HEARINGS ON BRETTON WOODS ENABLING LEGISLATION
BEFORE SENATE BANKING AND CURRENCY COMMITTEE
June 16, 1945 -- 10:30 A.M.
(Fifth day of hearings)

Assistant Secretary of the Treasury, Mr. Harry White, resumed testifying. He asked that he be permitted to answer a question introduced at an earlier session by Senator Millikin (R. Colo.). The Senator had asked what assurance there was that currencies could be properly evaluated in the extremely unsettled circumstances which would characterize the post-war period. Senator Millikin added that he had expressed concern lest revolutions and counter-revolutions should create chaotic political conditions and introduce the danger of outright repudiation of prior commitments. Mr. White stated that the problems involved had been fully recognized and that no one underestimated the difficulty of the task. In the first place, however, the Fund Agreement provided that exchange rates should be determined by agreement between the various countries and the Fund, and not unilaterally as in the past. The Fund management would have to be convinced that the rate was reasonable, that it was appropriate, and that it could be maintained without undue use of the Fund's resources. Secondly, the Fund management was authorized to postpone exchange transactions with any member if it believed they would lead to use of the Fund's resources in a manner contrary to the purposes of the Agreement or prejudicial to the Fund or its members. With these provisions to strengthen its authority, Mr. White believed the Fund would be able to draw upon the combined experience of expert technicians to determine reasonable exchange rates. Senator McFarland (D. Ariz.) asked whether the same type of experience had been used in determining the present exchange rates for French and Italian currencies. Mr. White answered that the Treasury had not had final authority in determining the French rate. Senator Taft (R. Ohio) suggested that the same countries which were now "taking advantage" of the United States would be much more free to do so under the Fund Agreement since we would have only a minority vote in the Fund's decisions. He thought it was outrageous that a group of debtors should have majority control.

Mr. White pointed out that the United States alone would exercise 28 per cent to 35 per cent of the voting power in the Fund. Unless the position taken by the American representative was completely wrong, he could expect to be supported by others equally interested in the success of the Fund. The United States has no monopoly in competent economists or in interest in the general international welfare. The interests of debtor nations individually might well be in opposition to each other since all would desire the continued liquidity of the Fund. It was unrealistic to think that debtor countries would support attempts to abuse the Fund. Senator Taft replied that he was less concerned with abuse of the Fund in regard to excessive use of its resources than with abuse of the Fund's authority to permit continuance of exchange controls. In this respect he believed the debtor countries would support each other. Mr. White expressed his pleasure at the Senator's statement that he did not believe abuse of the resources of the Fund was to be feared. As for possible laxity in enforcing the basic purposes of the Fund, Mr. White contended that one could only depend upon the good faith of other countries. The spirit of the negotiations and the experience of the United States in past international dealings gave evidence that other countries could be depended upon to carry out their obligations.

Senator Downey (D. Calif.) pointed out that even if other countries were to act in the most prejudicial manner possible, conditions under the Fund would be no worse than in the absence of that organization. Mr. White thought conditions would be much better since exchange rates would be set by agreement and changed only with Fund approval. A country wishing to depreciate would have to convince a group of experts that it needed to do so to correct a fundamental disequilibrium. The questioning returned again to current exchange rates between the franc and the dollar and an off-the-record discussion followed.

Senator Taft mentioned the 10 per cent depreciation which the Fund was obligated to permit and Mr. White justified the pertinent provisions on the plea that the control measures of the war years made precise initial determination of exchange rates extremely difficult. Senator Taft contended that agreement should be reached between the United States and the United Kingdom on the dollar-pound exchange rate before this question came before the Fund. Mr. White replied that the proper rate of exchange between these two currencies could not be intelligently determined without additional data as to the values of other currencies. A more or less simultaneous determination of numerous rates would result in a more dependable rate structure. Senator Taft was not convinced. Senator Taft asked if the main purpose of the Fund was not the stabilization of currencies. Mr. White replied that he preferred to list numerous purposes, e.g., reduction of economic warfare, multiple currency practices, and competitive depreciation; increase and stabilization of international trade and international investment, etc. Senator Taft asked if a nation's fiscal policy were not the main determinant of the stability of its currency. Mr. White agreed that fiscal policy was one determinant, but added that tariff policies and price policies were also important. Senator Taft pointed out that the Fund management had no authority to control fiscal policies of its members and implied that its chances of furthering stability were therefore slim.

Senator Radcliffe (D. Md.) asked what alternative plans had been considered and Mr. White gave the historical background of the Bretton Woods Conference. Senator Taft contended that the American delegation was pledged to support the American plan as developed prior to Bretton Woods. Mr. White denied that any suggestions of the American delegates had been ignored but pointed out that, as at all international meetings, some general framework of prior agreement was required and that the Joint Statement by Experts (an international rather than a United States program) was accepted as the basis for discussion.

Senator Millikin asked if it were not true that to the extent the Fund were to stabilize "unfair" currency values, it would work against true stabilization. Mr. White agreed but pointed out, with the support of Senator Radcliffe, that the Fund would make fewer mistakes than would be made by individual countries acting independently and that it would be easier to correct any mistakes which might be made if the Fund mechanism were in operation.

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