

March 21, 1945

INTERNATIONAL FUND AND BANK

(Statement by the Board of Governors of the Federal Reserve System)

The Board of Governors of the Federal Reserve System is convinced that ratification of the Bretton Woods Agreements would be an important step in the restoration of world trade and in safeguarding the interests of the United States in the postwar world.

I.

Without the institutions proposed by these Agreements we would be confronted with disrupted currency conditions and with trade and exchange policies and practices which foreign countries might be forced to adopt in self-preservation but which would nevertheless have disorganizing effects on world trade. In rebuilding the machinery of international finance after the war it will be vital to avoid the recurrence of practices which developed after the first World War, and to eliminate abuses which were prevalent in international lending. Effective action in these fields would form a counterpart to essential programs of domestic reconstruction. The greatest contribution to international prosperity and stability that the United States can make is to maintain full employment and a rising standard of living at home. In order to establish international trade on a sound and enduring foundation, it must be based upon a balanced exchange of goods and services. On such a basis it will contribute an important steadying influence to our domestic economy.

The International Monetary and Financial Conference of representatives of forty-four nations held last summer in Bretton Woods resulted in agreements for the creation of two new international financial institutions, the International Monetary Fund and the International Bank for Reconstruction and Development. The International Monetary Fund would exert an influence toward exchange stability and thus reduce the exchange risks for exporters and importers. It would require member countries to maintain established exchange rates and would provide machinery for making in an orderly manner by mutual agreement such changes in exchange rates as may be necessary. Members undertake to eliminate as soon as possible monetary practices which interfered with the flow of world trade before the war, such as discriminatory exchange restrictions, multiple currency arrangements, and bilateral clearing agreements. It would help to give assurance to member countries that the proceeds of sales to any country could be used for the purchase of goods in any other country.

For the purpose of assisting member countries in maintaining their exchange rates, once they have been established, without resorting to harmful restrictions on trade, the Fund would have resources in gold and various

currencies which would be available for temporary use by members. It would afford member countries faced with heavy payments abroad a breathing spell during which to make necessary adjustments in their economies with a view to restoring equilibrium in their trade with the world. The Fund would not be in essence a lending institution but a mechanism for converting local currencies contributed by members into a pool of international reserves, on which each country could draw in proportion to its contribution. While temporary shortages of foreign exchange could be met through use of the Fund, members would be under pressure to restore the exchange to the Fund as soon as possible in order to maintain its ability to serve other members.

As a companion institution to the Fund, the Bank for Reconstruction and Development would be a lending institution to promote the international flow of long-term capital. It would make loans for productive and developmental purposes out of its own capital or out of funds borrowed in the market and would guarantee such loans offered to private investors. It is intended to make or guarantee such loans as would in the long run increase the borrower's ability to balance its international accounts. It would help to restore economies destroyed or disrupted by war, to reconvert their productive facilities to peacetime needs, and to develop the resources of less developed countries.

The Bank would have a stabilizing influence on interest rates and other conditions for international loans and would tend to eliminate practices in international investment that have in the past resulted in excessive costs to borrowers and in losses to lenders. It would handle only loans that could not be obtained on reasonable terms without its support and would, therefore, in no way interfere with the flow of private funds into international investments. At the same time it would make it possible for countries greatly in need of foreign resources to obtain necessary capital which might not otherwise be available to them on reasonable terms. The agreement provides that loans made or guaranteed by the Bank must have the approval of the lending country. Consequently, the loans can and should be so timed as to diminish either inflationary or deflationary pressures, and to contribute to the maintenance of economic stability in this country.

II.

From the point of view of the Board of Governors the establishment of the Fund and the Bank would be desirable because they would contribute to world recovery and to the maintenance of economic stability at a high level which is the main objective of the Board's policy. The monetary and credit structure of this country is continually and seriously affected by international transactions. In the past this country's monetary authorities have had to meet difficult situations when our banking system was called upon to absorb an excessive amount of foreign funds

arising out of surplus commodity exports and capital movements from foreign countries. The adoption of the proposed Agreements should help to moderate these disturbing influences.

III.

In connection with the enabling legislation now before Congress, the Board is strongly in favor of the addition of a provision for the establishment of a council or committee to provide the necessary direction and guidance to the representatives of the United States on the governing bodies of the Fund and the Bank and to interpret to them the international financial and monetary policies of the United States. Members of this council or committee should consist of the heads of the appropriate agencies of the Government to be designated by the President. It should be a small group, comprising not more than five members. Since the proposed institutions are to be permanent, it would be advisable to have the council provided by law rather than by executive order or informal arrangement. The council would not only advise the American governors and directors on the Fund and the Bank of its views with respect to the financial and monetary policies of the United States but would also be authorized to act for the United States in matters which require approval under the agreements, except in cases in which the right to decide will be retained by Congress. Establishment of such a council would assure reasonable continuity in the interpretation of American international financial policy to this country's representatives on the Bank and the Fund. Provision for such a council in the enabling legislation would not call for any change or modification of the Articles of Agreement of the Fund or Bank.

BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

Mr. Ansel F. Luxford

3000 Treasury Department

Fed Res. Proposals

March 19, 1945

Mr. White

Mr. Luxford

1. Governor Szymczak advised me today that he had just left a Board meeting at which they had adopted a report on Bretton Woods which they were anxious to have presented to both the House and Senate Committees on Banking and Currency. He said the report was of course favorable to both the Fund and the Bank and that they were prepared to release the report at whatever time we regarded as most strategic. Mr. Elliott Thurston, Assistant to Chairman Eccles, will call me about this matter about the middle of this week. I indicated to Governor Szymczak that our present thinking was that perhaps the report should come in after the bankers had stated their case in opposition of the Fund. He said that they would like to have the report go down sometime this week but that Thurston would discuss it with me.

2. I advised Governor Szymczak that we had discussed the matter of whether Flanders or Ruml should testify before the House Committees on the CED report and that we had concluded that Ruml would be the better witness. Szymczak said he could appreciate the reasons for our decision but that he thought Flanders would make a very good witness, too, and that since he was Chairman of the CED Committee it might seem a little odd for Ruml to speak. I suggested that perhaps the best thing to do would be for both Flanders and Ruml to testify. Szymczak thought that this would be a very good idea. Szymczak then stated that arrangements for them to testify should be made by Secretary Morgenthau personally calling them and inviting them to testify. The matter was left that we would make the arrangements for both of them to testify.

3. I think it would be a smart move on our part for Secretary Morgenthau to call both Flanders and Ruml just as soon as the CED report is announced and compliment them on their fine work. This might temper their position and bring them more to our side in their testimony than is apparent from the actual wording of the CED recommendations. He could also take this occasion to tell them that we will expect them to testify and will advise them later as to the precise date.

(Initialed) A.F.L.

AFL:ehb - 3/19/45

cc: O'Connell, Bernstein, Feltus, Brenner, Leroy, Miss Bassett



BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM
WASHINGTON 25, D. C.

ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

February 7, 1945.

Mr. Ansel F. Luxford,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Dear Mr. Luxford:

This will acknowledge receipt of your letter of February 6, 1945, enclosing a copy of S.J. Res. 18, introduced by Senator Kilgore on January 18 and providing for the establishment of a Foreign Economic Commission.

Very truly yours,

A handwritten signature in cursive script that reads "George B. Vest".

George B. Vest,
Assistant General Attorney.

FOR VICTORY



BUY
UNITED
STATES
WAR
BONDS
AND
STAMPS