B. W.

Nov. 6, 1945

Dear Mr. Jacoby:

This is in answer to your letter of October 10, 1945 in regard to my participation in the CED radio round-table discussion of "Stabilizing World Money."

In response to your request I have prepared brief answers to the questions which you submitted for use in the preparation of the radio script.

Very truly yours,

/S/ H. D. White

H. D. White
Assistant Secretary

Mr. Neil H. Jacoby, Vice President,
The University of Chicago,
122 South Michigan Avenue,
Chicago 3, Illinois.

Enclosure.

RFM:ers 10/25/45

1. Q. What are the advantages of multilateral trade with money over bilateral barter of goods between nations?

A. Although a nation must over a period of time achieve a balance of exports and imports of goods and services as between itself and the rest of the world, there is no reason why its trade should be exactly balanced with any other one country. For example, we normally sell more goods to Great Britain than we buy from her, but we buy more from coffee producing Brazil and from tin and rubber producing countries of the Far East than we sell to them. An all-round balance is achieved because Britain has an export surplus with many of these countries which happen to have an export surplus with the United States.

Let us suppose now that instead of having a multilateral trading system after the war countries attempt to balance their trade bilaterally with every other country. Clearly Britain would have to reduce her purchases from the United States down to the level of our imports of British products. But what about Brazil and the Far East from whom we buy more than we sell? Would they not increase their purchases from the United States up to the level of our purchases from them? This is most unlikely. They do not buy the kinds of goods we sell to Britain.

In summary, bilateralism reduces the total volume of trade and diverts it into uneconomic channels.

2. Q. Exactly how does stable money in different countries promote stable exchange rates, and thereby broaden international trade and raise the American standard of living?

A. If all countries were to avoid inflation and deflation and prevent unemployment, the maintenance of a balanced international position and stable exchange rates would be relatively easy. The maintenance of stable exchange rates would in turn tend to encourage a high level of international trade and investment by reducing risks and uncertainties.

When exchange depreciation becomes widespread, countries inevitably take measures to control their balance of payments. Some countries adopt exchange controls. Other countries raise their tariffs and adopt restrictions on imports to offset the currency depreciation in other countries. The end result is a reduction in trade.

As the largest trading and investing country we have a special interest and responsibility in securing international cooperation for stable exchange rates. Our exports help maintain employment in industry and agriculture. Our imports provide us with raw materials and consumers goods we need from abroad. Together, our exports and imports, which rise and fall with the world level of trade, mean a higher standard of living in America.

3. Q. To what extent is stable money in one country a product of its <u>own</u> policy, and to what extent a result of conditions and policies in <u>other</u> countries?

A. The stability of a country's exchange rate requires a considerable measure of internal monetary stability. It is also true, however, that the existence of internal monetary stability for any one country will not guarantee a balanced international position for that country. In countries very dependent on foreign trade, domestic monetary stability may depend very largely upon the employment and trade policies of other countries. In countries less dependent upon world trade, changes in foreign conditions and policies can be more easily offset by domestic policies. But even these countries, during a world-wide depression, may find it impossible to achieve domestic stability because of monetary instability abroad. A high and stable level of world trade always facilitates domestic and international monetary stability.

4. Q. Just how does the International Monetary Fund promote stable money and stable exchange rates between currencies?

A. The International Monetary Fund will first of all assure the establishment of an appropriate pattern of exchange rates for its members before it begins exchange operations. Thereafter, each country agrees not to change the par value of its currency except after consultation with the Fund or with its concurrence. It is recognized, of course, that mistakes will be made in fixing initial rates and that changes in rates will have to be made from time to time. The important principle embodied in the Fund Agreement is that necessary changes be made in an orderly manner so as not to impose hardships on other countries or to precipitate competitive currency depreciations.

5. Q. What are the risks, and the opportunities, faced by the United States as a result of membership in the International Monetary Fund?

A. There is no financial risk involved in our joining the International Monetary Fund. Our investment in the Fund is adequately safeguarded. The Fund presents an opportunity for the achievement of international monetary stability and the elimination of harmful exchange practices in the only way that they can be achieved, namely, through cooperative action among the United Nations. The real risk which we have to fear in the post-war world is not the loss of our subscription to the Fund, but the failure of the United Nations to agree on a common international monetary and trade policy.

6. Q. How may the International Bank for Reconstruction and Development strengthen the operation of the International Monetary Fund?

A. The International Bank for Reconstruction and Development will be of material help in strengthening the Fund. It will enable countries to import capital goods from abroad for the purpose of reconstructing their economies. In this way international trade will be restored promptly and with a high level of trade the problem of maintaining stable and orderly exchanges will be easier.

RFM:ers 10/31/45

I told Guindey that I had mentioned to Pleven the problem of francs in the hands of American soldiers at the time of devaluation, and would appreciate it if Guindey would think this problem over, so that we may reach some kind of agreement in advance of any devaluation. He seemed a little astonished that there would be any problem on this, apparently feeling that no attempt would be made to replace francs in the hands of troops at the new rate. I told him that the army certainly was expecting that some kind of adjustment would be made. He said that he would think over the problem and discuss it with me later on.

Lastly, Guindey said that the work of the committee on the purging of banks under Postel-Viney has been completed and that all the banks involved have accepted the recommendations of the committee. He said the French are now satisfied with the banks and that I will soon receive a letter from Pleven indicating this.

(Initialed) D. A. S.
Delbert A. Snider
U. S. Treasury Representative

Mikesell
Bretton Woods
6/...

DEPARTMENT OF STATE

INCOMING TELEGRAM

8509

PLAIN

London

Dated February 21, 1946

Secretary of State

Washington

2200, Twenty-first

FOR SECRETARIES OF STATE AND TREASURY

Lord Beaverbrook returned to question of Bretton Woods again Tuesday in House of Lords by asking the Government whether in view of the fact that Australia and New Zealand have not subscribed to Bretton Woods "thus separating themselves from the policy of His Majesty's Government on this fundamental issue," it will reconsider its decision to participate in the international monetary fund. He opened his speech by asserting that there is a divergence of opinion for the first time between some of the Dominions and Great Britain adding that Australia's reasons for refusing to ratify Bretton Woods are, first, that the fund is dominated by the United States a creditor nation and that debtor nations may be required to reduce adverse balances by cutting wage levels. He then repeated his usual references to the gold standard as a banker's ramp which brought misery in the 1920's. On Australia's second objection he quoted chiefly as reported in the ADELAIDE ADVERTISER and ADELAIDE MAIL as saying that Australia intends to fight for the retention of those imperial preferences which are essential to the Commonwealth's future development. After asserting that Britain is Australia's only food market, that there is no such market in the United States, that if Britain goes to the Argentine for foods, it means that British money paid to Argentine will be used to buy goods in the US. He stated that if Australia, New Zealand and India fail to ratify Bretton Woods the Empire's interest in the fund would decline to one quarter "whereas the dollar bloc is just less than half". Finally Beaverbrook stated, "We have had no help from the United States of America in the

cc: 2/28/46 Messrs. Glasser, Luxford, Mikesell, Bernstein, Mrs. Sundelson, Gunter, E. Hebbard, Horne, Brenner, L. Hebbard present crisis but we have had a great deal of help from the Dominions. I have the long statement of Dominion assistance here. It is a most gratifying and most heartening and splendid declaration. Why then do we set up these dissensions within the Empire? Why tie our financial system to Wall Street and Washington and the gold standard? The answer is that these are the first steps to the old bad policy of free trade. It is the policy of the bankers and it is a gay and jolly prospect for the international financiers".

Two speeches were made in reply before Beaver brook withdrew his motion.

Lord Piercy (who is chairman of one of the new finance corporations) first noted that neither Australia nor New Zealand had in fact rejected Bretton Woods and pointed out that it is merely a chronological fact that they had not yet been able to consider the question in their respective Parliaments. He went on, however, to suggest that even if they should fail to enter Bretton Woods they would not necessarily thereby separate themselves from the policy of the British Government on this fundamental issue as Lord Beaverbrook had asserted. Piercy noted that neither Australia nor New Zealand had been involved in the loan agreement so that whereas under the loan agreement Britain has to give convertibility within a year they have five years to settle exchange rates and begin convertibility. Regarding the trade proposals Piercy noted that both Australia and New Zealand had the protection of infant industries to consider. He expressed the view that "if a decision (on the fund) is deferred for a few months there seems little reason why it should not be taken (by Australia and New Zealand) contemporaneously with the discussions of the international conference so that it may very well be that Australia and New Zealand alike may have some clearer light on what precisely these various heads and terms relating to state trading and subsidies and the rest of it will be than they have at this particular moment. It may be an advantage in that way for them to postpone a decision and that may help them to come to a decision in the sense of joining the fund".

Piercy further stated, "For us it is absolutely fundamental that we should have a means of dealing with what I call the reconversion gap, this great gap in our balance of payments that will last for the next two or three years. That is the reason for the loan. Whether or not the two Dominions ratify Bretton Woods it will be very useful for them that we should have this loan because it will enable us to give them some convertibility into dollars and they must have some and paradoxical as it may seem if they should decide that it is their correct course to stay out it may well be that our being in and having this loan may help them to make that decision." Finally Piercy made a strong plea for multilateralism and Bretton Woods and concluded by asserting that imperial preferences would only be sold for good bargains.

Lord Addison replying to Beaverbrook for the Government confined his remarks to making it plain that he had no official information leading him to believe that Australia and New Zealand would not enter the Bretton Woods scheme. Throughout recent close contact with the delegations of those Dominions at UNO he had heard not a word of objection to the Bretton Woods final act which had been signed by the experts of both Dominions nor had he heard any of the forebodings with which Lord Beaverbrook had filled his speech. Text of debate by air-mail.

WINANT

EJH

PLAIN

Jun 23

MEMORANDUM FOR THE SECRETARY

Questions at issue on the Fund

1. Quotas

Many countries~~, including Russia and China,~~ believe that the proposed quotas are inadequate for their needs.

~~Russia is insistent that her economic position after the war, and her responsibility in international affairs, entitles her to at least 10 per cent of the aggregate quotas - that is, a quota of more than $800 million.~~ China has pressed the view that her quota must be the fourth largest as a recognition of her role in the war. This would probably involve a quota of more than $500 million.

France has said that her quota must be fourth or fifth.

~~Apart from these great powers, there are quota problems raised by other countries.~~ India takes the view that as the largest exporting and importing country in the Far East her quota should be larger than that of China. Australia has said that she cannot assume the obligations of membership unless assured a quota of $300 million. England supports the view that the quota of all small countries should be raised - in particular, that quotas under $150 million should be doubled.

The American technical advisers have regarded the determination of quotas as fundamentally an objective matter. Quotas must be based on a formula that recognizes a country's ability to subscribe to the Fund, her need for use of the Fund, and the responsibility that must be given to her in the management of the Fund. The formula proposed by the American technical advisers takes account of national income, gold and dollar holdings, foreign trade, fluctuations in exports, and the importance of foreign trade in national income. Because the data of the past are not completely applicable to the future and because intangible considerations cannot be measured by a formula, it is proposed to set aside 10 per cent of the aggregate quotas ($800 million) to be apportioned among countries whose quotas, based on the formula, are clearly inequitable. ~~The greater part of this reserve for adjustment will probably have to be allotted to Russia and China.~~

The principal interests of the United States in quotas may be summarized briefly as follows:

(a) Aggregate quotas should not be ~~much~~ above ~~$8~~ $8.5 billion, as a maximum. If an objective formula results in aggregate quotas of ~~$8.2 billion or $8.3~~ $8.5 billion, it is better to depend on the formula than to cut arbitrarily the quotas of some countries.

(b) The quota of the United States should be about $2.5 billion, and under no circumstances more than $2.75 billion.

(c) The quota of the United Kingdom and the Crown colonies should not be more than $1.3 billion, and the total quotas of the British Empire must be less than the quota of the United States.

(d) Russia should have the third and China the fourth largest quotas.

(e) The apportionment of quotas among other countries is a matter that can safely be left to them within the framework of the principles stated above. We should, of course, see that the Latin American Republics are given fair treatment on quotas.

2. Gold Subscription

Several countries, including Russia, wish to have a reduction of 50 per cent in the required gold subscription of countries that have suffered substantial damage by enemy action or occupation.

The required gold subscription to the Fund is 25 percent of a country's quota or 10 percent of its holdings of gold and dollar balances, whichever is less. Russia has expressed the view that as a country that has suffered most severely from enemy destruction, it will have the greatest need for independent resources of gold in meeting the costs of imports for reconstruction. Recognition of the special needs of Russia should be given by allowing a reduction in one-half of her required gold subscription to the Fund which would be about $160 million on the basis of the formula. France has taken a similar position. Its gold holdings are large, but they will be depleted rapidly in meeting the costs of imports essential to reconstruction. The French regard these holdings as already set aside for the immediate post-war period and feel that her present holdings should not be regarded as the proper basis for gold subscription to the Fund.

As would be expected, the occupied countries all hold these views, although not so strongly pushed by them as by Russia and France. On the other hand, England holds that destruction by enemy action may be less important than the deterioration in a country's international economic position resulting from the war. Thus, England has lost billions in foreign investments and in other foreign exchange assets, and the problem of balancing her international accounts will be more difficult than for some of the occupied countries. If any concession on the required gold subscription is given to other countries, England insists that the same concession be given to her.

The attitude of the American technical advisers has been that there is some basis for a reduction in the required gold subscription of occupied countries, and to some extent for England. In the view of the technical advisers, this concession is much less important than the occupied countries believe. The ability of a country to purchase foreign exchange from the Fund with local currency within its quota is reduced precisely to the same extent as its gold subscription is reduced. The aggregate potential exchange recources of a country, its gold holdings plus the unused portion of its quota in the Fund, remains the same, although the amount available to the country within the first two or three years (from its own resources and from the Fund) is temporarily greater with a reduction in gold subscription.

Recently, Russia has suggested that the reduction in the required gold subscription be graduated, the countries with the greatest damage being allowed a reduction of 50 percent (Russia) and the rest being allowed varying reductions ranging from 25 percent to 50 percent of the required gold subscription. The view expressed by the American technical advisers is that a graduated reduction is not feasible and would lead to endless controversy in estimating relative damage and need. If any reduction is allowed, it should be uniform and it should not exceed 25 percent of the required subscription.

3. Official holdings of gold.

The U.K. wishes to have gold subscription based on net holdings of gold, offsetting their gold holdings in part by gold obligations.

England has expressed the view that official holdings of gold do not represent the appropriate basis for determining the required gold subscription to the Fund. Against its holdings of gold England has certain liabilities expressed in gold. In particular, there is an obligation to Portugal to redeem certain sterling balances in gold, within five years after the war. There is also an obligation to convert Swiss balances into gold whenever they exceed about 5 million pounds. Apart from such specific gold obligations, there are registered sterling balances (held by U.S. nationals and Swiss nationals) which can be converted into dollars or Swiss francs, and sterling balances held by Iran and guaranteed against depreciation in terms of gold.

The American technical advisers are prepared to recognize that certain offsets can be legitimately claimed. This is particularly the case if the gold obligation of the debtor country is regarded as a gold asset by the creditor country and is included in its gold holdings. Any rule on offsets should be uniformly applicable in order to assure that the gold holdings exluded by one country are included by another. The American technical advisers have on several occasions asked for a specific statement from the British experts on what offsets would be claimed and the justification in each case. No specific claims have been put forward, and the question will have to be given further consideration after the British experts arrive.

4. Newly-mined gold.

Russia believes that the requirement to repurchase local currency with gold should not apply to newly-mined gold.

The Joint Statement on the International Monetary Fund provides that member countries must repurchase their local currency with one-half of the increase in their gold holdings. The Russians have stated that this provision should not apply to newly-mined gold because such gold ~~does~~ is not ~~require~~ the result of a favorable balance of payments and ~~therefore~~ does not put pressure on the gold reserves of other countries. The American technical advisers have taken the view that the purpose of the Fund is to provide aid in maintaining exchange stability for countries that have inadequate gold and exchange resources. The fact that a country's gold holdings increase, even if it is newly-mined gold, is evidence that it is in a position to repurchase from the Fund the local currency holdings of the Fund in excess of 75 percent of its quota.

More recently, the Russians have proposed that the requirement to repurchase local currency with gold should not apply during the first five years to newly-mined gold in countries where enemy action has resulted in substantial damage. Such a definition would be applicable only to Russia and the Philippine Islands, the only important gold-producing countries occupied in whole or in part by the enemy. It might be possible to allow Russia to accumulate her newly-mined gold during a moderate period of two to three years on the theory that she has been unable to engage in normal gold-mining operations, so that her gold reserves could not be built up because of the complete conversion of Russia's industry to war.

5. <u>Exchange Rates</u>.

Belgium, China, Czechoslovakia, Netherlands and several other occupied countries favor a more flexible provision for the alteration of exchange rates. In particular, they favor setting exchange rates provisionally at the time of the establishment of the Fund, leaving definitive rates for subsequent determination.

The problem of determining initial exchange rates is a very difficult one. It is the view of the American technical advisers that agreement on each of 44 individual exchange rates would be an impossible task. Furthermore, there is no need for considering anew the exchange rates of most countries. For the United States, the Latin American republics, and the British Empire countries, the probability is strong that prevailing exchange rates are in fact appropriate. The countries in which there is reasonable doubt on the satisfactory nature of the exchange rates are countries that have been occupied by the enemy. The American technical advisers ~~will~~ recommend that initial rates of exchange be based on the official dollar rates as of July 1, 1944, but that in those cases where the Fund or the member country regards the prevailing rate as inappropriate, a new rate would be determined by agreement between the Fund and the member country. No exchange transactions should be undertaken by the Fund until a rate has been determined that is satisfactory to the Fund and to the member country.

So far as concerns changes in exchange rates, no special provision should be made for occupied countries, particularly as it may be possible to delay the determination of definitive rates for a few months. However, in passing upon requests for adjustment in exchange rates the Fund should take into consideration the uncertainties of the post-war period and should give a country requesting a change in exchange rates the benefit of reasonable doubt.

6. Russia's Exchange Rate.

Russia wishes to reserve power to change her exchange rate without the approval of the Fund since she holds that her exchange rate has no effect on international transactions.

The Russian experts have taken the view that because Russia is a state trading country her exchange rate is not of significance to other countries. Russian exports are priced in terms of foreign exchange and are sold for foreign exchange in world markets. Russian imports are purchased in foreign markets in terms of foreign exchange and payment is ~~me~~ made in foreign exchange. The Russian exchange rate, according to the Russian experts, is a matter of internal bookkeeping and does not affect the international economic relationships of Russia.

The American technical experts are of the opinion that there is a good deal of truth in the contention of the Russian experts that the imports and exports of Russia are determined on the basis of an overall plan~~s~~ for the economy and that they are not ~~significantly~~ affected by the ruble exchange rate. It may well be that the ruble exchange rate is ~~simply~~ significant only as a matter of internal bookkeeping.

It is nevertheless the opinion of the American technical advisers that it is not feasible to exempt Russia from the requirement that any change in the ruble exchange rate must be subject to approval by the Fund in precisely the same way as for every other country. If, in fact, the Russian exchange rate does not affect the international economic position of Russia and other countries, it may be presumed that the Fund will take the view that no harm is done in permitting a change in the ruble rate. It is, of course, necessary to provide that a change in the ~~Russian~~ ruble exchange rate for internal bookkeeping purposes, as distinguished from international transactions, is possible within the terms of the Fund. This, the American technical advisers are prepared to recommend provided the Fund retains the power to approve or reject a proposed change in the exchange rate for the ruble.

7. Quotas and Voting Power

Several countries object to the close relationship between quotas and voting power. Russia believes that, in determining voting power, other considerations than those entering into the determination of quotas should be considered.

The Russians have taken the position that in determining voting power in the Fund consideration should be given to the international responsibility of the country. In particular, they feel that the United States, England, Russia, and China should each have at least ten percent of the aggregate voting power regardless of their quotas.

The position of the American technical advisers has been that it is not feasible to separate voting power from quotas. Countries that contribute the resources to the Fund must have responsibility in the management of the Fund approximately in proportion to their participation. ~~Under any circumstances,~~ While it may be possible to give Russia nearly ten percent of the votes (it should have ten percent of the aggregate quotas) it is not possible to make provision for giving any other country either so large a proportion of the quotas or of the votes. It is probably that the Russian technical men will not press the point so far as China is concerned. They may insist that Russia have additional votes sufficient to raise its proportion of the total voting power to ten per cent.

8. Executive Committee.

U. K. wishes voting power in the executive committee to be in the order of importance of the countries but not necessarily very closely related to their quotas.

It has been agreed that voting power in the Executive Committee as well as in the Board of Directors should be closely related to quotas. There is some difference of opinion between the American technical advisers and the British experts on the most appropriate means of apportioning voting power in the Executive Committee. The British experts have proposed that there be 100 votes in the Executive Committee of which 25 would be assigned to the United States, 20 to the United Kingdom, 15 to Russia, 10 to China, 10 to France, with 5 votes allotted to each of four elected members of the Executive Committee.

Such an arrangement would result in giving the United Kingdom, Russia, China, and France much greater voting power in the Executive Committee than their relative quotas. The American technical advisers recommend that the 5 permanent members of the Executive Committee (US, UK, Russia, China, and France) each cast the number of votes to which they are entitled on the basis of their quotas, and that the elected 6 ~~other~~ members of the Executive Committee ~~be elected by the other countries, with the elected members each~~ casting the votes by which they are elected. Such an arrangement would give the United States approximately 26 percent of the votes, United Kingdom 14 percent ~~of the votes~~, Russia 10 percent ~~of the votes~~, China and France each 6 percent, and the 6 elected directors about ~~38~~ 6 percent each of the aggregate votes, ~~in all~~. We have had no expression of opinion from the English experts on this proposal and we are, therefore, uncertain how they will feel.

9. Limit on the votes of one country. Mexico, Australia and Belgium believe that no member country should be permitted to have more than 20 or 25 percent of the aggregate votes.

The Australians are particularly disturbed to see a preponderance of American voting power in the Fund. They have taken the view that no country should have a dominant voice in the determination of policy, and that the provision on voting power should restrict the votes of a country to approximately 20 percent of the total. In particular they feel that no country should have enough votes to veto any proposal of the Fund. The Belgian view is somewhat similar to ~~that of~~ the Australian though perhaps not so extreme. The Mexican view is not so much related to a limitation on the voting power of any one country, as a desire to see the smaller countries participate more fully in the decisions of the Fund. The Mexicans feel that many matters to be considered by the Fund involve questions of sovereignty and that small countries have interests and responsibilities no less than large countries.

The American Technical Advisers feel that it is not desirable in principal to limit the votes of a country in connection with an international organization in which large resources are subscribed in different proportions. ~~The American Technical Advisers~~ They believe that the U. S. must have sufficient votes to make sure that quotas cannot be changed in a manner detrimental to our interests and that no amendment to the Fund proposal can be enacted without our approval. A minimum of 20 percent of the votes would be necessary for this purpose and a larger percentage would be desirable. Under any circumstances, the United States cannot be put in a position of having less votes than the British Empire as a whole, and a limitation on the voting power of any one country might have this effect.

There is no doubt considerable merit in the position taken by the Mexican experts. Recognition should be given to the fact that countries have sovereign interests in some of the actions of the Fund. To meet this point the American Technical Advisers have concurred in the suggestion of the Mexican experts that suspension of membership from the Fund shall be voted only by the full board of directors and only on the basis of one vote for ~~one~~ each country.

10. Voting on sale of exchange. The U.S. and Canada favor a provision under which the votes of creditor countries would be increased and the votes of the debtor countries would be decreased in voting on questions relating to the sale of exchange.

While there is no likelihood of a combination of debtor countries assuming control of the Fund and permitting liberal or generous use of its resources without adequate safeguards, it is the view of the Canadian experts and the ~~United States~~ American Technical Advisers that some provision should be made for decreasing the voting power of countries who ~~have purchased exchange from~~ are using their quotas in the Fund and increasing the voting powers of countries whose ~~currency has been~~ currencies are being sold by the Fund. The ~~U.S.~~ American Technical Advisers propose that for every

$2 million of net sale of a country's currency by the Fund, its voting power be increased by one vote and that for every $2 million of net purchase of a country's currency by the Fund, its voting power be decreased by one vote. The effect of such a provision would be to increase the votes of the United States and Canada, assuming them to be creditor countries, from a total of approximately 30 percent on the basis of their subscriptions to a maximum total of 45 percent if all of their initial currency subscriptions were sold by the Fund.

This question has been discussed with a few countries, including England, who has raised no serious objection to the provision. It is expected, nevertheless, that some of the smaller countries, and particularly Australia, will take a strong position against this provision.

11. Pressure on Creditor Countries.

Many countries believe that more pressure should be put upon creditor countries, whose currencies have been declared in scarce supply, to secure an appropriate balance of payments.

A number of countries led by Australia, but not without some support from Canada and England, take the view that disequilibrium in the international balance of payments is as much the responsibility of the creditor countries as of the debtor countries.

The difficulty in such a contention, even if admitted, is in finding appropriate means of exerting pressure on the creditor countries. The American technical advisers ~~are prepared to admit~~ believe that the Fund should be in a position to make recommendations to any member country, whether creditor or a debtor, on international economic policies necessary for the restoration of equilibrium in the balance of payments.

In the nature of things, the action taken by the Fund ~~upon such recommendations~~ cannot be parallel for debtors and creditors. Debtor countries must apply to the Fund for the purchase of foreign exchange with which to meet their adverse balance of payments. Under the circumstances, the Fund is in a position to say to such countries that it will sell foreign exchange only if steps are taken to correct the maladjustment in their accounts, and only on terms and conditions that safeguard the interests of the Fund. Creditor countries are not in the position of applying to the Fund for the purchase of exchange. There is no sanction that the Fund can apply against such countries. The Fund must, therefore, rely solely on the force of its recommendations and on the strength of public opinion in supporting reasonable policies in creditor countries that will make possible the maintenance of international equilibrium.

12. Penalties.

Mexico wishes to make provision for the partial substitution of silver for gold in the subscriptions to the Fund.

Some countries believe that if penalties are applied to debtor countries using the Fund, penalties should also be applied to creditor countries.

The American technical advisers will propose a system of graduated penalties on countries making use of the resources of the Fund. The objective of these penalties is to provide a deterrent on countries making excessive use of the Fund's resources for unreasonable periods of time. Penalties will be graduated according to the amount of the local currency holdings of the Fund and the period of time during which the Fund holds such currency. The penalty would rise from approximately 1 percent per annum to 4 or 5 percent per annum, when the Fund holds balances of local currency for periods of 3 or 4 years. In the opinion of the American technical advisers, such penalties are essential to induce countries to make us of the Fund's resources in moderation and for as short a period as possible. Penalties, of course, would terminate as soon as a country repurchased its local currency from the Fund with gold.

The Canadians take the view that if such penalties are placed on debtor countries, then creditor countries who are equally responsible for disequilibrium should also be subject to penalties. There is no doubt that this position will be supported by Australia and by other countries. The American technical advisers are of the opinion that it is not feasible to provide any penalties against creditor countries. Penalties are not applied on the basis of disequilibrium, but on the use of the Fund's resources. The creditor countries are not users of such resources and they are passive in

Some countries believe that if penalties are applied to debtor countries using the Fund, penalties should also be applied to creditor countries.

determining the amount of their resources made available by the Fund. The debtor countries are users of these resources and they should be induced to restore the Fund's position in their currencies by applying ~~to them~~ penalties on the excessive holdings of their currencies. For greater effect, such penalties should ~~be increased~~ rise as the amount~~s~~ is ~~are~~ increased and as the period during which ~~they are~~ the currency is held by the Fund is extended.

13. Silver.

Mexico wishes to make provision for the partial substitution of silver for gold in the subscriptions to the Fund.

Mexican technical experts have made the point that silver is predominantly the metal produced in the Western Hemisphere, that it is highly regarded as a money metal by a large part of the population of the world, and that silver should be given some place in the Fund by providing for the joint use of gold and silver in subscriptions to the Fund and in the purchase of exchange from the Fund. The Mexican experts are less concerned about the proportions in which gold and silver are used and the relative values ~~to~~ at which they are used, than with the principle that some use of silver should be made in the Fund.

The American technical advisers have put this question to the experts of the United Nations with whom they have discussed the Fund proposal. Except in the case of Bolivia, there appears to be no support whatever for the Mexican proposal. It is known that the Mexican experts will propose at the conference that the Fund give consideration to the appropriate position of silver in the monetary structure of the world and that it recommend measures for this purpose.

ORIGIN OF THE BRETTON WOODS PLANS

When currency systems were restored after the last war there was little or no attempt at coordination of measures to provide stability; no machinery was set up to facilitate an orderly adjustment of exchange rates when fundamental conditions necessitated such a revision. The disturbances of the 1930's, involving a resort to competitive currency depreciation, imposition of exchange restrictions, import quotas, and other devices which all but stifled trade, made it clear that improved international financial arrangements were necessary. The currency and exchange difficulties of that period are generally regarded as contributing to a considerable extent to the outbreak of World War II.

As the war progressed, discussion of international financial objectives and procedures was stimulated. In the United States Mr. Harry D. White of the United States Treasury Department prepared a plan for an international stabilization fund and an international bank for reconstruction and development which he presented confidentially early in 1942 to a group of government officials in Washington.

Discussions had also been going on in England, and soon thereafter Lord Keynes offered a proposal for an "International Clearing Union." The British Government printed this proposal as a state document. Copies were made available to United States Government officials.

These two proposals became known as the White Plan and the Keynes Plan. They were actively discussed in government circles both in Washington and London beginning about the middle of 1942, and early in 1943 they were confidentially communicated to other United Nations.

In April 1943 the two plans were made public. The American release to the press of a "Preliminary Draft Outline of Proposal for a United and Associated Nations Stabilization Fund" and the British White Paper presenting "Proposals for an International Clearing Union" pointed out that each proposal was the work of government technical experts and that it did not involve any official commitment. Although the plan proposed by Mr. White provided for the creation of an investment bank as well as a stabilization fund, the material made public in April 1943 did not include the proposal for a bank. Attention was concentrated on the stabilization fund. The British proposal referred to the need for other institutions, including a Board for International Investment, and mentioned the services which the Clearing Union might perform for such a Board.

The Secretary of the Treasury sent the American proposal to 37 nations and invited them to send technical experts to Washington to discuss it. Accordingly, about the middle of 1943 discussions with experts from a large number of countries were held informally in Washington. Many valuable changes and additions developed from these discussions. Shortly afterward the Canadian experts offered a plan which embodied many of the features of the British and the American proposals. A little later China and France came forward with proposals representing their views. The similarities of the various viewpoints were much more marked than were the differences. Following these discussions between American and foreign technical experts a revision of the so-called White Plan was published in July 1943.

In the fall of 1943 British economic and financial experts came to the United States to discuss various topics. The financial discussions dealt almost entirely with the currency-stabilization proposals and only to a small extent with plans for a bank. The British and American experts found themselves in substantial agreement on the major principles of international cooperation for currency stabilization, and prepared a tentative draft of a joint statement of principles.

Meanwhile, in November 1943 the Treasury Department had published a draft of the bank proposal. Russian experts came to Washington early in 1944 and engaged in extended discussions with respect to both proposed institutions. These discussions were undertaken with considerable interest in view of the differences between the Russian economic system and the systems prevailing in most other countries. It soon developed that agreement with Russia on both the Fund and the Bank was possible.

Out of these various discussions there developed a document known as the Joint Statement of Experts on the International Monetary Fund.

This document represented the common area of agreement among the nations that had participated in the discussions. It was published on April 22, 1944 simultaneously in Washington, London, Moscow, Chungking, Ottawa, Rio de Janeiro, Mexico City, and Habana, and in full or abbreviated form in many other countries. It represented the views of the experts of approximately 30 countries and constituted a basis for the development of the subsequent detailed plan.

Time had not permitted preparation of a similar statement with respect to the Bank. The discussions had indicated a large measure of agreement on the Bank, but the plan was not so far advanced as was that for the Monetary Fund.

In May 1944 the President of the United States issued invitations to the 44 United and Associated Nations to attend a conference to be held at Bretton Woods, New Hampshire, in July 1944. The Conference was to discuss the proposed Monetary Fund within the terms of the Joint Statement and was to consider if possible the bank proposal.

In order to facilitate the work of the Conference and to work out some of the many details, a preliminary meeting was held at Atlantic City. On June 15 a group of American financial experts assembled there and were joined a few days later by experts from 15 other countries. The group worked intensively, endeavoring to deal with some of the unsettled questions and to produce a more finished document. At this preliminary conference the British experts presented suggestions on the Bank which involved some changes from the earlier plan but which met with almost immediate approval of the experts of the other nations. It became clear that the Conference would be able to consider the establishment of an International Bank as well as a Fund. The group at Atlantic City went directly from there to the Conference at Bretton Woods, New Hampshire, which assembled on July 1, 1944.

The Bretton Woods Conference worked in a spirit of complete cooperation and harmony. All the nations represented at Bretton Woods were interested in finding the best means for cooperation in dealing with international monetary and financial problems. Every country realized that the effectiveness of its own economic policies depended to a considerable extent upon removing the monetary disorders and obstructions that stifled world trade in the 1930's. At the same time, every country represented at Bretton Woods was concerned with protecting its own interests. In this atmosphere of enlightened self-interest the United Nations found the basis for working together to their mutual advantage.

After extended consideration by the committees and the commissions of the Conference, and by the Conference meeting in plenary session, the articles of agreement for the Fund and Bank were embodied in a final act of the Conference and later submitted to all participating governments for their approval.

RFM:ers 12/26/45