

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

June 12, 1945 -- 10:30 A.M.

(First day of hearings)

Secretary Morgenthau was the first witness to appear before the Committee. He read a prepared statement emphasizing that the Bretton Woods Agreements are designed to eliminate unfair currency practices which interfere with world trade and to restore and develop the producing and trading power of many nations. In the course of a description of the currency practices of the 1930's the Secretary pointed out that the United States suffered more than other countries. The value of United States exports fell by one-half from 1928 to 1938 while world exports fell by only a third. The Secretary also stressed the fact that foreign countries will be led to adopt the currency practices of the 1930's if something is not done to help establish orderly exchanges and to help provide needed foreign capital. He said that if loans were not forthcoming from private investors countries would arrange foreign loans on a political basis which would mean the rule of power politics. International monetary cooperation is essential for world peace.

Senator Taft (R. Ohio) asked the Secretary to outline the commitments of the United States to foreign countries under Lend-Lease agreements and to explain what our commitments would be if the war with Japan were over in thirty days. Assistant Secretary of State Acheson, at the request of Secretary Morgenthau, answered Senator Taft's question. He stated that our general program with the British carries on only to V-J day and that our agreements with France, Belgium, and the Netherlands which now run to the middle of 1946 are being revised to cover only the year 1945 which will substantially reduce the amounts involved. He explained that we would wish to help those areas as long as we had millions of our men stationed there. When Senator Taft suggested that we were sending machinery which would last for years, Assistant Secretary Acheson explained that much of this was being furnished on a repayment basis and the President could determine at any time that it was no longer essential to furnish such goods. In answers to further questions by Senator Taft Assistant Secretary Acheson said such goods were being furnished on a loan basis, that we have no plans for aid to the British after V-J day, that he did not know of any promises by Mr. Hopkins to make a loan to Russia, and that Lend-Lease supplies to Russia were going forward only in connection with the prosecution of the war and were being reviewed. The Assistant Secretary agreed to give Senator Taft a detailed list of the types and quantities of goods now being sent abroad under Lend-Lease.

In response to a question by Senator Taft Secretary Morgenthau said that Assistant Secretary of State Clayton told him a bill to expand the lending authority of the Export-Import Bank would be introduced shortly, and that the amount had not been settled yet. Secretary Morgenthau said he thought the Export-Import Bank loans would normally be somewhat shorter term than the International Bank's loans. When Senator Taft asked if the Export-Import Bank might not make loans on political bases of the sort the Secretary objected to in his statement, the Secretary explained that the dangerous kind was the kind that resulted in bilateral barter arrangements. Senator Fullbright (D. Ark.) said he did not think economic or political questions could be discussed in isolation and felt that our financial policy should be coordinated with our foreign policy. Secretary Morgenthau said the international institutions were conceived of as operating on the basis of strictly economic considerations. When Senator Taft

said he believed the Fund and Bank would dominate world trade and investment, Secretary Morgenthau said only in the sense that they would make possible a revival and expansion of world trade.

Senator Taft then asked if the deindustrialization of Germany and Japan and the complete elimination of their exports would not lead to reductions in trade more than offsetting any expansion promoted by the Fund and Bank. Secretary Morgenthau said Germany's trade was relatively small before the war and that other European countries could easily take over her exports. Germany should be self-sufficient and her standard of living should not exceed that of her neighbors.

Assistant Secretary of State Acheson then took the witness stand. He described at length the destruction in Europe and suggested it would take years and years for Europe to get back to its pre-war status without some help. Senator Taft said he thought foreign countries had plenty of gold and dollars to buy our goods. Assistant Secretary Acheson said that they needed help very much and that only if drastic steps are taken will they avoid bilateral clearing arrangements and destructive monetary practices.

Assistant Secretary Acheson said the Fund Agreement was a series of promises and an arrangement for helping members live up to the promises. The first promise by each member is to define the value of its currency in gold. Senator Murdock (D. Utah) said he thought there was obviously not enough gold in the world to keep reserves of all countries at even the 25 per cent level and that silver should have been included in the Fund plan and Senator Millikin (R. Colo.) agreed with him. Assistant Secretary Acheson said there were no percentage reserves in the Fund plan, gold was used as a common denominator. Assistant Secretary Acheson said the second promise was to maintain the established gold value within a 1 per cent range and the third to consult the Fund if a change in rate appeared necessary. Each member has a right to make changes adding up to 10 per cent but on changes beyond that amount the Fund may object to the change. If a member persists in making a change despite the objection of the Fund it may be expelled or cut off from Fund assistance.

Senator Taft asked whether the British were not correct in describing the plan as the opposite of the gold standard and said he believed the Fund had to approve of all changes. The Agreement says the Fund must approve of a change necessary to correct a fundamental disequilibrium and can not object because of domestic social or political policies. Social or political policies would always be involved so the Fund would have to approve every change requested. Assistant Secretary Acheson said that if a social security policy led to changes in costs which led to a serious balance of payments deficit it would be obviously necessary to alter the exchange rate rather than force a policy of falling prices and unemployment. The world as a whole will no longer tolerate the tyranny of the absolutely fixed rates of the gold standard.

Senator Taft said one country after another would depreciate and the Fund would have to approve. Assistant Secretary Acheson explained that the Fund could object to a proposed change on grounds other than the social and political policies. The Fund would prevent competitive devaluation -- it would allow countries to correct unbalanced situations and get back to their former trading position but would not allow countries to depreciate to obtain a competitive

advantage over its neighbors. When Senator Taft and Senator Murdock referred to a series of successive 10 per cent changes not even requiring the approval of the Fund Assistant Secretary Acheson made it clear that the 10 per cent change permitted on a unilateral basis was a once and for all 10 per cent.

Assistant Secretary Acheson will continue his testimony on June 13, 1945.

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