W. Eccles –

COPY

FEDERAL RESERVE BANK OF CHICAGO

Office of the President June 28, 1944

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

Gentlemen:

In Mr. Morrill's letter of June 8 request was made for the views of the directors and officers of the Federal Reserve Banks on the proposed International Monetary Fund and International Bank for Reconstruction and Development which are to be discussed at the United Nations Monetary and Financial Conference in Bretton Woods, New Hampshire. The directors of the Federal Reserve Bank of Chicago have discussed the Fund and Bank, but they wish to consider the proposals further before taking an official position. Our directors have asked me to request information and analysis from the technical experts in the Board's Division of Research and Statistics concerning the items enumerated under the heading "Matters of Special Concern to Federal Reserve System" in the "Outline of Principal Points to be Covered," which was presented at the Board meeting on June 6.

After careful study and impartial consideration I have come to look upon the proposed Fund and Bank with serious misgivings. I have discussed this matter with Mr. Langum and we are in general agreement with the position expressed by the

Federal Reserve Bank of New York in its statement of June 19, 1944, and in the points of view expressed by Mr. Sproul and Mr. Williams at the meeting of the Board of Governors on June 6, 1944.

We look with disfavor upon the proposed International Monetary Fund for these reasons:

1) Creation of an International Monetary Fund at this time to deal with the long-run problem of currency stabilization is premature. Such transition problems as those of special lending and borrowing facilities, the unfreezing of the British blocked balances, and the gradual relaxation of exchange controls must be met before that long-run objective can be achieved. In present circumstances the International Monetary Fund is likely to develop into a catch-all device for meeting transition needs not adequately or explicitly met by other means. Moreover, until the problems of transition from war to peace have been dealt with, the factors which condition the long-run problem cannot be fully known and there is little prospect for success of international currency stabilization.

2) The statement of the experts concerning the proposed Fund and in particular the British interpretation thereof as expressed by Lord Keynes in his address before the House of Lords on May 23 give no attention or concern to the correction of basic factors responsible for serious maladjustments in the balance of payments. The proposals completely separate the income-price-

interest rate structure of one nation from those of other countries. Three new measures of adjustment - not correction - in balance of payments positions are set up. These include loans through the Fund from surplus nations to deficit nations, changes in exchange rates, and rationing of scarce currencies. We do not, of course, advocate a return to the old-fashioned gold standard. We favor some modification of the mutual relationships among the national economies of the world so as to prevent one nation from having unemployment and deflation forced upon it by external circumstances. But we cannot favor the proposed Fund which contemplates little or no adherence to the essential principle of <u>two-sided</u> adjustments in balance of payments factors, through <u>internal</u> as well as external corrective measures, and at <u>reasonably stable</u> exchange rates in a <u>free exchange</u> market.

3) The proposed Fund places undue and undesirable responsibility upon the United States for the success of international currency stabilization. We believe that adjustments to meet gaps in the balance of payments should be made, not only by deficit nations, as was the case under the orthodox gold standard, and not only by creditor nations, as provided for in the proposed International Monetary Fund, but by both. It appears to us to be inevitable that under the proposed Fund dollars will promptly become the scarce currency, that we should then be faced with one of two alternatives, either lending of more dollars to the Fund or acceptance of exchange

restrictions on the dollar. In these circumstances adoption of the proposals would confront the United States with the dilemma of having to make all the adjustments or else be responsible for the breakdown of international monetary cooperation.

4) We suggest the need for more effective bargaining by American representatives in connection with British trade and foreign exchange policies. We refer specifically to Empire Preference arrangements, to bilateral agreements, and to definite commitments on removal of exchange restrictions. Certainly these issues should not be allowed to go by default when such major factors affecting American trade policy are included in the proposed International Monetary Fund as the provisions of Clause VI of the Joint Statement. In that the United States - to quote from Keynes' interpretation - "engages itself" when the Fund's holdings of dollars are exhausted "to release other countries from any obligation to take (our) exports or if taken to pay for them."

Very truly yours,

(signed) C. S. Young

President