

January 22, 1945

Messrs. White and O'Connell

Mr. Laxford

Attached is Brenner's comments on the Federal Reserve Board's proposed changes in the Bretton Woods legislation. I think that we should have a meeting at an early point to consider which of the Board's changes we want to incorporate in our draft, and as a preliminary step to a discussion with Goldenweiser et al.

(i) A.F.L.

Orig. to Mr. White  
Cc: Mr. O'Connell

Mr. Luxford

January 20, 1945.

Mr. Brenner

The following is an analysis of the Federal Reserve Board's suggestions with respect to the Bretton Woods legislation. The suggestions are made in connection with the draft which was mimeographed and distributed to the American Technical Committee on December 6, 1944.

1. The suggestions on page 1 of the Federal Reserve memorandum concerning the terms of the governors and executive directors have already been taken care of in our latest draft. The Board suggests appointments for a term of years subject to the pleasure of the President. We have dropped the term of years but have retained the clause making appointees subject to the pleasure of the President.

2. The suggestion on pages 1 and 2 as to the removal of alternate executive directors by the President deserves some consideration. Our draft does not mention removal of alternates. Reference to removal was omitted in order that the executive directors themselves could remove their alternates. Our approach seems to me to be in accordance with the intention of the Articles of Agreement which are designed to insure having alternates who will work well with the executive directors.

3. On pages 2, 3, and 4, the Federal Reserve Board has made numerous suggestions in connection with the International Financial Organizations Board which they renamed the International Financial Council. They consider the establishment of such a body necessary and desirable. Our draft has dropped this agency because:

- a. its inclusion will raise a number of difficult problems concerning membership and functions;
- b. it would set a dangerous precedent; and
- c. the activities, composition, and responsibilities of such an agency can be handled more flexibly if it is created by executive order.

The Federal Reserve Board has also suggested bringing the Council into the sections dealing with reports to Congress and approval by the United States of proposed actions of the Fund and Bank. In view of the fact that we have dropped any reference to such an agency, no comment is made on these proposals.

4. The Board has suggested that the Council be kept fully informed of dealings between the Stabilization Fund and the International Monetary Fund. Since we have dropped any reference to a Council this suggestion cannot be incorporated in the legislation.

The Board has also suggested that the Stabilization Fund be made permanent and this has been taken care of in our more recent drafts.

5. It is also suggested that Federal Reserve Banks act as depositories and as fiscal agents of the Fund and Bank subject to the supervision and regulations of the Board of Governors of the Federal Reserve System. Our draft authorizes the Federal Reserve banks to act merely as depositories and to act in their capacity as fiscal agents of the United States. I have discussed with Messrs. Heffelfinger and Bernstein the question of whether the Federals should act in any manner other than that of depositories. So far I have not found any reason why they should have additional functions. It appears that their sole duties will be to operate bank accounts and earmarked gold accounts which they can do if they are appointed depositories.

The reason why our draft requires the Federals to act as fiscal agents of the United States is because of the numerous difficulties we have had in the past when they act as independent banks. They are so often unwilling to perform functions which the Treasury feels are desirable that difficulties will be avoided if they act subject to orders of the Secretary of the Treasury. This is the way the Federal operates UNRRA's accounts and I feel strongly that whenever they act for international organizations of which the United States is a member, they should do so as fiscal agents of the United States.

6. In connection with the issuance of non-interest bearing demand notes, the Board has suggested that such notes be issued only for the purpose of meeting the subscriptions of the United States. The reason given for this proposal is that further issues would be an undesirable type of Treasury financing and would set a bad example to other countries where similar powers could be used to nullify the deterrent charges levied by the Fund on currency balances.

This matter was discussed with Mr. Goldenweiser, Mr. Gardner, and Miss Bourneuf some time ago. It was made clear to them that the quantities of notes which might be involved at any time would be too small to raise any problem as to the desirability of this type of financing. The point they make with respect to the example we might set other countries does not seem to me to be very sound. It is always possible for other countries to use this non-interest bearing demand note device. If they have something to gain by it they will use it irrespective of whether the United States does.

7. The Council has been substituted for the President as the authority to obtain and furnish to the Fund and Bank necessary information. Since the use of such an agency has been dropped this suggestion cannot be adopted. In addition, it seems to me unsound since it would make the Council an operating agency rather than a purely policy-making body.

8. In connection with the provision on jurisdiction of suits, the Federal has suggested language deeming the Fund and Bank to be inhabitants of the Federal judicial district in which their principal offices are located. It is also suggested that removal relate specifically to removal from State courts. Our section is modeled on the one that was drafted for the Inter-American Bank. I do not believe that either of the Board's suggestions is necessary. Suits could not be brought in the wrong judicial district since it would be impossible to acquire jurisdiction by personal service or by attachment. Reference to State courts in the language is also unnecessary. The whole sentence could refer to nothing else.

9. In connection with financing the subscriptions of the United States, the Board has made several suggestions:

a. It has suggested that \$1,800,000,000 in the Stabilization Fund be set aside in a separate account to be available for the subscription to the Fund. Since the Stabilization Fund is already separate from other Treasury money, I see no reason why \$1,800,000,000 should be set up in a different special account.

b. They have suggested that the \$1,800,000,000 be used before any funds raised by borrowing or taxation. It would be impossible under our draft to use other funds first. In order to accept membership it will be necessary to withdraw the \$1,800,000,000 from the Stabilization Fund and it could not go back into that fund unless returned as a refund of the subscription. If any amount were borrowed back through the issuance of non-interest bearing demand notes it would not go into the Stabilization Fund but into general funds. Accordingly, the suggestion of the Board is unnecessary.

c. They have suggested that the subscription to the Bank be made solely out of revenues. They feel that it is illogical to use our present Stabilization Fund to meet any part of the subscription to the Bank. I fail to see the logic of this suggestion.