HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
May 2, 1945 -- 2:00 P.M.
(Twentieth day of hearings)

Questioning of Dr. Kemmerer was resumed at the afternoon session. Representative Crawford (R. Mich.) asked if he was correct in assuming that there were two distinct groups in the United Kingdom, the first favoring continuation of the sterling bloc in its present rigid, wartime form, the second favoring adoption of the Bretton Woods program and greater multilateral co-operation. Dr. Kemmerer suggested that the first group could be subdivided further to identify those who wanted the Bretton Woods program but who believed that it would be consistent with continuance of sterling bloc operations in their present form. He mentioned Lord Keynes as an example. The witness agreed with Representative Crawford that the existence of 3 billion pounds of blocked sterling balances would promote continuance of the sterling bloc by strengthening the interest of the creditor countries in maintaining the value of the British pound. Representative Crawford asked how the United States would manage in the long run to accept the imports necessary for payment of interest and amortization on our loans to foreign countries. Dr. Kemmerer replied that as an economist he believed such imports could be accepted without harm to the economy but that he realized difficult political questions would be raised by the internal adjustments which would be required. In reply to Representative Crawford, the witness stated that he did not believe the point had been reached at which the domestic accumulation of capital could not be invested in this country.

Representative Sumner (R. Ill.) asked whether the witness believed every country should go back to the gold standard independently and as soon as possible. Dr. Kemmerer agreed that he would advocate this, though he hoped that there would be increased resort to voluntary consultation among the monetary authorities of the various nations and a strengthening of some central agency such as the Bank for International Settlements to operate as a clearing house for central bank transactions and for the collection of monetary information. In reply to the Congresswoman, Dr. Kemmerer attributed the present antipathy of Britain toward the gold standard to that country's attempt to stabilize the pound at too high a rate in the twenties. Representative Sumner asked whether by supporting the Bretton Woods program the United States would in fact delay world economic recovery. Dr. Kemmerer replied that in his judgment this would be the result of the resurgence of nationalistic policies which could be expected under the program.

Representative Woodhouse (D. Conn.) asked whether a return to the gold standard would stabilize our domestic price level and pointed to the magnitude of fluctuations under that standard. Dr. Kemmerer stated that in the long run we would find greater stability under the gold standard since we would be less subject to inflationary influences arising from currency debasement abroad. He contended that truly remarkable price stability had characterized the period prior to 1914 and that no international gold standard had really existed since that time. Representative Woodhouse asked if there were a real chance to return to an international gold standard. Dr. Kemmerer replied that opposition to this course was greatly exaggerated. Foreign nations were interested in acceptance of the Bretton Woods program because they hoped to increase their external purchasing power thereby. A few years of experience under politically managed currencies would cause the nations of the world to turn again to gold. In the United States strong support could be found for the gold standard and it was possible that we might eventually adopt the standard even if the United Kingdom refused to do so. In reply to Representative Woodhouse, he suggested that trade between a gold standard country and non-gold standard countries would be easier than trade among countries with fully managed paper currencies. Representative Woodhouse pointed out that Dr. Kemmerer's prepared statement had suggested that currency debasement might be caused by expensive social welfare policies and asked if a return to gold would mean a curtailment of such progressive measures. Dr. Kemmerer said this would not necessarily be the case, but that each nation must be prepared to pay for such services in terms of domestic consumption standards.

Representative Smith (R. Ohio) credited the witness with having pointed out that the Fund was not an instrument for stabilizing currencies but a measure for legalizing currency debasement. The witness agreed. Representative Smith remarked that Lord Keynes in his original plan for a clearing union had never mentioned the word stabilization and stated there was no article in the body of the present Fund Agreement which provided for stabilization. Dr. Kemmerer agreed that there was very little left of the professed function of stabilization when the exceptions and escape clauses were taken into consideration. He believed the Fund Agreement would make monetary debasement an accepted measure of monetary policy, one of the new rules of the game.

Board of Governors
of the Federal Reserve System
Division of Research and Statistics
May 3, 1945