

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

March 23, 1945 - 10:30 A.M.
(Thirteenth day of hearings)

Mr. W. L. Hemingway, President of the Mercantile-Commerce Bank and Trust Company of St. Louis, made a brief introductory statement in which he said that he was opposed to the Fund because he thought no loans should be made without prior investigation and proper collateral as in the case of clearing house certificates. He commented that Dr. White had indicated he would favor running the Fund on a sound basis but said there was no telling who the American representative would be and in any case he could be outvoted by representatives of foreign countries which interpret the plan differently. Mr. Hemingway mentioned differences in the interpretation of a member's "right" to borrow, of the possibility of bilateral agreements, of the term fundamental disequilibrium, and of whether the Fund was a gold standard plan or not as between Britain and the United States. Mr. Hemingway supported the American Bankers Association recommendation that a committee should be set up to control and advise the American representatives and mentioned that he understood the Federal Reserve Board had also supported the recommendation.

Mr. Hemingway said he believed there was grave danger that the Fund would tend to require countries to manage their economies and in particular the control of capital transactions would mean almost complete control of foreign exchanges. He said he thought the United States would be obligated to assist other countries control capital transfers and that this was probably the reason for the reference to the Trading with the Enemy Act. He referred to an article in the January issue of the Journal of the Institute of Bankers saying that the right to withdraw was illusory because members promise not to engage in transactions with non-members which are contrary to the purposes of the Fund. Mr. Hemingway said he thought that if the United States joined the Fund and then withdrew the world would be worse off than it is today.

Chairman Spence (D. Ky.) asked a number of questions as to whether Mr. Hemingway believed it was possible to ever reach an agreement that did not contain some provisions subject to different interpretations and referred to the United States Constitution. The Chairman also suggested that if the Fund and Bank had been one institution to begin with the bankers would have insisted it was too great a concentration of power and that one institution should not have two distinct functions. Mr. Hemingway commented that banks usually have several departments. When the Chairman said that bankers change their arguments freely and had opposed the Federal Reserve System, the Federal Deposit Insurance Corporation, the Securities and Exchange Act, and many others Mr. Hemingway said that there were bankers for and against these measures and in the case of the Federal Reserve System they had argued mainly that there should be one central bank instead of twelve. The Chairman said this was an adroit method of opposition. The Chairman then commented on the sincere cooperative spirit at Bretton Woods and asked what the effects would be if we ignored the proposals. Mr. Hemingway said he thought it was better to correct the plans now than to have a breakdown later. When the Chairman asked if only the American Bankers Association recommendations could make the plans workable Mr. Hemingway said it was a matter of opinion and that was his opinion and suggested the Economic and Social Council to be established at San Francisco could probably work out a better plan.

The Chairman asked if the bankers felt that the plans would invade a field now largely controlled by bankers and Mr. Hemingway answered that the proponents said they would not and the bankers had no such fears. In reply to the Chairman's question as to why one institution would be better Mr. Hemingway said because all loans

should be made by understood methods. When the Chairman asked if countries would not be more apt to live up to obligations to an institution of many countries including its neighbors Mr. Hemingway said he thought it would be the opposite because of the impersonal nature of the loans under the Fund plan but that in the Bank plan collateral would be required, a careful investigation would be made, and a definite date of repayment set. In answer to another question Mr. Hemingway said he would vote against the present program even though he is a life-long Democrat.

Representative Wolcott (R. Mich.) then asked if the main danger of the Fund was not that its resources might be used for other than stabilization purposes and Hemingway agreed and referred to Russia. Representative Wolcott mentioned our right to withdraw from the Fund but went on to say we would probably cease to be a member of the Bank in that case and the Bank would practically cease to function. Mr. Hemingway agreed and said that if all loans were made through the Bank and the United States had a veto over dollar loans there would be need of our withdrawing. Representative Wolcott then said that this might be a better plan since foreign countries would know that United States capital would always be available.

Representative Brown (D. Ga.) then read from the Federal Reserve Statement to the effect that the plans would be an important step toward the restoration of trade and that without the two institutions the world would revert to disruptive monetary practices and Mr. Hemingway said he did not agree and did not believe the alternative to the plans was chaos. Representative Brown asked if Mr. Hemingway advocated the Fund but would combine it with the Bank as Mr. Burgess and Mr. Fraser had suggested and Mr. Hemingway said he did not advocate the Fund and had not understood Mr. Burgess or Mr. Fraser to say so either. Representative Brown then asked whether it would not have a bad effect on our relations with other countries if we vetoed a loan of dollars under the scheme proposed by Mr. Hemingway and he replied that it would simply be a case of an unjust application. When Representative Brown asked if our exports would expand if the Fund and Bank were adopted Mr. Hemingway said that would be the immediate effect but it would be an unhealthy stimulus.

Representative Brown then asked if Mr. Hemingway had said the Fund would not be dangerous if Dr. White ran it and Mr. Hemingway said that the problem was that there would be eleven other executive directors. When Representative Brown asked if the Fund could be operated successfully Mr. Hemingway said yes if the powers were used and it was operated properly.

Representative Crawford (R. Mich.) then read the part of the Federal Reserve Board Statement advocating a council or committee and asked if the American Bankers Association agreed with it. Mr. Hemingway said the American Bankers Association believed Congress should designate precisely the members of the committee and make them responsible to Congress. Representative Crawford said he believed that was what the statement indicated and asked how much of the American Bankers' Association objections would be met by appointment of such a committee. Mr. Hemingway said it would not touch their main objections. Representative Crawford then said he objected violently to the one-sided presentation of the plans to the people. Representative Crawford then started asking about whether the Bank would not transfer American savings abroad.

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