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HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
March 12, 1945 - 10:30 A.M.
(Fourth day of hearings)

Assistant Secretary of the Treasury White continued his testimony before the Committee. Mr. White presented 6 additional charts[1] and explained the organization and functions of the Bank and the Fund.

In the discussion of the chart pertaining to the organization of the International Bank, he stressed the large voting power of the United States which has 32,000 of 102,000 votes.

Explaining the composition of the resources of the Monetary Fund, he pointed out that the gold and currency contribution of the United States would be deposited with the Federal Reserve Banks which would act as the depository for 50 per cent of the total gold holdings of the Fund.

The 4/5 vote required for changes in the quotas of member countries assures in effect a veto power for the United States over any changes. Final decision on a change in the United States quota is left up to Congress. He emphasized the provisions of the Articles of Agreement which increase the vote of members whose currency is used, and decrease the vote of members which use the Fund.

Commenting on the chart on the charges levied by the Fund, Mr. White stressed the revolving character of the Fund and the fact that its assets must always remain the same in terms of gold (except for accumulated reserves and undistributed earnings). The scale of the charges is one important safeguard to assure that the Fund is kept revolving. The charges, rising with the period and the extent of borrowing, serve the purpose of putting increasing pressure on the borrowing countries to restore the Fund to its original position. The necessity of consultation when the charges reach 4 per cent, and the right to impose additional charges at 5 per cent, emphasize the objectives of the scale of charges.

Referring to a chart depicting the operations of the Fund, Mr. White remarked that the operations were complicated in appearance only and very simple in reality. In the discussion of the repurchase provisions for countries with favorable balances of payments, Mr. White was reminded by Representative Thom (D. O.) that the repurchase obligations apply only to countries which previously had used the Fund.

Pointing to the fact that the resources of the Fund may be used only for specific purposes enumerated in the Articles of Agreement, the witness anticipated the contention that the Fund grants access to its resources as a right of the member countries. He granted that a member when applying for foreign currencies does not have to prove that it will use the funds in the proper fashion, but stressed that it was the task of the executive directors and the technical staff of the Fund to follow the international transactions of each country. If they find that the funds are improperly used they can stop the member in question at once. He said there would not be large purchases of currency by member countries at the outset of the operations of the Fund, but rather than central banks, anticipating immediate demands, would buy relatively small amounts of currency once or twice a month. If members should ask for an extraordinary amount, the Fund would have the right to refuse the transaction. The fact that it is not important to know in advance the purpose of a loan has been proved in the operations of the Stabilization Fund of the United States. Mr. White considered it improbable any country should ask for one year's share of its quota at once. Central banks do not act that way.

Mr. White then elaborated at great length the relatively long period which the correction of balance of payments difficulties may take. He contended that proper adjustments should take a long time. Only restrictive measures such as exchange controls, depreciation, etc., can bring about rapid adjustments. The purpose of the Fund is to balance international payments by means which are not restrictive. He predicted that during the early post-war years few countries will have favorable balances of payments and that the U.S. dollar and the Canadian dollar will be sought from the Fund. The Fund will function as a second line of reserves to meet the deficiencies of that period of emergency. He took issue with the opinion that operations of the Fund should be postponed until after the emergency period and stressed that the purpose of the Fund is to meet emergencies and primarily the emergency caused by the present war.

In an extended interrogation Representative Brown (D. Ga.) inquired about the contribution which the Fund will make to the stabilization of exchange rates and the free international movement of capital. Mr. White answered that stabilization of exchange rates was precisely the main function of the Fund. Stable exchange rates would make private investors less reluctant to make foreign investments particularly since the Fund would assure the freedom of withdrawal of dividends and interest from foreign investments. Representative Brown then asked whether there would be any necessity to increase our contribution to the Fund. In the answer, Mr. White voiced his disagreement with the opinion of some circles that, with the passage of years, other countries will need more dollars and that the dollar resources of the Fund would be used up. He pointed out that gold which the Fund would receive would be used to buy additional dollars. If the dollar should become scarce, our reaction to such a situation could depend upon what we regard as our best interests. Under the provisions of the pending bill, Congress would have to make this decision. If we should prefer not to lend dollars to the Fund, the Fund still would operate and the members would still be bound to adhere to its principles. If there should be a scarcity of dollars the Fund would be able to expedite the adoption of proper policies by foreign countries.

To a question by Representative Brown as to whether or not the benefits which we may derive from the Fund and the Bank outweigh the risks which we incur, Mr. White answered that the Bank could lose substantial sums on account of the risky nature of its loans but losses, if any, would be shared by other countries. The risks in the Fund are much smaller. The Fund may suffer losses in the event of a new war or if a country should refuse to abide by its obligations under the Agreement but governments are very reluctant to break international obligations.

Representative Crawford (R. Mich.) inquired about the provisions concerning the profit distribution of the Fund. Mr. White read the pertinent provision (Article XII, Sec. 6). To the question whether it is correct to say that the Fund would make short-term loans, Mr. White answered that he prefers the term "exchange operations" which differ from short-term loans because the currencies received in payment for foreign exchange can be used by the Fund, no definite term for repurchase is agreed upon and the charges of the Fund are less definite than interest charges. Moreover, the use of the Fund may last as long as 5 to 8 years, or longer than the life of ordinary short-term loans.

Representative Crawford then asked for an explanation of the operational procedure of the Bank. In the answer Mr. White brought out that the existing private channels of international lending would not be interfered with by the Bank unless interest or other charges were too high, in which case the Bank could guarantee the loan and thereby make the terms of lending more favorable. Before recess, Representative Crawford asked Mr. White to bring to the next hearing a list of all government agencies which are permitted and likely to make foreign loans after the war. Representative Patman (D. Tex.) asked for a list and explanations of the reservations which foreign countries had made to the Articles of Agreement. Representative Sumner (R. Ill.) inquired whether a transcript of the Bretton Woods Conference was available. Mr. White answered that the sessions were of a confidential nature and that the government of the United States was not at liberty to publish an international document without the consent of all participants. Representative Sumner then asked for the presentation of the original proposal of the United States delegation and a comparison with the Articles of Agreement. Mr. White promised to present this tomorrow.

The hearings will be continued tomorrow with further questions to Mr. White.

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
March 10, 1945