HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
March 20, 1945 - 2 P.M.
(Tenth day of hearings)

Mr. Clayton began by referring to Representative Wolcott's (R. Mich.) question about the possible influence of the Fund on our cotton exports. He mentioned that between 1929 and 1938 Brazil came to furnish a much larger share of German cotton imports and the United States a much smaller share. The Fund, in his opinion, would prevent the bilateral exchange arrangements which were partially responsible. In reply to questions by Representatives Kunkel (R. Pa.), Baldwin (D.Md.), and Talle (R. Iowa) Mr. Clayton agreed that our price policy was also an important factor.

In reply to a question by Representative Sundstrom (R. N.J.) about the effects of bilateral clearing agreements on the countries involved, Mr. Clayton said that no country benefits in the long run and that if bilateral clearing agreements among foreign countries were to continue after the war the United States would have to make similar arrangements. Representative Thom (D. O.) asked if our exports had not been hampered by a scarcity of dollars abroad and if the Fund would not help to maintain our exports and Mr. Clayton agreed. Representative Thom also pointed out that the clearing arrangements not only cut our cotton exports to Germany but our other exports to Brazil.

Representative Baldwin said that he was in full agreement with the principles of the Bretton Woods proposals but that he would like to know whether or not in practice the development of industries in foreign countries would not lead to a decline in our exports. Mr. Clayton replied that the Bretton Woods program had a short-term and a long-term aspect. In the short-run, American exports sustained by the operations of the Fund and the Bank would partly take care of our excessive capacity to produce capital equipment. He said he expects an export surplus of 3 to 4 billion dollars in the immediate post-war years. As to the long-run aspect, he said that experience had shown that industrial countries with a high standard of living were our best customers and that they would continue to buy our mass-produced goods in the production of which we command a decided advantage. He added that we may never want to take back the principal of our loans which may shift from country to country and from public to private channels, and that through adjustments in our commercial policy we should be able to receive interests and dividends.

Representative Smith (R. O.) then read lengthy excerpts from speeches by Lord Keynes which, in his opinion, proved that the Fund through Article VII, Sec. 3 (Scarce Currencies), would put foreign countries in a position to exercise pressure on the United States either to make tariff changes or to "give our exports away without payment."

Mr. Clayton pointed out that some of the quotations which Representative Smith had read referred to the Clearing Union proposal of Lord Keynes which had not been accepted by the Bretton Woods Conference. He said that the Fund Agreement only provides for recommendations by the Fund, and granted that this may mean some pressure on the United States. But representations which are common in international relations may be made, and the Fund certainly can not exert <u>undue</u> pressure. The United States is entirely free to lower tariffs or not as it sees fit. The fact is that in the long run of course we can not export more than we import.

Representative Smith asked whether a delcaration of scarcity of dollars by the Fund would create a serious problem for the United States. Mr. Clayton answered

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that a scarcity of dollars has been a serious impediment to our exports for many years and that the Fund actually could delay such a condition. Representative Smith then said it was his belief that Lord Keynes had written the scarce currency provision and all other important provisions of the Bretton Woods Agreements.

Mr. Acheson, who took the witness stand after Mr. Clayton, explained that Lord Keynes did not write the Fund Agreement, that no single person was responsible for the drawing up of the document but rather that many delegates from many countries helped to formulate the Agreements. He also pointed out that Lord Keynes did not sit on Commission I which produced the Fund document. Chairman Spence (D. Ky.) remarked that in his opinion the American delegation exercised the greatest influence on the Fund Agreement.

Representative Riley (D. S.C.) inquired about our experience with the Stabilization Fund. To an explanation by Mr. Acheson he remarked that he was under the impression that the Fund was not based on theoretical principles but on practical experience of the operations of stabilization funds.

The next witness, Under-Secretary of Commerce Wayne C. Taylor read a prepared statement. He pointed out that we experienced great difficulties in penetrating exchange barriers abroad and in collecting payments when other countries were short of dollars. He called the Fund an attempt to create an international monetary system. Critics of the Fund had seriously erred in failing to consider realistically the alternatives to the system agreed upon at Bretton Woods. The very detailed provisions of the Fund are probably not a disadvantage but actually an element of strength. The weakness in most of the criticisms of the proposal lies precisely in their failure to face realistically the task of prescribing in adequate detail the policies and procedures. He then discussed some of the criticisms and alternative proposals. As to the recommendation to reject the Fund and to assign the task of making stabilization loans to the Bank, he pointed out that in place of very definite commitments by foreign countries as to their exchange policies we would obtain nothing but the unsecure promise of further discussions.

Representative Kunkel, referring to Mr. Taylor's participation at the Inter-American Conference in Mexico City, asked whether the Bretton Woods Agreements would stand in the way of setting up an Inter-American Bank. Mr. Taylor replied in the negative. To a further question by Representative Kunkel, he said that Latin American countries were definitely interested in development loans.

Representative Talle commended Mr. Taylor on his statement. Representative Buffet (R. Nebr.) indicated that the Bretton Woods Agreements have been interpreted differently here and abroad. In particular, he referred to a statement by Lord Keynes that England would be free to maintain her war-time restrictions and the sterling area after the war. He thought that the British emphasis was on the permissibility of devaluation rather than stabilization. Mr. Taylor replied that the bad experience with fixed exchange rates after the last war was prominent in the British mind but that the British had wholeheartedly endorsed the Bretton Woods Agreements which put the emphasis on stability. As to the removal of exchange restrictions, he said that there was no question about the objective of their ultimate removal. The only question which could arise would concern the speed of eliminating the restrictions. It certainly would take longer than six months, as Representative Buffet had implied.

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