

Until misgivings of this sort are dispelled by unmistakable signs of mutual understanding, a discussion regarding the probable value of leading currencies can only be academic. The extension of credit by any international institution would have but transitory results unless each participating nation agreed in advance to pursue trade policies compatible with its postwar economic position.

It is toward the solution of such fundamental problems that the conference at Bretton Woods might devote its energies and deliberations. Once international misunderstandings and differences of opinion on these basic nonfinancial issues are resolved, stability in the value of currencies should not be difficult to achieve.

The Cleveland Directors have not had an opportunity to discuss formally the Board's letter of June 8 asking for their views on this subject. However, comments received from several, on the material distributed to them on the subject of the International Monetary Fund and the proposed world bank, indicate that, while they heartily approve of the meeting of monetary experts of the world's nations, they too have some definite reservations as to the feasibility of the specific proposals which are to be considered.

Very truly yours,

(signed) M. J. Fleming

President

June 30, 1944

In planning for the conference at Bretton Woods it is clear that the American Delegation as a whole will serve the cause best by concentrating its efforts in regard to the Monetary Fund on a few basic issues. They might perhaps be stated as follows:

1. Promote as much stability of foreign exchange rates as possible.

While the plan provides for flexibility with a view to permitting adjustment to changes in basic conditions, the Delegation should stand firm on not agreeing to any relaxations beyond those provided in the Joint Statement. (See Article IV, p. 4, of the Statement). This means in particular that an application for a change in the exchange rate of a member country should not be granted unless (1) a basic maladjustment is shown to exist, and (2) the change in the rate can be expected to correct the maladjustment. While the Fund cannot assume to interfere with a member country's domestic policies, it need not ratify unsound policies by permitting changes in rates that would temporarily avert their consequences.

2. Protect the assets of the Fund from being put to uses contrary to its purposes.

(a) Resort to the Fund should never be an absolute right, but always be subject to scrutiny as to the uses ^{for} to which currencies obtained from the Fund are to be used.

(b) Currency obtained from the Fund should bear a slightly higher cost than currency obtained in the market, and the cost should rise on a graduated scale in reference both to the amount involved (related to the quota of the drawing country) and to the length of time the currency is retained.

(c) Resources of the Fund should be used only for transactions arising out of current trade, and not to finance capital movements.

3. Encourage the removal of restrictions on trade, bilateral agreements, discriminatory trade practices, multiple currencies, etc.

4. Insist that countries by becoming members of the Fund agree to abide by its objectives, whether or not/^{at}a given time they are using the Fund.

5. Emphasize that the Fund cannot by itself reestablish a working world economy but must be a part of a broad program of international cooperation - to assure peace, to encourage reconstruction loans, to promote full employment and a steady rise in real incomes.

6. Insist that the American voting power both in the Directorate and the Executive Committees shall be not less than that of the British Empire.