HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
April 19, 1945 -- 10:30 A.M.
(Fifteenth day of hearings)

Mr. Harry White, Assistant Secretary of the Treasury, was the witness. Representative Smith (R. Ohio) noted that since the Bretton Woods discussions were not binding upon any of the governments represented at the Conference, each nation retained the right to suggest changes or to make reservations. He contended that Section 5 of the Bretton Woods enabling legislation (H.R.2211) incorporated important reservations on the part of the United States. Mr. Luxford, Assistant to the Secretary of the Treasury, pointed out that these provisions simply state that the Congress shall determine the position to be taken by the United States government on certain important questions, which under the terms of the agreements must be referred to the government of the United States. They are not reservations in the legal sense of the word and do not in any way change the terms of the agreements.

Mr. Smith quoted from Lord Keynes to the effect that the Bretton Woods Agreements provided a "formula of protection against a recurrence of the main cause of deflation during the inter-war years, namely the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing" and asked Mr. White whether he agreed. Mr. White answered that he did not believe the Fund offered a complete solution or complete formula for prevention of this situation. Through the scarce currency provisions of Article VII it permitted countries to protect themselves from losing reserves to a country whose currency had become generally scarce. In the absence of the Fund Agreement, of course, countries could take whatever measures they wished to prevent the loss of reserves. The scarce currencies provisions stipulate that such protective action shall be no more restrictive than the situation requires and shall be relaxed and removed as rapidly as conditions permit. Representative Crawford (R. Mich.) agreed with Mr. White that in the absence of the Fund countries would protect their reserves by any independent action they might choose. He pointed out, however, that United Kingdom representatives had stated that they would take such action as they considered necessary whether Fund approval was received or not. Mr. White stated that the United States had taken the lead in insisting that in the final analysis each country should retain the right to decide on unilateral action to protect its vital interests. Mr. Crawford suggested that the large countries would probably come to the aid of small countries to avoid the necessity of unilateral action by the latter and Mr. White agreed that this would probably be the result of the fair and reasonable hearing which the Fund promised to all members.

In further discussion of the scarce currency provisions, Mr. White explained to Mr. Smith that determination as to when a currency had become scarce had been left to the discretion of the Fund management in the belief that the rate at which the Fund's holdings of currency were being depleted was more significant than was the fact that such holdings had fallen by any specific predetermined percentage. Mr. White stressed that while the possibility of a general shortage of dollars in the Fund was provided for, he believed that there was little probability of such a shortage in the next six or seven years. He pointed out that of the 11 billion dollars worth of gold received by the United States between 1934 and 1939 only 3 billion came in payment for our excess exports of goods and services. The Fund would not be used for the transfer of capital.

He believed the United States could increase its favorable balance on goods and service account to 12 billion dollars in the first six post-war years without depleting the Fund's holdings of gold and dollars. Foreign countries would be prepared to spend at least 3 billion dollars worth of the excess gold reserves accumulated during the war; gold production outside of the United States and Russia would approximate 8 billion dollars; and American capital exports would total at least 10 billion dollars. In reply to Representative Monroney (D. Okla.), Mr. White agreed that foreign investments in the United States would decrease the general supply of dollars available to foreigners for other purposes but pointed out that the resources of the Fund could not be used for such purposes.

Mr. Smith suggested that pre-war exchange control, at least in the United Kingdom, had been largely in private hands. Mr. White denied that this was the case: exchange restrictions were essentially government functions. Mr. Smith asked whether the United States government would be obliged to maintain its exchange rate if dollars were declared scarce. Mr. White answered that the obligation would be fulfilled by the purchase and sale of gold at the parity price. Mr. Smith asked whether this would mean that exchange brokers could not sell dollars at rates higher than parity. Mr. White indicated that sales at other than the official rate would be considered black market transactions and would presumably be concluded only by persons seeking to evade the regulations of the foreign country concerned. Mr. Smith inquired what measures Mr. White would recommend if he were the United States representative on the Fund and saw a scarcity of dollars developing. Mr. White suggested that any gold held by the Fund would be sold for dollars (although this was not mandatory) and that the Fund would attempt to borrow dollars in the United States or elsewhere. Mr. Smith asked whether the Fund would not request more money from Congress and Mr. White replied that it could do so and probably would.

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
April 19, 1945