

(letterhead of)

FEDERAL RESERVE BANK OF MINNEAPOLIS

June 14, 1944

Mr. Chester Morrill, Secretary
Board of Governors of the Federal Reserve System
Washington 25, D. C.

Dear Mr. Morrill:

Yesterday our board of directors discussed the questions raised in your letter of June 8 relative to the proposed International Monetary Fund and Bank for Reconstruction and Development. With regard to the former, our board considered the latest draft of the proposal to be an improvement over earlier drafts but they have some reservations as noted below. The latter proposal they considered to be unnecessary for the reasons which I shall outline.

With regard to the plan for monetary stabilization our board members do not feel themselves competent to pass on details but they are unanimous in believing that some form of international cooperation should be inaugurated without delay. The record of the United States in the field of world cooperation is none too good and our directors feel that without sacrificing any of our national aims or rights, we should assume our proper place in the arrangement for the future of world affairs.

Our directors have grave doubts as to the desirability of establishing a monetary stabilization fund of the size and character which is proposed for two principal reasons. First, it is inflationary to permit countries to contribute a large part of their share in the fund by issuing their own currency. Second, in view of the liberal quantities of foreign exchange and gold now held by most countries of the world, a large fund from which they can borrow for immediate postwar settlement of trade balances is unnecessary. In this regard the situation has been changing rapidly in recent months. Due to the operation of Lend-Lease and the fact that our armed forces are abroad in such large numbers, foreign balances in the United States are piling up at a startling rate. A recent analysis indicates that practically every country in the world other than the Axis countries has more gold and American balances than it had before the war started.

Our directors would prefer a modification of the proposed monetary stabilization plan to set up a small selected international group of competent foreign exchange and foreign trade experts to study international commercial relationships and the stabilization of exchange. This body would be advisory and would have no powers to compel the following of its advice. However, it might be provided with a limited capital fund to be used in connection with agreements arrived at through persuasion to stabilize

weak economies. This fund should be contributed entirely in gold by the member nations inasmuch as all of them now have gold or balances which can be readily converted into gold. The fund might be expanded later if experience indicated it to be desirable. Without further exposition of the workings of the proposed fund, our directors thought that they could not foresee all of the possible implications to the Federal Reserve System. Obviously the payment of gold into the fund if the amount exceeds the stabilization fund would tend to lower the gold reserves of the Federal Reserve System. It seems equally obvious that as the fund operates it will tend to pay gold back to the United States inasmuch as this country will be the great exporter in the years immediately following the war. However, it has not been stated whether our share in the world fund will be treated as an asset which can be used as a basis for currency by the United States Treasury and this effect on Federal Reserve operations cannot be evaluated. Similarly, the inflationary effect of facilitating American exports and the inflow of gold cannot be appraised. Certainly the foreseeable inflow of gold could be neutralized by reverse open market operations of the Federal Reserve System.

With regard to the Bank for Reconstruction and Development, our board believes that capital loans from the United States should be made by all American institutions and on such terms as those institutions prescribe. We have in the Export-Import Bank an institution with trained personnel and established methods of procedure which could well be expanded for the desired purpose. It is the belief of our directors that American business houses are planning large foreign capital expenditures after the war which will go far to place funds in the hands of foreign countries. Relief loans to foreign countries are already under way through the UNRRA. Further relief loans can and should be made directly by the American Treasury upon proper authorization by Congress and with the full support of the American people. In this connection our directors believe that the large amounts of American funds now held by most foreign countries will obviate the need for relief loans for all but a few of the countries which have suffered most from Axis bombing and devastation.

Regards,

(Signed) J. N. Peyton

President.