(letterhead)

FEDERAL RESERVE BANK OF CLEVELAND

June 28, 1944

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

Gentlemen:

Attention: Mr. Chester Morrill, Secretary

The officers of the Cleveland bank look with favor upon the convocation of delegates from the United and Associated Nations for the purpose of examining prospects for postwar collaboration as being consistent with this nation's responsibility in world affairs. Only the highest degree of international statesmanship and cooperation can cope with the unprecedented financial and economic maladjustments which are expected to emerge in the wake of war.

However, realignment of the world's major currencies in anticipated conformity to new and unpredictable circumstances is only one phase of the far-reaching problem, and perhaps the least urgent in a relative sense. The intrinsic and supportable value of one currency in terms of another is not a first cause, but the end result of a number of basic forces whose consideration should be given precedence in international consultations.

For example, the future value of the currencies of many occupied nations will depend in great measure upon the kind of governments that will come into power at the time of liberation. In the case of a number of captive and enemy countries, the question of succession apparently is a matter of some disagreement even among the United Nations. Until such differences are settled satisfactorily, neither a world bank nor a world monetary fund, in the sense proposed, could function effectively. It is believed that harmony in the political sphere is prerequisite to collaboration in financial matters.

Another fruitful field for exploratory discussion is the probable extent to which various nations will participate in direct post-war relief either as benefactors or as recipients. The conditions under which such benefits are given or received have a substantial bearing upon the demand for currencies of the countries involved. Until each leading nation's role is rather clearly agreed upon in this respect, neither an international bank nor a monetary fund could extend credit exclusively on a commercial basis.

A third and extremely vital area for mutual discussion and understanding is that pertaining to postwar commercial trade policies. To cite only one instance, in some domestic circles the suspicion persists that Britain intends to rely upon a policy of preferences within the Empire to the substantial detriment of trade with other countries. On the other hand, the United States has given little, if any, tangible evidence that it is ready to fulfill realistically its new obligations as the predominant creditor nation of the world.

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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

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 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. <u>Insist that countries by becoming members of the Fund agree to at</u>

 abide by its objectives, whether or not/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. <u>Insist that the American voting power both in the Directorate</u>

 and the Executive Committees shall be not less than that of the British

 Empire.