MEETING AT TREASURY - FEBRUARY 22, 1944

Present: Chichulin, Morozov, Bystrov, Zlobin, Smyrnov, Kucnuson
White, Bernstein, Bitterman, Richardson, Pasvolsky, Livesey,
Brown, Collado, Angell (late), Cohen (late)
Goldenweiser, Gardner, Knapp, Bourneuf

Smyrnov said the Russians would discuss the Joint Statement today. He emphasized that the delegation spoke informally and that what was said did not represent official or formal positions of the Russian Government. He stated that the delegation believed that participation of U.S.S.R. in an international monetary organization was possible but that if U.S.S.R. is to participate the fact that Russia is carrying on State trade must be taken account of in various provisions of the draft. Also that it must be recognized that Russia has suffered more from the war than all other countries. At Moscow the American representatives said that drafts of international agreements would be so worked out that a country carrying on State trade could join. The Russians feel that their suggestions on both the Fund and the Bank do not contradict the general spirit and purposes of the draft.

Smyrnov then said that in Russia exchange rates are determined by the State and do not reflect market conditions. Their importance is domestic mainly and changes in rates do not affect trade policy or the interests of other countries in international trade. Russia is willing to make contributions in rubles and buy foreign exchange with rubles and credit the Fund's account at the Russian central bank. The Fund can then sell these rubles to those having payments for goods and services to make in Russia. Russia may continue to prohibit the export and import of Russian currency. Russia does not consider this to be an exchange restriction on current transactions.

The prices of Russian exports will be determined in foreign exchange and in accordance with prices prevailing on international markets. Russia believes that it is a special case and there is no need of Russia consulting the Fund in case of a change in exchange rates.

White began to summarize their position. Mr. Gardner pointed out that if the United States is buying rubles with dollars through the Fund the rate of exchange is significant. Mr. Bernstein said he assumed that the Russians would maintain the dollar value of the Fund's holdings of rubles.

White suggested that the Russians raise other points but Chichulin said he wanted to discuss exchange rates today since it was of great importance.

White commented that it was intended that the Fund would keep its account at the member's central bank except for gold and asked if the Russians had considered the gold contribution. Chichulin said he wanted to postpone discussion on that point.

White then explained that a country can only get rubles through the Fund if they are needed to pay for Russian goods and services so that he did not see what the Russians were worrying about on that score. There was lots of discussion and eventually the Russians seemed convinced that the draft met their point. There was a definite implication that the Russians didn't want Mexico to obtain rubles from the sale of goods to Russia and then hand those rubles to the U. S. White and others emphasized that Mexico could only get rubles for such use outside the Fund if Russia permitted it.

Smyrnov then said that Russia didn't consider it was restricting foreign exchange on current account transactions. White said the idea of special restrictions under complete state control didn't fit -- White said control over the export of rubles was a capital control. He said he hoped the Russians would provide rubles freely to foreigners wanting to travel in Russia and vice versa.

White then asked how the Russians priced their exports. Smyrnov said on the basis of foreign market prices. White then asked how that was related to the cost of the timber and Smyrnov said that prices in Russia were not determined by demand and supply and that there was no way of comparing internal and export prices.

White then asked if the foreign price of a lot of timber was $100,000 and the rate 20 rubles to $1 and the price in Russia 4 million rubles would the Russians sell the timber at a lower ruble price or make 40 rubles = $1. White said the exchange rate must be important to other countries, that in Russia as in all other countries there is a choice between lowering internal prices or depreciating. Mr. Chichulin insisted that all transactions would be in foreign exchange and that the ruble-dollar rate of 5.30 to 1 had not created obstacles in the past.

White said the Fund would agree to any reasonable initial rate. What he did not see was why the Russians would change the rate if it didn't affect their competitive position. Chichulin said it was hard to say-- that the rate was a unit of account and that Russia would accept the necessary safeguards for the Fund. White said if less important to Russia than to capitalistic countries why are you so unwilling to consult the Fund.

Zlobin then launched on a long explanation that Russia has never changed the rate to increase its exports, that Russian exports are not determined by profit considerations -- that they simply export enough to get the necessary imports and the exchange rate doesn't affect foreign trade.

It was decided to meet again on Thursday, February 24, at 3 p. m.

A.B.

Suppose they are so anxious to buy American machinery that they are willing to sell timber cheap in dollars to get the dollars. Would that not be equivalent to exchange depreciation?

Whether Russia varies the rate of exchange between dollars & rubles or not it can decide how much to buy and sell and at what dollar price & can take ~~domestic~~ internal losses or make ~~make~~ {internal profits in rubles so what difference does it make ~~whether~~ how Russia converts rubles into dollars - except in the fund's operations.

If they actually took world market price in $ of a commodity and buy and sell at that price & if rubles in Fund account are increased or decreased with change in ruble-dollar rate <u>then</u> O.K.

~~Still~~ as far as Fund operations are concerned

According to whether the exchange rate is high or low they can show their losses as taken on their exports or their imports. If the commercial policy agreement excludes subsidy of exports, they can adjust the rate so as to show the subsidy on imports.

Might it not be helpful at some stage to get their explanation of how the ruble is used in domestic accounting? The rate at which foreign exchange is converted into rubles may determine whether the Russian exporting enterprise shows profits or losses. Are these disregarded and without influence on Russian exports?