

HEARINGS ON THE BRITISH FINANCIAL AGREEMENT
BEFORE HOUSE BANKING AND CURRENCY COMMITTEE

May 21, 1946

(Mr. Clayton's testimony)

In his first speech before the House Banking and Currency Committee on Tuesday morning, Mr. Clayton told members of the Committee that the British loan is the keystone in the arch which supports our whole foreign policy and that it is very difficult to separate the economic from the political in the world of today. He stressed that it was very hard to exaggerate the importance of the Anglo-American loan if, as we claim, our foreign policy is the intention to use the experience, leadership, and power which circumstances have placed in our hands to get nations to lower barriers and eliminate trade discriminations, built up so extensively after World War I, and thus help to expand the world-wide economy so that more goods and services become available to all and a general increase of the standard of living for people everywhere ensues.

Perhaps, he explained, the necessity of the loan and the advantages which we would receive would be more visible if we considered the alternatives Britain would have in the absence of the loan. During the war, Britain, at the sacrifice of her export trade, devoted all of her energies to the pursuance of victory and was forced to adopt bilateral trade, the dollar pool, and blocked sterling balances. She realizes at present that continuation of such a policy is not to her future interest, for with bilateralism trade invariably decreases and trade is the lifeblood of Britain. If, however, the loan is not consummated, Britain will be faced, because of lack of dollars, to continue her present practices. This will mean that not only will we lose much of Britain's trade but also much of the commerce of other countries trading with Britain, for they will not be able to secure dollars with which to buy our products. And if Britain continues in the bilateral system, other countries will necessarily have to follow it. After three or four years, when the difficult transition period is over, the pattern will be set, and it will be hard to break. If, however, the loan agreement should go into effect, Britain has promised that all purchases from the United States would be immediately payable in dollars, that within one year Britain would pay other countries in the currencies which they desire so that they might be able to purchase goods wherever they desired, and that this means that the markets of the world would be open to goods of the United States and ours would be open to them. It would help to create a proper climate for peace in the world.

Mr. Clayton said that he felt that Britain would be unable to carry out the conditions of Bretton Woods if she did not receive a loan and he warned that without the participation of Great Britain Bretton Woods would not live long.

In reply to Representative Brown's (D., Ga.) question, could Britain repay the loan, Clayton answered that he felt sure she could if multilateral trade could be restored and if we did not have another war. Of course, he added, if there is another war, loans and a lot of other things will go out the window. Representative Woodhouse (D., Conn.) asked

the difference between the World War I loan and this loan, and Mr. Clayton explained that the loan of the First World War was for goods and services either consumed or shot away during the war. This time we had taken care of war materials through lend-lease. The present loan, he explained, was a line of credit which Britain would be able to draw upon to help her reach a balance of payments in this difficult transition period.

In response to a question on socialization of British industry, Clayton assured members that Britain did not need **dollars to buy British industry**--she could do it with sterling--and that without the loan re-
gimentation of exports and socialization of industry would progress much more rapidly.

Representative Hull (P., Wisc.) asked several questions of Mr. Clayton--how could Britain go against the four freedoms and prevent other countries from trading with us; would this loan not necessarily be followed by a series of loans intended to act as a temporary stop-gap in stabilizing Britain's economy; why would Britain be willing to give up her monopolistic position for a loan of a mere 3,750 million dollars; and would Britain not try to dump all her surplus on the American market if a loan were granted?

Representative Barry (D., N.Y.) desired to know if there were any part of the agreement which specifically prohibited Britain from engaging in bilateralism. Mr. Clayton then explained that the Anglo-American Agreement would effectively eliminate such practices, because bilateral agreements all rested on the inconvertibility of sterling, and with convertibility the causes would be removed, the cure effected.

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

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