(White Plan)

TREASURY DEPARTMENT
Washington

FOR RELEASE, MORNING NEWSPAPERS, Wednesday, April 7, 1943.

Press Service No. 36-3

Not to be used on radio before 8:00 p.m. EWT Tuesday, April 6, 1943.

The Treasury today made public a letter from Secretary Morgenthau to the Ministers of Finance of thirty-seven countries inviting them to send technical experts to Washington to discuss suggestions for an International Stabilization Fund of the United and Associated Nations. The text of the letter is as follows:

My dear Mr. Minister:

I am sending for your examination a preliminary draft of a Proposal for an International Stabilization Fund of the United and Associated Nations. This draft was prepared by the technical staff of the United States Treasury in consultation with the technical experts of other departments of this Government.

The document is sent to you not as an expression of the official views of this Government but rather as an indication of the views widely held by the technical experts of this Government. I hope you will examine the draft and submit it for critical study by the technical experts of your Ministry and your Government. After you and your experts have had opportunity to study it, you may wish to send one or more of your technical experts to Washington to give me your preliminary reaction to the draft proposal, and to discuss with our technical experts the feasibility of international monetary cooperation along the lines suggested therein, or along any other lines you may wish to suggest. We are informed that the technical experts of the British Government have also been studying the question and will doubtless make their views available.

It seems to me that the enclosed draft proposal points the way to an effective means of facilitating through cooperative action the maintenance of international monetary stability and the restoration and balanced growth of international trade. It is my hope that as a result of unofficial discussions involving no commitments, we may find a sufficient area of agreement to warrant proceeding on a more formal basis.

Very truly yours,

HENRY MORGENTHAU, JR.,

Secretary of the Treasury.

The countries to whose Finance Ministers the letters were addressed are the following:

Australia
Belgium
Brazil
Canada
China
Costa Rica
Cuba
Czechoslovakia
Dominican Republic
El Salvador
Ethiopia
Great Britain
Greece
Guatemala
Haiti
Honduras
India
Iraq
Luxembourg
Mexico
Netherlands
New Zealand
Nicaragua
Norway
Panama
Poland
South Africa, Union of
Union of Soviet Socialist Republics
Yugoslavia
Bolivia
Colombia
Chile
Ecuador
Paraguay
Peru
Uruguay
Venezuela

-oOo-

MEMORANDUM

A Stabilization Fund
of the
United and Associated Nations

It is still too soon to know the precise form and magnitude of post-war monetary problems. But it is certain that we shall be confronted with the task of dealing with three inseparable monetary problems: to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such a formidable task can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised if not dangerous to leave ourselves unprepared at the end of the war for the difficult task of international monetary cooperation. We should begin now to devise an international monetary agency, for the task is certain to take many months at least. Specific and practical proposals must be formulated by the experts and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in gathering personnel and in establishing an organization before an international institution for monetary cooperation can begin effective work.

There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. That assurance should be given now. The people in all of the United Nations must be encouraged to feel themselves on solid ground. They must be given to understand that a victory of the United Nations will not usher in another two decades of widespread economic disruption. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability and to facilitate the restoration and balanced growth of international trade. A proposal drafted by American technical experts is appended. The draft presents only the essential elements of an international stabilization fund. The provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views. Obviously, there are many details that have been omitted and that can be better formulated after there is agreement on the general principles.

It is recognized that an international stabilization fund is only one of the instrumentalities which may be needed in the field of international economic cooperation. Other agencies are also needed to provide capital for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong temptation to embrace within a single international agency the responsibility for dealing with these and other international economic problems. We believe, however, that international economic institutions can operate more effectively if they are not burdened with important but extraneous duties for which they have not been devised and for which they are unsuited. For example, the highly specialized nature of international monetary stabilization and the provision of long-term capital would seem to call for separate institutions each designed to deal with its distinct problems.

It should be emphasized that the appended draft deals only with an international stabilization fund. It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development. It is hoped that the appended draft will call forth from the experts of the United Nations, critical comment and constructive suggestions. It is our belief that a workable and acceptable plan can emerge only from the joint efforts of the United Nations.

Washington, D. C.
January, 1943.

U.S. Treasury Department

Preliminary Draft Outline of Proposal for a United and Associated Nations Stabilization Fund

I. Purposes of the Fund

1. To stabilize the foreign exchange rates of the currencies of the United Nations and nations associated with them.

2. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

3. To help create conditions under which the smooth flow of foreign trade and of productive capital among the member countries will be fostered.

4. To facilitate the effective utilization of the abnormal foreign balances accumulating in some countries as a consequence of the war situation.

5. To reduce the use of foreign exchange controls that interfere with world trade and the international flow of productive capital.

6. To help eliminate bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices.

II. Composition of the Fund

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments.

2. Each of the member countries shall subscribe a specified amount which will be called its quota. The aggregate of quotas of the member countries shall be the equivalent of at least $5 billion.

   The quota for each member country shall be determined by an agreed upon formula. The formula should give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

3. Each member country shall provide the Fund with 50 percent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each member country (consisting of 50 percent of its quota) shall be 12.5 percent of its quota in gold, 12.5 percent in local currency, and 25 percent in its own (i.e., government) securities. However, any country having less than $300 million in gold need provide initially only 7.5 percent of its quota in gold, and any country having less than $100 million in gold need provide initially only 5 percent of its quota in gold, the contributions of local currency being increased correspondingly. A country may, at its option, substitute gold for its local currency or securities in meeting its quota requirement.

5. The member countries of the Fund may be called upon to make further provision toward meeting their quotas pro rata at such times, in such amounts, and in such form as the Board of Directors of the Fund may determine, provided that the proportion of gold called for shall not exceed the proportions indicated in II-4 above, and provided that a four-fifths vote of the Board shall be required for subsequent calls to meet quotas.

6. Any changes in the quotas of member countries shall be made only with the approval of a four-fifths vote of the Board.

III. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government securities of member countries; to accept deposits and to earmark gold; to issue its own obligations, and to discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

   All member countries agree that all of the local currency holdings shall be free from any restrictions as to their use. This provision does not apply to abnormal war balances acquired in accordance with the provisions of III-9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be considered only when essential to

correction of a fundamental disequilibrium and be permitted only with the approval of four-fifths of member votes.

3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund, currency of any member country which the Fund holds, provided that:

   a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.

   b. The Fund's holdings of the currency of any member country shall not exceed during the first year of the operation of the Fund, the quota of that country; it shall not exceed during the first two years 150 percent of such quota; and thereafter it shall not exceed 200 percent of such quota; except that upon approval by four-fifths of the member votes, the Fund may purchase any local currency in excess of these limits, provided that at least one of the following two conditions is met:

      i. The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or

      ii. It is believed that the balance of payments of the country whose currency is being acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

   c. When the Fund's net holdings of any local currency exceed the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors. This provision does not apply to currencies acquired under III-9 below.

   d. When a member country is exhausting its quota more rapidly than is warranted in the judgment of the Board of Directors, the Board may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Fund.

e. A charge at the rate of 1 percent per annum, payable in gold, shall be levied against any member country on the amount of its currency held by the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund (in accordance with III-9 below) shall not be included in the computed balance of local currency used as a basis for this charge.

f. When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country, the Fund shall resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.

4. The right of a member country to purchase foreign exchange from the Fund with its local currency for the purpose of meeting an adverse balance of payments on current account is recognized only to the extent of its quota, subject to the limitation in III-3 above and III-7 below.

5. With the approval of four-fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country to facilitate transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation.

6. When the Fund's holdings of any particular currency drop below 15 percent of the quota of that country, and after the Fund has used for additional purchases of that currency,

(a) Gold in an amount equal to the country's contribution of gold to the Fund, and

(b) The country's obligations originally contributed,

the Fund has the authority and the duty to render to the country a report embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The Board member of the country in question should be a member of the Fund committee appointed to draft the report. This report should be sent to all member countries and, if deemed desirable, made public.

Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the anticipated demand for any particular currency may soon exhaust the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the foreign balances of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under appropriate conditions which are acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Fund shall apportion its sales of such scarce currency. In such apportionment, it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed immediately after joining the Fund. For the purpose of this provision, including computations, only free foreign exchange and gold are considered. The Fund may accept or reject the offer.

To help achieve this objective each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the governments of member countries, abnormal war balances held in other countries, provided all the following conditions are met:

   a. The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member government on date of its becoming a member.

   b. The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to repurchase from the Fund 40 percent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

   c. The country in which the abnormal war balances are held agrees to the transfer to the Fund of the balances described in (b) above, and to repurchase from the Fund 40 percent of them (at the same price) with gold or such currencies as the Fund may wish to accept, at the rate of 2 percent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

   d. A charge of 1 percent, payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 percent, payable in gold, shall be levied annually against them on the amount of such balances remaining to be repurchased by each country.

   e. If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold, the accumulation of foreign balances, or other capital transactions.

   f. Either country may, at its option, increase the amount it repurchases annually. But, in the case of the country selling abnormal war balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.

g. The Fund has the privilege of disposing of any of its holdings of abnormal war balances as free funds after the 23 year period is passed, or sooner under the following conditions:

i. its holdings of the free funds of the country in which the balances are held fall below 15 percent of its quota; or

ii. the approval is obtained of the country in which the balances are held.

h. The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the installments of the 40 percent portion gradually repurchased by the country which sold the balances to the Fund.

i. The Fund agrees not to sell the abnormal war balances acquired under the above authority, except with the permission or at the request of the country in which the balances are being held. The Fund may invest these balances in ordinary or special government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing government is first obtained.

j. The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it will purchase under this provision.

Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of non-member countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.

11. To borrow the currency of any member country, provided four-fifths of the member votes approve the terms of such borrowing.

12. To sell member-country obligations owned by the Fund provided that the Board representative of the country in which the securities are to be sold approves.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in government securities and prime commercial paper of the country of that currency provided four-fifths of the member votes approve, and provided further that the Board representative of the country in which the investment is to be made approves.

14. To lend to any member country its local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund, provided such loan is approved by four-fifths of the member votes.

15. To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed 1/10 percent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses, and only with the approval of four-fifths of the member votes.

The Fund shall make a service charge of 1/4 percent or more on all exchange and gold transactions.

16. The Fund shall deal only with or through

a. The treasuries, stabilization funds, or fiscal agents of member governments;

b. The central banks, only with the consent of the member of the Board representing the country in question; and

c. Any international banks owned predominantly by member governments.

The Fund may, nevertheless, with the approval of the member of the Board representing the government of the country concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries.

IV. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) consisting of 137 1/7 grains of fine gold (equivalent to $10 U.S.). The accounts of the Fund shall be kept and published in terms of Unitas.

2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or Unitas and may not be altered by any member country without the approval of four-fifths of the member votes.

3. Deposits in terms of Unitas may be accepted by the Fund from member countries upon the delivery of gold to the Fund and shall be transferable and redeemable in gold or in the currency of any member country at the rate established by the Fund. The Fund shall maintain a 100 percent reserve in gold against all Unitas deposits.

4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Thus if the Fund approves a reduction in the value of the currency of a member country (in terms of gold or Unitas) or if, in the opinion of the Board, the currency of a member country has depreciated to a significant extent, that country must deliver to the Fund when requested an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or Unitas value of the Fund's holdings. The same provisions shall also apply to the government securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under III-9 (abnormal war balances).

V. <u>Management</u>

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their government. Directors and alternates may be reappointed.

   In all voting by the Board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following: Each country shall have 100 votes plus 1 vote for the equivalent of each 100,000 Unitas ($1 million) of its quota.

Notwithstanding the approved formula for distributing voting power, no country shall be entitled to cast more than one-fourth of the aggregate votes regardless of its quota. All decisions, except where specifically provided otherwise, shall be made by a majority of the member votes.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an ex officio member of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for reelection, and may be removed for cause at any time by the Board.

   The Managing Director of the Fund shall select the operating staff in accordance with regulations established by the Board of Directors. Members of the staff may be made available, upon request of member countries, for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be an ex officio member of the Executive Committee.

   The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.

5. The Board of Directors may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. The Board may not delegate, except to the Executive Committee, any authority which can be exercised only by a four-fifths vote.

Delegated powers shall be exercised only until the next meeting of the Board, and in a manner consistent with the general policies and practices of the Board.

6. The Board of Directors may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.

7. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes, the chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

8. A country failing to meet its obligations to the Fund may be suspended provided a majority of the member votes so decides. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of two years the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member votes.

Any country may withdraw from the Fund by giving notice, and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

A country which is dropped or which withdraws from membership shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum owed by that country to the Fund. Any losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. The Fund shall have five years in which to liquidate its obligation to such a country. When any country is dropped or withdraws from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:

   a. 50 percent to reserves until the reserves are equal to 10 percent of the aggregate quotas of the Fund.

   b. 50 percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in Unitas at the discretion of the Fund.

VI. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose any additional restrictions without the approval of the Fund.

   The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to such representations.

3. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken:

   a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital except with the permission of the Government of that country and the Fund;

b. To make available to the Fund or to the Government of any member country full information on all property in the form of deposits, securities and investments of the nationals of that member country; and

c. Such other measures as the Fund shall recommend.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements, nor engage in multiple currency practices, except with the approval of the Fund.

5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

6. To furnish the Fund with all information it needs for its operations and to furnish such reports as it may require in the form and at the times requested by the Fund.

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.

Statement of Secretary Morgenthau
before the Senate Committees on Foreign Relations and
Banking and Currency and the Special Committee on
Post-War Economic Policy and Planning

Monday, April 5, 1943

For some time we in the Treasury have been deeply concerned with the threat of international monetary chaos at the end of this war.

We feel that international currency stability is essential to reconstruction in the post-war period and to the resumption of private trade and finance. It is generally held that this formidable task can be successfully handled only through international cooperation.

I think further that most of us would agree that the establishment of a program adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised, if not dangerous, to be unprepared for the difficult task of international monetary cooperation when the war ends. No one knows how long or how short the war will be. We therefore believe it is desirable to begin now to devise an international monetary agency adequate to cope with the problems with which we shall be confronted when the war does end.

The completion of such a task is certain to take many months at the least. Specific and practical proposals must be formulated and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in establishing an organization capable of beginning effective work.

There is another important reason for dealing with this problem now. A plan for international monetary cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. That assurance should be given now. The people in all of the United Nations must be encouraged to feel themselves on solid ground. They must be given to understand that a victory of the United Nations will not usher in another two decades of widespread economic disruption. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

With these points in mind the technical experts of the Treasury and other agencies of the Government for some time have been studying methods by which post-war monetary stability can be achieved. No specific plan has as yet been considered by this Government, but preliminary suggestions of our technical experts have been formulated and have been made available for exploratory study of the experts of other interested Governments. The technical men of other Governments have likewise been studying the problem.

Our own thinking along the lines of currency stability has not been addressed to concocting some panacea that will automatically cure all the economic ailments of a post-war world. Rather, we have attempted to address ourselves to the specific problem of foreign exchange stability and the common-sense way of achieving this end.

Our views are based on the rich experience that this country has had in cooperating with other Governments in our attempts to maintain exchange stability. We have tried to adapt that experience to the broader and more difficult currency problems confronting the world during the post-war years. We have also kept in mind the pattern laid down by the Tripartite Agreement and our own stabilization agreements.

Our tentative proposal is to establish an international stabilization fund in which all the United Nations and those nations which are associated with them in this war would participate. This Fund would constitute an international agency with powers and resources adequate to promote the maintenance of currency stability. The cooperating Governments who would participate in the program would, among other things, undertake not to engage in competitive depreciation of their currencies. This stability would be in large measure secured by fixing the value of currencies in terms of gold, and by providing that changes could not be made without consultation with other members.

The resources of the Fund that we have in mind would be provided by the participating governments in an amount and form suited to each nation. Participation would be in the form of gold and local currency and public obligations of the member countries. The operations of the Fund would include buying and selling of foreign exchange under adequate safeguards.

The Fund would deal only with Treasuries and central banks. It would not compete with private banks or existing agencies. Its operations would be maintained only to supplement the efforts made by each member government to maintain monetary stability. The established channels of international trade and international banking would be retained in full for all international transactions.

We have given special attention to the solution of certain troublesome monetary problems growing out of the war and have included suggestions for the handling of such problems. In particular, the Fund would facilitate the restoration of free exchange markets and liberate the abnormal balances which have accumulated in some of the countries as a consequence of war conditions.

The control of the operations of the Fund would be in the hands of an international board appointed by the governments of the member countries and the voting power on that board would be related to the contribution which each country makes to the required revolving fund.

The creation of an international agency of the character that we are contemplating is a logical development of the various tentative steps which have been made in the direction of stabilization of currencies during the immediate pre-war years.

I have been anxious to discuss this matter with you and to keep you informed of developments. Obviously, we are still in the early stages of our thinking and discussions. However, I did want you to know what we are doing and I do want to feel free to come back from time to time and discuss the subject with you and obtain your views and advice.

-oOo-

(Prepared by Press Relations for use of the Press)

The Stabilization of Exchange Rates: The purpose of the proposed Stabilization Fund is to stabilize the value of the currencies of member countries. The Fund would fix the rates at which it will buy and sell member currencies. Changes in exchange rates could be made only with the approval of the Fund and only to meet an extreme situation. Because changes in exchange rates would be the result of international consultation, competitive currency depreciation among the member countries would be prevented.

Resources of the Fund: To achieve this desired currency stability the Fund would, with adequate safeguards, meet the legitimate needs of member countries for foreign exchange for their current transactions. For this purpose, member countries would subscribe at least $5 billion, making initial payments of one-half of the subscription in the form of gold, currency and government securities. Each country's subscription would be based on a combination of such factors as its holdings of gold and foreign exchange, its national income, and changes in its balance of payments position.

Removal of Exchange Controls: With these provisions, the need for continuance of exchange control by individual countries would be almost entirely removed. No member country could adopt new exchange control measures except to curb undesirable capital movements and then only with the consent of the Fund. Multiple currency devices and bilateral exchange clearing arrangements would also be prohibited unless approved by the Fund. The Fund would make possible the liberation of blocked balances growing out of the war where immediate unblocking of such balances would cause serious domestic and international repercussions.

Powers of the Fund: The Fund would be given the power to buy and sell gold, currencies and, with their approval, securities of member countries. The Fund could also borrow local currency with the approval of the governments concerned. The Fund would deal only with the treasuries, central banks, or fiscal agents of member countries, and with international banks owned predominantly by member countries.

New International Unit: The proposal provides for an international gold monetary unit called the Unitas, equal in value to $10, in terms of which accounts of the Fund would be kept. The Fund would not issue Unitas coins or notes, but member countries could deposit gold with the Fund for a credit in Unitas, redeemable in gold, which could be transferred between member countries.

Management of the Fund: The Fund would be managed by a Board of Directors representing the member governments. Each country would have voting power related to its subscription to the Fund, but no country could have more than 25 percent of the total votes. In general, the decisions of the Board of Directors would be made by a majority vote except for certain important operations where a four-fifths vote would be necessary. The day-to-day operations would be carried on by a Managing Director and an Executive Committee appointed by the Board.

FEDERAL RESERVE BANK

OF NEW YORK

April 13, 1943

Dear Mr. Fraser:

The recent publication in Washington and in London of the so-called White and Keynes plans of international monetary stabilization offers an opportunity to the committee of directors on foreign relations to study a problem of importance and to lend its assistance to the officers of the bank who, as you know, have been studying these two plans in their various drafts for some time. I am therefore sending to you, as chairman of the committee, copies of the two plans and also a folder "Postwar International Monetary Organization" prepared by our Research Division. I hope that you will be able to find time to go over these papers, then circulate them among the other members of your committee and, in due course, to let us have the benefit of such comments as the committee members individually or as a group may wish to make.

As you know, following the talk which Messrs. Williams and Knoke had with you last January, our Research Division is now working on other questions related to this general problem as follows:

1. Conversion of the B.I.S. into an international stabilization and clearing bank. History of the bank, and readjustments required to make it serve the purpose of White and Keynes plans.

2. Extension of the Tripartite Agreement to principal countries, and modification to permit more effective use as a mechanism for currency stabilization.

3. Extension of Treasury's bilateral stabilization agreements (Brazil, China, etc.) to principal countries.

4. Reciprocal credits between central banks with government guarantees. Could the central banks by such arrangements between themselves obviate the necessity of any new machinery?

5. The League Finance Committee: Role played by it in European reconstruction after last war and possibilities of using it again.

I plan also to furnish copies of memoranda on these topies to you when they are finished.

Yours faithfully,

Allan Sproul,
President.

Enclosures

Mr. Leon Fraser,
First National Bank,
2 Wall Street, New York.

Author(s): J. H. Riddle

Title: British and American Plans for International Currency Stabilization

Date: May 26, 1943

Page Numbers:

This document is protected by copyright and has been removed.

Author(s): [Paul van Zeeland]

Title: A Propos Du Plan Keynes

Date: July 23, 1943

Page Numbers:

August 20, 1943

Dear Donaldson:

Referring to our conversation at the Federal, I attach hereto a copy of the three articles in the Lend Lease Agreement with Great Britain, which is dated February 23, 1942, that relate to the method of settlement of Great Britain's net obligations to us.

You will observe that they are primarily for the benefit of Great Britain and insinuate, though they do not say, that no payments will have to be made unless the conditions set forth in Article VII are met.

Your own suggestion approached the question from the standpoint of the creditor, namely, to state conditions under which payments would be made. This is obviously a benefit for us, but may not be so agreeable to the British. In fact, Article VII is doubtless regarded by them as a pretty fine cover for them and they may hesitate to alter it to something which would protect the creditor. However, your excellent thoughts should be explored as Article VII does open the way to further conversations.

With best wishes,

Faithfully yours,

Encl.

Donaldson Brown, Esq.
General Motors Corporation
1775 Broadway
New York, N. Y.

EXTRACT FROM LEND-LEASE AGREEMENT

UNITED STATES & GREAT BRITAIN

FEBRUARY 23, 1942

ARTICLE V

The Government of the United Kingdom will return to the United States of America at the end of the present emergency, as determined by the President, such defense articles transferred under this Agreement as shall not have been destroyed, lost or consumed and as shall be determined by the President to be useful in the defense of the United States of America or of the Western Hemisphere or to be otherwise of use to the United States of America.

ARTICLE VI

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom full cognizance shall be taken of all property, services, information, facilities, or other benefits or considerations provided by the Government of the United Kingdom subsequent to March 11, 1941, and accepted or acknowledged by the President on behalf of the United States of America.

ARTICLE VII

In the final determination of the benefits to be provided to the United States of America by the Government of the United Kingdom in return for aid furnished under the Act of Congress of March 11, 1941, the terms and conditions thereof shall be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations. To that end, they shall include provision for agreed action by the United States of America and the United Kingdom, open to participation by all other countries of like mind, directed to the expansion, by appropriate international and domestic measures, of production, employment, and the exchange and consumption of goods, which are the material foundations of the liberty and welfare of all peoples; to the elimination of all forms of discriminatory treatment in international commerce, and to the reduction of tariffs and other trade barriers; and, in general, to the attainment of all the economic objectives set forth in the Joint Declaration made on August 12, 1941, by the President of the United States of America and the Prime Minister of the United Kingdom.

At an early convenient date, conversations shall be begun between the two Governments with a view to determining, in the light of governing economic conditions, the best means of attaining the above-stated objectives by their own agreed action and of seeking the agreed action of other like-minded Governments.

COPY

UNITED KINGDOM PAYMENTS OFFICE
Government Temporary Building No.8
Carling Avenue, OTTAWA, Canada

3rd September, 1943

Personal

Dear Fraser:

I was much interested in and attracted by the draft scheme which you showed me. On thinking it over, however, there seemed to be certain difficulties which I dare say you will deal with in a later version. They are as follows:

1. All countries seem to be thought of as belonging either to the dollar area or the sterling area. Actually there may be some which are attached to neither currency and yet others attached to both. Those in the latter category could be told to make their choice or have that choice prescribed for them.

2. What would you propose to do about Canada, which is in a special position? It is normally long of sterling and short of dollars, and normally the U.K. has absorbed the excess sterling and handed over dollars in exchange. If the U.S.A. is to bolster Great Britain, and through her the sterling area, what will she do about Canada, which is not a part of the sterling area? Will the U.S.A. supply Canada with the dollars she needs, leaving her to hold sterling in excess of her requirements, or will Great Britain be allowed to provide for Canada's need of dollars in the same way as if Canada were part of the sterling area?

3. While Great Britain under your plan would be made responsible for the sterling area will not this task be a difficult one? Under the gold standard there was an automatic mechanism for keeping countries in equilibrium so that they hardly knew who was responsible for the adjustments they had to make. In the absence of that mechanism may it not be necessary to have exchange controls, bi-lateral agreements, clearing arrangements, etc., in order to preserve equilibrium within the sterling area? However this may be, if a country in the sterling area mismanages its economy and runs short of sterling reserves will it not mean that the U.S.A. will be burdened with the holding of the sterling which should be held by that country or countries? At that point will not the U.S.A. accuse Great Britain of mismanagement and be sorry that she did not assume some part of the responsibility which would have been hers through membership of a White plan?

4. It may be said in regard to 1 above that it does not matter much about small countries; that they will fall into line somewhere and somehow. But countries which are of minor or little importance politically can be very important by reason of the character of their exports. Canada is a case in point. Others would be the Argentine, Sweden, Denmark, etc. It would, for example, not be a matter of indifference to the world what happened to the Argentine exchange in view of the competition of Argentine wheat with other producing countries. Even Denmark is of account as a producer of bacon.

I do not say that these difficulties could not be met and no doubt you will be giving them consideration in any case.

Yours sincerely,

J. A. C. Osborne (sgd.)

Leon Fraser, Esq.
First National Bank
2 Wall Street
New York, N.Y.
U.S.A.

FEDERAL RESERVE BANK

OF NEW YORK

Fl

September 7, 1943.

Mr. Leon Fraser,
2 Wall Street,
New York 5, N. Y.

Dear Mr. Fraser:

Following the discussion at the meeting of the executive committee held April 29, 1943, regarding the manner of determining monetary and fiscal policy for territory occupied by American military forces, I wrote to Chairman Eccles of the Board of Governors of the Federal Reserve System on May1, 1943, raising certain questions concerning the place of the Federal Reserve System in the formulation of the Government's international monetary policies.

As I reported to the executive committee on August 26, 1943, I received a reply from Chairman Eccles dated August 19, 1943, enclosing a memorandum entitled "The Federal Reserve System and Reoccupation Problems." The executive committee approved my suggestion that this matter be included in the order of business at the meeting of the board of directors on September 16, 1943. Copies of my correspondence with Chairman Eccles and the memorandum he sent me are enclosed.

Yours sincerely,

Allan Sproul

Allan Sproul,
President.

Encs.

MISC. 140-B-50M-2-43

FEDERAL RESERVE BANK OF NEW YORK

May 1, 1943.

Honorable Marriner S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington, D. C.

Dear Chairman Eccles:

A request for authority to open an account for a foreign central bank in an African colony, at a meeting of our directors yesterday, brought up the question of plans and programs which might be under consideration by the United States for the financial administration of occupied territories, and of the place of the Federal Reserve System in the formulation of such plans.

I had to tell the directors that, as far as this bank is concerned, we had not been asked to participate, in any regular or formal way, in this phase of the war effort, although informal requests for assistance had been made intermittently by two or three branches of the government, which appear to be working in this field. I mentioned that to our knowledge at least two branches of the Army had been in touch with banks here in their search for trained banking personnel; that the Board of Economic Warfare had secured the loan of the part-time services of one of the members of our Research Department, and that the Board of Governors had also availed itself of the part-time services of one or two of our research assistants. In addition, I said that we knew, of course, that the State and Treasury Departments had an interest in and were asserting some authority in this field.

COPY

The question was then raised by the directors as to whether this was not another one of those areas in which a diffused authority by a number of different agencies would not give the best results. The need for a unified approach by the armed forces during periods of military occupation which could be merged smoothly into the succeeding civil administration seemed to be apparent. They were also impressed by the need for avoiding in the future, if possible, a repetition of our experience in North Africa when the exchange rate for the local currency was first fixed at a level which, as it seemed to us here, was too low and subsequently had to be raised, with a good deal of resultant confusion.

The directors recognized that this is a difficult matter and did not know whether the Federal Reserve System had any responsibility for seeking improvement of what appears to be an undesirable condition. I told them that I thought the Board of Governors shared their concern about the course which this whole matter appears to be following, and they realize, of course, the difficulties of your position. Nevertheless, I thought I would write to you to ask if you could tell us what the situation really is, what if anything the System might do about it, and where any responsibility which we might have would lie.

Yours faithfully,

(Signed) ALLAN SPROUL

Allan Sproul,
President.

MISC. 140-B-50M-2-43

BOARD OF GOVERNORS OF THE

FEDERAL RESERVE SYSTEM

WASHINGTON

August 19, 1943.

Mr. Allan Sproul, President,
Federal Reserve Bank of New York,
New York 5, N. Y.

Dear Allan:

This is in reply to your letter of May 1, 1943, in which you raised questions respecting the place of the Federal Reserve System in the formulation of the Government's international monetary policies, with particular reference to the financial problems of military occupation. As I explained to you when you were last here, the delay in sending you this reply was due to our desire to give your questions careful consideration, including a review of the historical developments involved.

In view of the scope of our study, it seemed best to prepare a memorandum under the title, "The Federal Reserve System and Reoccupation Problems." The paper is enclosed herewith and I trust it will prove interesting and informative. Should you have any comments with respect to it, I should be glad to receive them.

With best wishes, I am

Sincerely yours,

(Signed) M. S. ECCLES

M. S. Eccles,
Chairman.

Enclosure

COPY

CONFIDENTIAL

THE FEDERAL RESERVE SYSTEM AND REOCCUPATION PROBLEMS

The letter addressed to the Chairman by President Sproul of the New York Bank on May 1, 1943, raises the question of what responsibility the System has or should have for determining the policies of this Government in connection with the financial administration of foreign territories occupied by our armed forces. The following memorandum summarizes: (1) the earlier activities of the System in the international field; (2) the present set-up in Washington for work on the financial problems of reoccupation; and (3) certain suggestions as to how the Board (and the System) might strengthen its position in this work.

Before outlining the history of the System's operations in the international field, it should be emphasized that the international aspects proper of reoccupation work are only part--and probably the smaller part--of the problem. The monetary and banking questions which will arise in occupied areas will in large part be concerned with the administration of the domestic currency and credit system in the given foreign country. This part of the task will call for techniques in the management of currency and banking with which the System is intimately familiar, although it may be anticipated that the extraordinary problems of occupied areas will call for drastic measures, some of which may be unprecedented in American experience.

1. The earlier activities of the System in the international field.

In the years prior to 1933, the System was actively engaged in the international field, largely through the Federal Reserve Bank of New York, which acted on behalf of the other Reserve Banks and under the supervision of the Federal Reserve Board. The New York Bank played the conventional role of a central bank under the international gold standard, buying and selling gold at a fixed price and thereby maintaining the dollar at a fixed gold parity. With the consent of the Board of Governors, it carried gold and dollar accounts for a large number of foreign central banks, thus facilitating their exchange operations, and in a much more limited way operated through gold and foreign currency accounts abroad (with the Bank of England, Bank of France, and Bank for International Settlements). These accounts were participated in by most of the other Reserve Banks.

During and immediately after the first World War, the Federal Reserve Board as agent of the Treasury Department administered the regulations prescribed by the President concerning the exportation of coin, bullion, and currency and concerning foreign exchange transactions. A Foreign Exchange Division was set up in the Board, and the Federal Reserve Banks administered the licensing procedure in the field. Most of the wartime restrictions of this sort were lifted in June, 1919.

In the 1920's and early 30's, the United States monetary authorities were relatively inactive in the international field. The gold parity of the dollar was fixed, the United States had no exchange control, and the principal corrective measures on the international exchanges were undertaken by foreign countries. However, the Federal Reserve Bank of New York, operating under the supervision of the Board of Governors, actively supported the efforts of foreign central banks (including the Bank for International Settlements) to deal with their exchange problems.

The predominantly technical services of the New York Bank in handling the gold and dollar accounts of foreign central banks in this country, as well as their short-term investments in this market, was a considerable aid. The Bank made a more important contribution, however, by advancing dollar funds against gold in transit and under earmark abroad, and especially by extending large short-term credits to foreign central banks. A number of such credits were arranged in the early 1920's in connection with the return of various European countries to the gold standard, although in no case were these credits actually utilized. The most notable example was a 200 million dollar gold credit to the Bank of England in 1925. Then in 1931-33, the Bank collaborated with other leading central banks, such as the Bank of England and Bank of France, in extending short-term credit facilities to central banks in Central Europe. Assistance to such banks was also given through a 10 million dollar deposit established with the Bank for International Settlements. All of these credits were participated in by other Reserve Banks.

Although the System utilized the facilities of the B.I.S., the membership in this institution which was offered to the New York Bank was never accepted. However, the continuous process of inter-central bank consultation and the specific acts of central bank collaboration cited above gave the System a definite role in the determination of this country's international policies in the financial sphere.

The economic crisis which became acute in the early thirties forced consideration of banking and credit measures to cushion the liquidation. Those first taken reflected the prevailing concept of the leaders in Government, business and banking, who, generally speaking, regarded the crisis as temporary or cyclical in nature and felt that Government, as such, had only limited responsibility for bringing about a recovery. There was great reluctance to enlarge the scope of the System's functions, particularly in the matter of extending credit to banks upon other than eligible paper. It was the general view among bankers and many of the officials of the Federal Reserve System that whatever measures were taken to meet the financial crisis should be of a temporary nature and should be terminated when the emergency was over. Their concept of the basic functions and policies of the System caused them to feel that it should not be used for the administration of such measures, and this was the position of the Banking and Currency Committee of the Senate under the leadership of Senator Glass. Therefore, when it was decided that the Government should extend emergency credit to rehabilitate banks and other financial institutions, a new agency, the Reconstruction Finance Corporation, was established outside the Federal Reserve System and the only material change in the statutory powers of the Reserve Banks to extend credit was the enactment of Section 10-b of the Federal Reserve Act on February 27, 1932. Significantly, the original language of this Section permitted loans by the Federal Reserve Banks on paper not eligible for discount only "in exceptional and exigent circumstances".

The crisis culminated in the Banking Holiday, when the new Administration came into office in March, 1933. It resulted in radical changes in credit and banking policy and the granting of new powers to the Government to stem the flood of liquidation and bankruptcy and to revive economic activity. For the reasons above mentioned, plus the fact that a number of influential officials in the new Administration were unwilling to have the System exercise any of the new powers, Congress and the President conferred upon other agencies the major responsibility for rehabilitating domestic finance and for dealing with international monetary matters. Congress passed legislation providing additional remedial facilities outside the System, including the enlargement of the authority and powers of the R.F.C., the establishment of the Federal Deposit Insurance Corporation and the Home Loan Bank System, and the expansion of the Farm Credit Administration. Control over gold and foreign exchange policy and even the licensing of banks were placed by the President in the Treasury. The Gold Reserve Act of 1934, transferring the gold reserves of the System to the Treasury, establishing the Stabilization Fund, and authorizing the devaluation of the dollar in terms of gold, made the Treasury the dominant agency of Government in the determination of international monetary policy. As a consequence, the System has played a distinctly subordinate role in the international monetary field. Looking back upon the crisis years of 1932-1933, it is apparent that the System suffered heavily in its prestige and effectiveness through the lodgement in other agencies of powers and functions of major importance in the banking, credit and monetary field, both domestic and international.

Partially offsetting gains in the domestic field were realized through the Banking Act of 1933 and the Securities Exchange Act of 1934. More substantial gains have since been made through the powers and responsibilities conferred by the Banking Act of 1935 and by the Executive Orders relating to consumer credit and loans to finance war production. In the international monetary and banking field, however, the lost ground has not been recovered. The System was left with routine functions serving the needs of the Treasury and of foreign central banks and governments.

Subsequent developments have not substantially altered this picture. Other agencies such as the Export-Import Bank and the R.F.C. have embarked on foreign lending programs, and in the last two years the Lend-Lease Administration has developed into a foreign lending agency on a large scale. The Treasury has closely participated in these enterprises while the System has not except as fiscal agent. The Treasury itself has extended foreign credits through the Stabilization Fund as well as directly in the case of the 500 million dollar war credit to China. It has negotiated exchange agreements and pursuant to the Tri-Partite Pact has conducted exchange stabilization operations with the leading European countries. It took the lead in 1940 in introducing Foreign Funds Control, and has since developed the administration of this control through the Reserve Banks into a powerful weapon of economic warfare. It has now submitted plans for post-war international exchange stabilization agreements in which the Treasuries rather than the Central Banks of the respective countries would be the participating parties. Finally, it is prominent among those agencies giving consideration to the financial problems of reoccupation. (See below.)

It should be noted that the Treasury's work on reoccupation matters has grown naturally out of its special functions in arranging for Army and Navy disbursements in connection with overseas operations in Allied countries. In close collaboration with the Federal Reserve Bank of New York, the Treasury has devised methods for remitting dollar funds to Army and Navy disbursing officers serving in foreign areas. While a great variety of methods are employed in different areas, in general the fiscal officers abroad are provided with either (a) dollar accounts in their names with local banking institutions against which they can draw local currency, or (b) facilities with local banks whereby they can obtain local currency by cashing dollar drafts drawn on the United States Treasury. For reasons of secrecy, cable transfers and various other operations involved in these procedures are normally routed through the foreign correspondents of the New York Bank (in the Pacific: the Commonwealth Bank of Australia and the Reserve Bank of New Zealand - in the United Kingdom, the Middle East, India, etc.: the Bank of England). However, for practical reasons, extensive use is made of the services of commercial banks in foreign areas, including branches of American banks in London, and branches of British banks in the United Kingdom outside London and in the Middle East and India.

As noted below, when the question of occupation currency for French North Africa arose, the Army Fiscal Division naturally turned to the Treasury Department, and the latter agency made arrangements for supplying yellow-seal silver certificates and some gold coin for use in the initial North African operations. Subsequently, the Treasury directed the arrangements for remitting Army funds to North Africa through the local banking institutions there.

2. <u>Work in progress on financial problems of reoccupation.</u>

This section gives briefly what is known of studies being pursued in various government agencies with respect to the "financial" (i.e., currency, banking, foreign exchange, etc.) problems which may be expected to arise in foreign areas occupied by American armed forces. By way of preface, the preparatory action and present procedure in the case of North Africa may be summarized.

1008

North Africa. In the summer of 1942, the Reoccupation and Reconstruction Division of the B.E.W. formed an interdepartmental committee of technicians (B.E.W., Treasury, and Board of Governors) under the chairmanship of Mr. Rifat Tirana of the B.E.W. to work out procedures for handling financial problems of reoccupation. Mr. Tirana had established contact with the War Department (the Military Government Division--General Gullion--and the Fiscal Division--General Carter) and apparently believed that he had a mandate from them to carry on this work.

However, the participation of the Treasury Department representatives in the work of the committee soon became spasmodic, and when the North African campaign opened it became apparent that considerable preparatory work for that specific area had been undertaken by the Treasury in close collaboration with the Army Fiscal Division. This relationship had grown naturally out of the Treasury's functions in handling Army remittances to friendly countries in which American troops were stationed (U.K., Iceland, Australia, etc.), and considerations of military secrecy militated against consultation with other agencies on North African problems prior to the invasion. The use of "yellow seal" silver certificates in North Africa and the fixing of the exchange rate were arranged by the War and Treasury Departments.

After the campaign opened, the B.E.W. committee produced a series of memoranda on North and West African financial problems for submission to the War Department. It is not clear, however, what role these memoranda played in determining policy. While they are reported to have received praise from the military authorities, the work of the B.E.W. committee has recently been characterized by a high Army official as "purely voluntary". In practice, in so far as financial policies in North Africa have been determined by this Government, they seem to have been established largely by the Treasury Department. The chief finance officer under Robert Murphy, Civil Affairs Adviser to General Eisenhower, has been Colonel Bernard Bernstein, former Assistant General Counsel in the Treasury. Colonel Bernstein, though in uniform, is regarded as virtually a "Treasury man". A number of other Treasury men have gone out to North Africa in a civilian capacity (including Harold Glasser, assistant to Harry White in the Treasury's Division of Monetary Research).

This Treasury activity has been carried on within the framework of a general organization for handling North African economic problems. This framework, established after a period of initial confusion, consists of a North African Economic Board in Algeria under Robert Murphy and a Combined Committee on Civil Affairs for North Africa in the State Department, both of which include some British representatives. The Financial Control Division of the North African Economic Board, headed by Colonel Bernstein, is concerned with such matters as the exchange rate, the management of the occupation currency, and liaison with the French authorities on control of enemy interests in North Africa and on the broad questions of inflation control. The policy on such matters in Washington is determined by the Combined Committee, under the chairmanship of Mr. Thomas K. Finletter, Special Assistant to the Secretary of State. This committee includes, in addition to a few British members, representatives of the State, Treasury, War and Navy Departments, the B.E.W., the Lend-Lease Administration and the Maritime Commission. Presumably the Treasury (Mr. Harry White) has the dominant influence in financial matters; the B.E.W. representatives on the committee are men specializing in foreign trade and commodity problems.

Attention is drawn to the fact that in many respects the North African case is not typical of the situation which will be encountered in occupied areas on the European continent. Firstly, the domestic currency and banking system in the area was found in good working order, and secondly, what needed to be done in this field was undertaken by the recognized French regime. There has been no military government in North Africa, only liaison with the French on their domestic problems and negotiation with them on questions with international aspects: exchange rate, dollar occupation currency, Lend-Lease financing, etc. In areas under military government the management of the domestic currency and banking system will assume vastly greater importance.

- - - - - - - - - - - - - - - -

The financial problems of areas to be occupied in the future are currently being studied in the following quarters:

War Department. Until recent months the War Department has concerned itself principally with administrative rather than policy-making problems in military government. For a time the idea prevailed that policy questions would resolve themselves naturally if officials of the civilian agencies of the Government--such as the Treasury Department, Federal Reserve Board, State Department, etc.--were commissioned for military government work; it was presumed that persons so commissioned would pursue policies reflecting the opinion of such agencies. General Gullion, himself, voiced these ideas on several occasions in discussions with representatives of the Board. Obviously, however, it does not make for good military organization for officers to feel that they represent any person or organization other than the Commanding General under whom they serve and the Staff Section which assigned them. In any event, there was need of a better method of arriving at policy.

For this and other reasons, the Civil Affairs Division, Office of the Chief of Staff, was formed in March, 1943, headed by General Hilldring and under the supervision of Assistant Secretary of War McCloy. This Division does the planning and policy making for the Military Government Division and likewise deals with other phases of civil affairs, including relationships with the civilian agencies of the Government. It is represented on the Combined Committee for North Africa. In this connection it should be added that the Fiscal Division, under General Carter, is also represented on the Combined Committee, for the reason that policy decisions may affect its operating problems.

The Military Government Division, presently under General Gullion, the Provost Marshal General, has the responsibility for selecting and training officers to serve in foreign reoccupations. These and other officers will be assigned by General Hilldring to staff positions with the Commanding Generals of occupation forces. Several categories of technicians are being trained, viz., men qualified in engineering, public health, public welfare, communications and utilities, education, relief, etc., in addition to the fiscal and banking technicians.

At the request of General Gullion in November, 1942, the System has been helpful in seeking out, contacting and recommending to the Military Government Division names of men who have had experience in foreign banking, bank supervision, foreign exchange, public finance, and other financial or banking activities which would make them useful in foreign reoccupations. Also, miscellaneous questions are discussed informally between the Military Government Division or the Civil Affairs Section of the General Staff and representatives of the Board of Governors.

Upon being commissioned from civil life, officers are sent either to the School of Military Government at Charlottesville, Virginia, or to one of a number of other training schools for junior officers now being organized at several of the leading universities throughout the country. At Charlottesville a considerable number of the officer students come from the regular Army, and, generally speaking, the graduates of that school will be used for administrative assignments, including service abroad. The other schools will train men of junior rank (through the grade of Captain) for a specific foreign area. Financial questions have a prominent place in the curricula of these schools.

The Military Government Division is also supervising the preparation by the civilian Government agencies of Military Government Handbooks, information manuals on specific countries which will be used for training purposes and will eventually be put in the hands of American military administrators abroad. The financial sections of these Handbooks are being prepared in the Treasury Department and in the Board of Governors, with assistance from the New York Bank and the S.E.C.

It should be mentioned that there has been a considerable amount of confusion as to where the primary responsibility lies within the War Department for fiscal and banking operations in foreign occupations. The Fiscal Division moved first in selecting and commissioning top-flight men of foreign banking experience. Today several officers serving in that Division are eminently qualified for service in military government, whereas they are being used on assignments which could be performed equally well by men without their unique qualifications. For a time there was considerable agitation for the transfer to General Carter of the responsibility for fiscal and banking problems in military government, but this proposal was dropped. It is believed that the setting up of the Civil Affairs Division, Office of the Chief of Staff, will insure the handling of fiscal and banking problems of reoccupation, in so far as they relate to civil affairs, in that Division and the Military Government Division. At the same time, various fiscal transactions arising out of the operations of the armed forces during a military occupation--pay of troops, disbursements for supplies, the handling of soldiers' allotments, subscriptions to savings bonds, deductions for soldiers' savings accounts at the Treasury, etc.--will continue to be handled by the Fiscal Division.

Navy Department. The Navy Department is understood to have worked out an agreement with the War Department whereby the Navy will undertake military government responsibilities only in ports and harbors and in certain islands of the Pacific area. It has established a school of military government for naval officers at Columbia University.

State Department. The Combined Committee for North Africa meets under the chairmanship of Mr. Thomas K. Finletter, Special Assistant to the Secretary of State, and it may be presumed that some work in this field--as well as some longer-range planning on reoccupation matters--has been carried on within the Department, especially in the Division of Economic Studies. A recent executive reorganization has greatly broadened the functions of the State Department in reoccupation work - see below - and it is expected that this will call for a major extension of the Department's personnel and studies in this field.

It should also be noted that the Lehman Office in the State Department (Office of Foreign Relief and Rehabilitation) has recently been giving active consideration to monetary problems in reoccupied areas, which obviously are closely related to their principal job of relief work. They have been working on Greece as a special case study, and have invited a member of the Board's staff to serve on an advisory committee for Italian questions.

Treasury Department. The Treasury Department, as noted above, is intimately concerned with the financial problems of reoccupation. Its work on this subject is being pursued in Mr. Harry White's Division of Monetary Research (under Mr. Taylor) as well as in the Foreign Funds Control (under Mr. Pehle and Mr. Luxford, legal adviser to the Foreign Funds Control). The individuals mentioned attend the meetings of the Combined Committee on North Africa. The Division of Monetary Research is also working on certain sections of the Military Government Handbook for all potential areas of occupation; these sections cover public finance and exchange control.

Office of Economic Warfare (Previously Board of Economic Warfare). The Reoccupation Division of the O.E.W., after finishing its work on the financial problems in North and West Africa, turned its attention to studies of such problems as might arise in other areas to be occupied. Reports and recommendations have been prepared regarding Italy, Greece and Spain. At present their work is concentrated on elaboration of the Italian reports, and on longer-range studies of the conduct of Continental European trade and finance after the collapse of Germany. Representatives of the Board of Governors and the New York Bank have participated in all of these projects, although there have been no formal meetings of the interdepartmental committee established last summer by the O.E.W.

Aside from the work of the Reoccupation Division, a group in the Enemy Branch of the O.E.W. is taking an increasing interest in military government problems, which they regard as a logical extension of their present work on the Axis countries. Members of the Board's staff are also cooperating with this group in assembling information on money and banking in various European countries, particularly in Germany itself.

Board of Governors. The International Section of the Division of Research and Statistics is collaborating with the O.E.W. on policy recommendations with respect to the financial problems of reoccupation. It is also engaged in the preparation of the money and banking sections of the Military Government Handbooks. The Federal Reserve Bank of New York is collaborating in this work by furnishing the part-time services of Mr. Tamagna and by contributing material in two special fields, i. e., savings banks and insurance companies. The cooperation has also been obtained of the Securities and Exchange Commission which has assigned a man to contribute material to us on the stock exchanges in the countries under consideration.

Also, as mentioned above, a member of the Board's staff is serving on an advisory committee for Italian problems organized by the Lehman office.

New Interdepartmental Organization on Reoccupation Problems. Early in June, the President transmitted to Secretary Hull a plan for work on reoccupation problems by civilian agencies which had been prepared in the Bureau of the Budget. This plan seems to constitute a complete vindication of the State Department's view that it should be charged with the primary responsibility for all civilian activities in foreign areas. It provides that an Assistant Secretary of State (understood to be Mr. Acheson) should be assigned specifically to work on reoccupation matters and that he should be Chairman of an Inter-departmental Policy Committee consisting of the heads, or their deputies, of the following agencies: State Department, Treasury Department, War Department, Navy Department, Office of Economic Warfare, Office of Lend-Lease Administration, Office of Foreign Relief and Rehabilitation Operations (Lehman Office). Under this Policy Committee would be established a working group called the Coordinating Committee composed of representatives (presumably at staff level) of the agencies represented on the Policy Committee. Further provision is made for Sub-committees on particular areas or particular problems, the membership of which is not laid down.

For administration in the field, it is stipulated that the Secretary of State, with the approval of the Policy Committee, shall appoint an Area Director for each foreign area subject to military occupation. This Area Director will be subject to the orders of the military commander in the area <u>and</u> of the Assistant Secretary heading up the Policy Committee. He is to be given broad powers within the territory assigned him and will preside over the field activities of any U. S. civilian agencies operating in the field.

The Inter-Departmental Committee for the Recruitment and Training of Personnel is to be reconstituted as a sub-committee under the Coordinating Committee. This sub-committee is to include representatives from the agencies represented on the Coordinating Committee plus members from the Civil Service Commission and the Office of War Information.

Although it is not so stated in the Plan, presumably the Combined Committee on Civil Affairs in North Africa will become an Area Sub-committee under the Coordinating Committee. Also, once this machinery is set into motion, it may be presumed that the Committees recently established by the Lehman office will pass out of existence.

Neither the plan nor the President's letter to Secretary Hull contain many specific references to the financial problems of reoccupation. The President's letter refers to the Treasury's role as follows:

> "The Treasury Department is responsible for fixing exchange rates and should <u>assist</u> on monetary, currency control and general fiscal matters. This important work must be geared in with the plans and activities of the other agencies."

The role of the Lehman office is described somewhat more extensively with the distinction being made between its activities and those of the Office of Lend-Lease Administration. Aside from "distributing relief goods," and "goods to facilitate the production of basic civilian necessities," the Lehman office is charged with "facilitating the restoration of agriculture, housing and transportation." No mention is made of the rehabilitation of industry or of the banking system. The Office of Economic Warfare is assigned the field of Foreign Procurement, "certain industrial development," and other matters, but no participation in financial questions.

3. <u>How might the System strengthen its position in the reoccupation work?</u>

The System can strengthen its position in reoccupation matters only by further asserting its interest in and ability to handle certain of the problems involved.

Its <u>interest</u> in the work derives from its particular responsibilities in the monetary and credit field and hence in the reconstruction of a sound and workable international economy. The events of the last decade have sufficiently demonstrated the importance to the United States of stable economic conditions abroad; no agency responsible for any segment of the domestic economy can ignore the implications of foreign developments. The administration of occupied areas in Europe and the Pacific may determine, to a considerable extent, the course of economic and financial events in those areas, before and after the occupation period proper. These events will affect not only the business situation in this country, which the Federal Reserve System is designed to serve, but through the international flow of reserves they may alter to an important degree the domestic credit situation for which the Federal Reserve is directly responsible.

The capacity of the System to handle the financial problems of reoccupation is even more evident. While it is true that international financial policy in recent years has been largely handled by the Treasury Department rather than by the System, the System (especially the New York Bank) has had an important operating role and has kept in close touch with policy developments. Moreover, as pointed out above, the problems under consideration relate in large part to the administration of the domestic currency and banking systems in occupied countries. While the Treasury has had some experience as a bank supervisory agency, the System, as the banking arm of the Government, obviously has outstanding qualifications for such work. Within the Board of Governors and the various Reserve Banks, there is a fund of experience and of trained personnel which could make a very important contribution to reoccupation tasks.

At the present time the System is on the periphery of affairs in reoccupation work, although at the technical level a good deal of work has been done. The Military Government Handbook project has given the Board of Governors a foothold in this field with the War Department and other agencies which will utilize this material. Members of the Board's staff have been consulted on policy matters by the Board of Economic Warfare, the Lehman office, State Department, and the War Department through the School of Military Government and--in one instance--Assistant Secretary McCloy. Finally, the Board of Governors and the Reserve Banks have been of great assistance to the Military Government Division of the War Department in the compilation of a roster of skilled personnel available for financial work in military government.

It must be recognized that the Treasury Department has a big head start in the financial side of reoccupation work and has already built up a substantial field personnel. However, the new interdepartmental organization seems to offer a framework within which the Board and the System as a whole might make a contribution under the leadership of the State Department. It is presumably too much to expect that the Board should be given a place in the principal Committees, which are composed of representatives only from those agencies which are most directly and intimately engaged in reoccupation matters. It may be presumed, however, that among the functional sub-committees of the Coordinating Committee, there will be one on financial problems. Membership on such sub-committees is not limited by the terms of the plan to the members of the Policy Committee. The members of a financial sub-committee would be in a position to express their views on policy matters and to keep informed on developments in this sphere. In particular, they would have access to the reports (by cable and otherwise) from the field personnel, which in the North African case were extremely instructive.

It is therefore suggested that one step to be taken in obtaining for the System a wider role in reoccupation work would be to seek an invitation from the State Department to have the Board of Governors represented at the meetings of any financial sub-committee which may be organized. Little is known of what steps the State Department has taken thus far to implement the plan transmitted by the President; it is understood, however, that initial meetings of the Coordinating Committee have taken place under the temporary chairmanship of Mr. Finletter.

Another category of information available to the State Department (and presumably to the Treasury) which would be immensely useful to our work is the minutes of and reports on the sessions in London of an Inter-Allied Committee studying the financial problems of German-occupied countries. This Committee is made up of financial experts from the British Government and the various European Governments-in-exile established in London, and its sessions have been attended by an observer from our London Embassy. Access to this material should also be requested from the State Department.

In the case of the War Department, while we have close working relations with the Military Government Division in connection with the Military Government Handbooks, we have no such contact with the Civil Affairs Division, Office of the Chief of Staff, one of the functions of which is liaison work with civilian agencies interested in reoccupation policy. If we are to assert an interest in this field, we should establish closer relations with officers in the Civil Affairs Division specializing on financial problems. This question would presumably solve itself, however, if we obtained representation in a financial sub-committee on reoccupation problems, as suggested above.

MISC. 140A 300M-5-42

FEDERAL RESERVE BANK OF NEW YORK

August 24, 1943.

Hon. Marriner S. Eccles, Chairman,
Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

Dear Marriner:

Thank you for your letter of August 19th enclosing a copy of a memorandum on "The Federal Reserve System and Reoccupation Problems." I shall make this information available to my directors and then, if we have any comments or suggestions, I shall send them along to you. The historical summary, of course, partly by reason of its brevity and partly because of differences in recollection and interpretation, raises questions which could be debated endlessly. I am more interested in future possibilities than in past controversies, but in so far as this interpretation of the past may be useful in charting a future course, I find it interesting as well as provocative.

Yours sincerely,

(Signed) ALLAN SPROUL

Allan Sproul,
President.

COPY

September 14, 1943

B. G. Huntington, Esq.
President
The Huntington National Bank
Columbus, Ohio

Dear Mr. Huntington:

I must charge up against a number of absences from New York the delay in answering your letter about the new international bank. The truth is, of course, that to answer it properly would require fifteen typewritten pages.

As at present advised, I am not in favor of the White plan, and certainly not in favor of the Keynes plan which I regard as something of an ingenious joke.

The four principal reasons for not falling in with the White plan are, first, that it is premature and that plans of this kind are subsequent rather than first steps. It is also a political bank and a debtor bank. Considerable preparatory work must be done before anything so world-wide as the White plan can hope to succeed. In the second place, I feel it is preferable to separate the transition problems from the permanent problems, and this is clearly indicated in your own letter. In the third place, I feel that instead of scrapping all the existing machinery we should build on what we have - with modifications, of course. This includes using the Import-Export Bank, the Bank for International Settlements, "V" loans to help international trade, the Stabilization Fund, Central Bank cooperation, and all the rest. In the fourth place, the White plan does not tell us the whole story. It says that it is but one of the many steps that should be taken without telling us the other steps and how much they are going to cost the United States. It seems to me that we are entitled to have the whole package or at least a skeleton sketch of it before being asked to accept one segment.

Furthermore, I feel the general approach is wrong and that instead of a global, grandiose institution from which wonders will be expected, we ought to deal frankly and honestly with the

British situation, which is one though not the only outstanding financial problem. A fault of White's plan, and to a greater degree of Keynes' plan, is that they try to camouflage the British difficulty and merge it into a world situation. I believe that it should be tackled directly and that we should help - particularly in dealing with the blocked sterling balances which run into the equivalent of billions of dollars. Few things would start world trade and finance more quickly back on normal lines than the release to their owners of the huge volume of blocked funds held in London and New York. We have plenty of resources to pay off our own and I believe we should make a long term loan to the British to permit them to make London a free market once more.

I agree with you that a long term lending institution should be totally separate from any stabilization institution or clearing arrangement. I am not convinced that a universal clearing arrangement is necessary. If, through mutual aid, we could get the dollar-sterling rate settled, and if we were prepared to make long term loans to needy areas, it seems to me that a good deal of the clearing would then become automatic. It is not to be forgotten that countries other than the United States today hold more gold, valued in dollars, than was held by the entire world, including the United States, in 1929. It is not to be forgotten that all of South America has more gold and more dollars than at any time in their history and that the same is true of the neutral countries - Portugal, Sweden, and Switzerland. It is also not to be forgotten that many of the countries under the heel of the Nazis are very rich in external assets - notably France, Holland, and Belgium. Spain is in better shape than she has been for a quarter of a century. So I am convinced that as a practical matter, if we continue Lend-Lease to the devastated areas in the transition period and give credits to Great Britain, China, and perhaps to our perennial borrowers in the Balkans, things may get themselves adjusted, providing we keep our own house in order. I agree heartily with the report of the Policy Committee of the A.B.A. which covers the White plan, and I was privileged to cooperate in its preparation.

Put otherwise, I approach the subject from a realistic point of view, namely, that as practically the only creditor nation we should not hide our light under the bushel of a new international bank and pretend that it is doing the lending and, by the same token, I would deal with the British problem first and by itself. This does not mean that an international institution such as a greatly modified B.I.S. cannot be of infinite use, and I feel that we should use it from the beginning primarily as a meeting place for consultation, planning, exchange of information, and relatively modest short term seasonal credits.

While I agree, therefore, with your letter in its fundamental aspects, I am still not certain that trade clearing agreements are going to be necessary except, perhaps, for the transition period. Certainly we should try to get away from them because they always lead to bilateral arrangements and quota systems and these always reduce the aggregate of world trade.

Excuse this hurried as well as late note.

With kindest regards,

Faithfully yours,

President

(See "Brown")

October 19, 1943

Dear Don:

We were sorry to miss you in connection with the further discussion on the draft memorandum sent to Washington about the new banking proposals. The document you sent me labeled "Basic Considerations etc." has been very carefully studied and it is believed that although presented in different language the substance is contained in our memorandum dated October 7. You suggested, among other things, that it be stated specifically that the plan should not attempt to regulate ordinary commercial exchange regulations and that the data available to institutions should also be made available to other organizations.

Because we were not discussing a specific plan, or indeed proposing at present the proposed bank, it did not seem logical to state that the information gleaned by the Bank should be made available to others, but we did insert a sentence to the effect that the clearing function "could well be handled by the existing private machinery with a dispatch and smoothness not likely to be matched by any new world institution".

Also, because it did not seem to fit in the character of this particular memorandum although it may fit at another time, we did not go into a discussion of the liquidation of Lend-Lease. While I believe our thoughts on the subject are much the same, the very precise proposal you sent forward went a little farther in exactitude than I had in mind. Roughly, my thought is as follows: First, if it were practical politically, I would simply write the whole mess off and regard it as the cost of the war. Whatever we may have sent the Russians is a pretty cheap price for the way they have been defending us. To the extent that it is not politically possible to wipe the slate, then I think we might simply not demand repayment in cash but preserve a call on the nation involved for the return, on our request, of the same type of commodities that were shipped to them, if and as we have need of them. As a practical matter we shall probably never ask for the return of anything except in another war or a national disaster, but at least the fiction could be preserved for a few years; then, perhaps, later, outright cancellation take place. Your suggestion is very ingenious and probably could be woven in to the same general idea; to wit, that while creditors we would abstain from asking for repayment save in a great national emergency.

Without indicating the origin of your enclosure, I tried it on one of the bright young men at the Federal. His comment is a little caustic, but as he, too, is anonymous I thought I would send it along for what it is worth.

With best regards ever,

Faithfully yours,

encl.

Donaldson Brown, Esq.
Vice Chairman
General Motors Corporation
1775 Broadway
New York, N.Y.

Author(s): Orville C. Sanborn

Title: The New World: An American Peace Plan

Date: November 1943

Page Numbers: