HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE
May 3, 1945 -- 10:30 A.M.
(Twenty-first day of hearings)

Dr. Melchior Palyi, consulting economist from Chicago, testified against the Bretton Woods Agreements. He offered a prepared statement for the record and went on to stress certain points brought out in the statement which he considered the most important drawbacks in the Agreements. Although Dr. Payli approved the main objective of the Bretton Woods Agreements, to promote international exchange stability, he felt that the Agreements would not accomplish this purpose. To achieve such stability in his opinion the flow of capital from creditor to debtor countries must be revived. To correct a temporary disequilibrium in a country's balance of payments an initial credit may be sufficient; to correct a fundamental disequilibrium, a sustained capital flow toward that country will be necessary. In Dr. Palyi's opinion, the Bretton Woods Agreements will fail to achieve monetary stability because the Bank may make or guarantee loans for reconstruction and development purposes without sufficient consideration of the balance of payments position of the borrower, and more important, because the Fund will compromise the objective of free capital movements by permitting exchange restrictions. Mr. Palyi pointed out the provisions in the Fund Agreement which permit the maintenance of exchange control during the transition period, the maintenance of restrictions on capital movements, and the introduction of restrictions upon dealings in a currency declared scarce by the Fund. He felt that restrictions on capital account would lead to restrictions on current account. Because the Fund would in his opinion discourage the flow of private capital through permitting exchange restrictions, Dr. Palyi felt the Fund would fail to promote international monetary stability.

Representative Brown (D. Ga.) asked Dr. Palyi whether, if the United States accepted the Bretton Woods Agreements, he would use his influence to get foreign countries also to adopt the Agreements. Dr. Palyi answered that British public opinion was against the Agreements and that many other countries opposed them. However, if the United States adopted the Agreements other countries would follow suit. He felt that the Agreements were not necessary for international financial collaboration but that bilateral arrangements between creditor and debtor would be more satisfactory.

Representative Wolcott (R. Mich.) asked if the witness believed other countries would accept the Agreements. Dr. Palyi said the debtor countries could have no objection but that possible creditors, such as Argentina, Sweden and Switzerland, might have doubts. Representative Crawford (R. Mich.) asked Dr. Palyi to name other potential creditors. He answered there might be quite a few, including South Africa and some Latin American nations, but that they lacked experience in investment. To a further question by Representative Crawford as to whether he would recommend that a creditor country not adopt the Bretton Woods Agreements Dr. Palyi answered yes. Representative Crawford asked if the permission given members in the Fund Agreement to impose exchange restrictions in certain cases would not discriminate against United States capital invested abroad. Dr. Palyi replied that the Agreement legitimatizes stopping repayment of borrowed capital. If a member had exhausted its right to draw upon the Fund, it could cease repaying its obligations.

Representative Monroney (D. Okla.) asked if all countries would not have to control currency flows in the absence of an international agreement. Dr. Palyi agreed but pointed out that exchange control is permitted under the Fund Agreement as well. Representative Monroney suggested that an embargo on capital movements might be easier in the absence of the Fund Agreement. He felt that United States trade would be curtailed in the absence of the currency stability provided by the Fund Agreement. Dr. Palyi pointed out that the United States would be the major source of supply after the war. He denied Representative Monroney's contention that countries would trade with the United States only until dollars became scarce and said that as long as countries had gold they would buy dollars. When their gold was exhausted, they could import only as much as they exported. Representative Monroney felt this situation would lead to barter between governments and internal regimentation in this country. Representative Monroney declared the Fund Agreement was the only instrument for achieving stabilization. He accused Dr. Palyi of misinterpreting Article XIV which permits exchange restrictions during the transition period and maintained the Agreement did not condone such restrictions. He felt restrictions on capital movements would be necessary after the war to prevent flight of capital to the United States. Dr. Palyi maintained there would be no such flow of capital. He felt that since no real stabilization would be achieved during the transition period, any attempt such as the Fund should be postponed until after the transition period had passed.

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