

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

June 13, 1945 -- 10:30 A.M.
(Second day of hearings)

Assistant Secretary of State Acheson continued his testimony and began by summarizing his statement on June 12.

Senator Taft (R. Ohio) said he believed the promise to maintain established exchange rates meant regimentation and permanent "price fixing," that it would involve arrests of persons dealing outside the prescribed range, and that it was obvious that French francs and Chinese yuan would be sold at less than the official rates. Asst. Secretary Acheson replied that the Fund would not initially agree on rates that were seriously out of line, that there would be no incentive to deal at any but official rates as long as the Fund was willing to accept currencies at those rates, and that even if the Fund ^{were not accepting} further amounts of a country's currency it would not force that country to keep its currency at a rate which it was impossible to maintain. He also mentioned that there was no question of arrests, that contracts at rates outside the permitted range were merely unenforceable in member countries.

Senator Taft said he believed the Fund assumed control of capital movements which would mean complete supervision of all exchange transactions and quoted a statement of Lord Keynes that all members retain the right to control capital movements. Asst. Secretary Acheson agreed that all members retain that right but stressed the fact that they were free to exercise it or not. The Fund might require the imposition of controls as a condition of further use of the Fund by a country experiencing a large or sustained outflow.

Asst. Secretary Acheson said the fourth promise of members of the Fund was to eliminate restrictions on current foreign exchange transactions as soon as possible, explaining that a transition period during which existing controls could be maintained was necessary in view of the uncertainties of the postwar period. Senator Taft protested that the United States was at a disadvantage because we have no controls at this time but Asst. Secretary Acheson stated that we now have many restrictions, and stated further that we want to eliminate them as soon as possible in any case. Senator Taft then suggested that if controls could be maintained (or introduced by occupied currencies) for three or five years there was no need of establishing the Fund now. In reply Asst. Secretary Acheson said it was of the utmost importance to help countries eliminate controls through the Fund proposal. Asst. Secretary Acheson did not agree with Senator Taft that other countries intended to maintain controls as long as possible and, since they controlled the Fund, the Fund would never require a member to abandon controls. Senator Fullbright (D. Ark.) and Asst. Secretary Acheson both emphasized the importance of good management of the Fund and Senator Fullbright said the Fund was a lot better than doing nothing.

Senator Taft said the alternative was not to do nothing but to stabilize the dollar-pound rate and make a large loan to the United Kingdom. He saw no sense in our putting up most of the "real money" in a Fund to be controlled by debtors and to which others would subscribe paper money or "waste paper." Asst. Secretary of the Treasury White promised to give Senator Taft estimates of gold and currency subscriptions of individual countries when he asked how much would be subscribed in "good money" and how much in "paper money." Asst. Secretary Acheson

emphasized that all currencies subscribed were good for the purchase of goods to which Senator Taft objected that we had more of most currencies than we want. Senator Downey (D. Calif.) said he thought putting some of our gold into the Fund would help to salvage the value of the rest and when Senator Taft objected that foreigners would use it to buy our goods Senator Downey said he thought it would be a good thing during times like those of the early 'thirties.

Senator Taft said he felt it was a great mistake to establish the Fund since it was not going to solve the British problem of the huge blocked balances. Senator Barkley (D. Ky.) said he felt the Fund would contribute substantially to a solution of Britain's problems and agreed with Asst. Secretary Acheson that Britain would have to take steps herself to fund her indebtedness and correct her position but emphasized that such steps would be easier in an orderly world.

Asst. Secretary Acheson then described the Fund as a reservoir of gold and currencies which members purchase with their own currencies in certain amounts and subject to certain restrictions. He said there were many important safeguards against misuse of the Fund and outlined them as follows: (1) the Fund does not begin operations with a country until it is satisfied that country's rate will not lead to excessive use of the Fund; (2) in the case of occupied countries, tentative rates may be established; (3) the Fund may postpone exchange transactions with any country not in a position to make good use of the Fund; (4) the Fund can not be used to meet a large or sustained outflow of capital; (5) the Fund may declare any member which fails to fulfill any of its obligations to the Fund ineligible to use the Fund; (6) there is a series of service and other charges; (7) the repurchase provisions require a member to use its own reserves at the same rate it draws on the Fund; (8) all members agree to maintain the gold value of the Fund's holdings of its currency; (9) most important of all, the Fund has complete discretion to refuse to continue assisting a country which is using the resources of the Fund in a manner contrary to the purposes of the Fund.

In response to a question by Senator Fullbright Asst. Secretary Acheson described the organization and management of the Fund. Senator Taft said he thought it was obvious that debtors would control the Fund and therefore none of the safeguards described by Asst. Secretary Acheson would be applied. Asst. Secretary Acheson said he did not think the Fund would be controlled by debtors, that the United States will have about 33 per cent of the votes, South America 10 per cent, that Canada would be a creditor and that the Netherlands and the United Kingdom would vote as creditors. Senator Taft argued that as a practical matter each member assumes they have a right to their 25 per cent a year and that this is automatic whether they need it or not. Secretary Acheson replied that no member could get foreign exchange from the Fund unless it was needed to make payments consistent with the provisions of the Fund. When Senator Taft objected that all they had to do was represent they needed it Asst. Secretary Acheson insisted there was no idea of such an empty formality. Senator Taft said he understood there was a special secret agreement with Russia that she could get her 25 per cent a year and Asst. Secretary Acheson said he had no information on such an agreement.

Senator Millikin (R. Colo.) then asked a series of questions indicating he believed it was impossible to have stable currencies without stable governments and that he was skeptical of the chances of stable government in Europe for many years. Asst. Secretary Acheson said he felt that it was only if we took energetic steps in the financial and economic spheres that we could hope to achieve political or economic stability. When Senator Millikin asked if the only way to collect payment on our loans was not to accept imports Asst. Secretary Acheson agreed.

Senator Taft went back to the statement that currencies can be purchased from the Fund only for payments consistent with the provisions of the Agreement and said he believed this statement was so broad and vague that any payments would qualify. Asst. Secretary Acheson said he felt the broadness of the statement made it an important safeguard. He mentioned the right to refuse assistance to a country using the Fund in a manner contrary to its purposes and Senator Taft said the purposes were so broad that the use of the Fund could always be justified in terms of one purpose or another. Asst. Secretary Acheson commented that he was sure that if Senator Taft were United States Director on the Fund he would make this clause into a very important safeguard.

Senator Taft then commented that the argument was made in connection with the reciprocal trade program that we need bargaining power and he thought holding up the Bretton Woods program would help us to bargain. Senator Millikin remarked that if bargaining power was so important perhaps the bill should provide for 100 per cent reductions rather than 25 per cent.

Senator Buck (R. Del.) asked about the danger of dollars in the Fund being exhausted. Asst. Secretary Acheson said he believed there was no real danger of the dollar being scarce. The dollar was scarce from 1934-1938 but mostly on account of capital flows. The Fund will only meet current account needs and our favorable balance on current account in those five years was only \$1.5 billion but might have been greater if it had not been for restrictions imposed by foreign countries. The Fund has roughly 4 billions in gold and dollars and foreign countries have to use their own reserves at the same rate they draw on the Fund and newly mined gold amounting to about 1 billion a year must be sold through the Fund. Therefore, in a period of four years it would take a favorable United States balance on current account of 12 billions to lead to the 4 billions in the Fund being used up, and this is on the assumption that the United States makes no foreign loans. If we lend 2 or 3 billions a year as the Colmer Committee believes we may, in the environment created in part by the Fund and Bank, then it would take a favorable balance on current account of many more billions before the Fund's gold and dollars would be used up.

Senator Taft objected that foreign countries with quotas of about 6 billions could draw about $1\frac{1}{2}$ billions a year and use up our subscription in two years. When Asst. Secretary Acheson reminded Senator Taft that dollars could only be purchased from the Fund to buy our goods Senator Taft said there would be plenty of demand for our goods and we may well have a favorable balance of \$4 billions in two years. When Asst. Secretary Acheson said it would take a favorable balance much greater than that to use up 4 billions of the Fund's gold and dollars Senator Taft said foreign countries would just refuse to live up to the repurchase provisions. When Asst. Secretary Acheson said they could hardly refuse in view of their large gold and dollar holdings which Senator Taft emphasized so frequently Senator Taft said those holdings were badly distributed. Senator Taft went on to say that if we had a complete veto in the Fund as we do in the Bank he might withdraw his opposition since that would ensure proper use of our dollars, at least in a normal period.

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