W Eccles

FEDERAL RESERVE BANK

OF NEW YORK 7

June 24, 1944.

Board of Governors of the
Federal Reserve System,
Washington 25, D. C.

S i r s:

Enclosed are copies of the following:

<u>Proposed International Monetary Fund.</u>

1. Comments on Mr. Gardner's statements of points of agreement and disagreement, prepared by Mr. Wallich, Federal Reserve Bank of New York.
2. Rationing of dollars, prepared by Mr. Wallich, Federal Reserve Bank of New York.
3. Additional points for discussion, prepared by Mr. Knoke, Federal Reserve Bank of New York.

<u>Proposed Bank for Reconstruction and Development.</u>

1. Memorandum prepared by John H. Williams, Federal Reserve Bank of New York.
2. Draft statement prepared by Mr. Knoke, Federal Reserve Bank of New York.

(There have already been sent to you copies of four memoranda on the proposed Bank, prepared by Mr. Bloomfield, Federal Reserve Bank of New York, but another set is enclosed for your convenience.)

The current memoranda were written in response to the request contained in your letter of June 8th, for material which might be useful to Chairman Eccles as a delegate to the forthcoming monetary conference. They are not in the same category as our recent statement of views on the proposed international monetary fund, which was an official expression of the bank based on months of study. As expressions of opinions of individuals experienced in the field, however, we hope that the papers we are now sending you will be helpful.

Yours sincerely,

(Signed) Allan Sproul

Allan Sproul,
President.

Encs. (6)

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

INTERNATIONAL MONETARY FUND

COMMENTS ON MR. GARDNER'S STATEMENTS

This memorandum offers a list of comments on Mr. Gardner's memoranda entitled, "Chief Points of Agreement in Joint Statement" and "Chief Points Which Must Be Settled and Other Points Which May Be Discussed." Inasmuch as the joint statement was intentionally brief, one could suggest the spelling out of a considerable number of issues; the following list takes up only a limited number. The subtitles in the text correspond to the subtitles of Mr. Gardner's statements.

II. Limitations on Fund operations. It may be advisable to state specifically that the Fund cannot borrow from member countries without the consent of the respective member. This was spelled out in the White plan, but was omitted from the joint statement, presumably because it could be regarded as obvious. The omission, nevertheless, has been taken advantage of by Dr. Beckhart in an attempt to substantiate his assertion that the United States is committed to put up dollars equal to the aggregate quotas of all other countries, i.e., far in excess of our original contribution.

III. Borrowing privileges of member countries. Under some conditions the levying of interest charges on borrowing, as suggested by Mr. Gardner, would be a useful weapon, but in depression it might discourage desirable borrowing. Perhaps the Fund could be given discretion in the matter.

An interest charge would be an additional means of discouraging premature borrowing by countries still holding reserves of their own.[1/]

1/ The primary means of discouraging such practices is the clause requiring countries with reserves larger than their quotas to pay gold to the Fund for half of their exchange acquisitions. (III-7,b) This provision, however, can do no more than to cut the amount of such borrowing to half of its possible size.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

There may be a tendency toward premature borrowing because members may wish to make sure of getting their share of those currencies which may later become scarce.

When the Fund's holdings of a country's currency are low, on the other hand, it would seem desirable to induce that country to cover, via the Fund, its own needs of those currencies in which it has a balance of payments deficit, instead of paying directly.[1] It might be provided that countries of whose currency the Fund has less than 75 per cent of the quota could purchase exchange from the Fund against their own currency without having to pay 50 per cent in gold. In general, members might be requested to conduct their operations whenever possible in such manner as to keep the Fund's holdings of their currency at the original level (75 per cent of the quota) as long as the Fund wants them to do so.

For the United States (and other key countries as well), the fact that payments can be made either through the Fund or directly, at their option, presents a real problem. The United States customarily pays for its imports in dollars. Those countries with whom our balance is passive and who do not need for payments to third countries all the dollars they acquire are frequently perfectly satisfied to hold these dollars as reserves.[2] Thus there is a distinct probability that the Fund may lose dollars even if the American balance of payments as a whole is in balance,

1/ Clause III-6 aims in this direction, but does not provide for the case where a country customarily covers its deficits with individual countries in foreign exchange rather than in gold.

2/ If their official gold and exchange holdings are in excess of their quota, they would have to surrender 50 per cent of their new dollar acquisitions to the Fund. (III-7,e).

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

because a part of our active balances with individual countries are likely to be paid to us through the Fund, while our passive balances are likely to be covered outside of it. If means could be developed to enable the United States to channel its payments through the Fund, whenever the Fund was losing dollars, the Fund's holdings could thereby be replenished. Even with an active total balance of payments, the United States might then be able to keep the Fund well supplied with dollars, unless all of our receipts likewise were paid to us through the Fund.

To suggest, however, that the United States should be able, at will, to channel its payments through the Fund or outside it, would imply the uprooting of firmly established trade habits. Foreign exporters to the United States, who have habitually invoiced in dollars, would have to invoice in local currency, and the American importer, who has never bothered about foreign exchange, would suddenly find himself required to purchase foreign currencies. Similar problems are likely to arise for other key countries whose currencies are used as reserves by third countries and who customarily pay for their imports in local currency.

It might be made clear that when a member is "suspended" from the use of the Fund's facilities it still remains a member in good standing. In the White plan, "suspension" implied that a member was no longer in good standing; the difference, which was pointed out to me by Mr. Gardner, is a substantial one. Suspension from membership in good standing might be regarded as so serious a blow to the member's national prestige that any misunderstanding upon this point might have grave consequences.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

IV. Scarce currencies. It is not clear whether a currency can be declared scarce as long as the Fund holds an adequate supply of gold.

It may be advisable, as Mr. Gardner suggests, not to allow a member adequately supplied with gold or with scarce currency to ration the latter simply because the Fund's supply is becoming exhausted. In that case, however, the member might run the risk of being despoiled of its reserves by other countries operating in its market, as long as these other countries could obtain credit there or could acquire the member's currency from the Fund. It could protect itself, however, by controlling capital movements. This does not, of course, relate to the case where the drain on a country's holdings of a scarce currency results from a passive balance on current account vis-a-vis a third country. In other words, if Canada had a passive balance with France, and France were to convert this balance into American dollars in the Canadian market, Canada ordinarily ought not to attempt to stop the drain of dollars, since it is the result of normal multilateral clearing. Nevertheless, difficulties might arise even in this instance.

What will be the basis for the apportionment of scarce currencies by the Fund? The present needs of the various members, the amount of assistance already received from the Fund, and the level of their gold and exchange reserves presumably will all have to be considered. Perhaps some formula should be agreed upon, to avoid wrangling when the critical moment arrives. An unsatisfactory experience with the apportionment of scarce currencies in the first case of a shortage may, thereafter, tempt members to stage a run on the Fund as soon as signs of a new shortage appear.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

V. Par values of currencies. When a large country depreciates with the consent of the Fund, a number of small countries maintaining close trade relationships with the large one may have to follow suit, in order to avoid disequilibrium. In requesting the Fund's consent, however, they might not be able to point to an existing "fundamental disequilibrium," but merely to the certainty of a future disequilibrium, should their request be denied. Provision could perhaps be made to cover the case.

Is it to be understood that any and all monetary, fiscal, and other economic policies will come within the definition of "domestic social or political policies" (IV-3), thus making it impossible for the Fund to refuse a rate adjustment on any grounds of domestic policy whatsoever? Should an attempt be made to define a "fundamental disequilibrium" in terms of intensity, duration, or economic causes of a passive balance?[1/]

Members agree to keep their exchange rates within a prescribed margin of parity. This would outlaw the practice of fixing a substantial margin between buying and selling rates, which is common in Latin America. It is not clear, however, whether this provision would also outlaw a system such as the Brazilian, which maintains nominally close buying and selling rates (with some exceptions), but levies a heavy tax upon sales of exchange. Perhaps some provision should be inserted to forestall evasion by such means. It must be

1/ In case of an exchange control country the volume of rejected import applications could serve as an indication of the intensity of disequilibrium, provided rejections are not due to persistent discrimination against a particular country.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

considered, however, that many countries rely upon exchange profits and taxes for an important part of their revenues and would find it more difficult to balance their budgets if this source were shut off.

VI. Special gold provisions. Clause III-6 provides that a country desiring to obtain, directly or indirectly, the currency of another member country for gold should do so by the sale of gold to the Fund. Presumably the other country would then receive payment in its own currency and would receive no gold. One may presume that this clause is not intended to apply to a country which first acquires a dollar balance and then converts it into gold. The latter transaction happens to be typical of gold movements from a key country, which normally pays for its imports in its own currency, to a smaller country, particularly to raw material producers. A gold movement from a small country to a key country, on the other hand, usually follows the pattern envisaged in the Joint Statement, i.e., country A selling gold to country B in order to acquire its currency. Thus clause III-6 involves a certain disproportionality between key countries and others. As far as the United States is concerned it may have a salutary effect in aiding the redistribution of gold. Other countries, however, might object, since most countries will dislike receiving payment through the Fund, since this merely gives them a greater drawing right, of somewhat uncertain value (some currencies may not be available), whereas direct payment in dollars or gold gives them a universal asset.

Clauses III-7, b and c, require a member to surrender to the Fund, under certain circumstances, part of its gold and free exchange acquisitions and holdings. It might be advisable to qualify these

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

obligations by taking into account (1) changes in holdings of blocked or partly blocked exchange and (2) official or private short-term liabilities to foreigners in local currency.

VII. Exchange control. The Fund's power to prevent the imposition of new exchange controls is stronger than its power to demand the elimination of existing ones. The latter power, as Mr. Gardner points out, is practically non-existent. This is likely to discourage members from voluntarily removing their controls, since they could not be sure of being permitted to reimpose them later.

The plan states that the Fund's resources may not be used to meet a large or sustained outflow of capital, but that this clause is not intended to prevent capital movements which are made out of a member country's own resources of gold and foreign exchange, provided such capital movements are in accordance with the purposes of the Fund (V-1). Does this mean that a country may use its receipts on current account to finance an outflow of capital and may simultaneously cover its obligations on current account through the Fund, provided the movement of capital is in accordance with the purposes of the Fund? This would assume that receipts and payments for different purposes can be earmarked (which may be true under certain circumstances), but except where we are dealing with blocked currencies, the distinction would seem to have little significance from a general balance of payments viewpoint. The net results would not be different if a member financed its current account obligations out of its own resources and drew upon the Fund to meet the capital outflow. If this provision is merely intended to emphasize that capital movements not involving the use

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

of the Fund are permissible, its phrasing is rather unfortunate, since the initial sentence of the entire clause V-1 refers to the use of the Fund for capital movements, rather than to the permissibility of capital movements as such.

Clause II-2, obligating members not to allow transactions in their markets in currencies of other members at rates outside a prescribed range of parity, is hard to understand. Presumably it is the duty of each member to see to it that its own currency, wherever traded, does not deviate from parity, which it can do by buying and selling gold or exchange freely at par, or by rigid exchange control. If it fails to do so, other members could prevent its currency from being traded in their markets outside the prescribed range only by buying and selling it freely, or by means of rigid exchange control. The former is practically out of question, since no member could be sufficiently sure of being reimbursed.[1/] The imposition of rigid exchange control by a large number of members for the sake of preventing dealings outside the agreed limits likewise would not be practicable, since it would penalize these members for another member's failure to meet its obligations.

These problems will materialize at a very early point, since dealings at rates other than the official will undoubtedly spring up in all free exchange markets whenever a currency is under exchange control. Unless a completely water-tight control is exercised by the exchange control country itself, we shall have to resign ourselves to some amount of trading outside the agreed parities.

1/ The Fund itself is not authorized (and may not be able) to take over from members currency acquired through stabilization operations. The country whose currency had been supported by other members, having violated its obligation to maintain parity, would probably stall about taking this currency off their hands.

Federal Reserve Bank of New York
Foreign Research Division
Henry C. Wallich

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

INTERNATIONAL MONETARY FUND

Rationing of Dollars

It appears to be generally feared, and widely believed, that dollars will very soon be scarce in the Fund. One can hardly help asking, therefore, whether it would not be better to ration dollars at the outset, instead of delaying this measure until a shortage is upon us. The following considerations sustain this suggestion:

In a world where exchange control, for a time at least, is likely to be well nigh universal, the International Fund loses its character as a buffer pool which would absorb swings in balances of payments generated by the free play of market forces. Foreign exchange control permits a direct and instantaneous control of the balance of payments, instead of the indirect and slow-moving influence that can be exerted through monetary and fiscal policies. A member drawing upon the Fund is doing so not because it cannot control its balance of payments quickly enough, but because it is deliberately licensing imports in excess of its own exchange availabilities.* The use of the Fund's resources thus becomes an act of borrowing and loses its analogy with gold movements under a gold standard.

This suggests that as long as foreign exchange control is generally maintained the Fund's operations should not be automatic but should be handled like bank loans. This would be desirable from the United States' viewpoint, but would chiefly be in the interest of members who are potential borrowers of dollars. Since dollars are likely to become scarce, it would be unfair to let everybody help himself at will to the limited supply. The less conscientious will get more than their fair share at the expense of more responsible members. The latter, in order not to lose out completely, may then decide to borrow earlier than they would otherwise have done. The exhaustion of dollars will thus come more quickly and more certainly than necessary. It would, therefore, be in the interest of responsible members who are probable borrowers to have dollars rationed at the outset, to be distributed in accordance with everyone's needs. As long as foreign exchange control is maintained and prevents the Fund from assuming its proper function as a buffer pool, the task of stabilizing exchanges and restarting multilateral trade will be facilitated if scarce dollars are utilized in the most effective way instead of being disposed of haphazardly.

---

*This statement must be qualified in the case of some raw material countries whose exports are of a seasonal nature and whose calculations of exchange availabilities may be thrown off by a bad harvest or a drop in prices.

June 20, 1944.

Henry C. Wallich,
Foreign Research Division,
Federal Reserve Bank of New York.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

Prepared by Mr. L. W. Knoke - Federal Reserve Bank of New York.

Monetary Fund-3

INTERNATIONAL MONETARY FUND

Additional Points Which Should (or Might) Be Discussed at The Conference

(This is supplemental to the Board's recent memorandum prepared by Gardner.)

II-3. What is meant by "holdings of gold and gold-convertible exchange"? Official or all holdings? Gross or net?

III-4-a. Should anything be said as to the form in which the Fund can borrow? What collateral, for how long, how much it can pay for such accommodation, etc.

III-6. The sale of newly mined gold by a gold-producing country is permitted on any market. Does "country" in this case mean the authorities or the producers? The text might be clearer. If it means the producers, the gold price is subject to the terms of IX-1; if it means the producers, the gold can presumably be sold at any price (higher or lower than parity).

"On any market" includes markets such as Bombay, Cairo, Tehran, all places where high prices are presently paid. It has been claimed that this provision will make for a better distribution of gold; this is true, although sales in the three mentioned countries might not make for the best kind of distribution.

III-7-b. May it be assumed that adjustments are not made currently but at regular intervals?

IV-1. Is the par value of a member's currency to be agreed with the Fund when or before it is admitted to membership? How will this work in the case of the first nation or nations applying for membership?

IV-1 also speaks of "a fixed charge payable by a member making application to the Fund". Is this to be a substantial commission?

IV-4. Speaks of changes of established parity. Are they in addition to whatever initial change may be agreed upon at the time of admission? Are they gross or net? Are they cumulative?

Could the Fund frustrate devaluation of a currency beyond the first 20 per cent (10 per cent plus 10 per cent) by simply withholding its approval of a request to that effect?

VI-1. States that "when it becomes evident to the Fund" that a currency may become scarce the Fund shall propose an equitable method of rationing the scarce currency. What is the measuring stick? When it "becomes evident" it may be too late to do anything.

VIII-4. Is information assembled by the Fund other than statements of its position to be made available to members? If so, currently or periodically?

IX-3. Compels member countries not to engage in multiple currency practices. Would it not be advisable to make an exception in favor of tourist currencies?

Should not the Joint Statement contain a provision similar to VII-3 in the July 10, 1943 version whereby "all member countries agree that all of the local currency holdings of the Fund shall be free from any restrictions as to their use"? Should not such a clause moreover be strengthened to exclude the possibility of these holdings being subjected to local taxation or confiscation, along the lines of article 10 of the final act of the Hague Conference in January 1930?

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

THE PROPOSED BANK FOR RECONSTRUCTION AND DEVELOPMENT

By John H. Williams

Federal Reserve Bank of New York
June 23, 1944

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

THE PROPOSED BANK FOR RECONSTRUCTION AND DEVELOPMENT

I

This memorandum is in response to the Board of Governors' request for comments on the proposal for an international Bank, I have given less attention to the Bank than to the Monetary Fund. The last draft of the Bank proposal, available to us, is that issued by the Treasury on November 24, 1943. Several memoranda by Mr. Bloomfield on this and earlier versions of the Treasury's proposals have already been made available to the Board of Governors.

The Bank proposal attacks the postwar international problem frankly and directly from the credit standpoint and does not attempt to lay down fundamental principles of international adjustment. This, I believe, is a better approach under present circumstances than that of the Monetary Fund. The main question, however, is whether capital and credit can be provided through an international agency or must, in the nature of things, be provided by the creditor country.

In the statement of purposes of the proposed Bank the Treasury draft puts a major emphasis on its long-run functions as an agency of international investment and a minor emphasis on its usefulness in facilitating the transition from war to peace. In my opinion, this emphasis should be reversed, and we should consider at this time whether and how an international Bank could be used in the immediate postwar period. I would prefer to regard it as frankly an emergency institution, and to postpone the question of its possible longer-run utility, as one that

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

could be better answered in the light of experience. Even in the short run, however, the main question would still be whether an international bank or a lending agency set up by the creditor country is the better approach.

The basic difficulty with an international Bank is that for as far ahead as we can now see the world will consist of one large creditor country (and a few small ones) and many debtor countries. This means that, regardless of how the Bank is organized, the funds will have to come chiefly from this country. This is doubtless why, in the Treasury draft, the international character of the credit guarantee is emphasized more than that of the credit itself. It seems equitable that the risks should be shared even though only one or a few countries could provide the credit; and such sharing might have a salutary effect upon borrowers. But if nations cannot lend they are hardly in a position to guarantee loans either, and it seems very doubtful whether, as a long-run proposition, the creditor country ought to enter into such a one-sided arrangement, with all its implications as to the sharing of control and responsibility for a function which only it can perform. The practical effect would probably be to so surround the creditor country with safeguards and to so protect the debtor countries against risks arising from their guarantees as to make the Bank an agency of very limited effectiveness.

Fundamentally, these same objections apply also in the short run, and the main reasons for making a distinction are, first, that in the short run the Bank could be regarded frankly as an emergency institution with no commitment as to its longer-run continuance, and, second,

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

that it may be desirable to try to develop means of international consultation and cooperation in financial affairs, if we are to be successful in developing such agencies in the political field and in broader economic fields. I would be dubious of this second reason, however, unless the first had some validity. It is no use making bad plans in the name of international cooperation, and if we have made a bad start we had better start over again.

II

The period of transition from war to peace should be regarded as a projection of the war and treated on an emergency basis. We should be prepared to make gifts where there is no basis for a loan, to make risky loans, and to lose money in the process. The purpose should be to recreate the more normal long-run conditions under which currency stabilization and long-term international investment can be carried out. Unless and until we have accomplished this first task, it seems unwise, and probably impossible, to plan for the longer future.

My first preference has been for an extension of lend-lease for reconstruction purposes. But I recognize that this presents difficulties and has to be carefully defined and explored. If it is not workable, a second-best approach might be through the creation of a Bank or Fund for Reconstruction, which would call for careful study as to whether such an institution should be international or must, in the nature of things, be provided by this country.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

We must consider first the scope of the problem. Not all countries will need assistance. Canada will come out of the war a creditor country, and for other countries of the British Empire the main problem will be the status of their accumulated balances in London. The Latin American countries will have large gold and dollar balances; their short-run problem will be how to refrain from over-spending. In Europe, Sweden, Switzerland, and Portugal will not need this kind of help. Russia may want capital and credit but should have no difficulty getting them. Holland, Belgium, and France will have large gold reserves, and they, with Norway and Denmark, will come under the provisions for relief through UNRRA. For the major enemy countries it seems impossible to plan anything until after the peace terms are known.

One large question is what is to be done with the poorer European countries which will come out of the war in such a state of impoverishment and demoralization as to be great breeding grounds of trouble for the rest of the world as well as for themselves. After the last war the League of Nations Finance Committee rendered valuable assistance to some of these countries. Another country often spoken of as in need of financial aid is China, but this must be broken down into longer- and shorter-run aspects. In connection with China, there has been much discussion of the idea of an International Development Authority, but this is clearly longer run. It is also probably much smaller scale than some of its proponents have indicated, if we may judge by the inflow of capital

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

into Japan, even during her period of rapid industrial development. Yet in the short run there probably is much room for aid to China beyond what would be suggested by a literal interpretation of relief and rehabilitation.

After attempting to define the problem geographically, and allowing for the fact that relief and rehabilitation are separately provided for, the financial needs of the transition period seem smaller than at first glance. Yet I do not doubt that they are substantial. Much depends on how we define reconstruction, as distinct from relief. It seems to me very desirable, in our own interest, to define it broadly and even generously, as meaning, for example, that the capacity of countries to produce and export should be restored as rapidly as possible and with as much emphasis as is prudently feasible upon external aid rather than at the expense of the internal standard of living. Though this would call for good judgment and wise management, it would suggest a substantially broader scope for a Bank for Reconstruction than that now contemplated for relief by UNRRA. In addition, the Bank might have some limited or special functions, such as providing credits to finance international trade in cases not suitable for handling by the ordinary machinery of the international money markets. But here the rival merits of the Export-Import Bank and the British Export Credits Guarantee Department would need to be explored.

III

Any attempt to analyze the transition period only focuses one's attention upon England as the central problem. Some writers

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

compare the British problem after this war with that of Germany after the last war. This is an exaggeration, but there are some interesting similarities. In each case a revolutionary change occurred during war in a major nation's balance of international payments, and the way that the resulting postwar problems are handled will have important effects upon other countries as well. England's international problem has many aspects - such as the loss of foreign assets and markets, the uncertainties about her future in shipping, aviation, petroleum. She will need a great expansion of exports, perhaps 50 per cent beyond prewar, and there will be again, as in Germany's case last time, the special difficulty that her manufactured exports are dependent upon prior imports of raw materials and the margin between exports and imports is hard to manipulate in the way demanded by her changed balance-of-payments position. In particular, there is the question of the accumulated sterling balances, which must now amount to $8 billion. It seems essential to know how this problem is to be dealt with before other international financial or monetary plans can be made.

In deciding whether a Bank for Reconstruction should be set up internationally or should be an American agency - whether an enlargement of the Export-Import Bank or some new agency set up expressly for this purpose - perhaps the main question is whether England could participate in it. Without England and ourselves as principal partners, however it might be set up nominally, there would be no point in having an international institution, unless it were to be used for very limited purposes. And whether England could participate effectively would seem to

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

depend primarily upon whether some adequate solution can be found for her own immediate postwar problem.

If the problem of the sterling balances were solved, either by an arrangement with the creditors (and it is mainly an Empire problem) or with the help of an American loan, or both, it might be that England could assist in the reconstruction of other countries, as she is planning to assist in their relief through UNRRA. It would have to be fairly certain, however, her balance-of-payments problem being what it is, that any foreign lending she might do would promptly generate British exports, even though the practice of "tied loans" appears to be one of the things the proposed international Bank is trying to get away from.

IV

I have tried to explore, very informally, in this memorandum the possible usefulness of an international Bank. My conclusion is that it would be useful, if at all, in the period of transition from war to peace and that we ought not to make a commitment for the longer future. For the transition period I do think there is need of a Reconstruction Bank or Fund of frankly emergency character. As to whether it should be international in character I am doubtful, on strictly economic grounds. The answer must depend, in any case, upon full knowledge as to how England's special problems are to be taken care of.

There is perhaps another aspect of the question. After more than a year of discussion among the experts, an International Monetary Conference has now been called. In the interests of international cooperation, it ought, if possible, to have some kind of constructive

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

outcome. We have given our reasons why we believe an effective international agreement on currency stabilization is not now possible. We have suggested that the subject should be postponed and that the Conference should devote itself to the study of the problems of the transition period in order to create the conditions under which international monetary stabilization might be considered with a better prospect for success. As part of this task, the possibilities of an international Bank as an emergency organization for the transition period should be thoroughly explored. If such an institution were found feasible, it could be made the means of providing an international consultative body on monetary and financial problems, and this might prove a most effective step toward the eventual achievement of international currency stabilization.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

PROPOSED BANK FOR RECONSTRUCTION AND DEVELOPMENT

Paragraph-by-paragraph comments on the details of the Bank plan are impossible because the latest draft available to us is that dated 11/24/43, and obviously a new draft will have to be prepared by the Treasury if only to incorporate changes, already made in the Joint Statement on the proposed monetary fund.a/

As a general comment, however, this thought occurs to me, (although it is doubtful whether the Treasury, at present, seriously plans to bring the Bank plan up for exhaustive discussion at the monetary conference) namely, that the Bank plan might well be studied by the coming conference because, if the emphasis were changed from long-term financing in connection with the development of member countries to post-war emergency or reconstruction financing, the Bank might render a service during the transition period. This possibility apparently was contemplated in Section I-1 of the preliminary draft of November 24, 1943, which gives as one of the purposes of the Bank the facilitating of a rapid and smooth transition from a wartime economy to a peacetime economy. If the Bank could be organized so as to provide an appropriate means of such financing, its facilities added to the facilities of existing government agencies (UNRRA, Lend-Lease, the $2,000,000,000 Stabilization Fund, Export-Import Bank, etc., all national agencies) might help to meet the world's needs for short- or medium-term financing during the immediate post-war years. The establishment of the monetary fund primarily as a credit-granting agency would thus lose its purpose, and this would add further emphasis to the weighty arguments against its immediate establishment set forth in our memorandum of June 19th. During the transition period, the Bank would be operating without the Fund, a possibility that was visualized by the Secretary of the Treasury when in November 1943 in a statement accompanying the publication of the November version of the Bank plan he stated that each agency (Fund and Bank) could stand and function effectively without the other.

By and large the Bank plan seems to me to have possibilities of use, at least in the short-run, in a post-war situation where private capital alone would not and could not do the work. As an international institution, however, it will have to overcome two major shortcomings:

1. Debtor-country control of a credit-granting agency. If this is considered a questionable set-up for the monetary fund, it is a decidedly undesirable set-up for the Bank which is planned for the sole purpose of granting credit.

---

a/ I am just informed by Mr. Bloomfield that Mr. Collado of the State Department showed him copy of a preliminary revision late in April 1944. However, a copy thereof is not available here.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis

2. It seems to aim at the impossible in that the Bank's purpose is to provide capital under conditions which will amply safeguard the Bank's funds when private capital is not available. That seems to me a contradiction in itself. If the Bank is to perform a real job, it must also entertain propositions under conditions which will not "amply safeguard the Bank's funds" but on the contrary are more likely to cause it losses. If the Bank were set up to meet the international credit needs of the transition period, this point would be clear.

Prepared by L. W. Knoke, Federal Reserve Bank of New York.

Digitized for FRASER
http://fraser.stlouisfed.org/
Federal Reserve Bank of St. Louis