BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date April 12, 1944

To Governor Szymczak

From Walter R. Gardner WRG

Subject: U.S. participation in international agencies: UNRRA and the proposed Bank and Fund

The attached table may be helpful in comparing the three major international bodies to which U.S. contributions are contemplated. UNRRA is already a fact, although the U.S. contribution of $1,350,000,000 has not yet been appropriated. The Fund and the Bank are still in the proposal stage. The exact U.S. contribution to them has not yet been determined; but the figures given in the table are an indication of what is being considered.

The method of financing these contributions has been finally determined only in the case of UNRRA; but it is anticipated that the U.S. contribution to the Investment Bank would also come out of the regular budget. On the other hand the Treasury has made it clear that they would expect to finance our contribution to the International Monetary Fund through central bank funds or their equivalent. A large part of the contribution might be made by activating free gold in the Stabilization Fund and the General Fund of the Treasury. Even gold behind certificates might be freed for the purpose if the provision in the detailed Treasury draft permitting gold contributions to the Fund to count as national reserves is implemented. Deposit of this gold at the Federal Reserve Banks to obtain dollars would create new central bank funds for international use.

U.S. contributions used for relief or investment will be turned over to foreigners only in connection with well-considered projects. If the United States does not approve the projects it need not participate, although this power is less clearly established in the case of the Bank, where it depends upon an incomplete veto exercised by the American representative, than it is in the case of UNRRA where it will be exercised by the Foreign Economic Administration and the Combined Boards. There is no project to judge and no veto power in the case of the Fund. In general the United States has only its 20 per cent vote in the management, although under special circumstances (i.e. when a member wishes to draw more than its quota) this vote may be increased. And whatever the vote, it cannot be exercised in the light of a specific project. Inevitably the resources of the Fund will be used to finance the miscellaneous deficit in the international balance of payments of a country -- a deficit reflecting every kind of expenditure by the general public, on consumption as well as on production, and on capital movements as well as on merchandise trade.

It is evident from this table that the Monetary Fund is an extremely poor device for permanent financing. There is no adequate control over the disposition of the funds by the borrower, and the funds themselves are supplied by the worst method from our standpoint -- that of central bank financing which adds to the redundant supply of money in the hands of the American public and the excess reserves of member banks. The Monetary Fund is appropriate only for short-term balancing operations. If it is not to be managed solely as a balancing mechanism, it would be better for us to contribute most of our 7-1/2 billion dollars through the relief and investment agencies. The funds disbursed through these agencies will go to the countries that need them most -- in accordance with carefully prepared relief and investment projects. Dollar for dollar they will contribute more to the restoration of world trade and better living conditions than the resources disbursed through the Monetary Fund; and they will do so without disturbing our domestic credit controls.

If, however, the Monetary Fund can be so managed as to effect a better balance in international transactions generally, it will not only keep the American contribution intact, but it will prevent the existing gold and dollar reserves of foreign countries from flowing in large volume to the United States. It may save this country from permanently financing 10 billion dollars or more of miscellaneous trade and capital movements by the worst possible method -- namely, gold purchases. Whether the Fund has been adequately equipped to do its job in this direction and whether the management with its large debtor interest will choose to employ such powers as it has toward international balance remains to be seen. The temptation for needy foreigners to use their gold reserves and the Fund for permanent financing will be great. Much will depend upon the policy and the resourcefulness of the American director on the Fund; and the Federal Reserve System, particularly by reason of its immediate concern with the gold flow, should have a major voice in determining that policy and seeing that the director misses no opportunity to make it effective.

Attachment

April 11, 1944

PROPOSED UNITED STATES CONTRIBUTIONS TO INTERNATIONAL AGENCIES*

Agency	U.S. contribution (In millions of dollars)	Method of financing in U.S.	Purpose to which funds are devoted abroad	Degree of U.S. control over U.S. contribution
UNRRA	1,350	Regular budget	Relief projects	Almost complete
Investment Bank	3,300	Regular budget (income producing investment 1/)	Investment projects	Complete for most uses at outset
Monetary Fund	3,000	New central bank money	Miscellaneous deficit in balance of payments	20% vote in management of Fund
Total	7,650			

* For a more complete statement see accompanying memorandum.
1/ Earnings on the Bank's shares could be employed to service U.S. Government debt incurred in raising funds to purchase the shares.