

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

May 8, 1945

(Twenty-fifth day of hearings)

Dr. V. Orval Watts, economic counsel of the Los Angeles Chamber of Commerce testified against the Bretton Woods Agreements. He read a lengthy statement which began with the assertion that our contribution of 6 billion dollars would mean a corresponding reduction of funds available to the American people for other purposes. He opposed the International Bank because (1) it would be government-owned and government-controlled; (2) it would mean destructive tax-exempt competition with private financial institutions; (3) government guarantees of loans merely promote one group of private interests at the expense of others; (4) the risk-absorption through guarantees of the Bank would mean a contraction of the functions of private enterprise; (5) the provision that the Bank's loans to private agencies must be guaranteed by the government, the central bank, or a comparable agency in the borrowing country would encourage the expansion of government activities and a further growth of bureaucracy in every member nation; (6) the Bank would be able to support any type of government activity; (7) it would provide another mechanism for propaganda in favor of further extensions of government management of economic activity; (8) it would provide a convenient mechanism for international commodity pools, resulting in restricted competition and higher prices.

The major part of Mr. Watts' statement was devoted to a discussion of the Fund which he called an agency for short-term lending and for exchange restrictions and control. He said that after the war, foreign countries would like to get from us "untold" billions of dollars for reconstruction and for raising their living standards while their ability and willingness to pay will be lower than ever. Sooner or later we must call a halt to the "lend-lose" process. When we stop lending the International Monetary Fund would be authorized to resort to "price-fixing and rationing of foreign exchange ... methods which would have to be employed almost from the beginning of the Fund's operations." The more the United States lends the greater will be the tendency for foreign countries to over-value their currencies. He said that nations do not want to undervalue their currencies to win an export advantage. As a rule, they prefer values as high as is compatible with their need to develop exports in order to meet foreign obligations or to buy foreign goods.

He then quoted extensively from a pamphlet about post-war social security in Great Britain and commented that the cost of the social security provisions should be taken into account in estimating her ability to pay back loans.

The witness declared that exchange restrictions under the Fund Agreement would permit the continuation of inflationary policies in all countries. Inflation as a method of promoting employment "is not worth the costs." But most nations of the world today are in the grip of ideas and policies of inflation and collective bargaining and "other forms of price maintenance organizations and government policy." Mr. Watts then declared that without inflationary policies price and wage rigidities could not be maintained and would be eliminated. He favored the reestablishment of the gold standard because it would promote international "morality," break down the rigidities of present economic systems and result in a truly free-enterprise society. At the end of his statement the witness said that the Bank and the Fund are not

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necessary for making foreign loans because foreign countries hold large dollar balances. He recommended that this country should reject both the Fund and the Bank.

Chairman Spence (D. Ky.) asked the witness about his reference to lend-lease as "lend-lose." Mr. Watts explained that his reference had no connection with the present Lend-Lease program, that he was referring only to possible loans after the war which might prove not to be loans, but gifts obtained under a misapprehension on the part of the American people who might consider them loans and find out later that they had been deceived. Chairman Spence asked whether we should not cooperate in the reconstruction of the world. The witness replied that we should try to offer help but attach certain conditions to it. Help, if given indiscriminately, may do more harm than good. Chairman Spence then asked whether the witness really believed that there was any possibility of going back to the gold standard in the present disordered state of the world. Mr. Watts answered that the gold standard could be reestablished if foreign peoples were given political liberty. He could not predict how long this would take.

Representative Smith (R. Ohio) expressed his full agreement with Mr. Watts' statement. He asked whether restriction of capital movements would not involve the setting up of a vast machinery for censoring mails, searching travellers, and inspecting and supervising every transaction which might involve a capital transfer. Mr. Watts agreed. Representative Smith then asked whether the witness could conceive of anything more isolationist than political control of capital movements. Mr. Watts answered that it would be highly isolationist because it would mean that every movement of ideas, all communications across borders, would be subjected to the most rigid control. In reply to another question by Representative Smith, he said that Great Britain would be forced "in very short order" to reestablish freedom of enterprise if we reject the Bretton Woods Agreements and withhold credits from Great Britain until she is willing to adopt policies which will enable her to pay back those credits."

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