

Atlantic City  
June 19, 1944

Honorable M. S. Szymczak  
Board of Governors of the Federal Reserve System  
Washington, D. C.

Dear Mr. Szymczak:

I am sure that you and the Chairman will be glad to have a few indications as to how things are progressing up here. On the whole, everything is going remarkably well. All the matters in which the Federal Reserve is particularly interested in regard to the Fund draft have been up for consideration and favorable action is being taken on most of them. In particular we are planning to charge progressive rates of interest on borrowings from the Fund based on both the amount of the quota in use and on the period for which the credit has run. I enclose a copy of the table in which these charges are tentatively set forth. They should prove to be a real deterrent to excessive or chronic use of the Fund by countries which should be taking effective measures to balance their international transactions and to get out of debt to the Fund. If the interest charges are effective in this direction, it will, of course, tend to reduce the gold flow to the United States. This system of interest charges was worked out in the committee of which Mr. Goldenweiser was chairman. The other members were Karl Bopp, a Treasury lawyer, Miss Bourneuf, and myself. Ned Brown also sat with the committee and was a great help.

Since this first sub-committee meeting, things have been reorganized a bit and Mr. Goldenweiser and I are now permanent chairmen of two of the four working teams. Problems are assigned to the teams as they arise. Mr. Goldenweiser's group has dealt, among other things, with capital movements and has made some progress in developing language that will help to bring about control of speculative flows, although he did not feel he could be very precise in this direction. I have had determination of exchange rates and procedures for withdrawal from and liquidation of the Fund, both of which are of considerable importance from the standpoint of the U. S. position. The full American group accepted this morning a provision which will permit the Fund to deny exchange rate changes to countries which are pursuing unsound economic practices, which they should alter instead of asking for a reduction in their rate of exchange. The Fund cannot, however, require them to curtail a program which is aimed at a high level of employment and real income, which is, of course, something with which nobody wants to interfere. On the withdrawal and liquidation provisions, we have provided procedures which protect the interests of the United States and go as far as we can, I think, in insuring that the losses will be minimized. In the allocation of income from both the Fund and the Bank, the active resources, such as those of the United States, will receive the bulk of the income. Another proposal of considerable interest that is in process of being worked out is that private foreign balances should be included with official balances in determining original gold contributions and subsequent gold payments to the Fund. This would, of course, considerably increase the foreign

gold contribution. I have some doubts, myself, about the feasibility of the proposal(\*) but Ned Brown took the lead in presenting it and Mr. Goldenweiser backed him up. Another idea which seems to be on its way to acceptance is that the purposes of the Fund should be made binding upon the member countries whether they are using the resources of the Fund or not. This should be of some help in dealing with the large amount of independent gold.

The Chairman will probably be sorry to learn that equity investments are being taken out of the Bank proposal, on the grounds that they are hardly appropriate for a Bank and would arouse a great deal of criticism in this country.

The foreign groups have been arriving today, and tomorrow, I presume, we shall be starting committee work with them. When the British arrive they may find things pretty well agreed.

Mr. Goldenweiser is enjoying the whole show much more than he anticipated. I think he now regrets his promise to return to Washington. Pack Dreibelbis appears, however, to be quite ready to return.

I am not certain when you, yourself, will be arriving and this letter may miss you, but I thought it well to give you some glimpse of what was going on, in case you were still lingering in Washington.

Ned Brown has been extremely active in all the work up here and is wielding a considerable influence on the document that will go before the delegates at Bretton Woods. He certainly will be the best prepared of all the delegates on the plan, outside of Harry White. I only wish it had been possible for Chairman Eccles himself to have participated in the discussions that we are now having. It is the only way to get thoroughly familiar with all aspects of the plans and the innumerable problems that they raise.

Sincerely yours,

(Signed) Walter.

Walter R. Gardner

Enclosure

(\*)I am, of course, in full sympathy with larger foreign gold contributions.

No assurance is needed as to my views on that point. But this method raises some serious problems.

(Panned note at end of letter)

I dictated this on the run and failed to say anything about Federal Reserve control of official foreign balances here. We have raised the question; but while we find sympathy with the idea, there is a definite feeling in the Treasury that it should be left entirely to domestic legislation. They are afraid it would arouse resistance among the foreigners who are to be controlled and would therefore add to the Treasury's difficulties in putting the Fund across.

Minimum Percentage Charges Payable by a Country on Fund's Holdings of Its  
Currency in Excess of Its Quota

Average Charges

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Amount of	:					
country's	:	Average charge per year on currency held in excess of quota for				
currency	:					
held by Fund	:					
as percentage:	:					
of country's	:	One year	Two years	Three years	Four years	Five years
quota	:					

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125	1	1-1/4	1-1/2	1-3/4	2
150	1-1/4	1-1/2	1-3/4	2	2-1/4
175	1-1/2	1-3/4	2	2-1/4	2-1/2
200*	1-3/4	2	2-1/4	2-1/2	2-3/4
225	2	2-1/4	2-1/2	2-3/4	3

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\*Full use of quota.

Minimum Percentage Charges Payable by a Country on Fund's Holdings of Its  
Currency in Excess of Its Quota

Marginal Charges

Amount of country's currency held by Fund as percentage of country's quota	Per cent per annum payable on excess currency during					
	First year Fund holds it	Second year	Third year	Fourth year	Fifth year	Additional years
100-125	1	1-1/2	2	2-1/2	3	
125-150	1-1/2	2	2-1/2	3	3-1/2	
150-175	2	2-1/2	3	3-1/2	4	
175-200*	2-1/2	3	3-1/2	4	4-1/2	Corresponding increases
200-225	3	3-1/2	4	4-1/2	5	
Additional amounts	Corresponding increases					

\*Full use of quota.