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The Claridge
Atlantic City
June 24, 1944

Dear Burke:

Mr. Gardner suggests that I tell you what has happened since I wrote you. A few more flimsies were given out on Friday. None of them were on the Bank. Friday the four committees met in the morning. Mr. Gardner and I attended the committee on the operations of the Fund, Mr. Goldenweiser the one on Purposes and policies of the Fund. In the operations committee there was a long argument about exchange controls and controls of capital movements and the obligation "not to allow exchange transactions in its market in currencies of member countries outside a prescribed range". There was some talk about the present Canadian system of purchases and sales of Canadian dollars in the free market at other than official rates. The Americans felt that the wording of IX-2 in the Joint Statement has to be changed to make it clear that the U. S. is not compelled to prevent such transactions and the Americans also said the present Canadian practice is a multiple currency practice and cannot be maintained without the approval of the Fund.

Friday afternoon the committees reported on the discussions of the flimsies to the general meeting. The British arrived about 6 P. M. Friday. Mr. Gardner and Mr. Coe went to meet them at the station.

Friday night the Americans had a long meeting to go over an American document giving a complete draft of the Fund - based on the flimsies. In some cases the Treasury changed the flimsies on the basis of the committee reports of the last few days - in other cases they did not. Collado had been pressing for a complete document, mostly because many difficulties arose in trying to discuss one little section of the document not knowing how the other sections would read but partly also because we all wanted to know all the cards the Treasury had up its sleeve.

We went over the complete document last night (23rd). Many of the problems discussed in the last few days were left unsolved. The actual schedule of charges, the percentage gold contribution of occupied countries, and the actual quotas were all left blank. In general, the draft amplified the Joint Statement a good deal but was not inconsistent with the Joint Statement except on minor points.

The copies were numbered and taken back from us after the meeting. White said Keynes told him at dinner that the British, Greeks, Belgians, South Africans, etc. had been drafting on the boat and that they were in favor of working from a complete document. White had intended to give out the complete U. S. draft at the big first meeting with the British Saturday morning but evidently the British persuaded him to wait and make up a joint draft with alternate provisions.

The meeting this morning (Saturday) was just a brief formal meeting. The first real meeting with the foreigners will be at 10 A. M. on Monday morning. This morning White was elected chairman of these meetings and appointed Tsiang, Smyrnov, Keynes, and Monteros as vice chairmen. One or two others will be named to serve with the chairman and vice chairmen on an agenda committee. White asked all the foreign delegations to submit suggestions to be incorporated in one joint draft to be ready for discussion at Monday's meeting. White said he hoped to be able to distribute the joint draft on Sunday. I'm afraid we will never be able to send you one of these drafts but I may be wrong and will try to get you one.

This afternoon White says there is to be a select American group discussing the Bank with the British - Gardner, Goldenweiser, and Hansen are there.

<u>Sunday - continued</u>

The afternoon meeting with the British on the Bank was taken up in discussing British suggestions on the Bank. The British document on the Bank is not available to all the Americans yet. Among all the Federal Reserve people here we only have one copy as yet. Evidently the Americans did not take very definite positions on the British suggestions at that meeting. Some of the main British suggestions were as follows according to Mr. Gardner's notes:

1. Call 20% of capital for direct loans
2. Leave 80% uncalled for guaranteed loans - not to be called for direct loans.
3. When called to make good losses the 80% must be paid in gold or currency "convertible" under terms of the Fund. This refers to a new definition of convertible currency which the British are proposing.
4. Profits to go into building up a guarantee fund.
5. Guarantees at the outset not to exceed the guarantee fund; but no legal limit.
6. Something like 3-1/2% to investor; commission of 1% on original amount; 2% amortization.
7. A commission of 1% against interest and amortization of about 5% would cover losses of about 1/5.
8. 30 years might be the standard length for a loan, but much shorter or longer maturities should be possible.

9. Use of the 20% of capital called would be subject to the same restrictions as in the American draft.
10. Repurchase of currency with gold omitted.
11. Guarantee fund backs guarantees and Bank's own securities and is quite distinct section from the 20% lending section. The guarantee section could fail without involving the lending section.
12. Lending country's consent necessary to any loan - both in the 80% and 20% spheres. Tied loans to be allowed only in the 20% sphere.
13. Bold lending policy.
14. Differentiate between wilful defaulters and those merely unfortunate and help the latter.
15. Specific projects rather than general recovery loan except that currency stabilization overdraft on Fund may be funded by Bank in agreement with the Fund.
16. Suggestion that a guarantor might take up the currency of a defaulting country instead of meeting a call on its unpaid subscription.

From a hurried look at the British Bank document I might add the following points:

1. In cases of borrower suffering from exchange stringency the Bank may rearrange the installments of amortization.
2. Profits can be distributed with the authority of a 75% vote.
3. Omit all of III. of the November 23 draft.

This morning the Americans met in Mr. White's office and were given numbered copies of the British documents on the Fund. The British suggestions are extremely complicated. They redefine most of the terms and revise so many of the provisions that it will take long and careful study to figure out what their suggestions amount to. In general, it is clear that they want to decrease the Fund's authority over changes in exchange rates, provide for continued membership in the Fund with no power to draw on the Fund when a change in rates is made which is not approved by the Fund, and strengthen very much the idea that each country has an actual right to draw on the Fund up to its quota.

Mr. Goldenweiser is going to try to get a copy of the British document to send you. If he does not succeed I will send you a summary of it as soon as I've figures out what it means - which I am about to try to do right now.

Sincerely yours,

Alice Bourneuf

P. S. June 28

This has been disgracefully held up. White's office is sending Governor Szymczak a copy of the big joint draft on the Fund. The British suggestions on exchange rates and convertibility are not yet incorporated entirely in the draft. I'm enclosing notes on a private British-American meeting.

Bourneuf Summary of Comments on Individual

Fund and Bank Provisions

Missing (Prior to Bretton Woods Conference,

June 1944) - Comments on Published

Join~~g~~t Statement.

Bourneuf
May 1944
6/30/44

I. Purposes and Policies of the Bank

1. The Bank will assist in the reconstruction and development of member countries by facilitating provision of long-term investment capital for productive purposes through private financial agencies. It will do so by guaranteeing and participating in the loans made by private investors.

W. R. G. wonders why only long term.

Gardner feels adequate measures for international investment more fundamental than and essential for successful operation of monetary fund.

British stress necessity of Bank's making reconstruction loans.

Bank will not engage in relief operations. Treasury answers.

I. Purposes and Policies of the Bank

2. The Bank will supplement private financial agencies by providing capital for productive purposes out of its own resources, on conditions that amply safeguard its funds, when private capital is not available on reasonable terms.

Hansen suggests private and government investment might be cleared through Bank; might be vetoed by Bank if interfere with sound international program.

I. <u>Purposes and Policies of the Bank</u>

3. The Bank will promote the long-range balanced growth of international trade by encouraging international investment for the development of the productive resources of member countries.

I. Purposes and Policies of the Bank

4. The Bank will take into consideration, in its operations, the effect of international investment on business conditions in member countries. In the immediate post-war years, its policy will be to assist in bringing about a smooth transition from a wartime to a peacetime economy.

II. Capital of the Bank

1. **The capital of the Bank will be the equivalent of $10 billion, to be subscribed by member governments. Liability on shares will be limited to the unpaid portion of the subscription.**

White once told British their quota would be about $1 billion.

Russians want reduced total contributions for occupied countries - as compared to formula results - reduced by one-half. White suggested would have to be time limit on any concession -.

There has been much discussion of provision in detailed draft - II - 6 about repurchasing shares - intended to prevent earnings on idle currency balances - White says "arrange" implies approval of owner of shares - some thought of not allowing this to affect voting power - and of Bank always having power to require the resubscription of the member - to preserve Bank's capital intact.

If contributions are required, favorable balance countries should supply bulk of funds. Perhaps member country should determine its contribution.

U.S. subscriptions be about 1/3 of total, Russia less than $1 billion
be based on agreed upon formula
Proposed formula for subscriptions not directly related to country's ability to finance export of capital - because of political and practical difficulties

British question whether or not borrowing countries should contribute resources to Bank

Treasury answers - formula for subscriptions be based on ability to provide capital (national income) and benefits to be received (volume of foreign trade)
Suggest 4% of national income in 1940, 6% of annual foreign trade in 1934-38.

Subscribed capital of $10 billion be sufficient to permit Bank to act as guarantor for $20 or $30 billion of loans.
Working capital for direct loans, which are of secondary importance, of about $2 billion be sufficient.
Substantial portion of capital be reserved in form of unpaid subscriptions as surety fund for obligations as guarantor or issuer of securities.

II. Capital of the Bank

2. A substantial part of the subscribed capital of the bank will be reserved in the form of unpaid subscriptions as a surety fund for the securities guaranteed or issued by the Bank.

British want guarantee fees retained as fund to meet losses under guarantees.

II. Capital of the Bank

3. The initial payment on shares will be 20 percent of the subscription, some portion of which should be in gold and the remainder in local currency. Further payment on subscriptions will be made as the Board of Directors may determine, but not more than 20 percent of the subscription may be called in any one year.

White once said U.S. might pay 20% in gold - England 15%, etc. - down to 5% - average 10%.
J.S. doesn't have gold repurchase provision anywhere.

Gardner suggested allowing Russians to reduce gold contributions - White offered Russians 25% reduction in gold during reconstruction period.

British seemed to favor calling up much less than 20%.

No gold necessary, contributions should be in local currency and securities

Gardner feels gold not an appropriate instrument for long-term financing.

British suggest only small part of Bank's capital be called up; loans sponsored by Bank be guaranteed as international obligation to which all countries subscribe - thus spread risk on such loans, calls on guarantees be spread over long period - service on loan take form of terminable annuities.

Treasury answers. Bank need gold to acquire member currencies it may need, to maintain its liquidity, so countries in which borrower may obtain desired materials will not be ~~touched~~ limited by availability of currencies in Bank. Gold holdings insure Bank meet obligations promptly.

Draft provide member countries must guarantee Bank against loss on holdings of local currencies.

III. Operations of the Bank

1. The Bank will deal through the governments of member countries and their fiscal agencies, the International Monetary Fund, and other international agencies owned predominantly by member governments.

It may also deal with the public and private institutions of member countries in the Bank's own securities or the securities which it has guaranteed.

Gardner would substitute "with" for "through" and add central banks. A.B. "through" is better. See attached Gardner draft.

III. <u>Operations of the Bank</u>

2. **An appropriate limit will be placed on the outstanding obligations of the Bank; and all the resources of the Bank will be available to meet its obligations.**

This is meant to overrule III. 9 (c) as far as currencies being available to meet losses under guarantees.

Treasury opposed to limiting obligations due from any one country.

See Garnder draft attached to III. 1

British agree definitely that all members should share in risks up to reasonable amount - their subscription.

British suggest that any call on guarantees should be spread over as long a period as possible - suggest that loans be serviced as terminable annuities so that, in the event of default no large capital sum falls due.

III. Operations of the Bank

3. The Bank will not finance the local currency needs of a borrower except in those special circumstances where facilities are not available for borrowing investment funds at home.

Might be a good idea to lend a country its currency - rather than have it obtain earnings on idle balances in the Bank.

See Gardner draft attached to III. 1

Sept. 6 memo AB - contributions of countries borrowing from Bank would be used to finance local expenditures on development projects.

Treasury answers - Bank not intended to provide funds for expenditure within borrowing country except under special circumstances.

III. Operations of the Bank

4. The Bank may guarantee, participate in, or make loans to any member country, its political subdivisions, and business and industrial enterprises in a member country, under the following conditions:

(a) The national government, central bank or a comparable agency guarantees the payment of interest and principal.

Nothing in III. 4 to indicate that only long term loans. Most of U.S. committee thinks powers should be broadly defined so that short-term loans could be made. But White said that there are other agencies for direct financing of trade.

Treasury says primary purpose of 1a) is to ensure guarantee of freedom from exchange control.

Would probably require guarantee for application.

See Garnder draft attached to III. 1

III. Operations of the Bank

4. The Bank may guarantee, participate in, or make loans to any member country, its political subdivisions, and business and industrial enterprises in a member country, under the following conditions:

(b) The borrower is otherwise unable to secure the funds from other sources under conditions which in the opinion of the Bank are reasonable.

See Gardner draft attached to III. 1

III. Operations of the Bank

4. The Bank may guarantee, participate in, or make loans to any member country, its political subdivisions, and business and industrial enterprises in a member country, under the following conditions:

(c) A competent committee, after careful study of the merits of the project, reports that the loan would serve to raise the productivity of the borrowing country and that the prospects are favorable to the servicing of the loan.

Mr. Goldenweiser once suggested "and that there is a reasonable prospect that during the life of the loan the country's budgetary and international balance of payments position will enable it to discharge its obligations under the loan".

Russians argued this investigation not necessary in case of State trading country.

Question whether want "project" or "program". The second might cover general monetary rehabilitation programs, restocking with raw materials, etc.

See Gardner draft attached to III. 1

Goldenweiser and Keynes object to earlier provision stating loan be made only if country's budgetary or balance of payments prospects are favorable to ~~securing~~ servicing loan.

Project need not be profitable but should be sufficiently productive so borrowing country can raise internally the funds to service loans. Might be exception in cases where there are indirect benefits of project to world or lending country.

Polish suggest countries applying for loan submit their development program covering all investment projects planned for near future. Bank would have oversight of entire investment policy of borrower.

British favor expert examination of projects to be financed by Bank - degree of priority, technical capacity, ability to service.

III. Operations of the Bank

4. The Bank may guarantee, participate in, or make loans to any member country, its political subdivisions, and business and industrial enterprises in a member country, under the following conditions:

(d) Loans are made at reasonable rates of interest with schedules of repayment appropriate to the project and the balance of payments prospects of the borrowing country.

Russians wanted lower rates charged to occupied countries. Gardner suggested might allow three year period before amortization begins.

Has been much discussion of meaning of reasonable - can't be so low as to compete with private investors - may want to sell guaranteed obligations on the market -

See Gardner draft attached to III. 1

Hansen suggest Bank provide capital funds for certain projects essential to development of borrowing country which however could not meet market rate of interest at interest of 1% and perhaps Bank should be willing to share with borrowing gov't any loss on principal. In most such cases borrowing country should be willing to guarantee minimum rate of interest.

Poles request definition of "reasonable terms" and "reasonable rates". Cost of credits granted foreign countries or terms of credit prevailing in creditor country should not be so widely devergent as in postwar years.

Loans for reconstruction or development should be on easy terms to permit borrower to follow cheap money policy.

Treasury answers - rate of interest will vary with credit position of borrower and conditions of financial markets.

III. Operations of the Bank

4. The Bank may guarantee, participate in, or make loans to any member country, its political subdivisions, and business and industrial enterprises in a member country, under the following conditions:

(e) The Bank is compensated for its risk in guaranteeing loans made by private investors.

Treasury insists charge must be related to risks - might be lower estimate of risks than private investors - extent of guarantee must be no more than sufficient to enable the placing of the securities at reasonable rates.

May need to make wording more general to cover agricultural enterprises.

Gardner anxious not to put maximum of 1% or 1½% on guarantee charge - if bigger risks have to be handled by direct loans guarantees won't be able to cover widest fields.

See Gardner draft attached to III. 1

British want flat rate of 1% - want guarantee fees retained as fund to meet losses under guarantees - Treasury agrees on second point.

Treasury answers - Fee paid by borrower depend upon type of guarantee.

III. Operations of the Bank

5. To encourage international investment in equity securities, the Bank may obtain a governmental guarantee of conversion into foreign exchange of the current earnings on such investments. It may also employ a small portion of its capital directly in equity investment.

See Gardner draft attached to III. 1

This provision may meet objections of Keynes that fixed interest-bearing loans placed severe burden upon borrowing country and ... Bank should sponsor equity investments.

Hansen suggest Bank guarantee minimum yield insurance on privately-invested equity capital.

Gardner believes equity investments by an inter-governmental bank would be politically suspects.

III. Operations of the Bank

6. The Bank will impose no conditions as to the particular member country in which a loan will be spent. The Bank will make arrangements to assure the use of the loan only for the approved purposes.

British would say "The Bank shall not make or guarantee any loan a) unless it is clear that the proceeds of the loan are free exchange available for expenditure in any market."

See Gardner draft attached to III. 1

Hansen - no tying of loans, borrower be allowed to buy capital equipment with funds provided by Bank in any market.

III. <u>Operations of the Bank</u>

7. **In providing the funds for loans made by the Bank, its policy will be:**

(a) To furnish the currencies needed by the borrower in connection with the loan.

Basch asked why necessary since Fund provides for convertibility of currencies - White said only convertibility for some purposes - said this provision necessary otherwise all countries would want dollars.

British would give the borrower the currency loaned - not the currency needed.

See Gardner draft attached to III. 1

Bernstein said word "needed" is equivocal - could mean sterling for purchases in England - or dollars to buy sterling if sterling not available.

III. Operations of the Bank

7. In providing the funds for loans made by the Bank, its policy will be:

(b) To make available an appropriate part of the loan in gold or needed foreign exchange when a developmental program gives rise to an increased need for foreign exchange.

See Gardner draft attached to III. 1

Poles think Bank should arrange credits to cover additional imports which will arise as consequence of development projects financed by domestic capital - for increased demand for consumer goods, raw materials.

III. Operations of the Bank.

7. In providing the funds for loans made by the Bank, its policy will be:

(c) To furnish gold or needed foreign exchange for a part of the loan expended by the borrower at the request of countries in which portions of the loans are spent.

See Gardner draft attached to III. 1

White has always said this meant to allow England to get reimbursed for needed foreign imports resulting from goods exported under the loan.

III. Operations of the Bank

8. No loans may be guaranteed or made by the Bank without the approval of the country in whose currency the loan is made.

Should say "approval of the representatives of the country".

Collado would prefer "timely objection" arrangement - White and Bernstein said would leave to Conference.

British would eliminate here - add to their revised III-6 - very insistent on this approval provision - would add that approval must be given in light of fact that proceeds of loan, once subscribed, shall be free exchange available for expenditure in any market.

See Gardner draft attached to III. 1

Veto not complete because of gold contribution

Approval of country would probably be forthcoming if refusal meant loss of export market.

Veto power necessary to protect debtor countries which cannot afford to lend abroad.
But borrowers should be allowed to buy in cheapest market.

Gold fully convertible into any currency but presumably use of such currency subject to approval of country concerned.

British suggest no country to be obligated to subscribe to loans sponsored or guaranteed by Bank unless its monetary authority has approved such subscription as within capacity of country's balance of payments.

III. <u>Operations of the Bank</u>

9. With the approval of the representatives of the governments of the member countries involved, the Bank may engage in the following operations:

(a) It may issue, buy, or sell its own securities, securities taken from its portfolio, or securities which it has guaranteed.

See Gardner draft attached to III. 1

Bank be able to tax private loan funds by selling its securities. Will dispose of securities acquired by participation as soon as marketable - also securities acquired from direct loan. Treasury answers

III. <u>Operations of the Bank</u>

9. With the approval of the representatives of the governments of the member countries involved, the Bank may engage in the following operations:

(b) It may borrow from member governments, central banks, or private financial institutions in member countries.

Mr. Goldenweiser once suggested that central banks be left out here.

See Gardner draft attached to III. 1

III. Operations of the Bank

9. With the approval of the representatives of the governments of the member countries involved, the Bank may engage in the following operations:

(c) It may buy or sell foreign exchange where such transactions are necessary in connection with its operations.

See Gardner draft attached to III. 1.

Should this apply to funds borrowed by the Bank from private investors.

IV. Repayment Provisions

1. **Payment of interest and principal on loans participated in or made by the Bank will be in currencies acceptable to the Bank or in gold.**

Collado suggests might provide for fee for stand-by credits - Exim. contemplating some such thing - for extensions of time - don't want to encourage fast use - wouldn't charge to begin with.

See Gardner draft attached to III. 1

Should probably be a statement to the effect that all obligations of the Bank and debts to the Bank be stated in terms of a stable gold unit.

Suggestion of revision - Sept. AB - Repayment in currencies borrowed ~~on~~ or in currencies acceptable to Bank

If repayment made in currency other than that borrowed or in gold, member country lose control over use of that part of its subscription.

IV. <u>Repayment Provisions</u>

2. In the event of an acute exchange stringency the Bank may, for brief periods, accept local currency in payment of interest and principal under conditions that safeguard the value of the Bank's holdings.

Why couldn't this privilege be extendable - shouldn't there be refunding provisions?

See Gardner draft attached to III. 1

This provision grants to fixed loans some of adaptability of equity investments.

IV. Repayment Provisions

3. Payment of interest and principal, whether made in currencies or in gold, must be equivalent to the gold value of the loan and of the contractual interest thereon.

See Gardner draft attached to III. 1.

V. <u>Management</u>

1. The administration of the Bank will be vested in a governing board and an executive committee representing the members. The governing board may appoint an advisory council consisting of representatives of banking, business, labor and agricultural interests, and such committees as it finds necessary. Provisions will be made for consultation with other interested agencies on matters of direct interest to them.

Karpinski suggests a committee of "members" rather of 9 as in Nov. 24 draft.

Russians want great powers on Exec. Com't. Advisory Council.

V. <u>Management</u>

2. The distribution of voting power will be closely related to the share holdings of the member countries.

Russians wanted minimum of 10% for great powers.

Gardner comment that voting power can't be dissociated from contributions -

Voting power according to amounts lent impossible - most countries would have none.

V. Management

3. The Bank will publish regularly a balance sheet showing its financial position and a statement of earnings showing the results of its operations. The Bank may also publish from time to time such other information as would be helpful to the sound development of international investment.

V. Management

4. One-fourth of the profits would be applied to surplus until surplus equals 20 percent of the capital.

Profits probably should be distributed according to loans made - not to shares held.

Czechs suggested saying "at least one-fourth".

Impossible to give contributor a return commensurate with use of contribution because of gold subscription and because repayment may be in other currency than one lent if acceptable to Bank or in gold.

VI. Withdrawal and Suspension

1. A member country may withdraw from the Bank by giving notice in writing.

VI. <u>Withdrawal and Suspension</u>

2. A member country failing to meet its financial obligations to the Bank may be declared in default and may be suspended from membership, provided that a majority of the member countries so decides.

Question as to whether 3 separate steps, failure to meet obligations, declaration that in default, suspension from membership.

VI. <u>Withdrawal and Suspension</u>

3. If a member country elects to withdraw or is dropped from the Bank, its shares of stock would, if the Bank has a surplus, be repurchased at the price paid. If the Bank's books show a loss, the country would bear a proportionate share of the loss. Appropriate provision should be made for meeting the contingent liabilities.