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79TH CONGRESS, 1st Session — SENATE — REPORT No. 452, PART 2

PARTICIPATION OF THE UNITED STATES IN THE INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

MINORITY VIEWS

FROM THE

COMMITTEE ON BANKING AND CURRENCY

TO ACCOMPANY

H. R. 3314

AN ACT TO PROVIDE FOR THE PARTICIPATION OF THE UNITED STATES IN THE INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

JULY 13 (legislative day, JULY 9), 1945.—Ordered to be printed

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Mr. TAFT (for himself, Mr. MILLIKIN, Mr. BUTLER, and Mr. THOMAS of Idaho), from the Committee on Banking and Currency, submitted the following

MINORITY VIEWS

[To accompany H. R. 3314]

The undersigned members of the Banking and Currency Committee, having considered the evidence submitted to the committee, are opposed to the enactment of H. R. 3314, for the reasons set forth below which may be summarized as follows:

1. It involves the expenditure of $5,925,000,000 of the taxpayers' money with negligible benefit to the people of the United States.

2. It entrusts $5,925,000,000 of the money of American taxpayers to be disposed of by boards of directors on which we have only 1 director out of 12, and only from 27 to 35 percent of the voting power, although we deposit more than half of the real assets in the funds. The terms on which our money is to be lent are fixed by a board controlled by the very nations which wish to borrow that money.

3. These measures, added to the other policies endorsed by the Administration, embark the United States on a vast program of lending money abroad and guaranteeing private investments abroad, which program is wasteful of our assets, will create a false and inflated export trade leading to depression, and is more likely to create ill will than good will toward the United States.

4. Purporting to solve the world's economic troubles, neither the fund nor the bank offers a solution for the present emergency difficulties of a single country during the transition period; nor can the fund accomplish any of its alleged purposes during the transition period.

5. The fund attempts to set up a world-wide monetary authority and a system of managed currencies. While there are so many loopholes that we doubt its effectiveness, it can impose serious limitations on our freedom of action in economic matters and force a regimented control of exchange.

For the foregoing reasons, we recommend that the further consideration of this bill be postponed until the administration is prepared to submit a comprehensive program to deal with the present emergency situation at as small a cost to the American taxpayer as possible.

Neither the International Fund nor the International Bank are emergency institutions. Neither of them is designed to deal with the present emergency. Both of them commit the United States to long-range policies which will cost us billions of dollars and, with all the discussion that has taken place, those policies have not had any real consideration from the people of this country.

Undoubtedly there is an emergency situation in the world. Many countries have reconversion and transitional problems which are almost insoluble with or without our help. We believe that in the postwar period we shall have to extend reasonable credits to many countries to enable them to buy machinery and raw materials so that their economic machine may begin to operate. But we believe these loans should be made directly by our own Government, and it should be recognized that some of them may never be repaid. The total scope of such assistance, however, we believe can be held during the next 2 or 3 years to a small fraction of the colossal sums which this administration, through various agencies, plans to dump into foreign countries, provided that the problem of each country is carefully studied and money advanced only for essential purposes.

But the bank and the fund are permanent institutions, the bank is designed to encourage private investment abroad to secure permanent economic development, and the fund to stabilize currencies. As will appear from later discussion, neither of them is really equipped to deal with the present emergency situation, and a bill has been introduced by the distinguished Senator from New York to authorize direct Government loans by our Export-Import Bank up to 3½ billion dollars. An international organization moves awkwardly and slowly, and is likely to be very inefficient in dealing with an emergency situation. As far as solving the immediate problems of Great Britain, of France or of Czechoslovakia, the bank would be just about as inefficient as UNRRA has been in solving their relief problems. Direct national action is required for that purpose, just as our Army has handled relief.

We call attention to recommendation VII of the Bretton Woods Conference which for some reason was omitted from the official copy of the Bretton Woods proposals furnished to all Senators. It clearly recognizes that an international conference must be held on basic trade problems, and that the attainment of the fund's purposes cannot be obtained through the instrumentality of the fund alone. Although this recommendation was made a year ago, no move has been made toward a general economic conference and the fund and bank have been pressed as if they were a panacea for the world's troubles. The recommendation reads as follows:

VII. International Economic Problems

Whereas in article I of the Articles of Agreement of the International Monetary Fund it is stated that one of the principal purposes of the fund is to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy;

Whereas it is recognized that the complete attainment of this and other purposes and objectives stated in the Agreement cannot be achieved through the instrumentality of the fund alone; therefore

The United Nations Monetary and Financial Conference recommends:

To the participating Governments that, in addition to implementing the specific monetary and financial measures which were the subject of this Conference, they seek, with a view to creating in the field of international economic relations conditions necessary for the attainment of the purposes of the fund and of the broader primary objectives of economic policy, to reach agreement as soon as possible on ways and means whereby they may best:

(1) reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;

(2) bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike;

(3) deal with the special problems of international concern which will arise from the cessation of production for war purposes; and

(4) facilitate by cooperative effort the harmonization of national policies of Member States designed to promote and maintain high levels of employment and progressively rising standards of living.

THE INTERNATIONAL BANK

We discuss the bank first because it involves a very fundamental change in American economic policy which has received almost no attention.

The bank appeared at first almost as an afterthought. Although it involves much larger sums from an American standpoint, it has been treated throughout as a stepchild of the fund.

Yet, this agreement embarks the United States on a permanent policy of foreign lending and investment by Americans in huge sums, sponsored and to a large extent guaranteed by the Federal Government. The bank is proposed, not as a relief organization, but as a permanent institution involving this government in a permanent policy.

Foreign investment by American nationals is probably desirable in a reasonable amount. It is highly undesirable if undertaken in too great volume. But this plan goes much further, because in effect it involves our Government and other governments in a guarantee of private loans and investments abroad. Our Government does not guarantee private investments in the United States, and we believe it is dangerous and unwise to embark on a permanent policy which amounts to government guarantee of private investments abroad.

DESCRIPTION OF THE BANK

The International Bank to be established is to have a capital of $10,000,000,000. The United Nations have already subscribed for $9,100,000,000, of which our share is $3,175,000,000, or approximately 35 percent. It is administered by a board of 12 executive directors, only 1 of whom is an American, although he has 35 percent of the voting power. Every nation is to put up 2 percent of its quota in gold and 18 percent in its own currency. The other 80 percent is

subject to call to be paid in gold, dollars, or the currency required by the bank; but it is not intended that it ever be called unless the bank suffers severe losses.

The bank may make direct loans, but that is not intended to be its principal business. The ordinary procedure will be as follows: A foreign nation or foreign corporation seeking a loan will come to the bank and ask the bank to guarantee such a loan. If the loan is to be made to a private foreign institution such as a public-utility company or an automobile manufacturer, the government of that country will have to guarantee the loan also. When the guaranty is given, the country or its corporation may float that loan in any country where it wishes to borrow the money and the loan will carry the guaranty of the International Bank. It is fairly obvious that most of the loans sought will be in the United States, and we will, therefore, see a large financing operation with billions of dollars of these guaranteed securities widely advertised to American investors. While the United States Government is only responsible up to $3,175,000,000, the whole $9,100,000,000 of potential loans could be sold in the United States. The impression certainly will prevail that the United States Government is largely back of all these investments. Should there be a general default by the governments such as occurred in 1932, our Government might be morally obligated to make good the whole amount.

It is quite true that the United States has the right to veto any loan to be floated in dollars in the United States. This veto, however, is not reserved to Congress, so that we are, in effect, being asked to authorize the executive department to approve the sale of guaranteed foreign securities in the United States up to the total amount of $9,100,000,000.

In effect, therefore, the bank is a tremendous plan, under the guise of international cooperation, to lend our people's and our Government's money abroad.

It is said that the money of other governments will also be used and thereby reduce our burden. This might be true in a normal world. The arguments for the bank will undoubtedly be stronger 3 years from now than they are today. But under present conditions the whole burden will fall on us. The bank is only as good as the credit of the United States Government. There are not many among our people who realize the condition in which the world finds itself today. Few foreign nations are on a self-supporting basis. Few are able to pay their debts. Few currencies are of any value outside of the country of issue unless we make them good. Any international fund, therefore, is not really international. It looks to the United States for support, and for some years to come it is merely a camouflaged method of lending American money and that of a few other solvent nations.

PERMANENT FOREIGN LENDING ON SCALE CONTEMPLATED IS WASTEFUL AND DANGEROUS

It has become fairly obvious that the policy of some administration officials today contemplates a vast outpouring of American funds throughout the world, both for relief and rehabilitation and for permanent development. The best prepared statement of this policy is to be found in the sixth report of the House Special Committee on

Postwar Economic Policy and Planning (the Colmer committee) in which it is frankly advocated that we lend and invest abroad two or three billion dollars per year, and where it is asserted that lending of this magnitude would have lasting benefits, both to the United States and to the rest of the world. This report was no doubt prepared in cooperation with the Treasury.

Many advocates of this policy point to the fact that we have maintained prosperity by lend-lease exports of a billion dollars a month, and that we must continue some such scale of exports to maintain employment even if we have to lend all the money to enable foreign nations to pay us.

The bank is only one feature of the vast relief, lending, and investment program which is contemplated. Beginning with July 1, 1945, these may be tabulated as follows:

Further expenditures by UNRRA	$900, 000, 000
Relief expenditures by Army	1, 000, 000, 000
Lend-lease through FEA	4, 375, 000, 000
International Bank	9, 100, 000, 000
International Fund	2, 750, 000, 000
Export-Import Bank	3, 500, 000, 000
Total	21, 625, 000, 000

The proposed lend-lease expenditures appear at page 454 of the record and seem to include materials having only a remote relationship to the Japanese war and far more concerned with rehabilitation than with war. The Export-Import Bank figure is that contained in bills introduced by Senator Wagner and Congressman Spence.

In addition to the foregoing, there has been much discussion of a direct loan or gift to Great Britain amounting to from three to five billion dollars, and of a direct loan to Russia in the sum of $6,000,000,000.

The tremendous volume of this lending should certainly cause the Senate to hesitate and obtain full information before taking further action. We know our experience after the last World War. We know that the war debts, of which more than $4,000,000,000 were incurred after the armistice, were funded at very low rates of interest and then completely repudiated. We know that lending by private investors continued during the twenties at an average of less than a billion dollars a year, but that it became apparent by 1931 that even these debts could not be paid. It is said that many of them were improvidently incurred for nonproductive purposes. This was true as to some, but the criticism applied to a small proportion of the total loans and investment abroad.

It must be clear that lending other than relief and rehabilitation emergency loans should only be done if it is likely to be repaid. Otherwise, the time will come when a realization of its waste results in a complete cessation of lending, causing sudden unemployment at home and resentment abroad. A very wise statement is made in the Second Quarterly Report of the Director of War Mobilization, Mr. James F. Byrnes, as of April 1, 1945. He says:

> However, foreign resources are not unlimited. We must be prepared to make loans to foreign countries which need American goods and cannot pay immediately, if there is a reasonable prospect of repayment. Loans made abroad likely to provide employment at home are unsound. They will produce international financial difficulties when the time comes for repayment.

PERMANENT FOREIGN LENDING HAS LITTLE RELATION TO PERMANENT PEACE

It has been frequently contended that Bretton Woods is an absolute essential of international cooperation as a supplement to the San Francisco Charter.

But the parallel between political and economic cooperation is utterly fallacious. Measures of economic cooperation should stand on their own feet and be judged on their own merits. It is not true that wars, or at any rate modern wars, have been brought about by economic causes. Germany could have made itself as prosperous as any nation in the world without 1 foot of additional territory. Japan could have obtained more prosperity by trading than it could ever obtain by war. It is true that here and there economic sore spots may exist creating dissatisfaction and disturbance, but they are not, and never have been as numerous or as likely to create war as political sore spots like Poland and the Balkans. Furthermore, they can be dealt with by intelligent trade arrangements and direct loans. There are no economic sore spots as bad as China and India, and yet neither China nor India have attacked their neighbors.

Furthermore, whatever our idealists in the United States may think, economic arrangements are looked on by the other nations of the world as strictly business propositions. They are surprised and pleased at our willingness to give things away, but they gladly accept every advantage and give us as little as possible. A business deal to be a good deal must benefit both parties, and, except for the immediate postwar period, we see no reason why we should make improvident loans or scatter our assets recklessly throughout the world. We should not entrust our money to a board controlled by our debtors to be loaned or disposed of as they see fit, nor will this contribute to the peace of the world. In fact, it teaches the world to expect from us a largesse which cannot and will not continue. When it is discontinued, we become the original Uncle Shylock and the indignation of the other nations is such that they feel themselves justified in failing to repay past loans.

It seems obvious that this is no time to deal permanently with any world economic problem. We should face the present emergency situation and help solve it with as little cost as possible to the United States. We should sit in on international economic boards and help them study the problems and listen to their recommendations; but we should certainly not hand out American money to boards on which we have a minority vote and which are controlled by the very nations that wish to obtain financial aid from us.

IS FOREIGN INVESTMENT A WISE POLICY?

The policy behind the International Bank assumes that foreign lending and investment is so clearly to be desired that the Government should risk the taxpayer's money to promote it. But even apart from any Government guaranty, this assumption is open to question, particularly if the volume is too large.

In the first place, it has certain inherent risks which are not present in domestic investment. The project is more distant and more difficult to analyze. There is no legal way in which debts can be

collected from a foreign country, particularly from the government of that country itself. If payments are suspended, the investor is helpless. Under the provisions of the fund itself, if the dollar is declared a scarce currency under article VII, debtor countries may refuse to allow their nationals to use dollars to service their loans. The old method of collecting debts by moving in marines and seizing the customhouse has gone out of style and would be expressly forbidden by the San Francisco Charter. The San Francisco Charter, itself, noticeably fails to provide any means by which international obligations can be collected. The policy of this Government, in Mexico and elsewhere, has not been such that any American investor can hope that his claims abroad will even have vigorous moral support from his Government.

It is said that foreign investment will make for peace. History shows nothing of the kind. Ordinarily after an investment is obtained, the people of a country are likely to regard its owners as absentee landlords only concerned with draining away the assets of the country. Foreign investors are likely to be regarded as exploiters of natural resources and cheap labor. In the past they often have been such. Their activities are likely to build up hostility to the United States. This is even more true today with the growth of Socialist and Communist Parties in many countries. Witness the agitation against American sugar investments even in Puerto Rico and Cuba.

Our own experience in foreign investment has not been very promising. According to the Department of Commerce, investments of $13,400,000,000 have shrunk to $9,800,000,000 by 1940. Omitting Canada, which is so closely related to us as to be economically part of the United States, the percentage of loss would be much higher. The table on page 298 of the hearings shows that of $4,000,000,000 of public foreign dollar bonds, a billion and a half is in default. No one has ever made a careful estimate of American losses on foreign loans and investments. There is no doubt that a considerable proportion has disappeared.

We are often told that England prospered on its foreign investments. But our position is very different from that of England. England has never been self-sufficient. It has had to import more than it could export. It was highly desirable that it have an income from investments abroad which could pay for such imports, and such investments were, therefore, a necessity, even if they involved capital losses. But in the case of England they did not involve losses. Most of the investments were made in British dominions and territories under the protection of the British Army and Navy. Many natural resources were taken over at practically no cost and developed at a great profit. We cannot in any way duplicate the British experience under present world conditions, and could never have done so without establishing an economic imperialism contrary to our whole philosophy.

The general policy of lending huge sums abroad in the twenties was vigorously criticized by the very people who are now urging its resumption, this time at Government expense. It is rather interesting that Mr. Harry D. White, the most vigorous advocate of the bank, wrote a book in 1932 with regard to the foreign investments of France. It

is one of the authorities on that subject. After a thorough study, Mr. White concludes as follows:

> The French experience in the matter of capital exports leads to the conclusion that the orthodox attitude toward unrestricted capital exports is open to criticism; the assumption that capital exports benefit both the lending country and the world at large is not unassailable. Examination of the conditions under which French foreign investments were made has clearly shown that the French investor consistently underestimated the risk inherent in the type of foreign securities that France acquired from 1880 to 1913. Thus, although the rate of return on foreign investments was equal to that on domestic, the real yield was less since equal returns imply equal risk.

Mr. White quotes Mr. Keynes as follows:

> To lend vast sums abroad for long periods of time without any possibility of legal redress if things go wrong is a crazy construction; especially in return for a trifling extra dividend.

Mr. White again quotes Keynes, although he does not entirely agree with him, as follows:

> In the case of foreign loans, repudiation or failure leaves nothing to the lending country, whereas, in the case of domestic repudiation, the tangible instruments of production do remain in the lending country. The loss to the French people when a Brazilian railroad built with French capital repudiates its debt is greater than when a domestic railroad does so. In the latter case, the railroad remains in France; whereas, in the former case, it remains in Brazil.

GOVERNMENT GUARANTEE OF FOREIGN INVESTMENT IS INDEFENSIBLE

We do object strenuously, however, to the Government going into the business of guaranteeing private investments abroad. The Government does not guarantee general investments at home. The FHA-guaranteed mortgages are almost the only exception.

It is said that little opposition has arisen to the bank, and that the various bankers' associations have approved it. There are two reasons for this: From a technical banking standpoint, it is organized on a much sounder basis than the fund, and so their attention has been centered on the defects of the fund. In the second place, it is almost a subsidy to the business of investment bankers, and will also undoubtedly increase the business to be done by the larger banks. The bankers are almost at the mercy of the Treasury today. It took courage to oppose any of the Treasury's plans. Naturally, they sought a compromise and centered their whole opposition on the fund which offends every principle of sound banking.

Consider for a moment how it will work out. If an Englishman wishes to start an automobile plant in England, he can sell his company's securities on the American market with the guaranty of the International Bank. A man who wishes to build an automobile plant in America cannot obtain any such guaranty. American investors are relieved from any risk in the development of foreign countries and given more incentive to develop those countries than to invest in America.

Obviously, this is an inflation of credit by direct government aid. Behind it is the theory that more employment can be produced by spending government money, this time to create foreign exports instead of public works at home. But foreign trade produced solely on credit is certainly not a sound form of economic development. Particularly, if we start on the grand scale now proposed, we will build up an export business which cannot possibly be permanent and

which when suddenly checked may carry down our whole economy with it.

Under the articles of agreement of the bank, the dollars that are borrowed do not even have to be spent in the United States and we are prohibited from so requiring. A new plant in India, for instance, may borrow dollars, buy all its equipment in England, and thus, in effect, help England pay her blocked sterling balances. Most of the guaranteed loans will undoubtedly be floated in the United States because our people have the savings to invest. The bank thus becomes a device for draining our savings out of the United States for the benefit of the rest of the world.

Undoubtedly, American loans in this emergency can do the rest of the world a fair amount of good, and we should help in the present crisis in a reasonable amount. But we overestimate the value of American money and American aid to other nations. No people can make over another people. Every nation must solve its own problems, and whatever we do can only be a supplement to its own efforts and to help it over its most severe barriers. A nation that comes to rely on gifts and loans from others is too likely to postpone the essential tough measures necessary for its own salvation.

In short, the philosophy behind this International Bank is not that of a bank at all. It is an extension to the international field of the theory of promoting prosperity by the spending of government money, an extension to the world of the theories so vigorously advanced by Mr. Henry Wallace at home.

THE INTERNATIONAL MONETARY FUND

According to the majority report, the fundamental objectives of the fund are to obtain (1) orderly exchange rates and (2) the elimination or arbitrary exchange restrictions and discriminations, so that international trade may be unhampered. These are worthy objects. In the opinion of the minority, however, the International Monetary Fund to which we are asked to subscribe—

1. Will wholly fail to accomplish these objectives under present world conditions,
2. Since it is not designed to cure the real causes of unsound currencies such as an unbalanced budget, and an adverse balance of trade, the temporary assistance given will actually postpone sound national solutions of fundamental economic faults.
3. The fund will, therefore, amount to nothing more than international loans of $2,750,000,000 for which we shall get nothing in return, and
4. The fund is such an unsound method of making loans that our dollars will be dissipated without effect.

The International Monetary Fund is a fund of $8,800,000,000 subscribed for by the United Nations. The quota of the United States is $2,750,000,000, or 31¼ percent; the British quota is $1,300,000,000; and the Russian, $1,200,000,000. The quota in general is to be paid 25 percent in gold, and 75 percent in the currency of the subscriber's nation. Nations with insufficient gold are only required to pay in 10 percent of their net holdings of gold in dollars. The total gold in the fund will be four or five hundred million dollars short of the goal of 25 percent, and the bulk of the fund will consist of irredeemable paper

currencies of little value outside the country of issue. We estimate that the contribution of the United States, all equivalent to gold, will be more than half the total assets of real value. Yet in spite of this, the United States has only 1 director out of 12, and only about 30 percent of the voting power.

The fund operates by permitting each member to deposit its paper currency in the fund, and take out in exchange the currency of some other country. This, in effect, as admitted by the Treasury, is a loan to the nation which makes the deposit, secured by that nation's paper currency. Under present world conditions, the most-sought-after currency will be the $2,750,000,000 deposited by the United States, which would enable the borrowing nation to buy goods in any part of the world. For all practical purposes, the right of each nation to withdraw dollars is only limited by the provision that no nation shall draw down more than 25 percent of its own quota in 1 year, or more than 100 percent of its quota altogether. If all the nations choose to draw dollars, the dollars in the fund could be exhausted during the second year. The Board of Directors also can waive the limitation on withdrawal, and we have no veto on that right of waiver.

There are rather elaborate provisions for requiring each member to repurchase its currency, with an increasing interest charge. However, this interest charge is so slight that even if a nation has borrowed its full quota and repaid nothing, after 7 years it still pays approximately only 4 percent.

Before the fund can begin operating with any nation, it must fix an exchange value for that nation's currency in terms of gold or of the United States dollar, and thus it is contemplated that definite relationship between all currencies will be properly fixed. The fund, however, recognizes the right of nations to depreciate their currency under various circumstances which we shall later discuss, and which largely nullify the initial stabilization. We shall also discuss below the provision relating to scarce currency which may prove a serious embarrassment to the United States.

All members undertake not to engage in any discriminatory currency arrangements or multiple currency practices, and agree not to impose restrictions on the making of payments and transfers for current international transactions. This undertaking is, however, practically nullified for the transitional period by the provisions of article XIV which is discussed below.

Considerable power is given to the board to acquire information and regulate exchange, or require members to regulate exchange. It is expressly provided that funds shall not be used for facilitating capital transfers. The making of proper distinctions between transfers for current purposes and for capital purposes, however, will probably require every nation to impose a rather elaborate control on all exchange transactions.

We do not attempt a complete analysis of all the fund provisions. They are very complex, difficult to understand, and apparently have received a different interpretation in England and in the United States.

THE FUND WILL NOT ACCOMPLISH ITS STATED PURPOSES

The majority report states that the first objective of the fund is to establish orderly exchange rates in the world, and the second objective

to eliminate arbitrary exchange restrictions and discriminations. The fund can, of course, initially establish definite exchange rates for all countries. That, however, could be done by an agreement between England and the United States, followed by agreements with other countries such as England is already making. The difficulty is that the fund cannot maintain these exchange rates with the resources at its command, and its provisions permitting devaluation of currency recognizes this fact.

The stability of currencies does not depend on international agreements. It depends on two fundamental problems. If a nation fails to balance its bubget, its currency will in time depreciate at home and abroad. If a nation has an adverse balance of trade and continues to import more than it exports, its currency will depreciate on the international exchange market. The fund might take care of a very limited adverse balance of trade, but its inadequacy is shown by the fact that England, which expects to have an adverse trade balance the first year after the war of $3,000,000,000 could only draw $325,000,000 that year from the fund. In short, the fund is not intended to deal with the extraordinary emergencies growing out of the war, and cannot do so. In fact, the money available might postpone the time when the nation concerned must face its real issues; then when the issues are faced, it will owe that much more money. In the meantime, the assets of the fund are dissipated without securing any substantial result.

If the fund is to be tried at all, its whole operation should certainly be postponed until more normal conditions have been reached. In the meantime, the various countries should be encouraged to solve their own problems with direct loans from this country to assist them in that effort. Under present conditions, the whole transaction is merely a waste of money without obtaining even the limited objectives of a real stabilization fund.

Because of present world conditions, the requirements for a stable currency are practically nullified by section 5 of article IV. Under this provision, any member may depreciate its currency by 10 percent without any right on the part of the fund to object. It may propose any further devaluation, and the fund is required to concur in the change if it is satisfied that the change is necessary to correct fundamental disequilibrium. However, the fund cannot inquire into the causes of that fundamental disequilibrium if it is brought about by the domestic, social, or political policies of the member proposing the change. This means that a government may pursue the policy of an unbalanced budget, or a policy of raising its costs or hampering its export industries, and may devalue its currency indefinitely if that is the effect of its policies.

Since very few nations except the United States have deliberately devalued their currencies when they were not compelled to do so by circumstances amounting to a fundamental disequilibrium, it can fairly be said that the fund does nothing whatever to prevent any devaluation likely to occur without the fund. In fact, by expressly recognizing devaluation as a proper method of correcting a fundamental disequilibrium, it actually encourages that policy. In fact, Lord Keynes in his speech to the House of Lords on May 23, 1944, praises the fund as permitting the devaluation of sterling abroad. He said:

We are determined that, in future, the external value of sterling shall conform to its internal value as set by our own domestic policies, and not the other way round * * *. Whilst we intend to prevent inflation at home, we will not accept deflation at the dictate of influences from outside * * *. In fact, the plan introduces in this respect an epoch-making innovation in an international instrument, the object of which is to lay down sound and orthodox principles. For instead of maintaining the principle that the internal value of a national currency should conform to a prescribed de jure external value, it provides that its external value should be altered if necessary so as to conform to whatever de facto internal value results from domestic policies, which themselves shall be immune from criticism by the fund. Indeed, it is made the duty of the fund to approve changes which will have this effect.

In the light of these remarks of Lord Keynes, it is completely ridiculous for the Treasury to maintain that the fund will secure orderly exchange rates or a high degree of order and stability in the international exchanges.

THE INTERNATIONAL FUND WILL NOT END RESTRICTIVE AND DISCRIMINATORY CURRENCY PRACTICES

There is no doubt that discriminatory currency practices and restrictions on exchange interfere with the freedom of international trade. It is very much to our interest that they be removed, but that removal may have no effect on international trade if direct trade restrictions remain. We must recognize that the general purpose of such restrictive currency practices can be accomplished in many other ways. For instance, there may be a direct limitation on imports or a refusal to issue import licenses. Such limitations may be continued in spite of the fund because the fund only deals with currency questions. Also the fund can in no way affect the discrimination which a totalitarian government such as Russia may impose upon trading nations. Such a government does all the exporting and importing itself, it may deal with any nation on any terms. In short, the elimination of discriminatory currency practices by itself will not remove trade restrictions or discriminations. We should not pay out our money to get a quarter of a loaf.

As a matter of fact, even currency practices are not affected by the fund at the present time. In article XIV, section 2, members are authorized to maintain restrictions on payments and transfers for current international transactions during the transitional period. They are even authorized to adapt existing restrictions to changing circumstances. In the case of members whose territories have been occupied by the enemy—and this includes practically all European countries—they are authorized to introduce restrictions which have not previously existed. This continuation of restrictions is permitted for 3 years after the date on which the fund begins operations without even a report to the fund. At the end of 5 years, the member is required to consult the fund, but the fund is not required to take action and is required to give the member the benefit of any reasonable doubt. Witnesses before the committee expressed the opinion that in 5 years these restrictions would become so frozen under the authority of the fund that they might never be removed.

The difficulty is that the fund is attempting to do something which cannot possibly be done during the transitional period. If it is sound at all, it can only operate in a world already stabilized by more fundamental measures.

The exact situation is clearly set forth by Lord Keynes in his speech to the House of Lords:

> What, then, are these major advantages that I hope from the plan to the advantage of this country? First, it is clearly recognized and agreed that, during the postwar transitional period of uncertain duration, we are entitled to retain any of those wartime restrictions, and special arrangements with the sterling area and others which are helpful to us, without being open to the charge of acting contrary to any general engagements into which we have entered.

As a matter of fact, the British Government is not only proposing to maintain all trade restrictions now in force in the sterling area, but apparently is trying to extend that area, creating a condition in which a clear preference is given to British trade. At page 185 of the hearings is set out a typical monetary agreement between Great Britain and Sweden, the effect of which is to make Sweden import British goods in return for any exports which Sweden may make to Great Britain. Agreements are being made with many other countries. Even Canada is becoming restless because it is not in the sterling area, and has been told that England is only going to buy absolute essentials outside of that area.

The British Government owes some $15,000,000,000 to its Dominions and other countries, reflected in the blocked sterling balances. At the present time, this sterling can only be used for purchases in England and cannot be exchanged for dollars. In fact, today Americans are unable to sell goods in India or Egypt, for example. The testimony shows that an American pump manufacturer who has sold for many years in India is unable to obtain an import license. Although we have been distributing dollars freely in India, the English have collected all these dollars and given the Indians blocked sterling in exchange. Now import licenses are refused, primarily because the British Government will not let the India citizens use their United States dollars.

The testimony of Mr. Harold J. Roig, vice president of W. R. Grace & Co., is very enlightening on the subject of blocked sterling. He testified that the Egyptian National Airline desired to purchase an American Douglas aircraft, but was advised that their blocked sterling balances could not be used for this purpose, but that they must buy their airplanes in Great Britain. The South African Government, although interested in American planes, has told the American representative that its hands are tied. He testified that Chile, Peru, and Bolivia, which have always purchased most of their imports from the United States, now find that their blocked sterling can only be spent in the sterling area.

In short, the fund in no way removes the most important exchange restrictions and trade restrictions which our exporters have to face and yet we surrender $2,750,000,000 and permit England to draw about $325,000,000 a year of this deposit giving nothing in return.

Of course it is equally clear that the fund accomplishes nothing with regard to Russia. Russia does not deal in exchange because the Government does all the buying and selling itself. But Russia can draw $300,000,000 a year, and we get nothing even in the way of a promise to treat us on an equal basis with other countries.

ARTICLE VII WILL SERIOUSLY EMBARRASS THE UNITED STATES

Under article VII, if the fund finds that a general scarcity of a particular currency has developed, it may investigate the situation, and if the condition does not improve it may formally declare such currency scarce. Thereupon, any member may impose any kind of limitations on the freedom of operations in the scarce currency.

There is no doubt that this provision is aimed at the United States because only the dollar is likely to become scarce. The article seems to proceed on the assumption that the nation whose currency becomes scarce is necessarily to blame and must be indicted by the world and penalized by specially authorized restrictions against its currency. The dollar may have become scarce because other nations have lived beyond their means. It may have become scarce because of conditions beyond the control of anyone.

The theory of the article is graphically set forth by Lord Keynes in his House of Lords speech. Lord Keynes said:

> There is another advantage to which I would draw your Lordships' special attention. A proper share of responsibility for maintaining equilibrium in the balance of international payments is squarely placed on the creditor countries. This is one of the major improvements in the new plan. The Americans, who are the most likely to be affected by this, have, of their own free will and honest purpose, offered us a far-reaching formula of protection against a recurrence of the main cause of deflation during the inter-war years, namely, the draining of reserves out of the rest of the world to pay a country which was obstinately borrowing and exporting on a scale immensely greater than it was lending and importing. Under clause VI of the plan a country engages itself, in effect, to prevent such a situation from arising again, by promising, should it fail, to release other countries from any obligation to take its exports, or, if taken, to pay for them. I cannot imagine that this sanction would ever be allowed to come into effect. If by no other means, than by lending, the creditor country will always have to find a way to square the account on imperative grounds of its own self-interest.

In other words, we have humbly agreed that we were to blame for everything that happened during the twenties and thirties. We admit that we should have removed our tariffs and loaned money on a vastly greater scale. This is a wholly distorted view of the economic history of the twenties and even the thirties.

The effect of article VII will undoubtedly be to put this country in a position where it must either break the heart of the world and withdraw from the fund, or loan many more billions to foreign countries. This $2,750,000,000 is only a beginning as far as the fund is concerned. If we waited until general conditions in the world were more stable, it might be that dollars would not become scarce, but if we start this fund today, and do not go on lending on a grand scale, there can be no doubt that we will soon find ourselves bitterly indicted because we will not lend our money to the rest of the world in sufficient amounts to suit their wishes. Of course, the suggestion is that it will be used to force us to abolish our tariffs, already reducible to 25 percent of the statutory rates. Even if we adopted free trade, however, it is unlikely that our imports would be increased so tremendously as to meet the shortage of dollars during the transition period. In effect, our only remedy would be more lending abroad.

THE PLAN WHEN IN OPERATION MEANS AN INTERNATIONAL CONTROL OF MONEY

We have pointed out that during the transition period, practically no effective restraints are imposed on any other important nation. They are, however, imposed on the United States which has not heretofore engaged in restrictive and discriminatory currency practices, and has not been invaded by the enemy. Fortunately, we do not wish to impose such restrictions, and we do not wish to devalue our currency, but it should be pointed out that to a considerable extent we are under the regulation of an international board in which we have only a minority voice. If the fund is ever successful in its aims, the whole world will be subject to this control.

Mr. Keynes is quite right in asserting that the plan is the opposite of the gold standard. In effect, it proposes a managed world currency plan, or at least a large number of managed national currency plans loosely tied together by the International Board. We question whether the attempt of an International Board to manage currencies can ever be successful, and so we doubt the wisdom of the plan, even if it should ever become effective. It is worth while, however, to point out the respects in which the United States surrenders its freedom of action and is forced into policies which Congress may or may not approve.

Under article IV, section 2, after we have fixed the gold value of the dollar we surrender our right to buy or sell gold except at this fixed price. This is subject to our right to change the dollar's value by 10 percent, and further, if necessary, to correct a fundamental disequilibrium.

Under article IV, section 4 (b), we obligate ourselves to make illegal all exchange transactions except at the rates fixed by the fund. We can escape this for the present by buying and selling gold freely. If we decide to change that gold policy, however, we must regulate every transaction in exchange throughout the United States. In other words, we must maintain an OPA to enforce price control over foreign moneys.

Under article VI, we are encouraged, and under some circumstances required, to impose a control over capital transfers of funds between nations. If we had to impose such controls, it is difficult to see how we could do so without a complete regimentation over exchange transactions. As Lord Keynes says:

> Not merely as a feature of the transition, but as a permanent arrangement, the plan accords to every member government the explicit right to control all capital movements. What used to be a heresy is now endorsed as orthodox. In my own judgment, countries which avail themselves of this right may find it necessary to scrutinize all transactions, so as to prevent evasion of capital regulations. Provided, that the innocent, current transactions are let through there is nothing in the plan to prevent this. In fact, it is encouraged.

Under article VII, we submit to a suspension of payments in dollars which actually relieves foreigners of their obligation to pay their debts in the United States while the declaration is in effect.

Under article VIII, section 2, we agree not to impose any restrictions ourselves on the making of payments and transfers for current international transactions. We do not expect to impose any such restrictions, but it is impossible to foresee all the circumstances which might arise.

Under article VIII, section 3, we agree not to engage in any discriminatory currency arrangements or multiple currency practices.

Under article XI, section 1, we agree not to engage in any transactions with a nonmember of the fund which would be contrary to the agreement. This is an obligation in very general terms and might easily be seriously embarrassing to us in the future.

The net result of all the foregoing provisions is a considerable limitation on the constitutional power of Congress "to coin money, regulate the value thereof and of foreign coin." Furthermore, it imposes on us the obligation to regulate exchange to a degree far beyond anything which has heretofore been considered necessary in peace time. It embarks us on a policy of managed world currency. It ties us to that policy unless we choose to withdraw from the fund.

THE FUND IS ONLY ANOTHER DEVICE TO LOAN OUR MONEY ABROAD

The fact that the fund contains so many exceptions makes it wholly ineffective as a currency stabilizer during the transition period. But, although it accomplishes nothing, it takes $2,750,000,000 of our money and loans it at once throughout the world. During the transition period, and even thereafter, the fund apparently is not confined to its main purpose of short-term loans for currency stabilization. Strenuous efforts were made in the House committee and in the Senate committee to confine the term of lending to 18 months. The Treasury refused to budge. The amendment contained in section 14 of the bill implies that we believe the resources of the fund may be used for temporary assistance to members in connection with "cyclical" fluctuations in its balance of payments. Mr. White testified that the word "cyclical" might mean a period as long as 9 years. Clearly, therefore, it is contemplated that the fund will be used for purposes far removed from temporary currency maladjustments.

The provisions regarding Russia show also that the fund's resources may be used for other than currency stabilization purposes. Russia has little foreign trade, and exchange means nothing with regard to Russian currency because the Government handles all export and import business. But Russia, under the fund, may draw down $300,000,000 a year for four successive years if any dollars are left. Mr. Brown, one of the delegates, wrote an article indicating that Russia could use this for the reconstruction of its war industries, and this view was confirmed by Mr. White's testimony. Either there was some special agreement with Russia, or it is recognized that the resources of the fund may be available much as any general loan is available. This means that certainly during and even after the transition period, the fund may be used as a device for general lending. It means furthermore that its usefulness for currency-stabilization purposes will be dissipated and destroyed.

As a matter of fact, it is very difficult in the case of any country to separate its assets and its liabilities into long-term and short-term classifications. It is difficult to separate its capital obligations and its current obligations. England, for instance, might undertake to pay some part of its blocked sterling balances, a perfectly proper procedure. By doing so, however, it might so embarrass its current position as to justify loans from the fund. Thus, in effect, the fund's resources would be used to pay the blocked sterling balances in violation of the express terms of the fund.

THE FUND IS A WASTEFUL FORM OF LENDING

Not only is the fund just another form of lending agency during the transition period, but it is a very wasteful and inefficient kind of loaning agency.

As a practical matter, every member of the fund is entitled as a matter of right to draw down one-fourth of its quota each year. The Government's witnesses contend that there are safeguards against improvident lending, but a careful study of article V does not support this contention. The only condition, except the percentage limitation, is that the member desiring to purchase currency must represent that this currency is presently needed for making payments which are consistent with the provisions of the agreement. The fund board is also authorized to limit the use of its resources by any member if it is of the opinion that such member is using those resources in a manner contrary to the purposes of the fund.

But the purposes of the fund, as stated in article I, are so broad that almost any need may be brought within them. One of these purposes for instance is—

> to facilitate the expansion and the balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members.

We believe that all the nations of the world understood clearly that the drawing down of their quota over a period of 4 years was a vested right.

Even if the board could refuse the request of any member, it would not be likely to do so. The board will be controlled by the members who wish to obtain assistance from the fund. It is inevitable that such a board, representing countries which desire to use the fund will treat leniently the request of all other members who desire to use it.

The net result is that the lending to be done by the fund is indiscriminate. The fund's resources are distributed to all nations whether they need it or not. Its assets will be dissipated without solving a single one of the problems which face these nations in the transition period. It seems obvious to us that the proper way to solve the problems of foreign nations and restore the world to a stable condition is to deal directly with each of the principal nations.

The problem of England is the most important. A sound settlement of the relation between the dollar and the pound with the removal of trade restrictions and exchange restrictions throughout the British Empire would largely solve the problems of international trade.

The net result of the present bill is to waste our money and accomplish nothing. When the world is stabilized, a general stabilization fund may be desirable. It could probably be much smaller than the one now proposed and it should, of course, be confined definitely to stabilization operations. We question whether the Government should ever guarantee international investment.

If the Senate is determined to proceed, we believe that several amendments to the fund should be considered. It has been urged that the Senate must not change one word in the agreements. With this we wholly disagree. The fund and the bank are so largely for the benefit of countries other than the United States that we feel

confident they will agree to any amendment which the Congress approves unless it in some way imposes an obligation on other countries. We, therefore, propose the following amendments:

1. On page 2, at the end of line 6, add the following:

Provided, however, That this acceptance shall become effective only when the governments of the countries having 65 percent of the quota set forth in schedule (a) shall have agreed that the articles of agreement to the fund shall be amended to insert section 6 in article XIV as follows:

"SEC. 6. No member shall be entitled to buy the currency of another member from the fund in exchange for its own currency until it shall have removed all restrictions inconsistent with article VIII, sections 2, 3 and 4."

The purpose of the foregoing amendment is to insure that funds are not advanced to any member unless such advance will result in the removal of exchange restrictions which is said to be the purpose of the fund. It seems ridiculous to have our money paid out and not get the return which it is supposed to secure.

2. On page 2, at the end of line 6, add the following:

Provided, however, That this acceptance shall become effective only when the governments of the countries having 65 percent of the quota set forth in sechedule (a) shall have agreed that the articles of agreement to the fund shall be amended by striking out article VII.

The purpose of this amendment is to remove the ability o the fund to line up against the United States and indict us for conditions which we have done nothing to bring about and force us to make additional loans.

3. On page 2, at the end of line 6, add the following:

Provided, however, That this acceptance shall become effective only when the governments of the countries having 65 percent of the quota set forth in schedule (a) shall have agreed that the Articles of Agreement to the Fund shall be amended by striking out Section 5 of Article VII and inserting the following:

"SEC. 5. The provisions of this article shall not be invoked to excuse failure to comply with any treaty, reciprocal trade agreement, or public or private debt agreement or other contract now or hereafter in effect."

It has been pointed out that under section 5, as it appears in the agreement, if the dollar is declared scarce, other nations may be relieved of their obligations under reciprocal trade treaties, and their nationals may even be relieved from the payment of private debts.

4. On page 2, at the end of line 6, add the following:

Provided, however, That this acceptance shall become effective only when the governments of the countries having 65 percent of the quota set forth in schedule (a) shall have agreed that the articles of agreement to the fund shall be amended and that a new section be added to article reading as follows:

"The provisions of this article shall be subject to the principle that the fund shall use its resources only for current monetary stabilization operations and to afford temporary assistance to members in connection with seasonal and emergency fluctuations in balance of payments of any member for current transactions, and that the fund shall not use its resources to provide facilities for relief, reconstruction, development or armament, or to meet a large or sustained outflow of capital on the part of any member; and that before a member may purchase currency from the fund, it shall comply with the condition (which shall not be subject to waiver) that it must show to the satisfaction of the fund that the member has a reasonable prospect of, and agrees to make, repayment in full within a period of eighteen months."

The purpose of this amendment is to insure that the fund be used only for short-term stabilization loans, and that these need not be made unless there is a reasonable chance of repayment within 18 months. If the fund is really a stabilization fund and not just another means of lending money abroad, there should be no objection to this amendment.

Our own view, however, is that the consideration of both the bank and the fund should be postponed until a general international economic conference is held, in which the whole economic condition of the world can be considered, and practical steps proposed to achieve freedom of international trade. If such a conference is held we doubt whether either the International Bank or the International Fund will find a place in any permanent practical solution.

ROBERT A. TAFT,
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HUGH BUTLER,
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