

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

May 7, 1945

(Twenty-fourth day of hearings)

Morning Session

Mr. Whitney, Director of Education and Research of the Brotherhood of Railroad Trainmen, was the first witness before the Committee. He said he was authorized by the President of his organization to appear in support of the Bretton Woods proposals. Mr. Whitney stated that it is in the best interests of the United States to help reconstruct the devastated countries and to substitute cooperation for international monetary warfare. The Bretton Woods program would create a favorable environment for the expansion of American foreign trade, both exports and imports, and an expansion of imports would raise standards of living in this country.

In reply to questions asked by Rep. Crawford (R. Mich.) Mr. Whitney said he did not want to discuss possible changes which might be agreed on by the Treasury and the American Bankers Association but that in general he was not in favor of anything that would delay acceptance of the program. Rep. Brown (D. Ga.) asked the witness if he wanted to comment on the tariff question and Mr. Whitney mentioned that the low wage industries were in general the protected industries. Rep. Smith (R. Ohio) questioned Mr. Whitney at length on the Fund provision for uniform changes in par values. Mr. Whitney did not agree with Rep. Smith that this provision was inconsistent with the clause in the enabling legislation reserving for Congress the right to approve a uniform change in par values.

A series of questions by Rep. Outland (D. Calif.) brought out the witness' belief that the big bankers are opposed to Bretton Woods partly because they profit from instability. In reply to questions by Rep. Woodhouse (D. Conn.) Mr. Whitney said he was convinced that American prosperity was dependent on world prosperity, and that a gradual, selective, and scientific reduction of tariffs would tend in the long run to raise our standard of living.

Rep. Buffett (R. Nebr.) questioned Mr. Whitney as to how the President of his organization had decided to support Bretton Woods and whether Bretton Woods might not harm the beet sugar industry in Nebraska and, indirectly, reduce rail shipments in that area. Mr. Whitney said that he thought interests of particular areas would be carefully considered. In reply to a question by Rep. Riley (D. S.C.) Mr. Whitney cited cotton goods, silk and rayon, and the carpet and rug industries as examples of protected industries with very low wage levels and machine tools, automobiles, and agricultural machinery as high wage industries successfully competing with foreign countries in export markets.

Afternoon Session

Mr. Russell Smith, Legislative Secretary of the National Farmers' Union read a prepared statement. He quoted the 1945 program and a separate resolution adopted at the annual convention of the organization in November 1944 advocating an international organization for economic cooperation and the lowering of trade barriers and commending the monetary stabilization proposals being worked out. The Farmers' Union, therefore, urges the approval of the Bretton Woods Agreements and believes they are of overwhelming importance to agriculture because they will promote the freer flow of trade, will help maintain domestic employment, will stimulate imports which are desirable in themselves, and will promote efficiency of production throughout the world.

Mr. Smith said the Bank would help foreigners to buy machinery and equipment here after the war and will offer the investors an opportunity for sound investment. The risks will be shared by all members. The Fund is even more important because it will prevent countries from being forced into disastrous deflations in an effort to adjust to a fixed exchange rate. Because of the collapse in farm prices in the United States in 1920 farmers are fully aware of the dangers of deflation.

Rep. Crawford (R. Mich.) quoted a statement by Mr. James B. Carey of the C.I.O. to the effect that foreign investment is never a solution for domestic unemployment. Mr. Smith said he was convinced that it was impossible to keep employment at a high level in this country with depression in the rest of the world. Rep. Crawford then asked if we were not going to contribute to an inflation and collapse by lending to foreign countries at a time when Americans will be cashing in savings bonds and trying to buy much more than we can produce. Mr. Smith replied that loans made under the Bretton Woods program would be on a sounder basis than after the last war, that Bretton Woods would not lead to any great demands for our goods in the next 18 months; that controls must be maintained for some time, and the real problem after two or three years will be too little consumption rather than too little production.

Rep. Brown (D. Ga.) suggested that agricultural exports declined in 1920 partly because of foreign currency depreciations. Mr. Smith believed currency instability was relatively unimportant at that time as compared to the shortage of dollars whereas in the 30's currency depreciations were of great importance. Rep. Monroney (D. Okla.) asked whether Mr. Smith agreed with Mr. deVegh that it would be better to make large gifts to Europe than to help them with loans and Mr. Smith said he did not. Rep. Talle (R. Iowa) asked if the fall in agricultural prices in 1920 was not partly due to the fact that raw material prices always fall first and farthest in a depression and how the Fund would help prevent such a development. Mr. Smith replied it would help create favorable conditions and that stable currency values would make it possible to negotiate commodity agreements and work toward permanent adjustments. Rep. Crawford asked if Mr. Smith was referring to agreements regulating production and Mr. Smith said he had in mind export agreements. When Rep. Crawford and Rep. Sumner (R. Ill.) asked if the Fund did not provide for changes in currency values Mr. Smith said that it did but that it was certainly preferable to absolute fixity of rates or changes by unilateral action.

Mr. James B. Trant of the College of Commerce of Louisiana State University was the next witness. He said he testified as an individual. He believed the Fund was too complex, allowed too frequent changes in exchange rates, did not provide for necessary changes in tariffs, and would enable countries with favorable exchange rates and low wages to undersell other countries and force their wages down. He said the Fund introduces "bi-monetarism" and therefore the difficulties of bimetallism and that "bi-monetarism" encourages instability "of currency in relation to exchange." "The introduction of a gold dollar exchange rate against a paper standard system brings about the necessity of stabilizing domestic prices under the paper standard in accordance with whatever stability may exist with the gold dollar exchange or leads to trade difficulties because of variations of purchasing power parity from the exchange par." The Fund also fails to provide for stabilizing the domestic price level in various countries and stable exchange rates can not be maintained without stable price levels, provisions for use of the Fund are too liberal and no provision is made for "automatic control of the Fund" or for "open market operations."

Mr. Trant suggested that the Fund be rejected, that the Bank be amended to enable it to make stabilization loans after careful study, to buy and sell short-term international exchange and investment securities in the open market, and to hold reserves for central banks, and that the United States maintain the gold standard.

Mr. Trant agreed with Rep. Crawford that Bretton Woods would make it impossible for the United States to compete with low wage countries in the production of cotton, wool, meat, and most agricultural commodities.

Several other members of the Committee questioned Mr. Trant. The discussion was somewhat confused. One point that was made clear by a series of questions by Rep. Monroney was that the statements of Mr. Palyi, Mr. Kemmerer, Mr. deVegh, Mr. McDonald and Mr. Trant were all mimeographed by the Economists National Committee on Monetary Policy. A representative of that Committee said that the Committee provided assistance to any of its members on such matters and that its members are not unanimous in their views on Bretton Woods.

Correction

In the summary of Mr. McDonald's testimony on May 5 Rep. Smith is reported in the last paragraph as referring to Sections 8 and 9 of the Federal Reserve Act. The reference should have been to the Gold Reserve Act of 1934.

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