Mr. Eccles -
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FEDERAL RESERVE BANK OF RICHMOND

Post Office Delivery Unit 13

June 27, 1944

Board of Governors
of the Federal Reserve System,
Washington 25, D. C.

Dear Sirs:

In accordance with the invitation contained in your letter of June 8, I am enclosing a statement of our directors and officers with respect to certain aspects of the proposal for an International Monetary Fund.

Very truly yours,

(Signed) Hugh Leach

HUGH LEACH
President.

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Statement of the Board of Directors and Officers of the Federal Reserve Bank of Richmond with respect to the establishment of an International Monetary Fund

A conference of delegates of the United and Associated Nations has been called by the President. The conference is to meet at Bretton Woods, New Hampshire, on July 1, for the purpose of considering proposals looking to the establishment of an international monetary fund and also possibly the proposal for a Bank of Reconstruction and Development. Chairman Eccles, of the Board of Governors of the Federal Reserve System, has accepted appointment as one of the members of the American delegation to this conference.

Under date of June 8, 1944, Chester Morrill, Secretary of the Board of Governors, advised President Leach of the approaching conference and also of a meeting of certain Reserve System people, held under the auspices of the Board, in Washington, on June 6, for the purpose of considering plans for both the proposed monetary fund and bank. In this communication, Mr. Morrill mentioned the desire of the Board, expressed at the conclusion of the meeting referred to, that directors and officers of Federal Reserve banks supplement, if they so desired, views previously expressed to the Board on the international monetary fund. Albert M. Creighton, Chairman of the Conference of Chairmen, attended the meeting of June 6, on invitation of the Board of Governors, and under date of June 8 he advised Chairman Lassiter of this Board of the gist of the discussion at the meeting.

It will be recalled that the directors and officers of this bank submitted to the Board of Governors, on August 12, 1943, a statement concerning the Plans for the Stabilization of Post-War

Currencies. While they did not commit themselves at that time with respect to either the Keynes or the White plans for stabilization, they did express a desire that there should be no "repetition of the chaotic conditions which prevailed in the international exchanges following the conclusion of World War I." They were therefore "hopeful that a workable plan can be evolved for the establishment of a central fund from which deficit countries may obtain temporary advances, with appropriate limitations, likely to contribute to more stable economic conditions in those countries." Continuing, they pointed out that these exchange controls which hamper international trade and finance should be removed as fast as it is consistent with the economic welfare of the countries now employing them and with the achievement of the broad purposes of the plans.

In supplementing at this time the statement of August, 1943, the directors and officers logically should consider whether "a workable plan" has been prepared for presentation to the July conference at Bretton Woods, and, if not, they should then point out those respects in which the plan should be amended in order to make it workable. It is the feeling of the directors and officers that the plan to be presented to the Bretton Woods conference is not workable as it stands, and to become workable certain changes are essential. Specifically, the substance of the changes which would seem to be desirable is as follows:

1. The plan to be considered at Bretton Woods, in section X, wisely recognizes distinctions between the period of transition immediately following the war, i.e., in the early post-war years, and the period following the transition during which exchange controls

of one sort and another would be abandoned. The transition period contemplated is three years. The plan does not require termination of exchange controls at the end of three years, but it does require the members to confer with the fund at that time respecting their intentions concerning the further use of exchange controls. There is involved here a question of considerable moment, for it is conceivable that, in order to achieve internal stability at a high level of employment, some member may desire to retain exchange controls well beyond the three-year period. If so, then such a country would have the advantage of those restrictions imposed by the fund upon members that have abandoned exchange controls, and at the same time it would have the advantage of exchange controls. Such a situation raises the question as to whether any plan for stabilization of exchanges is feasible during a transition period the duration of which cannot in the circumstances be defined.

If the stabilization plan is to be attempted now, it would seem that the fund should have somewhat greater authority for the transition period as well as later. As has been pointed out, section X, 3 does not give the fund authority to require a member country to terminate exchange controls even when failure to require such termination may place heavy burdens on those countries not enjoying exchange control, particularly creditor countries. Indeed, the plan does not contemplate a recommendation by the fund that controls should be terminated by a particular member country.

It is possible that countries with frozen balances will desire to retain exchange controls as a means of bringing about conditions favorable to the liquidation of these balances. But such an arrangement may mean an exchange situation decidedly unfavorable to a large creditor country. Furthermore, as far as the transition period is concerned, it is important to recognize the fact that the fund alone will be only of minor significance. Therefore, care should be taken to make it clear that the fund is not to be used for purposes that can best be achieved in other ways.

2. A workable plan seems to require clarification of section VI relative to scarce currencies. If the currency of a particular member should become scarce under the plan, that currency is to be apportioned and the fund shall make a report embodying the causes of the scarcity and recommendations designed to bring it to an end. It is conceivable that the only remedy might be to borrow the scarce currency from the member country or to buy it with gold. Can a country whose currency is scarce refuse to lend or sell if a refusal is in the interest of its internal equilibrium? The position of such a country might be further complicated by the fact that its currency is on a gold basis. Might not such a country be under compulsions of one sort or another to lend or sell its currency? Does not the plan as it stands carry the probability that the creditor country whose currency is scarce might well be confronted with a dilemma? In view of these questions, it would seem desirable for the plan to contain some provision for the protection of the country whose currency is scarce, i.e., some definite limitation on its obligations to lend or sell its currency as an alternative to withdrawal from membership. As the plan stands, it is conceivable that debtor countries could place a creditor country whose currency is scarce

in a very embarrassing position, in that its refusal to lend, or to sell its currency for gold, might be tantamount to a breakdown of the fund. This assumes, of course, the possibility that the governing board may be dominated by debtor countries.

Now that the teeth have been extracted from the plan, this country has been put in a position where it will be virtually necessary to put up more dollars because of the policies that other nations may elect to pursue. While it may be necessary for creditor countries to make concessions, it is not believed that they should make all the concessions necessary to a mutually beneficial plan.

3. Perhaps more could be accomplished towards stabilization of the international exchanges in the transition period and the transition period itself could be shortened if an agreement could be reached among the major countries which have participated in the preparation of the plan. Thus, it might be possible to reach a fairly definite understanding respecting the measures which each of these countries proposes to pursue in its efforts to attain approximately full employment internally. In this way, perhaps, exchange controls on the part of some of them might be terminated sooner. Perhaps it would be possible for the chief creditor countries included in this lesser group to come to some understanding with respect to ways and means of financing the chief deficit countries in the same group, and a plan for extending the necessary credit might conceivably be worked out. Moreover, this plan might include the frozen funds problem confronting any debtor country. Obviously, if these things could

be done, then more serious problems that would otherwise fall upon the plan could be removed or at least considerably reduced.

4. In section VII of the plan, it is provided that the fund shall be governed by a board, on which each member will be represented, and by an executive committee. The executive committee shall consist of at least nine members, including the representatives of the five countries with the largest quotas. Since it is certain that the United States would be one of the five countries thus referred to, it follows that this country would have a representative on the executive committee. But, in view of the fact that in the event of the adoption of the plan the decisions of the committee may have a considerable impact upon the banking system of this country, it is highly desirable that the American member of the executive committee shall also be a representative of the Federal Reserve System. It is quite clear that otherwise steps might be taken by the committee, the significance of which, for the Federal Reserve System, would not be made sufficiently clear to the members of the committee and to the governing board. If this cannot be done, some arrangement should be made to the end that the American member shall work closely with the System.

June 23, 1944