

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

March 21, 1945 - 10:30 A.M.
(Eleventh day of hearings)

Mr. Randolph Burgess, President of the American Bankers' Association, began by reading a short prepared statement. He said Mr. Leon Fraser and Mr. W. L. Hemingway and Brigadier-General Ayres would also testify on behalf of the American Bankers' Association. Mr. Burgess referred to the report issued by the American Bankers' Association and mentioned that discussion of the proposals had been deferred until after the elections.

Mr. Burgess said he believed the Fund should not be created and that a department of the Bank should perform certain stabilization functions. In general he believed the fact that international agreements must be acceptable to the people as well as to special representatives was too often forgotten and that in the case of Bretton Woods the Agreements are now coming before the United States at a policy level for the first time. There has been little public discussion of the Bretton Woods proposals and the American representatives at Bretton Woods were already asked to limit their deliberations to the framework of the Joint Statement for the Fund and the principles agreed on by the American Technical Committee for the Bank. Mr. Burgess also said that it had been frequently stated that 44 nations agreed on the Bretton Woods proposals when in fact, as Lord Keynes said, the delegates did not commit their governments in any way and did not even agree to recommend acceptance to their governments.

Mr. Burgess then turned to the Fund Agreement. He said the changes the American Bankers' Association would suggest would not require another conference necessarily but he saw no reason to dread another conference in any case. Mr. Burgess then gave the five principal reasons for suggesting modifications as follows:

(1) The Fund misconceives the size and nature of the needs of foreign countries. Only a few are devastated. Many are richer than ever before and the United States has been losing gold and forced to lower its reserve requirements.

(2) Although the Bank's loans are made on sound banking principals there are no adequate safeguards in the Fund plan. The United States also has a very important veto power over any use of dollars by the Bank.

(3) Under the Fund plan American interests and principles are not protected. The Fund might not be able to refuse a loan to an aggressor country, for example. Furthermore, the United States will be blamed if dollars become scarce and we don't put up more money.

(4) The Fund does not eliminate the non-monetary forms of economic warfare. Also any country can change its rate by 10 per cent and it will be easy for any country to prove it is in a state of fundamental disequilibrium so the Fund will have to approve further changes. It will be difficult for the Fund to get rid of exchange controls. The Bank could do a better job of eliminating economic warfare.

(5) It would be much better to have one institution to eliminate confusion and coordinate policies. The Bank could make long-term stabilization loans. Even more important, there is no need of so much money. The Federal Reserve Bank of New York participated in many small stabilization loans in the 1920's and not a nickel of the money was ever used. And all but one of the small loans made in the 1930's have been repaid. Countries must stabilize their currencies by domestic measures

The cost to the United States of joining the Fund would not be negligible, and we could attain the objectives at half the cost.

Representative Brown (D. Ga.) asked if Mr. Burgess' main objection was to the Fund's lending methods. In reply Mr. Burgess said the stabilization and exchange provisions were also too ambiguous. In reply to further questions by Representative Brown Mr. Burgess said he favored the Bank, that he thought the dollars in the Fund would last only about 3 to 5 years and that if we refused to put more dollars in we would be called Uncle Shylock.

Representative Brown asked Mr. Burgess about the report of the Committee for Economic Development. Mr. Burgess said the report supported the concern of the American Bankers' Association as to the Fund's lending methods and adopts the American Bankers' Association proposal that the Bank should make stabilization loans. Mr. Burgess said he thought it was a good idea to let the Bank take the doubtful long-term loans. He also said that the idea that the Bank could do so by a broad interpretation of the phrase "in exceptional circumstances" was perhaps a "via media" that would satisfy the American Bankers' Association objections. However, Mr. Burgess did not think the Committee for Economic Development plan protects the Fund sufficiently since it would be difficult for the Fund to insist that a country borrow from the Bank at higher cost. Mr. Burgess also mentioned that the provision which allows the Fund to postpone transactions with a particular country could protect the Fund and allow the Fund to turn over loans to the Bank.

Representative Brown then asked if the Committee for Economic Development report did not say the Fund was a vital part of the program and should be accepted. Mr. Burgess hesitated to agree but finally did. In reply to another question by Representative Brown Mr. Burgess said he thought interpretation could allow the Bank to make long-term stabilization loans. When Representative Brown asked what kind of stabilization agreements the American Bankers' Association would have the Bank negotiate Mr. Burgess said that some of the provisions of the Fund plan might be included but that he thought they were too elaborate and it would be better to leave more flexibility to the administration. He said it was hard for many countries to make firm commitments now and so the Fund includes positive statements followed by important qualifications. He thought perhaps all that was needed was a simple statement of purpose and the rules could be worked out later and more would be accomplished by consent and agreement. Representative Brown then asked if the agreements negotiated might not be essentially similar to the Fund but not include so many countries. Mr. Burgess said he thought they could be simpler -- he said other countries did not want to sign rigid agreements and many hoped we would try to amend the agreements.

Representatives Brown and Patman (D. Tex.) both pressed Mr. Burgess to say whether if he had to take the Fund and Bank as they are or not at all he would do so. Mr. Burgess kept insisting that amendment was not impossible but said something about swallowing cod-liver oil while holding his nose which implied he would probably favor acceptance.

NOTE: There was some further discussion. This will be summarized in the report for the afternoon's hearings.

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