

Meeting in Atlantic City  
June 24, 1944 at 3:00 P.M.

Present: Lord Keynes, Sir Wilfred Eady, Messrs. Robbins,  
Robertson, Opie, Beckett, Bolton, Campbell, Brooks  
and Snelling of the United Kingdom

Messrs. White, Bernstein, Luxford, Coe, E.E. Brown,  
Maffry, Louchheim, Goldenweiser, Gardner, Livesey,  
Pasvolsky, and Miss Richardson of the United States

The purpose of the meeting was to give Lord Keynes an opportunity to explain to some of the members of the American Delegation the principal changes which the English suggest in the draft of the proposed Bank for Reconstruction and Development. Lord Keynes explained that in drafting this document the British used three documents, the November draft, the Questions and Answers, and the American Reply to the British Memorandum of April 20, 1944.

The first change suggested was that the eighty per cent of member country shares not subscribed at the outset should be reserved permanently to implement guarantees given by the Bank and should be payable only in gold. Upon discussion it appeared that it was intended, firstly, that this reserve should be in addition to regular reserves which would be accumulated out of profits and guarantee fees, and, secondly, that this eighty per cent should serve as reserve for guaranteed loans only. In regard to this second point, Mr. White remarked that it might be possible to work out a provision by which it would be possible to avoid separating so completely the two functions of the Bank, the guaranteeing of loans and the granting of direct loans.

Since this eighty per cent of member country shares would be payable only in gold, the British also suggested that there would be no need for gradual redemption in gold of member country currencies paid to the Bank in connection with the initial subscription of twenty per cent of the shares.

Lord Keynes remarked that it appeared desirable that the rates of interest on guaranteed loans and the commission for guaranteeing charged by the Bank should be uniform among all countries although some differences might be introduced in the rate of the commission charges by the local governments for their guarantees. The reason given for this suggestion was that the Bank should not discriminate among the various member countries. The specific rates suggested for use at the outset were 3-1/2 per cent per year interest, and 1 per cent per year, guarantee commission. Lord Keynes also suggested that the rate of amortization might be 2 per cent a year.

A question was raised in regard to Lord Keynes' explanation of the establishment of reserves as to whether it was intended that no profits should be distributed to member countries. Lord Keynes seemed to consider the distribution of profits unnecessary in connection with the proposed Bank.

The question of tied and untied loans was discussed briefly. The British suggested that guaranteed loans and loans made from borrowed funds should be untied. Mr. White stated the American position that a country may specify the currencies which it desires in connection with any loan but that after credits in specific currencies are extended to a borrowing country in connection with a loan the borrower is required to spend these credits in the country in whose currencies these credits have been made.

Lord Keynes then explained that the British draft of the Bank proposal provides for a type of loan not included in the American proposal, i.e., stabilization loans. Mr. White remarked that this constituted a substantial change and that it would be necessary to consider this suggestion very carefully.

Lord Keynes remarked that in the American draft proposal of November 24, 1943, considerable emphasis was placed upon the fact that the Bank should avoid making any loans which could be made through private investment channels. Mr. White remarked that this had been our intention and that we considered this principle fundamental. Lord Keynes replied that the members of the British delegation agreed that the Bank should not make loans which could be made through private channels on reasonable terms. There followed a short discussion of the possible interpretation of the phrase "on reasonable terms." One of the members of the American delegation pointed out that the service charges which Lord Keynes suggested for guaranteed loans would act, in many cases, as a safeguard against the Bank's engaging in investments of this type which could be carried on through private investment channels.

It was pointed out that the members of the British delegation have not yet had an opportunity to consider the question of management. A number of copies of the British draft of suggestions were then supplied to the members of the American delegation to be held in confidence, after which the meeting was adjourned.

D. F. Richardson

Minutes of the Pre-Conference Agenda  
Committee at Atlantic City, June 29, 1944, P.M.  
Lord Keynes Presiding

The Chairman, in introducing the U.K. redraft of the Bank proposal, stated that it was not intended to conflict in any important respect with the U.S. Treasury proposal. It differed in some details and in a few matters of policy there were differences which could be reconciled by mutual agreement after discussion. He indicated the guarantee function would be the most important part of the Bank's activities rather than direct loans. The resources of the Bank must be provided by the creditor countries. The debtors cannot provide funds but in an international adventure should properly bear part of the risk. Consequently, the direct loans out of the Bank's capital would be limited. The Bank, however, could borrow additional funds on the open market which could, in turn, be relent to the members. The debtor countries as stockholders of the Bank would be liable for their share of the debts so incurred. The loans which the Bank was to sponsor, whether by guarantee or direct loan, should be in large part those which could not be secured on a commercial basis.

Secondly, the Chairman continued, the Bank should be conducted with prudence but it should not avoid taking risks. Under the proposed scheme the risk is pooled. Each loan, he said, should not be judged on a commercial basis though the loans as a whole should be prudently made so that there would be no impairment of the Bank's capital and no necessity to call upon the members to implement their guarantees. He believed that the loans made by the Bank should be made on substantially the same terms to all borrowers. To do otherwise would require the Bank to assess the credit of its members. This, he believed, would be impossible and impolitic for an international organization. Moreover, the Bank should not be conducted for profit. It is not to be a usurer trying to get as much as possible. If a country gets into difficulties the Bank should come to its aid. It should aim at restoration rather than to enforce penalties on defaulting debtors. Finally, he suggested that the Bank should make loans to aid in the stabilization of currencies in the immediate postwar period. All other loans should follow the general outlines of the U.S. proposal contemplating the use of the Bank's resources only for specific projects of reconstruction and development.

The Committee generally agreed that in view of the short time at its disposal it would be inadvisable to suggest amendments or modifications of the drafts submitted. Discussion on each point would necessarily be brief and all disputed points would be deferred to the Conference for later discussion.

The first question raised was about the formula for subscription or stock to the Bank. On Mr. White's suggestion this was deferred.

Mr. Melville, referring to Article II, Section 3, inquired why membership in the Fund should be prerequisite to membership in the Bank. Mr. White replied that membership in the Fund was an assurance of the stability of a country's currency and provided greater prospects of a country's being able to meet its liabilities to the Bank. Mr. Melville objected, however, that this requirement of membership in the Fund practically made nugatory the right of a country to withdraw from the Fund. Mr. White made it clear that the U.S. failure to reply to this particular argument did not imply agreement with it. Professor Robbins (U.K.) pointed out that in the Fund proposal a member could be dropped only with a four-fifths vote. Mr. Bernstein inquired whether the Fund's resources could be used to implement guarantees under the terms of the U.K. draft. Lord Keynes replied that there was no obligation on the part of the Fund to permit this use of its resources.

The Committee then considered Article II, Section 5, providing for the reservation of the unpaid subscriptions as a surety fund. Mr. Louchheim inquired whether any special restrictions were to be applied to currency provided to implement guarantees. Mr. Bernstein explained that no additional restrictions would apply to this other than those which applied to local currencies subscribed and paid in. In reply to Mr. Gardner's inquiry as to whether currency repaid to the Bank would be free exchange, Lord Keynes replied that the restriction on currency applied only to the original payments on capital.

Questions of loan policy were raised by various members. Mr. Beyen wished to know whether short-term loans were contemplated. The Chairman stated that in his opinion a reconstruction loan for a five-year period would not be precluded under the British draft. Mr. White replied that the U.S. draft had not contemplated making short or intermediate loans but that it was the expectation of the American group that the Bank would concentrate on loans for a 20 or 30 year period. Long-term loans would require smaller amortization payments and consequently could be adjusted more readily to the debtor country's capacity to pay.

The Chairman stated that in the U.K. draft the American provisions of II-6 had been omitted as being needlessly detailed and probably unnecessary considering the circumstances under which future calls for capital might be made. The provisions of II-7 were also omitted since he expected that these provisions would be covered by other clauses requiring payment to be made in gold and convertible currency. With respect to Article III, Section 2, "The local currency assets of the Bank are to be guaranteed against any depreciation in their value in terms of gold". The Chairman stated that this had been omitted from the British draft through an oversight. The U.K. was in complete agreement with the U.S. on the necessity for this clause.

Lord Keynes explained III-6 of the U.K. draft providing for stabilization loans. Mr. Basch inquired whether stabilization loans included not merely the provision of gold for currency purposes but also provision of stocks of raw materials and inventories. Lord Keynes agreed that provision should be made for such loans.

Passing to Article IV of the U.K. version, the Chairman, in reply to a question raised by Mr. Luxford, stated that the guarantees could not be paid from the originally subscribed capital, since the currency for the original subscription was subject to control by the member country providing it, while the guarantees must be paid in completely liquid funds. He further explained that the provisions of IV-4 of the U.K. draft were intended solely to provide additional necessary detail for the American draft. Mr. White further explained that in the international monetary fund, currency supplied by the members had to be free of restrictions upon their use. In the Bank, which did not face the same conditions, there was no necessity of exempting this currency from any restrictions placed upon capital movements by member countries.

The question of the Bank organization and management was raised but in view of the incompleteness of the draft was not given extended discussion.

Henry J. Bittermann.

HJB:MWW  
8/1/44