

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

June 18, 1945 -- 10:30 A.M.

(Sixth day of hearings)

The Committee continued to question Mr. Harry White, Assistant Secretary of the Treasury. Senator Fulbright (D. Ark.) asked for an explanation of the Fund's procedure in the event that any particular currency in the Fund should become scarce. Senator Taft (R. Ohio) indicated his interest in the same problem. Mr. White replied that since a scarcity of dollars was the usual assumption in discussions of this problem he would speak in those terms. As dollars were drawn from the Fund at a more rapid pace than they were replaced, the first action taken by the Fund would be to supplement the original holdings of dollars through sale to the United States Treasury of gold held by the Fund. Let us assume that the decline in dollar holdings continues so that it appears that a general scarcity is developing. The Fund is then permitted to issue a report setting forth its interpretation of the causes of the condition in question and to make recommendations for its correction. This authority is permissive rather than mandatory; if a report is issued, a representative of the United States would assist in its preparation. If the dollar holdings should decline further to the point of actual scarcity (Mr. White mentioned 500 million to 250 million dollars) the Fund would issue a formal declaration of such scarcity together with a report of the alleged causes. This declaration would relieve the member countries temporarily of the commitment not to place any restrictions upon current dealings by their nationals in dollars; they would be free to ration dollars to their importers.

Senator Millikin (R. Colo.) asked whether this did not mean that other nations would have the power to control our foreign trade. Mr. White replied that they would have no more power in that direction than they had in the pre-war period. Each member country would be permitted to return to "pre-Fund" practices, but would be required to use methods no more restrictive than necessary to limit the demand for dollars to the supply held by or accruing to the member. Furthermore, they would be required to relax those measures as rapidly as conditions permitted.

This was the procedure, said Mr. White, but he did not agree that there was much danger of the Fund's holdings of dollars becoming scarce in the early post war years. He mentioned the gold and dollar reserves accumulated by foreign countries during the war. Of these, the Treasury estimated, some 3 billion dollars might be used for imports; newly mined gold from countries other than the United States and Russia might furnish some 5 billion dollars worth of purchasing power in a five-year period; United States capital investments abroad might be conservatively estimated at "a couple of billion" annually. Accordingly, over a five-year period foreign countries would have 18 billion dollars to spend on United States goods without taking into account the dollars accruing to them on current account through United States purchases of goods and services. Senator Taft pointed out that Chairman Eccles of the Board of Governors had testified in another connection that the United States might be forced to ration exports in order to conserve domestic supplies. Mr. White said he thought that he and Mr. Eccles would probably agree if both were speaking of the same time periods. Mr. White did not think foreign demand would prove embarrassing for very long. Senator Taft pointed out that foreign gold holdings were unevenly distributed, and Mr. White replied that, in general, the countries without fairly large gold reserves were not important

trading countries. Senator Fulbright asked whether all newly mined gold must come to the Fund. Mr. White answered that if a country had borrowed from the Fund and if its reserves had increased, then any gold it secured must be delivered to the Fund. Senator Fulbright asked how the United States might reduce the danger of a shortage of dollars in the outside world. Mr. White replied that lowered tariffs and encouragement of international lending would work toward maintaining foreign supplies of our currency.

Senator Taft objected to the prospect that the Fund might issue a report blaming the United States for a dollar scarcity for which we might not be truly responsible. Mr. White agreed that the United States representatives had considered this problem. He stressed that any report published must be approved by the United States representative. The report would then be considered by the American government and approved or disapproved on the basis of all the facts. The report would not commit any government to specific action; the commitment was only to give consideration to the findings and proposals of the Fund. Senator Taft quoted Lord Keynes to the effect that the United States could never let the scarce currency provision come into effect and that by accepting that provision it was assuming a large share of responsibility for preventing deflationary effects which might arise from undue absorption of world monetary reserves into this country. Mr. White stated that he did not think Lord Keynes had given the soundest interpretation of the scarce currency provisions.

Senator Taft suggested that a shortage of dollars in the Fund might develop although private entities in foreign countries might hold large dollar sums. Mr. White pointed out that Article 19 (a) provided for an interpretation of "official holdings" which would include excessive holdings of foreign exchange by private banks and, indirectly, by corporations. This would preclude the danger of the situation postulated by Senator Taft on any large scale. Small private holdings might exist in spite of a scarcity of dollars in the Fund. Senator Taft suggested that the supervision necessary to prevent concealment of funds and black market dealings would require widespread regimentation. Mr. White replied that in so far as the United States was concerned our obligation to prevent currency dealings at other than established parities was fully discharged by our willingness to buy and sell gold freely at the established price. As to private dollar balances held abroad which could not be detected from our own or foreign data, these were "peanuts" in so far as the over-all picture of currency stabilization was concerned.

Board of Governors  
of the Federal Reserve System  
Division of Research and Statistics  
June 18, 1945