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MEETING AT THE TREASURY - MARCH 9, 1944

Present: White, Bernstein, Luxford, Richardson, Livesey, Collado, Brown, Maffry, Coe, Goldenweiser, Gardner, Bourneuf.

White said he thought the Russians had abandoned exchange rate point and we should proceed on that assumption. Goldenweiser mentioned that we were going to make a change in the wording.

Brown brought up the fact that 4(2)(a) as worded is not strictly bilateral but would be if the word "currency" was changed to "country".

White said we have always interpreted it to be bilateral. Mr. Gardner analyzed the case of France having an adverse balance with Brazil and Brazil with the United States and said that the pressure in France would be on the dollar. Bernstein said that what it amounts to is that if the U.S. balance of payments is favorable the dollar will be under pressure in all countries. Then Bernstein commented that if the French got dollars from the Fund in Gardner's case it could be considered that France needed the dollars for a transfer of capital to the United States.

White said he thought the Russians had been satisfied when he told them that other countries could not get rubles from the Fund except to make payments to Russia. Brown and Collado felt that White's explanation had been too broad and would not quite stand up. White felt the detailed solution could be left to those drafting regulations covering the Bank's operations at the conference.

Gardner then said he thought the Russian ruble contribution would never be used -- that the ruble rate could never go through the roof in foreign countries and therefore they would not ask for rubles. White felt that the rubles could be used unless Russia refused to accept payment in rubles. The Fund could force a country demanding foreign exchange to take rubles if the country had an adverse balance with Russia. Gardner pointed out that you would have to force citizens in the paying country to pay the Russians in rubles since they normally would make payments in other currencies. White suggested that we might get the Russians to agree ahead of time to take payment in rubles. Bernstein said the Russians had said they would accept payment in rubles if they had a favorable balance but it was a question whether the Russians would ever have a favorable balance.

White distributed a list of the points to be discussed before the next Russian meeting. He said he thought it was impossible to change the gold contribution formula except possibly for some concession to occupied countries. Mr. Goldenweiser said he thought the Russians wanted a flat 15 per cent because it would weaken the U.S. argument for the gold repurchase provision.

White suggested allowing occupied countries to pay 1/2 of gold after three years. Gardner said it would never be paid up and Bernstein said especially if they use up their gold before the three years are up.

Gardner and Coe favored giving occupied countries larger quotas instead and Bernstein asked if they would be free of gold contributions. White and Bernstein calculated the unallocated 10 per cent would suffice to raise quotas of all occupied countries by 15 to 20 per cent. Mr. Bernstein suggested raising the percentage of occupied countries to 35 per cent the first three years instead of 25 per cent. Countries making full 25 per cent gold contributions would then get some net assistance the first year. Gardner felt this solution would lay us wide open to the Williams attack. White tried to argue that Williams' position was unsound anyway. He went on to say that the Fund does not have to provide the 25 or 35 per cent anyway but Gardner argued there was a presumption against refusal within the stated percentage.

White said he was anxious to make a final U.S. decision on these points -- that he did not want to bargain with the Russians because of difficulties of language and the fact that they have to cable home for directions.

White and Bernstein and Goldenweiser agreed that the Americans should not yield on the 50-50 gold payment. Goldenweiser then suggested a "slate" -- refuse on points 2, 3, 7, and 8; agree to 5 and 6; leave 4 for principals, and make some compromise on 1. Coe felt 1, 2, and 3 would have to be considered together.

A long discussion ensued on 4, i.e. on where gold would be held. Mr. Goldenweiser felt it was a political decision. White felt we should at least support the position that the Russians took. Bernstein insisted the question was technical and economic, that the gold should be where it would be used most conveniently and cheaply to purchase the needed currencies. Collado felt that there should be a possibility of holding gold in other countries, say one South American country. Coe argued that some would have to be kept in every country.

White seemed to favor at least promising that some would be held in Moscow -- also seemed to favor limiting to four countries to reduce problem of deciding which gold to use. White suggested at one point that gold could be kept in every country and used in proportion to the decrease in the amount of that country's currency held by the Fund. Bernstein objected that this was practically accepting the British pledge idea. Bernstein could see no reason for holding gold in China. He wondered if many would want gold earmarked in Moscow and thought it would probably be very expensive to use gold held in Moscow. White

thought we could support holding some in Moscow but have it in the minutes -- not in the Joint Statement.

On quotas, Bernstein said it would be impossible to give China 10 per cent but thought Russia would be content if she had 10 per cent. Bernstein remarked that Russia's quota would be huge if the ruble^{is} valued at 20¢ as the Russians insist. White thought we could increase Russia's quota by 20 per cent or by 25 per cent of the total unallotted quotas or \$200 million, but would have to know figure for original Russian quota. Collado commented that unallotted quotas would be allotted at Conference and we could only support giving 1/4 to Russia. On membership on the Executive Committee White and Bernstein said that they had promised China the fourth largest quota and if it was provided that the countries having the 5 largest quotas have representatives on the Executive Committee both Russia and China would be taken care of. It was finally decided to ask them why 7 bothered them. White was ready to leave it out but Brown felt it was important to keep it in.

On 8 -- White mentioned that we could always get information as a conditioning of extending credit to her but then there was general agreement that some such statement must be made. White thought we could list the specific data the Fund would need but was not sure the Russians would be able to agree to anything.

It was finally decided to concentrate on points 4 to 8 at the next meeting with the Russians (possibly Monday afternoon) and perhaps discuss points 1-3 but say we have to give them further consideration. The Americans will have to have another meeting on points 1-3.