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TREASURY MEETING - FEBRUARY 8, 1944

Russians - Chichulin, Smirnov, Bystrov, Zlobin, Morozov, Kucnuson
Americans- Pasvolsky, Livesey, Collado, Brown, Angell, Cohen
Szymczak, Gardner, Bourneuf
White, Bernstein, Luxford, Bitterman, Richardson

Smyrnov asked why the monetary unit had been eliminated in the Joint Statement. White explained that a name was given to the unit of account in the American plan merely as a matter of convenience. In the British plan the new unit was of more importance. Use of either name would look like victory for that plan. Some common unit of account will be introduced later in the drafting committee.

Smyrnov asked why no precise formula for the allocation of quotas was included either in the Joint Statement or in the Fund drafts and asked whether the precise formula would be determined at the Conference or by a prior understanding between the key countries. White replied that the actual formula would be decided at the Conference but that we do have an understanding with the British that the U. S. quota will not be more than about $2.8 billion, that the total British Empire quota will be smaller than the U. S. quota, and that the United Kingdom (including colonies) quota will be about $1,250 million. White said he would be glad to discuss any formula the Russians proposed.

Smyrnov asked for an explanation of the provision [5(1)] that transactions with the Fund will be at par subject to a fixed commission and between member currencies within an agreed percentage of parity. White said these were two ways of referring to the same thing and that the spread was expected to be on the order of the gold points. Americans prefer "charge" to commission. Smyrnov then asked if the commission would be fixed at an equal rate for all currencies and at what rate. White said this would be left to the Board of Directors and that the guiding principle would probably be to have the commission a bit larger than the spread between market buying and selling prices. He then said he would answer in writing and that what he was saying applied to both the "charge" and the "agreed per cent of parity".

Smyrnov then asked how a depreciation would be determined to be "significant" under 6(2) of the latest Fund draft and whether this meant depreciation beyond the agreed percentage of parity. Mr. Gardner answered that the exact meaning of "significant" would have to be determined later but that it would certainly be beyond the agreed percentage. White said he would send explanation in writing.

Smyrnov asked why the United States would not consent to the exception for newly mined gold in 4(6) of the Joint Statement. White said we have accepted it and that he would give the Russians a document explaining which of the underlined clauses the Americans have decided to accept. White said that in this particular provision the words "equal advantage" were very important and greatly reduced the significance of the provision.

Smyrnov then asked a question about 4(5) in the Joint Statement. Mr.White interpreted the question as whether capital restrictions could be applied to balances accumulated from foreign trade transactions before capital control was instituted. White at first said no. Mr. Gardner commented that it would be very difficult to determine the origin of particular balances and White and Bernstein finally said they would think it over and answer in writing. It is possible that the Russian question was really somewhat different -- Smyrnov seemed to ask whether when country Y has restrictions on capital movements whether country X still has to buy back its own currency from country Y.

Smyrnov then asked what voting method was contemplated in the latest Fund draft [VII-2] for the Executive Committee. White said he thought voting would be by the same formula as on the Governing Board. Smyrnov said he believed that the Executive Committee would make most of the important decisions on the sale of exchange and wondered about the application of the special voting provision VII . 3. a. White said lots of work on these points remained to be done by the drafting committee -- he did think countries represented in the Executive Committee would have most of the votes.

Smyrnov asked whether the limitation of a country's vote to 1/5 of the total applied under the special voting provision VII . 3. a. Bernstein said no, that it only applied to distribution of basic voting power. Mr. Gardner commented that this was not clear in the Joint Statement and White said it was provided for in the minutes.

Smyrnov turned to section VIII of the latest Fund draft. He though the initial statement that the Fund would not interfere with the policies of member countries was contradicted by later provisions that a member must furnish the Fund with all the information it needs and must also give consideration to the Fund's recommendations. When White said he failed to see the contradiction Smyrnov explained that he thought a member country would have to accept the Fund's recommendations and White said no. Smyrnov thought the Fund could ask for any kind of information and White suggested the Russians try to rephrase that provision to ensure the Fund necessary information and yet protect themselves. White said that of course information given to the Fund wouldn't have to be made public.

Smyrnov then asked with what countries the Joint Statement had been discussed and what were the attitudes of China, Canada, and France. White explained that we had discussed the published Fund draft with 30 countries and that they had made suggestions, many of which were met in the latest draft. He said he was sure that the latest draft would be acceptable to those countries. He said we had discussed the Joint Statement only with the British and that the British were going to discuss it with their Dominions.

Chechulin said they had not yet been able to study the written answers since they had received them late Tuesday. He suggested the next meeting be a week away. White said he was very anxious to get over the Joint Statement as quickly as possible and Chechulin said later meetings could be nearer together. The next meeting was set for Wednesday, February 16, at 10:30. White promised written answers to today's questions by Thursday or Friday. He then gave the Russians (and later us) a copy of the February 3 cable to the British on the points of difference.

AB
2-10-44

Miss Bourneuf:

Bernstein gave this to me the other day as I was leaving the meeting saying it replaced the old page 6 in one of the hearing (?) drafts. Can you place it? Was it the draft given to the Russians (i.e. made up in Oct.)? Why are they still talking "acceptable" currencies at this late date?

WRG

Draft handed by Treas Feb. 9, '44

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3. A currency is "acceptable " to the Fund if at the time the currency is tendered to the Fund the member country represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund.

Unless the conditions are waived, the currency ceases to be acceptable:

a. If the Fund's total holdings of the currency exceed 200 percent of the quota.

b. If the Fund's total holdings of the currency have increased by more than 25 percent of the quota during the previous 12 months.

The Fund's holdings of the currency of a country include its holdings of the Government securities of the country.

When a member's holdings of gold and gold convertible exchange exceed its quota, it shall pay with gold for one half the exchange purchased from the Fund.

4. When a member country is using the resources of the Fund in a manner that clearly has the effect of preventing or unduly delaying the establishment of a sound balance in its international accounts, the Fund shall render a report to a member country indicating the effect of its excessive use of the Fund's resources.

a. The Fund may also give notice of not less than one year that it will not, thereafter, sell foreign exchange for the currency of a member country, but during the period of notice the Fund shall sell foreign exchange to the member country for its currency up to the extent of 25 percent of its quota.

b. However, when the currency holdings of the Fund exceed 125 percent of the member's quota the Fund may reduce the period of notice to not less than six months during which period the Fund will sell foreign exchange for the currency of a member country to the extent of not less than 12-1/2 percent of its quota.

5. The Fund may waive any of the conditions of acceptability in V-3 and 4 above only with the specific approval of the Executive Committee and provided that at least one of the following two conditions is met:

a. In the judgment of the Fund satisfactory measures are being or will be taken by the country whose currency is acquired by the Fund, to correct the disequilibrium in the country's balance of payments; or