland, Sweden, Spain, and Portugal, and stated that the absence of these nations, which had advocated the principle of exchange stability, was unfortunate. Mr. Crawford asked whether rationing of dollars, should they become scarce, might effect the price level in any of our major industries. Mr. Fraser said it might affect specific commodities in this way. The greater danger, he believed, was that any announcement by the Fund that the dollar was scarce would create a psychological panic the results of which would be hard to measure. To Mr. Crawford's question as to how the balance of payments of other countries could be brought into equilibrium if we continued to lend, Mr. Fraser reiterated that in the long run we would have to increase our imports.

Mr. Fraser told Mr. Crawford that his one suggestion in regard to the Bank was that the American representative should report to and be advised by some executive committee in the United States for the decisions he would be called upon to make would be of great importance. Mr. Crawford asked about the transfer risks involved in long-term loans. Mr. Fraser listed the usual risks of war, economic disaster such as famine, dishonest or irresponsible governments. He mentioned an additional risk in regard to United States lending in our reluctance to accept

larger imports and contrasted this with the strong demand for imports in the United Kingdom which tended to ease the transfer problem connected with British lending.

Representative Patman (D. Tex.) requested information on the present status of the Bank for International Settlements, and Mr. Fraser replied it was "riding at anchor". He denied that Germany controlled it but stated, in answer to Mr. Patman, that it would not be an appropriate agency to undertake the functions of the Fund because of the mud that had been smeared on its name. Mr. Patman suggested that good administration would make the Fund Agreement acceptable. Mr. Fraser agreed that good management would reduce the faults, but believed that certain provisions were necessary to protect the administrators. They should have the power to ask each country to present its case fully before drawing on the Fund. He considered the Fund's credit operations to be too nearly automatic. The whole spirit of the agreement is that the nations are to feel free to use the Fund's resources. The country certifies that it needs foreign currency for certain purposes and gets it and the Fund cannot look into the domestic situation of the borrower. Mr. Patman mentioned the progressive interest rate schedules and Mr. Fraser answered that the top rate of 5 per cent was not a penalty rate for many of the countries whose credit was weak. He agreed with Mr. Patman that the avoidance of economic warfare should be a prime interest of the United States, but was sceptical as to the Fund's success in this effort; the Fund dealt with specific monetary measures but did not touch upon trade policies. He believed that more success in curtailing economic warfare might result from direct loans with such attached conditions as no blocking, no discrimination, no quotas, etc. To Mr. Patman's question whether the Fund would interfere with foreign exchange operations of private banks, Mr. Fraser expressed fear that the government might increase its control of exchange operations to that extent. Mr. Patman asked the direct question as to how the witness would vote on the Bretton Woods proposals as they now stood. Mr. Fraser answered that on the assumption that no changes were made he would vote against them "with deep regret".

Representative Gamble (R. N.Y.) asked about the functions of the B.I.S. and whether it had made stabilization loans. Mr. Fraser mentioned loans to Spain, Yugoslavia, and Austria. Committees were sent to investigate the entire situation in those countries before the loans were granted, and the B.I.S. worked on the theory that the money lent was not needed so much as was the confidence which resulted from B.I.S. approval of the stabilization methods adopted. Mr. Gamble asked whether Mr. Fraser had been consulted in the formation of the Bretton Woods agreements. Mr. Fraser said he had not. An exchange between Representative Outland (D. Calif.) and Mr. Burgess of the A.B.A. disclosed that the latter group had been officially informed of the United States program in June 1944, and had filed their views at that time; the policy of the government had taken final form by that date. Mr. Gamble asked whether the Bank could make loans before countries had stabilized their currencies. Mr. Fraser answered affirmatively and added that such loans might start a flow of goods which would help nations to determine the value of their currencies. Mr. Gamble asked whether it was true that the Fund would help Great Britain more than the United States. Mr. Fraser indicated that he thought this was true and considered it to be to the Fund's credit that this was so. He considered it a logical step that Britain should be aided but asked why this should be done under the guise of "stabilization of currencies". He would prefer direct long-term loans to Britain to enable it to free its blocked currency. If Britain were opposed to this it would appear that she contemplated using blocked sterling in a "Schachtian" manner. Mr. Gamble suggested that the provision in the enabling legislation authorizing the President to gather data under terms of the Trading With The Enemy Act was an unnecessary grant of power. Mr. Fraser agreed that adequate data could probably be acquired through existing statistics or by voluntary

Representative Barry (D. N.Y.) asked how many of the 44 nations could be considered debtors and Mr. Fraser said probably 98 per cent could be so considered. Mr. Barry suggested that these nations would go along with the Fund even if its lending provisions were tightened up and that the few creditor countries would certainly not object to greater protection. Mr. Fraser agreed.

Representative Sumner (R. Ill.) asked whether use of the Trading With The Enemy Act would mean "espionage". Mr. Fraser suggested that the term was too strong, but he feared it would lead to an increase in government control. He believed in a "measure" of currency management but the question was how far this should go and who the managers should be. Miss Sumner suggested that the Fund arrangement permitted continuance of many types of economic warfare and stressed subsidies and state trading of the Russian type. Mr. Fraser pointed out that a state trading system might or might not be used as a weapon for economic warfare. Mr. Crawford interrupted to declare that there was a "free alley of escape" for, e.g. Russia, from the effects of the prohibitions of the Fund Agreement through employing unfair trading methods. Miss Sumner asked Mr. Fraser to comment on the claim that private capital would not make the necessary long-term loans. Mr. Fraser said that the experiences of the past would make it very difficult for many nations to borrow from private investors in this country unless some intermediate institution such as the Bank were established to investigate and guarantee loans. Miss Sumner expressed surprise that the private bankers should be so optimistic concerning the functioning of the Bank and its use of the large amounts entrusted to it. Mr. Fraser repeated his suggestion that a committee be established to advise the United States representative. He recognized that something must be done in the international field. What if some loans were not repaid? We would share the loss with other countries and would for this reason have assurance that all the members would show reasonable care in approving the Bank's participation in loans. Miss Sumner suggested that the Fund and Bank were finding support in the ranks of those interested in the export of specific commodities. She believed such persons were unduly optimistic as to the rapid return to the United States of the dollars made available; she expected other nations to hoard dollars. Mr. Fraser thought this would not occur on a large scale, but agreed that it would be difficult to forecast the specific exports which would be stimulated by an increase in the supply of dollars abroad. Representative Buffett (R. Nobr.) suggested that recovery of foreign agricultural production would be more rapid than recovery of foreign industrial production so that the stimulus to exports given by the Fund would favor our industrial producers.

Representative Outland quoted from "Place of the United States in the Post-War Economy", issued by the A.B.A. in September 1943, to show that the Association had advocated an international institution with many of the functions now proposed for the Fund and had stated that we would be better off with plans that had to be changed than with no plans at all. Mr. Fraser agreed with the sentiments expressed at that time, but called Mr. Outland's attention to a quotation which, he said, showed that the A.B.A. had maintained a consistent position: "Credits granted by such an agency should be extended in accordance with proven standards, based on the merits of the individual case, and conditioned on adequate commitments by the debtor." Mr. Outland suggested that the A.B.A. had opposed the postal savings system, the F.D.I.C., and establishment of the Federal Reserve System. He hoped that subsequent developments would show that the present attitude of the A.B.A. was unnecessarily conservative.

Representative Smith (R. O.) asked for the comments of the witness on the provision in the enabling legislation reserving to Congress sole right to change the par value of the dollar. Mr. Fraser said this was a splendid provision but totally inadequate. If our representative on the Fund approved a change in any other major currency he would, in effect, be agreeing also to a change in the value of the dollar. Mr. Smith quoted an article from the New York Herald Tribune of March 22, stating that both Lord Keynes and Sir John Anderson have declared that the British government will adjust the value of the pound whenever Whitehall considers it necessary and would commit itself only to consult with the Fund before changing the value of the pound, reserving its right to persist with its intention should the Fund refuse consent. Mr. Smith felt that the committee should cease consideration of the legislation until consultation with the British had cleared up interpretation of the Fund commitments. Mr. Fraser thought the difference in interpretation here and abroad was most unfortunate. He suggested, however, that the statement meant that the British would act in contravention of a Fund decision only after a definite effort to act according to the principles of the Fund had proved unsuccessful. He recognized that there was "sales talk" in both Britain and the United States which was somewhat biased. Direct stabilization of the pound-dollar rate would, he thought, be a better method.

Representative Folger (D. N.C.) suggested that the A.B.A. in approving the objectives of the Fund gave approval to the six "purposes" of the Fund contained in Article I. Mr. Fraser said this was not the case. The A.B.A. agreed with the broad objectives of stabilization, consultation, and cooperation. He believed the second purpose -- expansion and balanced growth of trade -- was more appropriate for the Bank than for a stabilization fund; that purpose five was suspect since it failed to provide that members must show a real need for using the Fund resources or to give evidence of their ability to repay; that he did not know the meaning of purpose six. In answer to Mr. Folger, Mr. Fraser said he would expect some lack of cooperation between the Fund and Bank as separate agencies since each would be jealous of its own prerogatives.

Near the end of the session, Mr. Folger asked if Mr. Fraser had seen the statement issued today by the Board of Governors of the Federal Reserve System. Mr. Fraser had not seen it. The statement was ordered placed in the record.

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
March 23, 1945