Form F.R. 468

Date Jan. 31, 1945

To Mr. R. B. Brenner - 2026 Treasury

From Walter R. Gardner
Board of Governors of the
Federal Reserve System

MESSAGE:

Attached is a brief memo
of the two points discussed
in our telephone conversation
this morning.

January 31, 1945

Limitations on the Issuance of Non-Interest
Bearing Notes to the Fund and Bank

The question has been raised as to whether the limitation on the issuance of non-interest bearing demand notes by the Treasury for the purposes of the Fund and Bank agreements should be $5,925,000,000 (i.e. the amount of U.S. subscriptions to the Fund and Bank combined) or should be $2,750,000,000 on notes issued to the Fund and $3,175,000,000 on notes issued to the Bank.

In practice either of these arrangements would work out about the same for the United States. We believe, however, that the second arrangement, which treats the Fund and the Bank separately, would be better from the standpoint of meeting domestic opposition to the Fund and would subsequently lend support to our efforts to prevent advantage being taken of a defect in the Fund agreement.

Meeting domestic opposition

The opposition to the Bretton Woods agreements appear to be coalescing on the point that the Fund as a separate institution should be dropped and its functions transferred to the Bank. The more suggestions there are in the enabling legislation that the two institutions can easily be rolled together, the more difficult it is to maintain the position that the Fund is a separate and unique institution the functions of which cannot adequately be performed by the Bank. While the handling of the limitations on the issuance of notes will have only a slight influence on this picture, that influence will be harmful psychologically if it is in the direction of rolling the two institutions into one or treating them as interchangeable.

By the same token it will be helpful if the use of notes, like the subscription itself, tends to differentiate the Fund from the Bank.

Subsequent assistance in overcoming a defect of the Fund agreement

This point has already been stated on pages 5 and 6 of our memorandum entitled "Suggestions on Bretton Woods enabling legislation" which was distributed at the meeting yesterday. The defect in the Fund agreement to which attention was there called is one that would disappear if members generally drew their enabling legislation in the second form proposed above -- i.e. keeping the Fund and Bank separate. The defect would remain, however, if they drew their legislation in the first form since that would permit them to issue notes to the Fund in excess of their subscription to it. The excess could be equivalent to the full uncalled subscription to the Bank. In the case of most countries this uncalled subscription would be equivalent to from 80 to 90 per cent of their quotas in the Fund. Hence the non-interest bearing notes could be used to offset the deterrent charges of the Fund on almost the full quota use of the Fund. This is a reason in favor of separate treatment of the Fund and Bank which we feel should weigh with those who will be concerned with the proper operation of the Fund in the future.

So far as presenting the matter to Congress is concerned there is no reason to suppose that any defense of the limitation will be necessary. A limitation on the issue of non-interest bearing demand notes will almost certainly commend itself as a prudent measure.