

3/9/45

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

March 8, 1945 - 10:30 A.M.

(Second day of hearings)

Assistant Secretary of State Dean Acheson was the only witness called during the session. He outlined briefly the problems which the post-war world will face and suggested that such problems could be tackled successfully only through the cooperative efforts of all the leading countries in an expansionist environment. The Bretton Woods Agreements sought to provide a framework for cooperation. He proceeded with an excellent non-technical summary of the basic aims and methods of the Fund and the Bank. Mr. Acheson considered the Fund proposal to be the heart of the Bretton Woods Agreements for through its operation it was hoped countries could be aided in abandoning those methods of economic warfare which center around exchange control and competitive exchange depreciation. The Bank will be necessary to supply long-term financial aid for reconstruction and development, aid which the Fund is not intended to furnish.

Mr. Acheson anticipated a question later raised by Representative Barry (D. N.Y.) by discussing the wisdom of having two agencies to carry out the two distinct problems involved. For successful operation of the Bank the training and judgment required were essentially those evidenced by the private banker in the evaluation of specific risks and the prospects for specific projects. The management of the Fund, on the other hand, would be required to keep constant watch on the entire economic position of the countries using its facilities and the training and judgment required would be of a different nature. If the two functions were placed under one organization, one or the other would be subordinated. As for adoption of the Bank without the Fund, Mr. Acheson stated that the main purpose of the Bretton Woods Agreements would be frustrated if the Fund were not approved.

In answer to Representative Barry's questions as to the relationship between the World Bank and the Export-Import Bank, Mr. Acheson stressed the short and medium-term character of the loans of the domestic agency and its exclusive interest in United States trade rather than in the broader problems of world development.

Representative Smith (R. Ill.) called Mr. Acheson's attention to the liberalization of the provisions permitting exchange rate changes since the earliest drafts of the proposals were framed. Mr. Acheson suggested that the provision requiring nations to consult with the Fund was itself a major step toward international cooperation, and that the power of the Fund management to deprive a country of access to the Fund if it changed its exchange rate without Fund approval was a powerful sanction. Undue rigidity was not the aim of the Fund and the difficulty of setting original exchange rates in the disturbed conditions of the post-war period dictated a certain amount of flexibility. Representative Smith called attention to the provision that the Fund, if it regards an exchange adjustment as necessary to correct a fundamental disequilibrium, shall not

object to it because of the domestic social or political policies of the member proposing the change. Mr. Acheson replied that this provision was intended to insure that the Fund would judge the case on the basis of the international situation and not upon domestic social or political considerations. It was designed to keep members from interfering in one another's domestic policies. Representative Smith saw the danger of increased regimentation in the Fund's operations but Mr. Acheson stated that he saw no chance for avoiding a far greater degree of government control of foreign transactions if the Fund were not approved.

In answer to questioning by Representative Talle (R. Iowa), Mr. Acheson admitted that the Fund alone would not eliminate all unfair commercial policies, but stressed that the Fund Agreement was a necessary and important step in the right direction. In discussion with Representatives Kilburn (R. N.Y.) and Hays (D. Ark.), Mr. Acheson referred to Article XI of the Fund Agreement as the means by which the Fund members would be protected against actions of non-member countries which were contrary to the spirit of the Fund Agreement.

Representative Buffett (R. Neb.) stated that he found nothing in the Fund Agreement providing for balanced budgets on the part of member countries. Mr. Acheson replied that this could not be a prerequisite for Fund membership since numerous nations would not be able to reach a condition of balanced budgets for some years after the war. Mr. Buffett expressed concern lest other government agencies -- Export-Import Bank, UNRRA, Lend-Lease -- might work at cross purposes to the Fund and suggested better coordination in domestic agencies might provide confidence in our ability to cooperate in international agencies.

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
March 8, 1945