HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
March 21, 1945
(Eleventh day of hearings)

Continuation of Morning Session

Representative Gamble (R. N.Y.) asked Mr. Burgess how the American Bankers Association report differed from that of the New York State Bankers Association. Mr. Burgess replied that there were no differences of major importance, but mentioned that the New York Bankers report went further in defining what they would do to stabilize currencies and suggested the making of a stabilization agreement should be a prerequisite for membership in the Bank.

Representative Patman (D. Tex.) suggested that Mr. Burgess' objections were really very few and that he did not see why it would be very different to have stabilization problems handled through the Bank. When he asked Mr. Burgess if he did not think the Fund was a step in the right direction Mr. Burgess said there were serious difficulties among which was the danger of inflation. Representative Patman suggested that controls were now in force to prevent inflation. When Mr. Burgess said any additions to foreign purchasing power would add to the problem Representative Patman said he did not think the Fund would be able to get into operation very quickly and that if the foreign expenditures were justified other measures should be used to prevent inflation. Mr. Burgess felt the Fund would not be able to ensure that the expenditures were justified and stressed the fact that the United States has no veto power over the use of dollars in the Fund. Representative Baldwin (D. Md.) interjected the remard that the borrowers would control the Fund; Representative Patman said he thought the most inflationary factor at the moment was the fact that the banks were buying up the government bonds.

Representative Outland (D. Calif.) asked Mr. Burgess if he thought the United States should have a veto power in every international organization. Mr. Burgess said all countries have a veto in the Bank plan and the security organization.

Representative Barry (D. N.Y.) asked Mr. Burgess if it was not true that countries without gold or dollars could just give the Fund their I.O.U.'s, and how many now had gold or dollars. Mr. Burgess said most countries have some gold or dollars. Representative Barry then asked if the dollars subscribed by the United States would not come out of taxpayers' money and whether our public debt was not approaching the stage where it would exceed our national wealth. Mr. Burgess agreed on both counts and said that we must be sure every single expenditure is justified. Representative Barry then asked how we could prevent the Bank's loans from helping to build up competitors abroad. Mr. Burgess said it was impossible and that to achieve stabilization other countries had to become less dependent on us. When Representative Barry suggested we could completely control the Export-Import Bank's loans Mr. Burgess pointed out that in the Bank other countries shared in the loans and the risks. Representative Barry asked Mr. Burgess if he did not favor eliminating the Fund's right to waive the conditions for access to the Fund. Mr. Burgess said he thought it would be better to require a two-thirds vote but that it was not of major importance. He suggested Congress could insist that no United States representative vote in favor of a waiver without consulting the Committee.

Afternoon Session -- 2 P.M.

Chairman Spence asked Mr. Burgess what steps were taken after the last war to achieve currency stability. Mr. Burgess said the Federal Reserve System did a lot, that there was cooperation between the principal countries, that Governor Strong and Mr. Norman worked out a program to stabilize the pound, and other countries later stabilized with reference to the pound or the dollar. Chairman Spence suggested that the instability continued and Mr. Burgess said it was the great depression that caused the breakdown. When Chairman Spence asked if there was not danger of greater instability after the war Mr. Burgess said that the fact many foreign countries had large gold and dollar holdings would help and that it was inflation that really caused the trouble after the last war and something should be done to avoid that, both in the United States and elsewhere.

In answer to a question by Representative Barry Mr. Burgess said the United States would not need to get foreign currencies from the Fund. When Representative Buffett (R. Nebr.) asked if the Fund's operations would not amount to automatic loans Mr. Burgess said it would be almost automatic but there were certain limitations and conditions.

Representative Sumner (R. Ill.) questioned Mr. Burgess at length about the instability of the franc and the mark after the last war and how they were stabilized. Mr. Burgess said the principal difficulties in both France and Germany were overborrowing and unbalanced budgets. The franc was finally stabilized when the Bank of France insisted on collecting taxes, cutting down expenditures, and a cessation of borrowing. Small stabilization loans were made to both France and Germany but were not used. Representative Sumner asked how to determine the proper amount to lend. Mr. Burgess said it was complicated but it was proper to borrow to restore transportation, and to replenish working capital and bank reserves, and that such loans could be made by the Bank and the Bank could see that proper steps were taken. Representative Kunkel (R. Pa.) asked if it was not true that the Fund could refuse to lend to a country until it was in a relatively stable position and the proper initial steps had been taken and Mr. Burgess said that was correct.

Mr. Burgess agreed with Representative Sumner that the steps taken after the last war were along the lines of the key currency approach and that smaller countries were able to fall in more easily after the major currencies were stabilized. In reply to further questions by Representative Sumner Mr. Burgess said too much money was lent to both France and Germany and used for unproductive purposes so that the collapse was worse when it did occur. When Representative Sumner asked what would happen when the dollar was declared scarce Mr. Burgess said the Fund would recommend that we lower our tariffs and lend more. When Representative Sumner suggested that the Fund's recommendation would put severe pressure on us Mr. Burgess said they would at least prove embarrassing. In reply to another question Mr. Burgess agreed that rationing of dollars would be similar to rationing of our exports. Mr. Burgess said the difficulty was that under the Fund plan the difficulty would be put squarely up to us but mentioned that it was a problem we would of course have to face anyway. Both Representatives Sumner and Buffett asked if it was not true that the key banks had everything to gain from exchange stability and Mr. Burgess said that was the case.

Representative Sumner asked if the leading bankers had not opposed the Federal Reserve easy money policy in 1927 and Mr. Burgess said they had and that he had made a few speeches on the subject himself. Representative Sumner suggested the Fund Agreement might be full of loopholes that would force us to take over British debts but Mr. Burgesssaid he doubted if it was open to that kind of abuse.

Representative Smith (R. O.) suggested the Fund did not get at the basic causes of instability. Mr. Burgess said he felt consultation was very important but that he wished the Fund said a little more about internal policies. When Representative Smith asked if the scarce currency provisions would not lead to difficulties with other countries Mr. Burgess said the greatest danger was that we were apt to go through waves of lending and then stop and that our security markets would freeze up if the dollar were declared scarce. He also said that the scarcity would come suddenly under the Fund rather than gradually and mentioned that Lord Keynes had suggested we would lend more rather than have the dollar declared scarce.

Representative Woodhouse (D. Conn.) asked what conditions Mr. Burgess would impose beyond those in the Fund Agreement and Mr. Burgess said stabilization loans should be carefully investigated. When Representative Woodhouse said some automatic credits were usually involved in bilateral stabilization agreements Mr. Burgess said it was different when you knew what country you were dealing with and limited the amounts. Representative Woodhouse suggested the management of the Fund would be just as careful as that of the Bank and that the United States and the British Empire, the two largest creditors, had enough votes to see the Fund was managed properly. She also suggested that every member would have a real interest in seeing that no one country drew too heavily on the Fund. Mr. Burgess said the United Kingdom would not be a creditor and that she would tend to support requests of other countries because they would then be able to buy from her. Mr. Burgess went on to say that the condition that use of the Fund be in accordance with its purposes was too broad and when Representative Woodhouse suggested that something could be left to the wisdom of the management, Mr. Burgess cited Mr. E. E. Brown's opinion that Russia would be allowed to use the Fund for reconstruction. Representative Woodhouse then referred to Mr. Burgess' suggestion that the Fund would be forced to lend to aggressors and said she thought it would not be possible since the Fund would not operate in isolation. She also questioned Mr. Burgess' statement that the United States was getting poorer in view of our great wealth and production. Mr. Burgess eventually agreed he had been referring to our international means of payment. When Representative Woodhouse asked why Mr. Burgess expected the Fund to be used up quickly if so many countries had adequate reserves and would be required to buy back their currencies from the Fund. Mr. Burgess said they might spend all they had and draw on the Fund too.

In a series of questions Representative Rains (D. Ala.) suggested that the Bank could not function successfully without stable currencies, that it didn't make much difference whether the Fund or the Bank did the job, and that he doubted the possibility of getting a plan exactly to the liking of all groups even here in the United States, and that if we amended the plans other countries might reject them. Mr. Burgess again emphasized the Bank's method of investigating loans and the desire to avoid a lack of harmony between the two institutions and said he thought the changes he suggested would appeal to other countries. Representative Rains said he thought others would object to our insisting on a veto. When Representative Rains suggested loans could help prevent depressions and wars Mr. Burgess said there was great danger in excessive lending. When Representative Rains asked if the Fund's lending procedure were identical with the Bank's would Mr. Burgess favor the Fund Mr. Burgess said there were other objections.

Representative Kunkel (R. Pa.) asked if other countries were opposed to the Fund and only agreed to it to be eligible for the Bank. Mr. Burgess said their interest in the size of their quotas showed they wanted the Fund but they were a little afraid of some of the ambiguous provisions. Representative Kunkel then asked if a country's currency could become unsound without a change in its gold value and Mr. Burgess agreed there could be hidden depreciation because of unwise domestic measures. Representative Kunkel asked if we might suddenly call our short-term loans under the Fund and precipitate disturbances and Mr. Burgess said the Fund would not exactly call loans but might lend too much to a country and render it unable to meet payments due to the Bank.

Representative Kunkel commented that the United Kingdom had tremendous debts and was hardly a creditor. In reply to Representative Barry Mr. Burgess said there were very few creditors and the debtors will probably not try to change the Agreements.

Representative Folger (D. N.C.) asked a number of questions, one of which brought out that he thought there were a number of devastated countries. Representative Talle (R. Iowa) then asked a number of questions on Keynes' "Treatise on Money" on invasion currencies and finally asked if the Fund was a sort of gold standard to which Mr. Burgess replied that it was in some respects and that the American Bankers Association was all in favor of the place of gold in the Fund.

Representative Sundstrom (R. N.J.) suggested that too much credit could defeat the objectives of the plans. Representative Baldwin also suggested the Fund might lend to countries which were inflating and would have no control over what the money was used for and agreed with Mr. Burgess that the United Kingdom would support requests for assistance especially from the dominions. In reply to further questions by Representative Baldwin, Mr. Burgess again said it would be very embarrassing for the United States if dollars were declared scarce, that loans might be used for swimming pools, etc., and that the Bank could do a better job of stabilizing than the Fund. In answer to Representative Kilburn (R. N.Y.) Mr. Burgess again said the Bank's lending methods were safer and that not much money would be needed.

Mr. Burgess then said he had specific recommendations to make on the bill, in particular that there should be a committee of from 5 to 7 heads of agencies which could act for the United States when it was up to the United States to approve a loan, for example. He mentioned the Secretary of State, Secretary of the Treasury, and the Federal Reserve Board.

Representative Kilburn then asked if others would accuse us of trying to run the world if we had a veto over all dollar loans and Mr. Burgess said he thought not. Representative Kilburn then asked if it was not true that the big banks were the ones which had the training and experience necessary to qualify as judges of the Fund proposal and Mr. Burgess agreed.

Representative Thom (D. O.) asked if Mr. Burgess thought the Fund should have control over tariffs and he said no. Representative Thom then mentioned several of the safeguards under the Fund proposal and Mr. Burgess said they did not amount to much. Representative Thom asked if Mr. Burgess would give the Bank a blanket right to "indulge in exchange operations" and Mr. Burgess said no, it would be negotiated agreements. When Representative Thom asked just what parts of the Fund Mr. Burgess would drop as unnecessary Mr. Burgess said he would not keep the scarce currency provision, he would make the charges higher, the conditions for use of the Fund would be taken care of by the Bank's lending provisions, and he would not keep the special convertibility obligation. Representative Thom suggested that this was one case in which the Committee had specific legislation before it -- and it had been criticized for passing general laws which let the bureaucrats do as they please.

Representative Buffett asked whether if other countries raised their coffee prices, for example, we would not have to raise ours and provide dollars to buy it. Mr. Burgess agreed.

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