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IMPLEMENTATION OF THE FINANCIAL AGREEMENT DATED DECEMBER 6, 1945, BETWEEN THE UNITED STATES AND THE UNITED KINGDOM

JUNE 14, 1946.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany S. J. Res. 138]

The Committee on Banking and Currency, to whom was referred the joint resolution (S. J. Res. 138) to implement further the purposes of the Bretton Woods Agreements Act by authorizing the Secretary of the Treasury to carry out an agreement with the United Kingdom, and for other purposes, having considered the same, report favorably thereon without amendment and recommend that the joint resolution do pass.

This joint resolution authorizes the Secretary of the Treasury, in consultation with the National Advisory Council on International Monetary and Financial Problems, to carry out the financial agreement dated December 6, 1945, between the United States and the United Kingdom. For the purpose of carrying out the financial agreement, this resolution authorizes the Secretary of the Treasury on behalf of the United States to extend to the United Kingdom a credit not to exceed $3,750,000,000, subject to the terms and conditions of the financial agreement.

The financial agreement with England is a major part of the international economic policy of the United States. It will end the wartime currency and trade discriminations in England and in many other countries that prevent the restoration of world trade on a peacetime basis. It will make possible the prompt and effective implementation of the Bretton Woods agreements. It will help in the establishment of the orderly international economic relations which are essential to our prosperity and to world peace.

I. United States International Economic Policy

The basic objective of United States international economic policy is the promotion of currency and trade practices designed to insure a balanced growth of world trade in which all nations may participate on fair and equal terms. Only through an expansion of world trade can our own foreign trade reach the high level necessary for the maintenance of domestic production and employment. Only through a balanced growth of world trade on a nondiscriminatory basis can we hope to build a sound economic foundation for world peace.

The economic policy of the United States can be carried out if production and trade are restored and if countries adopt fair currency and trade practices. The United States has taken the leadership in the establishment of the world bank and the world fund for these purposes. The world bank will help countries to rebuild and develop their industries and communications, so that they can produce and trade. The world fund will help secure the stable and orderly currency arrangements that are necessary for world trade. It is also expected that when the United Nations Conference on Trade and Employment is held it will make possible the further reduction of trade barriers and the adoption of fair trade practices.

The success of this program for international economic cooperation requires the full participation of the great trading countries. If England and the United States were to adopt these fair currency and trade practices, most other countries would find it both possible and desirable to abide by the same principles. England has stated that she is prepared to adopt these currency and trade standards if she could find the means to finance her essential imports during the next few years while her trade is being restored. The principal purpose of the financial agreement is to make it possible for England to join with us in the United Nations program of international economic cooperation. Under the agreement, England undertakes to remove her wartime currency and trade restrictions within a year. To enable England to accept this commitment, we would extend her a credit of 3¾ billion dollars to be repaid with interest.

The approval of the financial agreement will mean that the war-born restrictions on currency and trade can be removed not only in England, but throughout the sterling area. The adoption of the fair currency and trade practices, which the financial agreement makes possible, will mean that world trade can be restored on a sound basis, with world markets open to the exporters of all countries on fair and equal terms. The financial agreement will be helpful to this country, to England, and to the entire world. The alternative would be to risk the division of the world into conflicting economic blocs with the ever-present danger of economic warfare.

CURRENCY AND TRADE RESTRICTIONS

We saw in the 1930's the destructive effects of economic warfare. Following the 1929 depression world trade became subject to a rapid growth of currency and trade restrictions of all kinds. Tariffs were raised to unprecedented heights as nation after nation sought to bolster its declining domestic demand by shutting out the products of other countries. Even more serious was the introduction of restrictions on the purchase and sale of foreign currencies, the competitive depreciation of currencies, and the widespread use of import quotas and other devices for restricting imports. The result of these measures and countermeasures was to reduce trade all around and to further intensify the depression in nearly all countries.

It was in this period of the 1930's that a number of countries, particularly Germany, began the use of bilateral clearing arrangements, multiple currency practices, and direct barter deals. Such discriminatory practices tend to reduce the total volume of world trade, generally at the expense of those countries, such as the United States, which do not engage in such practices. In fact, many of the currency and trade discriminations were aimed at us. The war has given birth to new measures of discrimination in countries like England, that have traditionally opposed these authoritarian devices. The continuation and extension of such practices would be a threat to our trade and to our economy.

INTERNATIONAL TRADE AND THE AMERICAN ECONOMY

Foreign trade has always played a significant role in the American economy. We are dependent on imports for many vital raw materials and foodstuffs as well as for a number of manufactured goods. We are one of the great importing countries of the world. Even more significant is our dependence on export markets for the sale of the products of American factories and farms. We are the largest exporting country in the world. Except for a few years in the 1930's, fully 8 to 10 percent of all movable goods produced in this country were sold abroad. One out of every ten persons employed in agriculture and industry produces goods for export.

In order to appreciate fully the importance of large foreign markets to American industry and agriculture, we must look at our exports of particular commodities. In our fields of industrial specialization, for example, machinery and equipment, from 15 to 20 percent of our production was sold abroad. In many industries, the margin of export sales means the difference between profitable operation and production at a loss.

Exports of our leading agricultural products were vital to the prosperity of our farmers. Export markets took from 10 to 30 percent of the total production of our major crops. Unstable exchange rates and declining foreign demand may bring about great losses to our farmers through their effects on the domestic prices of farm commodities.

America cannot afford to lose her stake in foreign trade. We know how severely the trade and exchange restrictions which grew up during the 1930's affected our foreign markets. From 1928 to 1934 world exports fell from 32.5 billion dollars to 18.5 billion dollars, but our share of world exports declined from 16 percent in 1928 to less than 12 percent in 1934. This decline in our exports contributed significantly to the depression in industry and to the collapse of our agriculture. The exports of our farm products were especially hard hit. From 1925 to 1928 we sold abroad on the average about $1,250,000,000 worth of wheat, cotton, tobacco, and lard each year. From 1931 to 1934 our average sales of these farm products were only $473,000,000 per year.

The effect of our export trade on the domestic economy goes far beyond the industries engaged in this trade. The workers on export goods are consumers of the goods and services of domestic industries. The producers of export goods buy machinery and equipment made in this country. When our export trade falls off, consumption and investment throughout the domestic economy are affected.

Agricultural and industrial production is at the highest peacetime level in our history. The maintenance of this record level of production will depend on finding markets for our output. Primary dependence must, of course, be placed on our home demand for goods. But part of the demand will have to come from abroad. If our exports of goods and services could reach $10,000,000,000 annually during the postwar decade, it would give direct employment to 3 or 4 million men, and indirectly affect the incomes and employment of many more millions of Americans. We can hope to reach such a level of exports only if world trade is expanded and if it is freed from restriction and discrimination.

WORLD PEACE

Our international economic policy is important not only to our program for full production and employment at home, but it is equally important to our policy of securing an enduring peace. The world cannot have a stable, enduring peace while devastation and hunger stalk the earth.

Nations must cooperate in the solution of their common economic problems if we are to have international harmony. Without fair standards for international trade and without machinery for dealing with disagreements on economic matters, the world would soon be divided into rival economic blocs which employ the weapons of economic warfare. Such a state of affairs could only mean an intensification of national hatreds, jealousies, and suspicions. Under these conditions, the United Nations' efforts for cooperation in maintaining peace would certainly be doomed to failure.

It is for these reasons that the Economic and Social Council of the United Nations and the specialized social and economic organizations associated with the Council have been given such a prominent place in the whole United Nations structure for peace. We must have international cooperation on political problems. That is important, but it is not enough. The economic causes of conflict must be eliminated. The everyday relations between the businessmen of all countries must be carried on in a fair and friendly way, conducive to good will and mutually beneficial trade.

MULTILATERAL VERSUS BILATERAL TRADE

An important objective of our policy is to prevent the widespread use of bilateralism in world trade. Unless postwar international trade is conducted on a multilateral basis, total trade and hence world prosperity are almost sure to be at a low level. Moreover, the foreign trade of the United States will especially suffer if postwar trade is organized on the basis of bilateral arrangements and economic blocs.

Bilateralism means the balancing of exports and imports between a country and each of the other countries with which it trades. Under multilateralism, on the other hand, each country's trade may be balanced with the rest of the world, but not necessarily with any particular country. In the long run, under bilateralism or multilateralism, a country's trade must be balanced. Bilateralism results in trade being balanced at a low level, whereas multilateralism greatly expands the opportunities for trade among countries with a consequent balance at a high level.

The United States has a very definite interest in promoting multilateral trade and the free convertibility of currencies on which multilateralism depends. For example, in 1937, although our total exports and imports, including services, almost balanced, our trade with individual countries was far from being balanced. We sold England more than twice as much as we bought from her, but we bought 50 percent more from Cuba than we sold to Cuba. We sold about \$2,640,000,000 of exports to 45 countries from whom we bought only \$1,560,000,000 of imports; and we bought about \$1,500,000,000 of imports from 43 other countries to whom we sold only about \$690,000,000 of exports. This is the normal pattern of multilateral trade.

Bilateralism would disrupt this pattern and would greatly reduce the volume of our foreign trade. If each of the countries with which we experienced an excess of exports in 1937 had conducted its trade with us on the basis of bilateralism, and had bought no more from us than it sold to us, our exports would have been reduced by more than \$1,000,000,000. Specifically, we would have lost more than \$100,000,000 of our exports to Canada, \$90,000,000 of our exports to France, and more than \$330,000,000 of our exports to England. Multilateralism was worth a billion dollars a year of exports to this country before the war. It will be far more important to us after the war.

The convertibility of currencies is the foundation on which multilateral trade rests. That is how countries use the proceeds of their exports to every country to pay for imports from any country. Because of our dependence on multilateral trade, the United States has a very great interest in securing agreement on the universal convertibility of all currencies. It has a special interest in the convertibility of sterling because a substantial portion of our trade is with countries that must pay for their imports from us out of the money they receive for their exports to England. Under the financial agreement, England would make sterling derived from exports and other current transactions convertible into dollars.

THE BRETTON WOODS INSTITUTIONS

During the war trade and exchange restrictions were intensified so that the greater part of world trade was subject to artificial controls. Many of the wartime restrictions were a necessary means of allocating resources to the most urgent needs. But wartime disruption of production and trade, and the creation of vested interests in continuing restrictions, have made it difficult for countries to get rid of these wartime devices. Time alone is not likely to bring about their removal. Temporary restrictive currency and trade practices, such as the sterling area exchange control system developed during the war, have a way of becoming permanent.

Beginning as early as 1941, this Government began making plans for international cooperation for restoring currency systems and removing exchange barriers when the war is over. These plans eventually became the basis for the world fund and bank agreements prepared by the United Nations Monetary and Financial Conference at Bretton Woods.

The reconstruction of the war-torn areas of Europe and Asia and the restoration of normal trade among nations is of urgent importance for the realization of our international economic objectives. The International Bank will be the principal agency for making long-term loans for reconstruction and development with private capital in those cases in which the funds cannot otherwise be obtained on reasonable terms. The International Bank provides a means by which the risks as well as the benefits from international lending will be shared among a large number of countries instead of by the principal lending country alone. The bank, however, will probably not begin operations on a substantial scale until 1947. Pending the full operation of the International Bank, the Export-Import Bank has been making loans to meet the immediate and minimum needs for reconstruction loans.

The 39 countries which have become members of the International Monetary Fund have undertaken to remove their currency restrictions on current international business after the postwar transition period. Although it will be several years before some members will be able to remove exchange controls as prescribed by the fund agreement, the fact that the bulk of the nations of the world have agreed to pursue these policies is a vital step in the direction of universal liberal trading practices. Of great importance also are the prohibition of competitive currency depreciation and the provisions which the fund makes for stability and order in the exchange markets of the world. In effect, the fund outlaws the currency devices used in economic warfare.

TRADE AGREEMENTS

Currency restrictions are by no means the only barriers to the flow of international commerce. The policy of the United States includes cooperation with other countries for the reduction of tariffs and tariff preferences, import quotas, and other restrictive and discriminatory interferences with trade. In section 14 of the Bretton Woods Agreements Act, it was stated by Congress that—

> * * * it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the extansion and balanced growth of international trade and promote the stability of international economic relations.

In order further to implement this general policy, the Department of State in December 1945 published Proposals for the Expansion of World Trade and Employment to provide a basis for discussion at a United Nations conference on world trade and employment. The proposals suggest the establishment of an International Trade Organization which would serve as a permanent organization for international cooperation for the solution of international trade problems and for establishing fair trade practices. The Secretary of State has informed the committee that any commitments by the Government on the trade proposals will be within the limits of the present authority granted by Congress. He added that—

the executive branch of the Government has neither the power nor the desire to exceed the existing limits of its authority, and the approval of Congress will be sought, as it has been in the past, before commitments are made to other countries beyond the scope of present congressional authorizations.

THE FUTURE OF OUR FOREIGN ECONOMIC PROGRAM

The fund and bank, together with the proposed International Trade Organization, provide the basic structure for the implementation of our foreign economic program. The fund agreement recognizes that some countries might not be able at once to remove their wartime currency restrictions and to apply the rule of nondiscrimination. It was provided, therefore, that members whose economies were severely affected by the war may postpone for a period of as long as 5 years application of the provisions on exchange restrictions and discriminations.

The principal country which will find great difficulty in removing wartime currency and trade devices is Great Britain. The British problem is especially serious because of the important position of Britain and of the pound sterling in the world economy. In fact, the successful realization of our objectives is so dependent upon the removal of the present restrictions on the convertibility of the pound sterling that we cannot afford to wait 5 years for the end of the transition period. The credit under the financial agreement will make it possible for Britain to remove within a year her wartime restrictions on the convertibility of sterling derived from current trade, thereby eliminating the most important barrier to the realization of our international economic objectives.

II. The Importance of Britain to Our Economic Program

The special financial and economic difficulties with which England is faced at the present time have placed the entire international economic program of the United States in jeopardy. England has an important place in the world economy. Her economy is geared to world trade to a degree unequaled by any other nation of comparable size. England is the world's greatest importer, accounting before the war for about one-fifth of the world's imports. But Britain's influence extends far beyond her own trade. The countries having close trade and currency relations with Britain together account for 55 percent of world imports and nearly 50 percent of world exports.

INCONVERTIBILITY OF STERLING

The most important link between these countries, which make up the so-called sterling area, and Britain is the fact that their currencies are tied to sterling. All of the countries of the British Empire, with the exception of Canada and Newfoundland, plus certain other countries having close economic and political ties with Britain have for many years kept the bulk of their monetary reserves in the form of sterling balances and short-term sterling obligations. Before the war sterling could be used by these countries to buy goods all over the world—in the United States, Canada, or Latin America. For example, if Australia, which is a member of the sterling area, wanted to buy cotton in the United States, it sold sterling for dollars and used the dollars to pay for American cotton. In other words, sterling was freely convertible into dollars at the will of the holder.

The prewar sterling area was in no way a hindrance to trade. It served a useful function, much as the dollar area does today. But during the war Britain was forced to conserve her limited supply of gold and dollars, so she placed restrictions on the convertibility of sterling into other currencies. This meant that Australia could not use her sterling receipts to buy American cotton; but she could use the sterling to buy cotton in India or Egypt because these countries are also members of the sterling area. Thus, as long as sterling remains inconvertible, trade tends to be channeled within the sterling area and there is discrimination against American trade.

BLOCKED STERLING

During the war Britain financed the bulk of her overseas expenditure in sterling area countries by giving these countries sterling credits in exchange for the Indian rupees, the Australian pounds, the Iraqi dinars, and the other local currencies which Britain needed to buy supplies and pay her troops in these areas. England was unable to permit the countries holding these sterling balances to convert them into dollars except in very limited amounts for their most essential needs. Neither was she able to export goods during the war to enable the holders of sterling balances to use them for making purchases in England.

The funds spent by England accumulated, therefore, as blocked sterling balances, the aggregate amount of which is now over $14,000,000,000. Naturally, the sterling-area countries and other countries which hold blocked sterling want to use the resources represented by these balances. But if England is not financially able to convert these balances into other currencies, she can only permit the balances to be used for the purchase of British goods as she becomes able to supply them. This would inevitably mean the exclusion of many American products from the whole sterling area.

THE STERLING AREA DOLLAR POOL

To further conserve foreign exchange, it has been the practice of sterling-area countries to turn over to the Bank of England the surplus of dollars which they receive in their trade with other countries in exchange for sterling. These dollar receipts go into the so-called sterling area dollar pool. The purpose of this arrangement was to mobilize the dollars of the Empire for the prosecution of the war and for meeting the most essential civilian needs. When a country in the sterling area needs dollars, it applies to London and, if the application is granted, it receives dollars in exchange for sterling. But in order to conserve dollars, no funds are allocated to buy goods in the United States if they can be sured in a sterling-area country. This inevitably means a channeling of trade within the sterling area and discrimination against American producers.

RESTORING THE CONVERTIBILITY OF STERLING

If these wartime measures are continued by England, it is evident that the vast bulk of the world's trade cannot be on a multilateral basis. Britain does not want to maintain her wartime currency restrictions, but she is forced to maintain them because she lacks the gold and dollar resources to permit the convertibility of her currency. If Britain fails to obtain assistance from the United States and Canada, there remains but one course open to her. She will have to continue and extend the sterling area economic bloc, paying for her imports with pounds which are good only for purchases in the sterling area. Without the financial agreement, England will undoubtedly seek to draw as much of the world's trade as possible within the network of the sterling bloc. Such a development would not be to Britain's interest as compared with the restoration of multilateral trade. But it would be Britain's only recourse in order to survive.

If Britain is forced to solve her economic problem by means of a British economic bloc, the pattern of world trade for the future becomes clear. The International Monetary Fund would be unable to function and the major trading countries of the world would be divided into competing economic blocs. If, on the other hand, Britain secures the assistance needed to make sterling convertible, she will be able to cooperate with us in the realization of the basic objectives of the Bretton Woods agreements. With the dollar and the pound interconvertible, there is every reason to hope that all countries will join in the United Nations economic program and world trade will not be strangled by the existence of competing economic blocs. The loan to Britain is therefore fundamental to the success of the Bretton Woods institutions and to the realization of our own international economic and political objectives.

UNITED STATES TRADE WITH BRITAIN AND THE STERLING AREA

The United States has a special interest in having the restrictions on sterling removed. England and the countries closely associated with her are our largest customers. Nearly half of our total exports and imports in the years 1936–38 went to the countries of the sterling area and to the countries with which Britain has bilateral payments agreements. Without this trade our whole program for maintaining high levels of production and employment in the postwar years would be seriously affected.

If England is forced to organize her postwar trade within an extended sterling-area economic bloc, the consequences for American foreign trade will indeed be serious. England will continue to purchase goods with sterling which is expendable only within the sterling economic bloc. After a few years of these expedients we would find a change in the whole pattern of world trade—a change which will be to the disadvantage of American industry and agriculture. We might find a large expansion of acreage devoted to cotton in India and Egypt. British tastes in tobacco may shift from American to Empire types. And American fruits on British tables may be replaced by apples from Australia and oranges from the Middle East. The fact that the United States can produce these commodities to better advantage will matter little when trade is on a barter basis.

The consequences of the formation of a British economic bloc will not be confined to a reduction in our trade with the sterling area. Canada, which normally has a deficit in her balance of payments with the United States, settles this by converting into dollars the sterling which she receives in payment for her exports to Britain. With sterling no longer convertible into dollars, Canada will be forced to reduce her purchases from the United States. The same situation is true of the British Dominions and several European countries. If sterling remains inconvertible, these countries will have to look elsewhere for the commodities which they formerly obtained in our markets.

BRITAIN'S NEED FOR FINANCIAL ASSISTANCE

A principal consideration which led to the negotiation of the financial agreement was the fact that Britain would not be able to cooperate with our plans for expanded multilateral trade unless she could secure help in the form of free foreign exchange—United States dollars and Canadian dollars.

Before the war the British people were able to earn enough foreign exchange from their exports and services to pay for their imports. During the war, it was both impossible and inadvisable to achieve such a balance. It was essential to the war strategy of the United Nations that every available laborer and factory in Britain be diverted to production for war. That this would entail a severe reduction of Britain's exports—and consequently of Britain's ability to earn enough to balance her current international accounts—was considered a secondary matter. The primary concern was to win the war.

The British war needs from abroad were met in part by lend-lease and mutual aid, and in part by substantially reducing both the standard of living and the foreign investments of the British people. In spite of lend-lease and mutual aid, the British people had to get along with about one-quarter less goods during the war than in 1938. In addition, they disposed of a considerable part of their gold reserves, sold about 4½ billion dollars' worth of foreign investments, and borrowed more than $13,000,000,000, mainly by paying in sterling, in order to cover foreign expenditures which could not be avoided. Altogether, the international financial position of Britain deteriorated by more than $17,000,000,000 between September 1939 and December 1945.

It was fully anticipated that these sacrifices would so disrupt Britain's economy that it would take some years to restore her position after the war had been won. But this, too, had to be considered a matter of secondary concern. The wartime anticipations have now become realities. The most urgent British problem is to expand exports, not only to the prewar volume, but enough beyond that volume to make up for the decline in her other sources of overseas income. British reconversion has been encouragingly rapid, but it will be some time before British exports have been increased enough to pay for her imports. This means that Britain must somehow borrow enough to cover her essential import needs during the transition period.

Britain is faced with the alternative of either borrowing convertible currencies or of making payments in the form of additional blocked sterling balances. The British choice between these alternatives is of vital importance to the United States. If Britain continues the wartime procedure of borrowing in sterling, she must also continue the wartime controls which accompanied the accumulation of $14,000,000,000 in the form of sterling obligations. This form of borrowing cannot provide Britain with the dollars she needs for making purchases in the dollar area. Nor can it solve the problem of the many countries which normally finance their imports from the United States and other dollar-area countries with the proceeds of their exports to Britain.

If Britain is forced to do her borrowing in terms of sterling it will mean that British exchange and trade controls will have to be prolonged and intensified in order to protect the precarious position of sterling. Beyond that the countries which normally finance their imports from the United States by converting into dollars the sterling received for their exports to Britain will have to impose similar trade and exchange controls in order to meet the problem of their own shortage of convertible currencies. Because of the effects of these measures upon the American economy, this Government was determined to secure an agreement with England for the prompt termination of the wartime restrictions on current transactions.

THE WASHINGTON NEGOTIATIONS

Representatives of the United Kingdom and the United States met in Washington soon after the defeat of Japan, and entered into comprehensive discussions to explore the possibility of cooperation in promoting a postwar international economic program which would yield the highest benefits to the two negotiating countries, and to the world as a whole. Among the subjects discussed was the British need for financial assistance from abroad, and the bearing of this problem upon British currency and trade restrictions.

In these financial discussions, the United States was represented by the Secretary of the Treasury, the Secretary of Commerce, the Assistant Secretary of State, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Directors of the Export-Import Bank. It appeared to the American representatives that the United States had a vital interest in the course Britain would choose. The financial agreement was intended to make it possible for Britain to abolish promptly her wartime currency and trade controls and to participate fully in the United Nations program for international economic cooperation.

The financial agreement provides for a credit which, while not excessive in view of the tremendous problem with which Britain is faced, is nevertheless sufficiently large to establish confidence in the convertibility of sterling. Together with the credit of 1,250 million Canadian dollars which the Canadian Government has offered to extend, the proposed credit of $3,750,000,000 from the United States will be sufficient to tide Britain over the transition period. The loan is designed to make it possible for Britain to undertake the commitments necessary for her full cooperation in the United Nations program for an expanding international economy.

The commitments made by Britain in connection with the financial agreement may be summarized briefly as follows:

1. Exports of goods and services from the United States to England will be paid for in dollars, or if they are paid in pounds, the sterling

can be converted into dollars. This is particularly important to the American companies which in the past have experienced considerable difficulty in getting their earnings out of England. They will now be able to get dollars. That means, for all practical purposes, American businessmen can be just as sure of payment for their current claims in England as they were before the war.

2. Within a year, unless in exceptional cases the United States agrees to a later date, England will make all sterling arising from current trade convertible. England will thus return to the free use of sterling in international trade that she permitted before the war. For example, if Mexico and Egypt export goods to England they will be able to use the money they get to buy goods in any country. That means they could convert the sterling into dollars and buy goods in the United States.

3. Within a year, unless in exceptional cases the United States agrees to a later date, England will dissolve the sterling area dollar pool. Each country in the sterling area will again have complete freedom to use its dollars as it wishes. For example, the money India gets for its exports to the United States and Latin America could be spent here without getting an allocation of dollars from England. That means India could use the dollars she gets to buy American machinery instead of being forced to buy English machinery.

4. The blocked sterling balances will be settled by England and the countries concerned. All payments on these balances now or later will be free for making purchases in any country, including the United States. This large debt will not be used to exclude American products from the sterling area, or to put our exporters at a disadvantage in competition with British exporters. England will not force the countries holding $14,000,000,000 in blocked sterling to buy British instead of American goods.

5. England's import controls will be administered in a manner which does not discriminate against American products. If England finds it necessary to impose a quantitative limitation on her imports this will be applied on an equal basis toward all countries. That means England will not keep out American cotton and tobacco, grains and meats, fruits and nuts, or any of our industrial products, in order to buy these same goods in other countries.

6. Within a year, unless in exceptional cases the United States agrees to a later date, England will impose no restrictions on payments and transfers for ordinary current transactions. In effect, all of the countries that have payments agreements with England will be permitted to use the proceeds of their sales to England to buy goods in other countries. They will be allowed to use the sterling they acquire in this way to buy American products on the same basis as they are able to buy British products.

In addition, England has agreed that she will support the American proposal for an international trade organization to reduce trade barriers and eliminate trade discriminations. Thus, England gives wholehearted support to our policy of expanded trade, with all countries having access to world markets on fair and equal terms. England's support of our proposal goes a long way to assure the success of the United Nations trade conference to be held later this year, or early next year.

III. Analysis of the Financial Agreement and the Senate Joint Resolution 138

(The text of the financial agreement appears on p. 22.)

Section 1 provides that the effective date of the agreement shall be the date on which the United States Government notifies the Government of the United Kingdom that the Congress has made available the funds necessary to extend the line of credit provided for in the agreement. The obligation of Britain to relax her wartime trade and exchange controls takes effect at once or within 1 year of the date on which Congress implements the agreement.

AMOUNT AND PURPOSES OF THE CREDIT

Section 2 stipulates the amount and the manner in which financial assistance will be extended. It is provided that the Government of the United States will open a line of credit of \$3,750,000,000 which may be drawn upon by the Government of the United Kingdom at any time between the effective date of the agreement and December 31, 1951.

The provision for a line of credit, rather than a loan, means that the funds will be advanced only as they are needed. This is the first of three provisions placed in the agreement in order to assure that the interests of the United States would not be prejudiced if British reconversion should proceed at a faster rate than could be anticipated immediately after the termination of hostilities.

Section 3 provides that the credit will be made available to facilitate purchases by the United Kingdom of American goods and services, to assist the United Kingdom to meet transitional postwar deficits in her current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars, and to assist the United Kingdom to give effect to her commitments under the agreement for the reduction of wartime trade and currency controls.

REPAYMENT OF THE CREDIT

Section 4 provides that the principal of the credit shall be repaid in 50 annual installments beginning on December 31, 1951. Interest shall be paid at 2 percent a year, beginning on December 31, 1951. If the full amount of credit is drawn, the United Kingdom will be required to make annual payments of \$119,000,000 in principal and interest.

Section 5 provides that the interest charges—but not payments of principal—can be waived in any year in which the annual average of Britain's receipts from exports and net receipts from services to foreigners over the five preceding years is insufficient to pay for the same volume of imports as the British bought in the years 1936 to 1938. In calculating British receipts and payments, any releases or payments on account of sterling balances in excess of approximately \$175,000,000 a year cannot be counted as a deduction from net income from services, and therefore, cannot be used as a basis for requesting a waiver of interest. The interest payment will not be waived, however, unless, in addition to the circumstances described in the following paragraph, it is found that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of Britain's gold and foreign-exchange reserves.

The provision for waiver of interest is intended to prevent severe pressure on the foreign exchanges and new restrictions upon trade if a world depression should occur. This provision will become effective only if there is a depression of such intensity that imports for British consumption are reduced substantially below the prewar level, since after the war Britain will require a much larger volume of imports of raw materials, which will not be directly consumed by the British people. In the opinion of the committee it is wiser, in the event of a depression in world trade, to forego the interest due in such a year and accept payment of the principal. When the trade depression passes, payment of interest would be resumed.

RELATION TO OTHER OBLIGATIONS AND CREDITS

Section 6 provides that the proposed line of credit cannot be used to discharge the present obligations of the United Kingdom. Such sums as are necessary for releasing or repaying sterling balances or loans which other governments extended to the United Kingdom must be found from resources other than the proposed credit. This section provides in addition that the United Kingdom will not borrow from other British Commonwealth governments before the end of 1951 on terms more favorable to the lender than those contained in the financial agreement, and that no waiver of interest on the proposed credit will be requested unless similar waivers or reductions are made with respect to other British Commonwealth obligations.

The provisions of section 6 supplement those of section 2 to insure that the interests of the United States will not be prejudiced in case the British reconversion proceeds at a more rapid rate than was anticipated. Since the United Kingdom cannot use the proposed credit for the payment of existing debts, and since no other credit can be more expensive or unfavorable to the British than the American credit, it is probable that, if the amount of money needed to finance the British deficit is smaller than was anticipated, the British will be inclined to reduce their drawings from the American credit rather than from other credits. Furthermore, they will not be able to take advantage of any improvement in their position by drawing upon the American credit in order to repay other loans.

DISSOLUTION OF THE STERLING AREA DOLLAR POOL

Section 7 provides that unless in exceptional circumstances the United States, after consultation, agrees to a later date, the United Kingdom will dissolve the sterling area dollar pool within 1 year after the effective date of the financial agreement. The result will be that each member of the sterling area will be able to dispose of its current receipts of sterling and other currencies in any manner it wishes.

CONVERTIBILITY OF STERLING INTO DOLLARS

Section 8 provides that the United Kingdom will not at any time after the effective date of the agreement apply exchange controls in such a manner as to restrict either (*a*) payments or transfers arising out of United States exports to Britain or other current transactions between the two countries, or (*b*) the use of sterling balances which American residents acquire out of current transactions. It is further provided that within 1 year after the agreement becomes effective neither Government will impose any restriction on current payments.

This section achieves one of the major goals of American postwar economic policy. It advances, probably by a period of several years, the entry into force of those provisions of the International Monetary Fund which provide that currencies are to be convertible for making payments arising out of current transactions. Without this provision of the financial agreement, the United Kingdom would be permitted to limit the convertibility of sterling throughout the entire transitional period. This section, by anticipating the full application of the provisions of the International Monetary Fund, will restore at an early date the postwar multilateral trading system under which many countries of the world finance their imports from the United States by selling their products to Britain and converting the sterling into dollars.

NONDISCRIMINATION FOR AMERICAN EXPORTS

Section 9 reflects the realization that in spite of the assistance which will be rendered by the proposed credit and credits by other governments, the United Kingdom will be forced throughout the transition period to impose some restrictions upon the importation of foreign goods. This section provides, however, that the United Kingdom will not use its quantitative import controls in such a manner as to discriminate against American products.

SETTLEMENT OF BLOCKED STERLING BALANCES

Section 10 provides that if any funds are released or repaid on account of any settlement which the United Kingdom may arrive at with respect to the sterling balances held by any countries of the world, such releases or payments shall be made in freely convertible currency. The two Governments did not arrive at any agreement for the settlement by the United Kingdom of the sterling obligations incurred during the war, since this is a matter for negotiation between the United Kingdom and the several creditor countries involved.

The agreement does contain a statement which announces the intention of the United Kingdom to arrive at settlements of the sterling balances. The settlements, which must necessarily vary from country to country, will be on the basis of dividing the accumulated balances into three categories: (*a*) Balances to be released at once and convertible into any currency for current transactions, (*b*) balances to be similarly released by installments over a period of years beginning in 1951, and (*c*) balances to be adjusted as a contribution to the settlement of war and postwar indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.

It is not of great importance to the United States how a final settlement of the blocked sterling balances is made between England and the countries holding such balances. What is important to the United States is to have any payments made on the blocked balances free for use in making purchases in the United States. This interest is fully safeguarded in the financial agreement.

NO CHANGES TO BE MADE WITHOUT CONGRESSIONAL ACTION

Section 11 defines the terms used in the agreement. Section 12 provides that consultation upon the agreement may be undertaken, with the understanding that any proposed change in the provisions will have to be submitted to the Congress of the United States and to the British Parliament, before it can become effective.

ANALYSIS OF SENATE JOINT RESOLUTION 138

The joint resolution authorizes the Secretary of the Treasury to carry out the Anglo-American financial agreement of December 6, 1945, including the extension of a line of credit to the United Kingdom in the amount of $3,750,000,000 and further authorizes the Secretary of the Treasury to use funds for that purpose from the proceeds of securities sold under the provisions of the Second Liberty Bond Act, as amended. Payments to the United Kingdom and repayments to the United States would be treated as public debt transactions.

This method of financing has been commonly used in the past and is particularly appropriate when money is raised for the purpose of investment rather than for expenditure. The Bretton Woods Agreements Act of 1945, and the Export-Import Bank Act of 1945 are instances in which the proposed method of financing have been used in the recent past. The same method has been used in connection with the Home Owners' Loan Corporation, the Reconstruction Finance Corporation, the United States Housing Authority, the Federal Farm Mortgage Corporation, the Federal Deposit Insurance Corporation, the Tennessee Valley Authority, and the Commodity Credit Corporation.

Upon enactment of the joint resolution, the Treasury would establish on its books a record to the effect that it is authorized to engage in a public debt transaction to the extent of $3,750,000,000 and would open a line of credit to the Government of the United Kingdom for this amount. While the entire amount of the line of credit will be authorized for use by the United Kingdom at any time during a 5-year period, the actual funds will be provided only as they are needed.

Although the Second Liberty Bond Act, as amended, now provides that the proceeds from the sale of the securities issued under that act are available to meet expenditures for public purposes authorized by law, in order to avoid any possible misunderstanding, the joint resolution makes specific provision that the purposes for which the proceeds of any securities issued under that act may be used shall be extended to include the carrying out of the financial agreement.

IV. TESTIMONY BEFORE THE COMMITTEE

The committee heard testimony extending over 4 weeks from Government officials, various non-Government groups, and individuals in their own behalf. The witnesses were subjected to close interrogation by members of the committee and much valuable information and opinion was obtained thereby. In addition to oral testimony, numerous written statements were filed with the committee. Testimony both for and against the joint resolution was received.

GOVERNMENT TESTIMONY

For the Government, the committee heard testimony from the Honorable Fred M. Vinson, Secretary of the Treasury: the Honorable William L. Clayton, Assistant Secretary of State; the Honorable Henry A. Wallace, Secretary of Commerce; the Honorable Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System; and the Honorable William McC. Martin, Chairman of the Board of Directors of the Export-Import Bank. These officials, who as a group constitute the National Advisory Council on International Monetary and Financial Problems, carried on the negotiations for the financial agreement on behalf of the United States. Each testified to the soundness of the agreement and assured the committee that the agreement is vital to the interest of the United States and would constitute a valuable contribution to world peace and prosperity through the furtherance of world trade on a fair and equal basis. Extensive data were inserted in the record of the hearings to support these contentions.

The Secretary of the Treasury, Mr. Fred M. Vinson, presented in detail this Government's program of international economic cooperation. In urging approval of the joint resolution, he said:

> The financial agreement with England is an essential part of our whole program of international economic cooperation. This program of the United Nations is concerned with some of the most important problems of everyday life. How we meet these problems will determine in large part whether the United States and the world will again go through devastating cycles of war and depression or whether at long last we realize the hope for peace and prosperity.

The Assistant Secretary of State, Mr. William L. Clayton, discussed the importance of the financial agreement to American prosperity. He said:

> We believe that it is a policy that is greatly in the interest of the United States and of the world. It is said that peace is indivisible. It may also be said that prosperity is indivisible, and we do not believe that we can very long go, in the world, in the position, you may say, of a kind of island prosperity, surrounded by a sea of devastation and prostration in the world, caused by the war, and that it is in our interest to try to help correct that situation.

Secretary Wallace pointed out that world economic peace and cooperation are dependent on world recovery. He said:

> The financial agreement before this committee is another and important step in promoting world recovery. Great Britain still occupies a key position in world trade. Its recovery from the effects of war is an essential and integral part of world recovery. Unless its recovery can be expedited, world recovery will lag.

Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, analyzed the British need and the United States' ability to extend the credit. In conclusion, he posed the alternative to making the loan:

> As you know, Britain is the largest market in world trade so that her commercial and exchange practices have a very great influence on the rest of the world. Traditionally she has tended to follow liberal trade principles. If we refuse this loan, however, she could hope to maintain her essential imports only by making a desperate bid for domination in world markets. She would be forced to intensify the restrictive and belligerent currency and trading practices born during the years of war and depression. In order to exploit to the full her advantage as the world's leading importer, she would have to turn increasingly to state trading and barter. A large part of the rest of the world would be forced into the same pattern and free enterprise in foreign trade would be strangled. Along this road lies further totalitarian development.

NONGOVERNMENT TESTIMONY

The Honorable Charles S. Dewey, vice president of the Chase National Bank, formerly a member of this committee, gave testimony in favor of the joint resolution. He said:

> I do not believe that this country can live alone, a free-enterprise state, in a world of state-controlled economies. I feel sure that no matter what may be the political color of the administration, it would be forced to make foreign treaty arrangements in contradiction to our concept of free competitive enterprise. That is my main reason for believing that the British loan agreement transcends most objections. It is about our last opportunity to help the bilateral countries out of their dilemma and have them rejoin us in our policy of free enterprise and the unhampered flow of world goods.

Mr. William K. Jackson, president of the Chamber of Commerce of the United States, filed a written statement with the committee in support of the joint resolution. Mr. W. L. Hemingway, president of the Mercantile Commerce Bank & Trust Co., of St. Louis, Mo., and Mr. Randolph Burgess, vice chairman of the board of directors of the National City Bank of New York, appeared on behalf of the American Bankers' Association and gave oral testimony in favor of the joint resolution.

The committee also heard testimony from Mr. Russell Smith, legislative secretary of the National Farmers Union; Mr. Herbert E. Stats, Foreign Trade Foundation; Mr. Justice Owen J. Roberts; and Mr. Eugene Meyer.

Mr. Eric Johnston, president, Motion Picture Associations of America; Mr. Ralph E. Flanders of the Committee for Economic Development; Mr. Eugene P. Thomas, chairman of the board of directors, National Foreign Trade Council; and Mr. Edward A. O'Neal, of the American Farm Bureau Federation, filed statements with the committee in support of the joint resolution.

Statements favoring the joint resolution were also filed on behalf of Mr. Philip Murray, president, Congress of Industrial Organizations, and Mr. William Green, president, American Federation of Labor.

The record contains a list of about 70 organizations of businessmen, bankers, farmers, workers, and civic, church, and peace groups which are supporting the financial agreement. In addition, letters, statements, and resolutions favoring the passage of the joint resolution were received from the following organizations: The Banker's Association for Foreign Trade; the St. Louis Chamber of Commerce; the National League of Women Voters; the American Veterans' Committee; the Texas Cotton Association; Detroit Board of Commerce; Commission on World Peace of the Methodist Church; Americans United for World Government; National Women's Trade Union League of America.

TESTIMONY OF THE OPPOSITION

Mr. Hamilton Fish, of New York; Mr. John B. Trevor, of the American Coalition; Mr. Carl H. Wilken, Raw Materials National Council, Sioux City, Iowa; and Miss Gertrude M. Coogan, Chicago, Ill., appeared in opposition to the joint resolution and gave oral testimony. Mr. Jesse Jones, of Texas, filed a written statement opposing the joint resolution.

V. Some Criticisms of the Loan

The committee has examined the principal objections to the financial agreement and believes that these objections are minor in character and are clearly outweighed by the advantages. A few of the criticisms are considered below.

WILL ENGLAND REPAY?

One argument which has been made against granting the loan to Britain during the course of the hearings is that Britain will not repay the loan. It has been stated that Britain's failure to pay her World War I debt to us is evidence both of her unwillingness and inability to repay a debt of comparable size.

In the opinion of this committee nothing in the long history of our relations with England gives evidence of her lack of good faith in meeting her financial obligations. England made payments on her World War I debt to us until 1931 when President Hoover proposed that payments be suspended on war debts for 1 year. Altogether the United States loaned to England $4,277,000,000 between April 1917 and July 1919, and, on this amount, Britain paid us a total of $2,034,848, 817. Because of the world-wide depression and the sharp reduction in United States imports and foreign investments, England was unable to resume payment on the debt after 1931.

The bulk of Britain's World War I debt to us was contracted for the purpose of obtaining munitions and other supplies for the prosecution of the war. Only $581,000,000 of our assistance was supplied after the conclusion of the war and can be considered to have been for reconstruction. During World War II, Britain's expenditures for war in this country were handled under lend-lease and the supplies which she used for war purposes were written off in the lend-lease settlement. The loan which is now being proposed is for productive purposes and will be a vital factor in the rapid restoration of England's production for export and, hence, in her ability to make foreign payments.

During the course of the negotiations on the financial agreement careful attention was paid by the technical experts of both countries to England's ability to repay the loan. Total annual payments of interest and principal on the $3,750,000,000 loan and the $650,000,000 lend-lease settlement will amount to less than 3 percent of Britain's foreign-exchange receipts after 1951 provided her export goals are realized. If reasonably good conditions prevail in world trade by 1951, when the initial payment becomes due, England's foreign-exchange receipts should be large enough to enable her to make payments of interest and principal without difficulty.

In the last analysis, England's ability to meet the payments on this obligation will depend upon the successful realization of our international economic objectives with which the loan is intimately related. The committee believes that the establishment of the world fund and world bank and of the proposed International Trade Organization will help prevent another break-down in world trade. If we succeed in maintaining a high level of world trade, there can be little question as to the ability of England to meet her obligations under the loan.

CAN THE UNITED STATES AFFORD TO MAKE THIS LOAN?

The criticism has been made that the United States can ill-afford to make this loan because we are already burdened with a large deficit and high taxes. It is true that the public debt of the United States is large and taxes are high, but it is not real economy to forego urgent measures that promote economic stability and high levels of income and employment. It must be remembered that the burden of tax payments is much less severe when it fails upon an economy of high incomes and full employment. The loan to Britain will add less than 1½ percent to the total debt of the United States, while, at the same time, it will help reestablish normal American markets all over the world. It is the view of the committee that these objectives are worth the amount of the loan even if we never received a dollar in repayment.

Actually, the loan is an investment and not an expenditure. It can add to the burden of the American taxpayer only if interest payments prove to be less than the cost of borrowing by the United States Treasury. Interest payments begin in 1951 and are 2 percent annually. The effective rate of interest, assuming the credit is used in five equal annual installments between now and the end of 1951, and all payments are met, would be 1.83 percent. This is reasonably comparable to the cost of borrowing money to our Government. Provided that England is able to maintain her overseas receipts from exports, shipping, and other sources at a reasonable level in the postwar period, she will not find it necessary to ask for a waiver of interest payments.

The value of this investment, however, cannot be measured in terms of exact profit and loss calculations. If the loan succeeds in its primary purpose of making it possible for England to cooperate with us in laying the economic foundations of peace, the real value of the investment will be incalculable. The agreement will affect the income of our workers and farmers and the profits of our business enterprises. It will manifest itself in the Federal Treasury in the form of larger tax receipts based on more business. The committee believes that the United States can afford such an investment in world peace and prosperity.

ISLAND BASES

During the hearing, a proposal was made that the United States should require the United Kingdom, as a condition of the loan, to transfer the fee-simple title to the island bases now held by the United States under 99-year lease. Other proposals have urged that sovereignty over the islands themselves be transferred to the United States.

Our 99-year leases do not expire until the year 2040. Hence, until that time, the bases are fully available to the United States for the purposes of defense. The Joint Chiefs of Staff have reported to the President and the State Department that so far as can be foreseen, the present tenure held by the United States is sufficient for our needs. Recently, the United Kingdom Government has granted a modification of the lease agreement to permit the use of the bases for civil aircraft.

The financial agreement has no relation to the question concerning the acquisition of bases for military or civil purposes. It is based exclusively on financial considerations. To attempt to insert a settlement concerning the bases into the financial agreement would open such a number of unrelated questions that no agreement could be reached. Like the question of financial relations between the United States and the United Kingdom, the question of bases should be settled separately and an agreement for that purpose should stand on its own feet.

IS THE LOAN INFLATIONARY?

There are some who have opposed the loan on the grounds that it will prove to be inflationary. This committee considers the danger of inflation to be one of the most serious problems now confronting this country. Nevertheless, it believes that the problem cannot be significantly affected by the credit to Britain. The additional inflationary pressure which may result from the credit must be weighed against the long-term benefits of the credit and the great loss which will certainly accompany the failure of our broad international economic objectives.

The expenditure of the credit of $3,750,000,000 will be spread over the next 3 to 5 years. Assuming that one-third of the loan is spent during the next 12 months, the additional expenditure will amount to less than 1 percent of the total demand for goods and services in the United States. Moreover, we still maintain control over the export of goods in short supply for the protection of our domestic economy.

The one solution to the inflation problem is to restore production and trade to meet the demand for goods. This credit will help remove the barriers to trade all over the world. It will encourage production in this country and abroad. In this way, it will be a factor in offsetting inflation.

A LOAN SECURED BY BRITISH ASSETS IN THE UNITED STATES

The criticism has been made that the loan to Britain is "unbusinesslike" because it is held that long-term loans should not be made without adequate security. It has been proposed, therefore, that we lend Britain an additional billion dollars on the basis of the same collateral now held by the RFC against its present loan to Britain. In addition, it is proposed that the RFC make further loans to the United Kingdom on the security of British investments and operations in this country, up to the earning value of the securities, with all loans being made at 2 percent interest. It is also proposed that we supply additional dollars to Britain through the purchase of critical materials for stock piling from the sterling area. Finally, it is suggested that Congress authorize the sale of farm products and manufactured goods to Great Britain on credit terms.

The aggregate credits that would be provided under this suggestion is about 3¾ billion dollars, the amount in the financial agreement. The real difference is the requirement of some additional collateral, not really large in amount. The total value of British-owned securities and direct investments in the United States is estimated to be about $1,475,000,000, of which $895,000,000 is already pledged as security against the existing RFC loan. Under the above proposal, we would have an additional $600,000,000 as security for the loan to Britain.

In considering the merits of this proposal, it is the view of the committee that by putting the loan on a purely commercial basis we would not be able to obtain the same currency and trade arrangements with England which are embodied in the financial agreement. In fact, since a portion of the credit as proposed above would be in the nature of a tied loan, we would be encouraging bilateralism rather than multilateralism in world trade. Britain needs free dollars if she is to make sterling convertible. The primary purpose of the loan is to make sterling convertible and to remove at an early date certain other currency trade restrictions.

Under the financial agreement we do not get the $600,000,000 of additional collateral, but we get something far more important. We get a solemn commitment from the British Government to abandon wartime currency and trade restrictions which discriminate against our trade. We get a commitment from England to support our policy that the export markets of the world must be kept open to the exports of the United States and other countries on a fair and equal basis.

VI. Conclusion

The committee believes that the Anglo-American financial agreement is an essential part of this Government's program of international economic cooperation for high levels of world trade and prosperity. Unless the agreement is approved, much of the work that has already been done to help attain world peace and prosperity would be wasted and the objectives of the Government's international economic program would be delayed, if not completely lost.

The committee recommends, therefore, that the joint resolution to implement the financial agreement of December 6, 1945, between the United States and the United Kingdom be passed.

Financial Agreement Between the Governments of the United States and the United Kingdom

It is hereby agreed between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland as follows:

1. Effective date of the Agreement

The effective date of this Agreement shall be the date on which the Government of the United States notifies the Government of the United Kingdom that the Congress of the United States has made available the funds necessary to extend to the Government of the United Kingdom the line of credit in accordance with the provisions of this Agreement.

2. Line of credit

The Government of the United States will extend to the Government of the United Kingdom a line of credit of $3,750,000,000 which may be drawn upon at any time between the effective date of this Agreement and December 31, 1951, inclusive.

3. Purpose of the line of credit

The purpose of the line of credit is to facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional postwar deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars, and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements.

4. Amortization and interest

(i) The amount of the line of credit drawn by December 31, 1951, shall be repaid n 50 annual installments beginning on December 31, 1951, with interest at the rate of 2 percent per annum. Interest for the year 1951 shall be computed on the amount outstanding on December 31, 1951, and for each year thereafter, interest shall be computed on the amount outstanding on January 1 of each such year.

Forty-nine annual installments of principal repayments and interest shall be equal, calculated at the rate of $31,823,000 for each $1,000,000,000 of the line of credit drawn by December 31, 1951, and the fiftieth annual installment shall be at the rate of $31,840,736.65 for each such $1,000,000,000. Each installment shall consist of the full amount of the interest due and the remainder of the installment shall be the principal to be repaid in that year. Payments required by this section are subject to the provisions of section 5.

(ii) The Government of the United Kingdom may accelerate repayment of the amount drawn under this line of credit.

5. Waiver of interest payments

In any year in which the Government of the United Kingdom requests the Government of the United States to waive the amount of the interest due in the installment of that year, the Government of the United States will grant the waiver if:

(a) the Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of its gold and foreign exchange reserves *and*

(b) the International Monetary Fund certifies that the income of the United Kingdom from home-produced exports plus its net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936–8, fixed at £866 million, as such figure may be adjusted for changes in the price level of these imports. Any amount in excess of £43,750,000 released or paid in any year on account of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks before the effective date of this Agreement shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

6. Relation of this line of credit to other obligations

(i) It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the effective date of this Agreement will be found from resources other than this line of credit.

(ii) The Government of the United Kingdom will not arrange any long-term loans from governments within the British Commonwealth after December 6, 1945, and before the end of 1951 on terms more favorable to the lender than the terms of this line of credit.

(iii) Waiver of interest will not be requested or allowed under section 5 in any year unless the aggregate of the releases or payments in that year of sterling balances accumulated to the credit of overseas governments, monetary authorities, and banks (except in the case of colonial dependencies) before the effective date of this Agreement is reduced proportionately, and unless interest payments due in that year on loans referred to in (ii) above are waived. The proportionate reduction of the releases or payments of sterling balances shall be calculated in relation to the aggregate released and paid in the most recent year in which waiver of interest was not requested.

(iv) The application of the principles set forth in this section shall be the subject of full consultation between the two governments as occasion may arise.

7. Sterling area exchange arrangements

The Government of the United Kingdom will complete arrangements as early as practicable and in any case not later than one year after the effective date of this Agreement, unless in exceptional cases a later date is agreed upon after consultation, under which immediately after the completion of such arrangements the sterling receipts from current transactions of all sterling area countries (apart from any receipts arising out of military expenditure by the Government of the United Kingdom prior to December 31, 1948, to the extent to which they are treated by agreement with the countries concerned on the same basis as the balances accumulated during the war) will be freely available for current transactions in any currency area without discrimination; with the result that any discrimination arising from the so-called sterling area dollar pool will be entirely removed and that each member of the sterling area will have its current sterling and dollar receipts at its free disposition for current transactions anywhere.

8. Other exchange arrangements

(i) The Government of the United Kingdom argees that after the effective date of this Agreement it will not apply exchange controls in such a manner as to restrict (a) payments or transfers in respect of products of the United States permitted to be imported into the United Kingdom or other current transactions between the two countries or (b) the use of sterling balances to the credit of residents of the United States arising out of current transactions. Nothing in this paragraph (i) shall affect the provisions of Article VII of the Articles of Agreement of the International Monetary Fund when those Articles have come into force.

(ii) The Governments of the United States and the United Kingdom agree that not later than one year after the effective date of this Agreement, unless in exceptional cases a later date is agreed upon after consultation, they will impose no restrictions on payments and transfers for current transactions. The obligations of this paragraph (ii) shall not apply:

(*a*) to balances of third countries and their nationals accumulated before this paragraph (ii) becomes effective; or

(*b*) to restrictions imposed in conformity with the Articles of Agreement of the International Monetary Fund, provided that the Governments of the United Kingdom and the United States will not continue to invoke the provisions of Article XIV, Section 2 of those Articles after this paragraph (ii) becomes effective unless in exceptional cases after consultation they agree otherwise; or

(*c*) to restrictions imposed in connection with measures designed to uncover and dispose of assets of Germany and Japan.

(iii) This section and section 9, which are in anticipation of more comprehensive arrangements by multilateral agreement, shall operate until December 31, 1951.

9. Import arrangements

If either the Government of the United States or the Government of the United Kingdom imposes or maintains quantitative import restrictions, such restrictions shall be administered on a basis which does not discriminate against imports from the other country in respect of any product; provided that this undertaking shall not apply in cases in which (a) its application would have the effect of preventing the country imposing such restrictions from utilizing, for the purchase of needed imports, inconvertible currencies accumulated up to December 31, 1946, or (b) there may be special necessity for the country imposing such restrictions to assist, by measures not involving a substantial departure from the general rule of nondiscrimination, a country whose economy has been disrupted by war, or (c) either government imposes quantitative restrictions having equivalent effect to any exchange restrictions which that government is authorized to impose in conformity with Article VII of the Articles of Agreement of the International Monetary Fund. The provisions of this section shall become effective as soon as practicable but not later than December 31, 1946.

10. Accumulated sterling balances

(i) The Government of the United Kingdom intends to make agreements with the countries concerned, varying according to the circumstances of each case, for an early settlement covering the sterling balances accumulated by sterling-area and other countries prior to such settlement (together with any future receipts arising out of military expenditure by the Government of the United Kingdom to the extent to which they are treated on the same basis by agreement with the countries concerned). The settlements with the sterling-area countries will be on the basis of dividing these accumulated balances into three categories (a) balances to be released at once and convertible into any currency for current transactions, (b) balances to be similarly released by installments over a period of years beginning in 1951, and (c) balances to be adjusted as a contribution to the settlement of war and postwar indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement. The Government of the United Kingdom will make every endeavor to secure the early completion of these arrangements.

(ii) In consideration of the fact that an important purpose of the present line of credit is to promote the development of multilateral trade and facilitate its early resumption on a nondiscriminatory basis, the Government of the United Kingdom agrees that any sterling balances released or otherwise available for current payments will, not later than one year after the effective date of this Agreement unless in special cases a later date is agreed upon after consultation, be freely available for current transactions in any currency area without discrimination.

11. Definitions

For the purposes of this Agreement:

(i) The term "current transactions" shall have the meaning prescribed in Article XIX (i) of the Articles of Agreement of the International Monetary Fund.

(ii) The term "sterling area" means the United Kingdom and the other territories declared by the Defence (Finance) (Definition of Sterling Area) (No. 2) Order, 1944, to be included ni the sterling area, namely "the following territories excluding Canada and Newfoundland, that is to say—

(*a*) any Dominion,

(*b*) any other part of His Majesty's dominions,

(*c*) any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Majesty and is being exercised by His Majesty's Government in the United Kingdom or in any Dominion,

(*d*) any British protectorate or protected State,

(*e*) Egypt, the Anglo-Egyptian Sudan and Iraq.

(*f*) Iceland and the Faroe Islands.

12. Consultation on Agreement

Either government shall be entitled to approach the other for a reconsideration of any of the provisions of this Agreement, if in its opinion the prevailing conditions of international exchange justify such reconsideration, with a view to agreeing upon modifications for presentation to their respective legislatures.

Signed in duplicate at Washington, District of Columbia, this 6th day of December, 1945.

For the GOVERNMENT OF THE UNITED STATES OF AMERICA:

FRED M. VINSON,
Secretary of the Treasury of the United States of America.

For the GOVERNMENT OF THE UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND:

HALIFAX,
His Majesty's Ambassador Extraordinary and Plenipotentiary at Washington.

MINORITY VIEWS

We recommend that the so-called British loan be rejected by the House.

Loyal Americans began their appraisal of this proposal by first considering these two factors:

(1) What is our capacity now to indulge in another outpouring of American wealth?

(2) Are the American people, who must foot the bill, willing to give their consent to this loan, with all its financial, economic, and political implications?

The minority have been guided in their study and judgment of this proposal by these vital considerations.

From the standpoint of our own difficult fiscal condition, we believe this loan is an extremely questionable and dangerous undertaking. Our Government has had an unbalanced budget for 16 years. Our Federal debt has reached a total that is more than $600,000,000 for every congressional district in the country.

Even a faint sense of caution or prudence would dictate that foreign handouts now be interrupted long enough to demonstrate our capacity to carry our debts without wild inflation or ruthless regimentation.

Already there is in the hands of American people around one hundred fifty billion dollars of currency and bank deposits for which no goods are available. To prevent the price increases that might develop from a sudden demand to exchange those credits for goods, we are experiencing peacetime economic regimentation.

This Deal Ignores the Welfare of the American People

It will take generations for America to liquidate the human cost of the war, both in battle-front and home-front casualties. In that struggle we shall be faced by every sort of readjustment, including deep suffering and heart-rending privations.

There is a limit to the failures the American people can absorb. In our judgment, the approval of a gigantic loan to Britain before making adequate provision for these home-front problems, is unthinkable. Such a course would constitute a dangerous disregard of the prior claims of American war victims. Hand-outs abroad now are likely to precipitate ruinous inflation and social dissension at home.

Already foreign nations and aliens hold more than 20,000,000,000 for which they can demand American goods. To increase this purchasing power now by more loans, when most Americans cannot buy in the normal way a loaf of bread, a piece of meat, a pound of butter, or a keg of nails, seems irresponsible or worse.

A cool and sober appraisal of the American economic scene today discloses the desperate necessity for two constructive actions. First, we must reestablish our fiscal solvency. Second, we must liberate

American industry from regimentation. Unless these fundamentals of freedom are quickly recovered, our economic, political, and military power will be undermined.

The advocates of the British loan seem to build their case around six arguments, as follows:

(1) This loan will restore and expand world trade.

(2) This loan will turn Britain back from national socialism and encourage free enterprise in the sterling bloc.

(3) This loan is necessary to secure British participation in Bretton Woods.

(4) This loan, unlike other credits to Britain, will be repaid.

(5) This loan will permanently prop up England as a defense against the spread of communism.

(6) This loan will help the cause of international peace.

Let us consider these arguments individually.

1. This loan will restore and expand world trade

The pledges made in this loan agreement generally restate the promises by Britain in article VII of the master lend-lease agreement signed in 1941. Those 1941 pledges have turned out to be worthless.

But that repudiation does not mesaure the extent of the "Britain-First" actions of the United Kingdom.

Secretary Vinson testified before our committee that British barriers to American trade are higher now than when the war began. His testimony on this point indicates that the promises of lend-lease were not honored by Britain, even to the extent of preserving the status quo on international trade relationships.

The amount of lend-lease to the British Empire totaled about $30,000,000,000, of which $5,617,000 remained unconsumed in United Kingdom hands at the end of the war. Deducting reverse lend-lease, the net amount was over 24 billions. In the lend-lease agreement, Britain made these solemn covenants:

> * * * The benefits to be provided to the United States by the Government of the United Kingdom, in return for aid furnished * * * shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations * * *

It went on:

> * * * they shall include agreed action * * * directed to the expansion, by appropriate international and domestic measures, of production employment, and the exchange and consumption of goods * * *

Now get this:

> * * * to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers.

What were those pledges worth? Let the Senate Special National Defense Committee, in its report of March 22, 1946, give you that answer:

> If actual barriers to United States trade had been eliminated, and the United Kingdom had undertaken not to reestablish them or other new limitations to accomplish the same objective, then the immediate cancellation of the lend-lease credit balance in our favor could be said to have been exchanged for a direct or indirect benefit. This, however, was not the case. The consideration which we received was illusory.

Despite the aid of lend-lease and the pledges that accompanied it, British barriers to American trade today are higher and not lower. That is the factual result.

Unusual and unwarranted optimism is required to believe that England is to reverse the economic imperialism of centuries for four billions in peacetime, when 30 billions of help while she was at war failed to cause her to live up to almost identical pledges.

2. This loan will turn Britain back from national socialism and encourage free enterprise in the sterling bloc

This claim is wishful thinking. It runs contrary to every economic move in Britain today. An article in the conservative Barron's National Financial Weekly of May 20 gives a realistic answer to this claim:

> * * * As Socialists, the Laborites are determined to get control of the economy into the hands of the Government. They will use the national budget to that end; they will use government control of central banking (gained by nationalizing the Bank of England); they will use their scheme for controlling new borrowing in the capital market; and they will use nationalized industries—all to that basic end.
>
> * * * Coal, gas, and electricity are all on the fuel and power list. In transport railroads, road transport, canals, civil aviation, and docks and harbors are to be Government owned.
>
> Labor aims to place the keys to the economy in the hands of the State. Anyone who understands a modern economy knows perfectly well that with finance, transportation, fuel and power, and iron and steel in the hands of the State, it is in an unassailable position to control the economy * * *.
>
> * * * Free trade in the old, accepted sense of the word, will be just as impossible with Britain as with Russia * * *.

The claim that the gigantic British frozen sterling balances will be thawed out by this loan is likewise exploded by an honest examination of these accounts. Both the size of the accounts and the strategic position held by the larger creditors eliminate the hope that this loan will solve that problem. These still rising external liabilities will instead become a more complicated problem after the temporary relief provided by the loan is exhausted.

3. This loan is necessary to secure English participation in Bretton Woods

This claim seems to approach the infamous. Neither a hint nor a suggestion was made at the time Bretton Woods was under consideration that a gigantic loan would be demanded by Britain as a prerequisite to her participation in that pact.

In fact, the advocates of Bretton Woods went to great lengths to emphasize exactly the opposite conclusion. Again and again, Bretton Woods was recommended as an international financial instrument that would make direct loans to governments unnecessary and unwarranted.

How strongly this idea was sold to the Banking Committee is seen in the debate on the bill. The ranking minority member, Hon. Jesse Wolcott, declared on the floor of the House:

> * * * Let us take this thought home and think about it: If we participate in this fund, if we participate in the International Bank, if we increase the capital of the Export-Import Bank of Washington to $2,200,000,000, there will be no justification for the Treasury directly loaning to any foreign country one single dollar.
>
> Now, check the possible investment in the fund and bank against what did happen after the last war and what must surely happen in America if this fund

and this bank is not set up. Demands are going to be made upon the Federal Treasury for billions of dollars and the Congress of the United States is going to be asked to make available these billions for global rehabilitation and construction. So long as the assets of the International Bank and the Export-Import Bank of Washington hold out, there is no justification for the Treasury making any direct loans.[1]

The Bretton Woods participation argument now seems somewhat akin to a poorly concealed method of blackmail or bribery.

4. This loan, unlike its predecessors, will be repaid.

This argument can be disposed of quickly. The history of previous similar transactions does not indicate that the loan would ever be paid. We question the optimism of those proponents who can read the record of intergovernmental loans and reach a hopeful conclusion.

If we could afford the loan and if it would be helpful to America's future to make it, repayment could then be of secondary importance. We dismiss this aspect of the proposal both as of secondary importance and as a highly theoretical field of discussion, in view of past British defaults.

On the payment of interest, the late Lord Keynes, the chief British negotiator, declared in the House of Lords during the British debates, December 17 and 18, 1945:

We pay no interest for 6 years. After that we pay no interest in any year in which our exports have not been restored to a level which may be estimated at about 60 percent in excess of prewar. I repeat that. We pay no interest in any year in which our exports have not been restored to a level which may be estimated at about 60 percent in excess of what they were prewar * * * in volume.

The balm and sweet simplicity of no percent is not admitted, but we are not asked to pay interest except under conditions when we can reasonably well afford to do so * * *

5. This loan will permanently prop up England as a defense against the spread of communism

If this assertion were valid, it could constitute the most persuasive argument for the agreement. Unfortunately, neither the British situation today, nor the history of such efforts, warrants any hope that this loan can fulfill this claim of its sponsors.

We submit that the pronouncements of the chairman of the ruling British Labor Party are more authoritative concerning England's political course than the nostalgic outbursts of pleaders for special interests. Here is what Harold Laski, leader of the British Labor Party, has declared recently on this subject:

To those who say we have to choose—as I do not believe we have to choose—between the Soviet Union and the United States, with its passion for free enterprise which is not free and is not enterprise, we, the Labor Party, stand foursquare behind the Soviet Union.

An AP dispatch from Britain, dated June 11, 1946, contains information indicative of the road Britain is traveling:

BOURNEMOUTH, ENGLAND (AP).—Deputy Prime Minister Herbert Morrison told the annual British Labor Party Conference yesterday that nationalization of the vast chemical industry and of fishing, petroleum, and agriculture is being considered by the national executive committee.

The Deputy Prime Minister said he already had held private and off-the-record conversations with members of the Fabian Society looking toward bringing all four industries he mentioned into labor's platform for the 1950 general elections

[1] Wolcott, Jesse, House debate on Bretton Woods agreements, June 5, 1945, Congressional Record, p. 5668.

The Fabians, a Socialist society, include many leading Socialist thinkers and members of the Labor Government.

Nations are not helped toward free enterprise and liberty by foreign loans. English and French loans to other nations in Europe, including Germany, did not retard the spread of totalitarianism. As a matter of record, these loans strengthened in each case the hand of the central government—and thus contributed to the enslavement of the people and the spread of totalitarianism.

For genuine free enterprise and liberty itself to survive in England, it seems evident even at this distance that difficult economic and other readjustments must be made. We do not presume to make a diagnosis or prescribe the remedy. But certain it is that the social and economic upheaval which she is undergoing indicates some basic maladjustments which can be corrected only by internal measures.

We have taken part in two world conflicts in which we protected England's deteriorating commercial position. She should not expect the United States to permanently underwrite with our diminishing resources her Empire trade policies as we have twice undertaken. There are some deep conflicts between some of Great Britain's international, commercial, and other practices and our own.

This loan might give an economic shot in the arm to England temporarily.

But for England to become an effective counterattraction to communism, Britain must return to the highway of freedom. Freedom comes from vigor within, and not from hand-outs from without. Foreign help that accentuates the power of the ruling politicians does not represent genuine assistance to the long-suffering humble people of any country.

How American conservatives can swallow the claim that this loan will stop the left-wing march in England is impossible to understand. In the hearings, we sought to uncover some creditable evidence to support this claim. We found none.

Loaning money to politicians who do not believe in free enterprise and liberty has never yet helped the cause of freedom anywhere in the world.

6. This loan will help the cause of international peace

It is easy to make this assertion, but there is no creditable testimony to support it. As this transaction is a political loan under the doubtful label of a "special case," it is more apt to have the opposite effect.

The "special case" treatment of Britain seems almost deliberately calculated to create hostility and ill will. Nations that have not yet received American loans will, of course, resent the failure to receive hand-outs of proportionate size and similar terms. Those that have received loans will be offended by the more favorable terms given England.

The discrimination in treatment was disclosed by the late Lord Keynes when he boasted in Parliament:

The most favorable terms sometimes allowed as, for instance, in the case of France, for the purpose of clearing up what she obtained through the lend-lease machinery, are 2⅜ percent, with repayment over 30 years, beginning next year; that is to say, an annual debt lof 5⅜ percent, so that an amount equal to 34 percent of this loan will have been paid by France during the 6 years before we have begun to pay anything at all. The normal commercial terms in the Export-Import Bank are, however, 3 percent, repayable over 20 years commencing at once, so that payments equal to 48 percent of the loan would have been paid during the first 6 years in which we pay nothing.

This loan will give impetus to Anglo-American imperialistic elements. Later the American people will be told this loan was an advance guaranty of American money, guns, and boys for all future British Empire needs or desires.

And in view of the pattern of events following Wall Street loans in 1915-16, and lend-lease in 1941, the famous boast of Winston Churchill, on January 27, 1942, after Pearl Harbor, could again be appropriate:

> * * * The probability * * * that the United States even if not herself attacked would come into the war * * * has not been falsified by events.

CONCLUSION

No living American has more understanding of our gigantic financial problems than does Jesse Jones. Members of the House should ponder the warning of Jesse Jones on the dangers of this proposal:

> We should stop issuing Government bonds and pay every dollar we can spare on our debt, now and as fast as we can. We have sold our Government bonds to the American people upon the basis and representation that they constituted the soundest investment that anyone can have. They can only be sound if we make them sound by cutting down on our own expenditures and stop lending money to countries that have no reasonable assurance of being able to repay it.
>
> Another very important point that I do not think has been given proper consideration is that it is entirely too early after the war for anyone to get a clear picture of the future. Britain knows that and hurried over here as soon as the shooting stopped "to get hers." She is smart, has always been smart, and, incidentally, very selfish. * * *
>
> If the British are unwilling to continue the pledge of the security behind their present loan from the RFC for new money, I would give no further consideration to a loan to them of any kind. We owe it to ourselves, as well as to the rest of the world, to approach this whole matter in a completely realistic manner—which is the only forthright and sound approach.
>
> Approval of the proposed loan now before Congress would start the United States down a financial road that is likely to lead to disaster. Too much spending and lending and losing is a sure road to ruin. The Congress should not ignore the dangers that lie ahead.

Last, but by no means least, the British financial agreement, like the International Monetary Fund and Bank scheme, will extend indefinitely the restrictions, controls, and regimentation that now so seriously harass our entire productive machinery and our American way of life.

This agreement, like other international monetary and financial agreements, will not bring about freer world trade. Instead it will add to the very totalitarian controls these schemes are alleged to prevent.

We recommend to the Members of the House that Senate Joint Resolution 138 do not pass.

HOWARD BUFFETT.
JESSIE SUMNER.
MERLIN HULL.
FREDERICK C. SMITH.

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