HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
March 14, 1945 - 10:30 A.M.
(Sixth day of hearings)

Representative Crawford (R. Mich.) resumed the questioning of Mr. White by suggesting that since neither the Fund nor the Bank would aid directly in the short term financing of specific export transactions, an increase in the capital of the Export-Import Bank would probably be required for this purpose. Mr. White agreed.

Representative Crawford (R. Mich.) then inquired whether there was anything in the Agreements to interfere with normal private foreign exchange transactions. Mr. White said no, not in the United States -- but foreign countries will be prevented from imposing restrictions on exchange transactions. Representative Smith (R. O.) then asked if Article IV, Section 3, of the Fund Agreement did not oblige the United States to interfere with private transactions to ensure, for example, that the Mexican peso is not sold in the United States outside the prescribed margin of parity. Mr. White pointed out that Article IV, Section 4(b), expressly states that any country freely buying and selling gold within the prescribed margin is considered to be fulfilling its undertaking to maintain stable rates. Accordingly there is in practice no question of the United States being required to interfere with private transactions.

Representative Crawford asked a series of questions concerning selection of the United States' representatives in the management of the Bank. He said he thought the bill should be amended to provide that the alternate to the executive director, since he might in certain circumstances exercise important powers, should be appointed by the President with the advice and consent of the Senate in the same manner as were the governor, his alternate, and the executive director. Mr. Luxford, Assistant to the Secretary of the Treasury, said he saw no serious objection to this suggestion but mentioned that the alternate is appointed subject to the approval of the President.

Mr. Luxford was asked by Representative Crawford about the legal status of reservations made by other countries. Mr. Luxford replied that if the Agreement were signed by such countries in its present form their reservations would have no legal status whatever.

Representative Crawford asked why the enabling legislation proposed to suspend the prohibitions of the Johnson Act only in regard to countries which were members of the Fund and Bank. Mr. White replied that failure to do this would force such countries, regardless of the excellence of their credit rating, to borrow directly from the Bank rather than through the private investment market and would therefore discriminate against the latter. Mr. Luxford suggested that countries joining the Fund and Bank would be better credit risks than those which failed to do so because of the commitments they would accept in signing the Agreements. Representative Crawford suggested that outright repeal of the Johnson Act might be preferable and Mr. Luxford pointed out that the President had already recommended outright repeal and the Treasury has no objection.

Mr. White told Representative Crawford, in answer to the latter's question, that the term "stabilization" had been dropped in connection with the Fund merely because of the feeling on the part of certain other countries that the term suggested too great rigidity. Neither the purpose nor the provisions of the Monetary Fund were altered in any respect as a result of the change in name.

Representative Crawford suggested that guarantees by central banks had in general proved more meaningful than guarantees by governments and wondered why provision was not made for the central bank to be the guarantor in all cases.

Mr. White explained that it was true only in a small number of countries that the central bank's guarantee would be better than the government's guarantee and that the management of the Bank had sufficient authority to demand a guarantee from either one according to conditions in a particular country.

Representative Crawford raised the question whether certain Latin American countries had insisted that loans through the Bank be divided between development and reconstruction projects on a 50-50 basis. Mr. White replied that there was some effort to include such a rigid stipulation but that the Agreement finally stated (Article III, Section 1a) merely that the resources and the facilities of the Bank are to be used with equitable consideration to projects for development and projects for reconstruction alike.

Quoting from the New York State Bankers' Association Report Representative Crawford asked if it were true that the Fund had no power to remove trade controls and other commercial restrictions. Mr. White agreed that the only type of restrictions which the Fund was designed to eliminate were those carried on through monetary means. He suggested that the United States hoped to obtain separate agreements on questions of tariff and other commercial policies.

Representative Crawford then asked Mr. White to comment on a letter from Mr. Boothby, a member of Parliament, to the New York Times of March 4, 1945, which stressed differences in the interpretation of the Agreement here and in England. Mr. White said there were no differences as far as the British delegation or the British government were concerned. He explained that Mr. Boothby was not a member of the British delegation and had not participated in any discussions. In answer to a question by Representative Crawford Mr. White explained that Mr. Boothby is head of an informal opposition committee. Mr. Bernstein then discussed the specific points raised by Mr. Boothby.

Representative Crawford asked for an explanation of the method by which the funds required for the subscription of the United States to the Fund and Bank were to be obtained. Mr. Luxford pointed out that the enabling legislation directed the Secretary of the Treasury to use 1.8 billion dollars now held in the United States Stabilization Fund to pay part of our subscription and authorized him to pay the balance by means of public debt transactions. Mr. Luxford explained that this method of securing the necessary money was considered preferable to the method of an appropriation from Congress for two reasons. First, the subscription would be an investment rather than an outright expenditure; secondly, the size of the appropriation for the Bank would be much greater than the amount of funds actually required since 80 per cent of the Bank's capital will merely be held in reserve to meet any losses which may occur on guaranteed loans.

Mr. White will return for further questioning tomorrow morning (March 15).

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
March 14, 1945