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

The Chairman [Lord Keynes], 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 givenextended discussion.

Henry J. Bittermann.

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