

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



ADDRESS OFFICIAL CORRESPONDENCE
TO THE BOARD

January 16, 1945

Mr. H. D. White,
Assistant to the Secretary,
Treasury Department,
Washington, D. C.

Dear Mr. White:

I am enclosing a memorandum of suggestions in connection with the Bretton Woods enabling legislation. Some of the points were discussed by the technical group which met at the Treasury on December 13 and there has been further discussion since among those primarily concerned with the Bretton Woods plans. It has seemed advisable to reduce to legal language a number of points in which the Federal Reserve participants have been particularly interested.

When you have had an opportunity to consider our suggestions, I should like to have a meeting with you to discuss them in some detail. Will you let me know when this is possible? I trust that it can be arranged at a fairly early date.

Yours sincerely,

E. A. Goldenweiser
E. A. Goldenweiser,

Director of Research and Statistics.

Enclosure



Suggested Revisions of Draft of the Bretton Woods Enabling Legislation
Distributed by the Treasury on December 6, 1944

Section 2: Appointment of governors

Proposed revision (second sentence): "Governors and alternates shall serve for five years from the date of their respective appointments, subject to the pleasure of the President; shall be ..."

Explanation: While the United States governors and directors must be allowed to vote on their own responsibility, it is evident that they represent not themselves, but the United States. Otherwise they would not be casting 30 per cent of the votes. To show clearly that they must act in accordance with the general financial policy of the government it should be explicitly stated that they are recallable at the pleasure of the President.

Section 3: Appointment of executive directors

Proposed revision (second sentence): "Executive directors shall serve for two years from the date of their respective appointments, subject to the pleasure of the President; provided, ..."

Explanation: Since it is provided in the Articles of Agreement of the Bank that executive directors shall be appointed every two years it seems reasonable to have the term for executive directors of both the Fund and Bank two years instead of three. The insertion of the phrase "subject to the pleasure of the President" is for the reasons given above.

Section 3:

Proposed revision (fourth sentence): Substitute for "Executive directors shall, with the approval of the President, appoint alternates:"

"Each executive director shall, with the approval of the President, appoint an alternate who shall serve as such, subject to the pleasure of the President, until the expiration of the term of the executive director by whom he was appointed."

Explanation: It is suggested that alternates serve subject to the pleasure of the President for the reasons given above. Also it seems desirable to make it clear that an alternate serves only as long as the executive director by whom he was appointed.

Section 4: Supervision of governors and executive directors

Although there may be some question as to the exact composition of the inter-agency body established in paragraph (a), the establishment of such a body in the enabling legislation is considered necessary and desirable. The Treasury draft uses the title "International Financial Organizations Board" for this inter-agency body. We much prefer the title "International Financial Council" since it is more compact and would permit the use of the single word "Council" without danger of confusion with either the Fund or Bank boards or the Board of Governors of the Federal Reserve System. In subsequent sections we shall refer to the inter-agency body as the Council.

Section 4:

Proposed revision: Substitute for "... and shall consult with and act pursuant to the direction of the Board" in paragraph (b) the following:

".. and shall act in a manner generally consistent with the views of the Council as to the financial and monetary policies of the United States. The governors and executive directors shall meet with the Council at frequent intervals, and whenever requested by the Council, a governor, or an executive director. Such meetings may, in the discretion of the Council, be held by the Council with the governors and executive directors of both the Fund and the Bank, or with the governor and executive director of either the Fund or the Bank."

Add a new paragraph (c) as follows:

"The Council may at any time recommend to the President removal of a governor or executive director if in its judgment he is not acting or has not acted in a manner generally consistent with the views of the Council as to the financial and monetary policies of the United States."

Explanation: Since the governors and directors represent the United States and must act in accordance with its general financial policy they must have some agency to interpret that policy to them. The Council will do this. The governors and directors should not be required to vote in accordance with detailed instructions of the Council, however, since they would then be mere messenger boys and men of ability would be unwilling to accept appointment in these posts. They must vote on their own responsibility. But if they vote in ways that are contrary to the policy of the United States they will risk recall.

Since the Council is set up as the body to interpret the international financial policy of the United States to the governors and directors, the Council should have the right to recommend removal of a governor or director if he is not acting in substantial accordance with that policy.

Section 4:

Proposed revision: Add a new paragraph as follows:

"The governors and executive directors of the Fund and the Bank shall make reports to the Council with respect to the operations of the Fund and the Bank, respectively, at such times and covering such matters as the Council may require. The Council shall annually make a full report of its activities to the Senate and House of Representatives and such report shall include reports by the governors of the Fund and the Bank with respect to the operations of the Fund and the Bank, respectively, and with respect to their participation therein."

Explanation: Congress should be kept fully informed of the activities of the Council and of the governors and directors, irrespective of whether or not there is an Advisory Committee, as to the desirability of which no opinion is expressed at this time.

Section 7: Approval of acts of Fund and Bank

Proposed revision: Substitute the following for the whole of Section 7 and change the title as indicated:

"Actions on behalf of the United States. (a) Except as otherwise provided in Section 6 of this Joint Resolution, the Council is hereby authorized, through the governors and executive directors of the Fund and the Bank, as the case may be, to give or refuse the approval, consent, or agreement of the United States whenever, under the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, such approval, consent, or agreement is required before any act may be done by the Fund or the Bank, respectively.

(b) All communications or negotiations with the Fund or the Bank on behalf of the United States shall be made or conducted by the governor of the Fund and the governor of the Bank, respectively. Any action which may be taken by any agency of the United States Government pursuant to or in order to carry out any provisions or purposes of the Articles of Agreement of the Fund or of the Bank shall be taken after consultation with the Council."

Explanation: The inter-agency Council will interpret the financial policy of the United States Government in relation to the Fund and Bank. It should therefore be the agency to approve or disapprove the actions of these institutions when the consent of the United States as a country is called for before any action may be taken by the Fund or the Bank. Its decisions should be transmitted through the United States governor or director, who in these special cases will not be free to exercise independent judgment.

The sort of case in which approval of the United States as a country is required is well illustrated by the Bank Agreement. The Bank cannot use the United States subscription, or try to borrow funds in this country, or guarantee dollar loans if the United States objects. Suppose now that the Council informs the U.S. director that it is in accordance with the policy of the United States at this time for dollar loans to be made for productive purposes abroad, and suppose that

the director relying on this information votes for a dollar loan. It would be an anomalous situation if at that point some U.S. agency other than the Council could deny the Bank the right to try its luck in our investment markets because the other agency considered that such borrowing would be contrary to the policy of the United States. The Council should be the interpreter of all U.S. policy vis-a-vis the Fund and Bank.

In giving approval to the Bank's attempt to raise funds here, the Council would not be binding any United States agency to take positive action. It would merely state that the United States had no objection to the Bank's seeing what it could do. This would also be true of Council approval of the Fund's borrowing.

The governors and directors, acting in a manner generally consistent with the views of the Council as to the financial and monetary policies of the United States, or in certain matters on specific instructions, should be the channel through which all negotiations, agreements, reports, representations, and other non-financial dealings between the United States and the Fund or Bank are carried out. And since important policy actions and decisions by particular agencies may be required to fulfill the obligations of the United States under the Fund and Bank Agreements these actions and decisions should be made after consultation with the Council.

Section 8: Agencies for dealing with the Fund and Bank

Proposed revision: Substitute the following for the entire section and change the title as indicated:

"Dealings with Fund. (a) The Secretary of the Treasury, with the approval of the President, is authorized to employ the resources of the fund established by Section 10 of the Gold Reserve Act of 1934

for the purpose of dealing with the Fund to the extent necessary to carry out the purposes of the Articles of Agreement of the Fund. The Secretary of the Treasury shall keep the Council fully informed with respect to all such dealings.

(b) Subsection (c) of Section 10 of the Gold Reserve Act of 1934, prescribing a time limitation upon the exercise of the powers conferred by that section, is hereby repealed."

Explanation: Although many of the financial dealings with the Fund will be more or less routine in character, there are occasions, under the Agreements, for transactions of a more discretionary character involving policy. For this reason the Council should be fully informed of all dealings with the Fund.

The United States Fund (with the money which will be left at its disposal after removing \$1.8 billion as indicated below) is not only a convenient and suitable agency through which to carry on dealings with the International Fund but should also continue to function as it has in the past. In addition to a number of technical operations which it performs, it can be used to advantage to continue or extend special stabilization agreements with non-member countries or with other countries which are of special interest to us and which are not able to obtain adequate assistance from the International Fund.

Section 9: Designation of depositories

Proposed revision: Substitute for whole section:

"Any Federal Reserve Bank is authorized to act as depository and fiscal agent of the Fund and the Bank, subject to the supervision and regulations of the Board of Governors of the Federal Reserve System."

Explanation: The Bretton Woods Agreements require a member to name its central bank as depository for the International Fund and Bank. Congress should do this directly; and, it should be made clear that in

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discharging its responsibility, the Federal Reserve Bank would be subject to supervision and regulation by the Board of Governors.

Section 10: Issuance of notes

Proposed revision: Substitute the following for the entire section:

"Issuance of notes. In addition to obligations authorized by any other provisions of law, the Secretary of the Treasury is authorized to issue from time to time at par notes on the credit of the United States, for the purposes of Article III, Section 5, of the Articles of Agreement of the Fund, and Article V, Section 12, of the Articles of Agreement of the Bank, but such notes shall be issued only in lieu of or in substitution for any payment by the United States on its subscription to the Fund or on its subscription to shares of stock in the Bank and may not be issued after the expiration of three months following the date of any required payment nor in an amount greater than the amount of such payment. Notes issued under this section shall be non-negotiable, non-interest bearing, and payable on demand of the Fund or the Bank, as the case may be, by crediting the account of the Fund or the Bank, respectively, in a Federal Reserve Bank depository of the Fund or the Bank."

Explanation: The non-interest bearing Treasury note is a suitable method of postponing payment on the United States subscription until the money is really needed. The Treasury should be able to issue non-negotiable, non-interest bearing notes and pay them over to the Fund or Bank in place of currency for the purpose of paying the United States subscription to the Fund or Bank. The three month provision is to take care of the possibility that, under a strict interpretation of the Agreement, it may be necessary to make the whole subscription in gold and currency only. In that case, however, the notes could be used in effect for subscription by immediately exchanging them for currency in excess of the working needs of the Fund or the Bank. Presumably this could be done within three months.

Once the subscription payment has been made, however, there is no further need for these notes. They would constitute an undesirable

type of Treasury financing. While their use by the United States might be relatively harmless, since the Fund and the Bank are unlikely to accumulate much in the way of excess dollars, the existence of the power would set a bad example to other countries where similar powers could be used to nullify one of the most important controls of the Fund--the deterrent charges levied on large and continuous use of the Fund. A debtor government paying these charges might save more than the amount of the charges by obtaining interest-free money at home by this device. The more it borrowed from the Fund the more it would save on interest at home. Instead of being under pressure to repay the Fund, Finance Ministers would be under temptation to let their indebtedness grow. We should do what we can to eliminate this defect in the Fund arrangement at the start. If the United States gives a good example to foreign countries in its own legislation, it may make its influence felt.

Section 11: Obtaining and furnishing information

Proposed revision: Substitute for (a) "The President is hereby authorized, through any agency that he may designate, and ..." etc., the following:

"(a) The Council is hereby authorized, through any agency which it may designate, and ..." etc.

Explanation: The Council is the group which interprets United States policy with reference to the Fund and, together with the governor and director, should in general handle our relations with it. The Council should have responsibility for seeing that the Fund gets the necessary information and should itself have full access to that information.

Section 13: Jurisdiction of suits

Proposed revision: Substitute the following for the entire section:

"Jurisdiction of suits. For the purposes of any suit which may be brought by or against the Fund or the Bank in accordance with the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the Fund or the Bank, as the case may be, shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such suit at law or in equity, brought within the United States, its territories or possessions, to which either the Fund or the Bank shall be a party, shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such suit. When either the Fund or the Bank is a defendant in any such suit, it may, at any time before the trial thereof, remove such suit from a State court into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law."

Explanation: This section in the Treasury draft apparently inadvertently omitted the words "from a State court" in the provision regarding removal of suits. In addition to restoring these words, the proposed revision adds language at the beginning of the section in order that suits brought against the Fund and the Bank may be brought only in the judicial district in which their principal offices are located.

Section 14: Provisional payments for administrative expenses and
Section 15: Appropriations authorized

Proposed revision: Delete Sections 14 and 15 and substitute the following:

"Section 14: Subscription to Fund. For the purpose of paying the subscription of the United States to the Fund in the amount of \$2,750,000,000:

(a) The Secretary of the Treasury shall withdraw from the stabilization fund established by Section 10 of the Gold Reserve Act of 1934 the sum of \$1,800,000,000 and place it in a special account on the books of the Treasury. The sum in this special account shall be used by the Secretary of the Treasury, to the extent necessary, in paying the subscription of the United States to the Fund and shall not be used for any purpose except for subscribing to the Fund or for redeeming notes issued under authority of Section 10 hereof; provided

that such sum shall be available until December 31, 1945, to meet payments for administrative expenses required by Article XX, Section 2 (d) of the Articles of Agreement of the Fund.

(b) The sum of \$950,000,000 for paying the remainder of the subscription of the United States to the Fund is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated, but shall not be used except when no part of the sum made available under subsection (a) above is available for the purpose.

(c) Any amount which may be returned to the United States by the Fund by reason of the issuance of notes pursuant to Section 10 of this Joint Resolution, not exceeding such amount as may have been appropriated and used for the purpose specified in subsection (b) of this section, shall be paid into the Treasury of the United States as miscellaneous receipts; and any amount so returned to the United States by the Fund in excess of the amount appropriated and used under subsection (b) hereof shall be placed in and become a part of the special account provided for in subsection (a) of this section and shall again be available for the purpose stated in that subsection."

Explanation: With the establishment of the International Fund there will be no need of a large United States Fund. The inactive portion amounting to \$1,500,000,000 should be used to make the United States subscription to the International Fund. As long as the \$1.8 billion is available it would seem unnecessary to use appropriated revenues raised by taxation or borrowing.

Proposed revision: Substitute the following for Section 15:

"Section 15: Subscription to Bank. For the purpose of paying the subscription of the United States to 31,750 shares of stock in the Bank, there is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated the sum of \$3,175,000,000, of which \$3,111,500,000 shall remain available until called by the Bank; provided that any amount so appropriated shall be available until December 31, 1945, to meet payments for administrative expenses required by Article XI, Section 2 (d) of the Articles of Agreement of the Bank. Any amount which may be returned to the United States by the Bank by reason of the issuance of notes pursuant to Section 10 of this Joint Resolution shall be paid into the Treasury of the United States as miscellaneous receipts."

Explanation: It seems illogical to have the contribution to the administrative expenses of the Bank met out of the United States Stabilization Fund. The whole subscription to the Bank should be from appropriated revenues.

Division of Research and Statistics
Board of Governors of the
Federal Reserve System
January 16, 1945