

C O P Y

May 25, 1942

Subject: Conference on International
Stabilization Fund and Bank.

To: Chairman Eccles

From: Mr. Goldenweiser

The material submitted by the Secretary consists of:

(1) a brief memorandum to the President in which it is stated that plans for international financial reconstruction after the war should be studied now and that the Board of Economic Warfare, the Department of State, and the Board of Governors should cooperate with the Treasury in undertaking the study at once; and (2) a slightly longer memorandum in which it is stated that plans for an international stabilization fund and for an international bank have been prepared and are submitted as a basis of discussion. It is indicated that the plans are bold, far-reaching, unorthodox, and open to the charge of being too international. It is also stated as the writer's conviction that they must be all of these things. The plans themselves are not appended. Reference is made to the Rio resolution for the calling of a conference of Finance Ministers to discuss the establishment of an international stabilization fund. No mention is made of the proposed Inter-American Bank.

I think that this is a matter of the very first order of importance and that we should participate to the fullest extent.

E. A. G.

Attachments

C O P Y

THE SECRETARY OF THE TREASURY

Washington

May 20, 1942

My dear Mr. Eccles:

I am appending a memorandum which I submitted to the President with an enclosure which I think you will find self-explanatory. The President told me to continue the study of the proposal in conjunction with the State Department, Board of Economic Warfare and Export-Import Bank and to speak to him again about the project after we had progressed further in our study and after I had obtained the views of the State Department. I would very much like to have the Federal Reserve Board join us in the study.

I would appreciate it very much if you or someone you would care to designate would meet with me at 3:00 P.M. on Monday, May 25.

The proposal is, of course, in the study stage and if before the meeting you want more information on the matter, Harry White is available and will be glad to discuss it at your convenience.

Sincerely yours,

(Signed)

H. Morgenthau, Jr.
Secretary of the Treasury

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

Enclosures

C O P Y

May 15, 1942

MEMORANDUM FOR THE PRESIDENT:

I have had prepared in the Treasury the attached study of a Stabilization Fund for the United and Associated Nations and an International Bank for Reconstruction and Development. The purpose of these two agencies is to meet the inevitable post-war international monetary and credit problems--to prevent disruption of foreign exchange and the collapse of monetary and credit systems, to assure the restoration of foreign trade and to supply the huge volume of capital that will be needed abroad for relief, for reconstruction, and economic development essential for the attainment of world prosperity and higher standards of living.

I would like very much to have you read the appended extract from the study which briefly sets forth why preliminary work for the establishment of such institutions should be entered into now, and gives some indication of their nature and scope.

I am convinced that the launching of such a plan at this time has tremendous strategic as well as economic bearing. It seems to me that the time is ripe to dramatize our international economic objectives in terms of action which people everywhere will recognize as practical, powerful and inspiring.

In the flush of success our enemies always dealt upon their "New Orders" for Europe and for Asia. There could be no more solid demonstration of our confidence that the tide is turning than the announcement of the formulation in concrete terms, and the preparation of specific instrumentalities for what really would be a New Deal in international economics.

If you think this idea is worth canvassing, I would like to ask the Board of Economic Warfare, State Department and Federal Reserve Board and other appropriate agencies to work with the Treasury on these plans with a view to your calling a conference to be held in Washington of Finance Ministers of the United and Associated Nations. In this connection you will remember that Resolution XV of the Rio Conference already commits the American Republics to participate in such a conference.

To give some idea of the ground that might be covered by a conference of that character, there is also appended a file of a few preliminary documents which includes a suggested agenda which might accompany the invitations, and a suggested program of the conference.

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Suggested Plan for a United and Associated Nations
Stabilization Fund and a Bank for Reconstruction and
Development of the United and Associated Nations

It is yet too soon to know the precise form or the approximate magnitude of post-war monetary problems. But one thing is certain. No matter how long the war lasts nor how it is won, we shall be faced with three inescapable problems: to prevent the disruption of foreign exchanges and the collapse of monetary and credit systems; to assure the restoration of foreign trade; and to supply the huge volume of capital that will be needed virtually throughout the world for reconstruction, for relief, and for economic recovery.

If we are to avoid drifting from the peace table into a period of chaotic competition, monetary disorders, depressions, political disruption, and finally into new wars within as well as among nations, we must be equipped to grapple with these three problems and to make substantial progress toward their solution.

Specific plans must be formulated now.

Clearly the task can be successfully handled only through international action. In most discussions of post-war problems this fact has been recognized, yet to date--though a number of persons have pointed to the solution in general terms--no detailed plans sufficiently realistic or

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practical to give promise of accomplishing the task have been formulated or discussed. It is high time that such plans were drafted. It is time that detailed and workable plans be prepared providing for the creation of agencies with resources, powers and structure adequate to meet the three major post-war needs.

Such agencies should, of course, be designed to deal chiefly with post-war problems. But their establishment must not be postponed until the end of hostilities. It takes many months to set up such agencies. First, a plan has to be perfected. Then it has to be carefully considered by a number of countries. In each country, again, acceptance can follow only upon legislation. That alone will consume many months and possibly longer. And even when the plan is finally accepted, much time will be further consumed in the collection of personnel, and the performance of the preliminary ground work which must be done before effective operations can begin. Altogether, a year may be required before a proposal can be transformed into an operating agency.

Obviously, therefore, even though no important immediate ends will be served by having such agencies functioning during war time, it will be an error to wait until the end of the war is in sight before beginning serious discussion of plans for establishing such agencies. No one knows how soon the war will end, and no one can know how

long it will take to get plans approved and the agencies started. Yet, if we are to "win the peace", which will follow the war, we must have adequate economic instruments with which to carry on effective work as soon as the war is over. It would be ill-advised, if not positively dangerous, to leave ourselves at the end of the war unprepared for the stupendous task of world-wide economic reconstruction.

Specific proposals will help win the war.

But there is an additional important reason for initiating at once serious discussion of specific proposals. Such discussion will be a factor toward winning the war. It has been frequently suggested, and with much cogency, that the task of securing the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have more assurance that a victory by the United Nations will not mean in the economic sphere, a mere return to the pre-war pattern of every-country-for-itself, of inevitable depression, of possible wide-spread economic chaos with the weaker nations succumbing first under the law-of-the-jungle that characterized international economic practices of the pre-war decade. That assurance must be given now. The people of the anti-Axis powers must be encouraged to feel themselves on solid international ground, they must be given to understand that a United Nations victory will not usher in another two decades of

economic uneasiness, bickering, ferment, and disruption.

They must be assured that something will be done in the sphere of international economic relations that is new, that is powerful enough and comprehensive enough to give expectation of successfully filling a world need. They must have assurance that methods and resources are being prepared to provide them with capital to help them rebuild their devastated areas, reconstruct their war-distorted economies, and help free them from the strangulating grasp of lost markets and depleted reserves. Finally, they must have assurance that the United States does not intend to desert the war-worn and impoverished nations after the war is won, but proposes to help them in the long and difficult task of economic reconstruction. To help them, not primarily for altruistic motives, but from recognition of the truth that prosperity, like peace, is indivisible. To give that assurance now is to unify and encourage the anti-Axis forces, to greatly strengthen their will and effort to win.

Nor will the effect be on the anti-Axis powers alone. Whether within the Axis countries the will to fight would be weakened by such arrangements is not certain, but assuredly it would not be strengthened. And certainly the people in the invaded countries, and the wavering elements in the Axis-dominated and Axis influenced countries would be given additional cause to throw in their lot more definitely and openly with the anti-Axis forces if there is real promise that an orderly prosperous world will emerge from a United Nations victory.

Two International Government Agencies must be established
--a Stabilization Fund and a Bank for Reconstruction.

A vital part of that promise rests on international monetary and banking collaboration. The United Nations and the Nations associated with them must undertake co-operatively two tasks as soon as possible: first, to provide an instrument with the means and the procedure to stabilize foreign exchange rates and strengthen the monetary systems of the United Nations; and second, to establish an agency with resources and powers adequate to provide capital for economic reconstruction, to facilitate rapid and smooth transition from war-time economies to peace-time economies, to provide relief for stricken peoples during the immediate post-war period, to increase foreign trade, and permanently increase the productivity of the United Nations.

Those two tasks should be kept distinct. Though in some of their facets and in many of their consequences there is considerable interdependence and interaction, the two are different enough to call for separate instrumentalities. Each is sufficiently specialized to require different resources, different responsibilities, and different procedures and criteria for action. To supply the United Nations with necessary capital not otherwise available except possibly on too costly terms should be the function of a bank created for that specific purpose; whereas monetary stabilization--a highly specialized function calling

for a special structure, special personnel, and special organization--would best be performed by a stabilization fund created to perform that special function.

It is therefore recommended that immediate consideration be given to formulating plans for the establishment of two separate institutions:

1. A United and Associated Nations Stabilization Fund, and
2. A Bank for Reconstruction and Development of the United and Associated Nations.

While either agency could function without the existence of the other, the creation of both would nevertheless aid greatly in the functioning of each. Doubtless one agency with the combined functions of both could be set up, but it could operate only with a loss of effectiveness, risk of over-centralization of power, and danger of making costly errors of judgment. The best promise of successful operation seems to lie in the creation of two separate institutions, linked together by one or two directors in common. Proposals must be drafted by experts of many governments meeting for that purpose.

It is hoped that some time soon, representatives of various interested governments will meet in conference to explore the possibility of working out a plan for the establishment of an international stabilization fund and bank. To facilitate the preliminary work of such a committee, and to provide the officials of the interested governments with a proposal set in specific enough terms to

encourage and justify fruitful discussion prior to a meeting, the following report has been prepared. It contains a suggested plan for a fund and for a bank, and also some discussion of the various points involved.

Anyone familiar with the task of setting up new and complex organizations such as the two envisaged will fully appreciate that no single person, no matter how well informed on the subject, can hope to draft a plan that would meet with general approval. This is especially true of a proposal calling for international collaboration and requiring acceptance by several governments. To draft a plan that is likely to meet with approval of various governments is a task beyond the competence even of a group of economists from any single country. The details of any plan submitted for consideration would have to be subjected to careful evaluation and examination by a number of men, some of whom should be expert in the handling of international economic problems and monetary theory, and others at home in related fields. In addition to monetary problems, questions of sovereignty, of national interest, and of broad economic policy are involved in some of the more important provisions, and these inevitably must be the subject of controversy and compromise. They are also matters that must be discussed in detail and at length by high officials whose responsibilities include the shaping and administration of monetary and financial policy.

The proposals and comments that follow are submitted with the intent of providing a starting point for intelligent discussion and of calling attention to some of the difficulties which would have to be satisfactorily met before a workable and acceptable plan may emerge. The proposals have been set forth only in outline and for the most part only those points are included which are essential to an understanding of the plan.

It is certain that some of the powers and requirements included in the outline of the Fund and the Bank will not survive discussion, prejudice and fear of departure from the usual. Some may not stand the test of political reality, and some may be unacceptable on technical grounds, while others may be generally regarded as going too far toward "internationalism." Yet most of them appear as desirable objectives in most writings or conferences on post-war economies and are worth considering.

Willingness to depart from tradition and break new ground is essential if meaningful results are to be obtained.

It will perhaps help toward understanding and induce a more sympathetic approach to the proposals which follow to state at the outset that something much more than the usual banking and stabilization functions are envisaged in the plan. There is urgent need for instruments which will pave the way and make easy a high degree of cooperation and collaboration among the United Nations in economic

fields hitherto held too sacrosanct for international action or multilateral sovereignty. A breach must be made and widened in the outmoded and disastrous economic policy of each-country-for-itself-and-the-devil-take-the-weakest. Just as the failure to develop an effective League of Nations has made possible two devastating wars within one generation, so the absence of a high degree of economic collaboration among the leading nations will, during the coming decade, inevitably result in economic warfare that will be but the prelude and instigator of military warfare on an even vaster scale.

The Fund and the Bank described in the following pages are envisaged as economic instruments that most easily and effectively can facilitate that high degree of economic collaboration. It will be at once apparent that the resources, powers and requirements for membership, accorded both agencies go far beyond the usual attributes of monetary stabilization and of banking. They must if they are to be the stepping stone from shortsighted disastrous economic nationalism to intelligent international collaboration. Timidity will not serve. It is my conviction that the long-time effectiveness of both agencies will be measured by the degree to which boldness and vision are displayed in their organization and objectives.

Part I, which follows, consists of an outline of (1) a United and Associated Nations Stabilization Fund, and (2) of a Bank for Reconstruction of the United and Associated Nations.

Part II consists of a brief explanation and discussion of the proposed Fund, and Part III of the proposed Bank.