BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 4, 1947

To Chairman Eccles

From Mr. Knapp

JMK

Subject: Comments concerning certain policy matters relating to the International Fund and Bank

I should like to give you the following information and comments concerning certain policy matters relating to the International Fund and Bank in which you have expressed interest.

(1) Location of head offices

As you know, the U.S. Delegation at the Savannah Conference firmly insisted, despite opposition from the British, Canadians, and others, that the head offices of the Fund and Bank be located in Washington. No question concerning this decision was raised at the Washington Governors' meeting last September, but as I informed you, there was a rumor that the Bank management might raise this subject for consideration at the London meeting.

I am now informed very confidentially by a member of the Treasury staff (please protect this source) that Mr. McCloy raised this matter with Secretary Snyder recently and that the Secretary told him very definitely that the policy of the United States Government was to keep the international institutions in Washington. I think we may therefore regard this issue as closed, at least for the time being.

(2) Salary questions

As you know, it was decided at the Savannah Conference that the Fund and Bank would pay any national income taxes levied upon salaries paid by these institutions. At the same time, a resolution was passed calling upon member governments to take measures by legislation or otherwise to exempt from their national income tax the salaries of Fund and Bank employees.

In practice this is almost wholly a problem of United States taxation. I understand that foreign nationals employed by the Fund (including the foreign directors and their alternates) are in almost every case exempt from income tax in their home country simply by virtue of their being resident abroad. So far as the United States is concerned, exemption of American nationals employed by the Fund and the Bank from Federal income tax would require legislation, and no such legislation has been introduced.

You will recall that when the National Advisory Council considered this question recently, it was agreed that no action would be taken pending the Senate's decision on a proposed treaty with the United Nations which, among other things, would have provided tax exemption for salaries paid by the United Nations to American nationals. I am now informed that the Senate passed this treaty in the last days of the session, but struck out the tax exemption clause, partly as a result of a letter from the Treasury Department protesting against this provision. I further understand that the Treasury is now preparing a letter from Secretary Snyder to Mr. McCloy and Mr. Gutt informing them that unfortunately the United States will not be able to grant tax exemption to American nationals employed by the Fund and Bank. This letter will be cleared with the National Advisory Council this week. The result, therefore, is that so long as the Fund and Bank continue to pay salaries on the present basis, they will have to pay Federal income taxes to the United States on behalf of their American employees.

I understand, however, that you may want to raise some questions as to the Fund and Bank salaries (a) as to their tax-free nature, and (b) as to their level.

I think you are familiar with the arguments pro and con with regard to the tax-free feature. It does seem to me that it would be very awkward to change this basic policy now that it has been established not only in the Fund and Bank but also in all the other United Nations organizations. Furthermore, if salaries were now to be paid gross instead of net of tax the Fund and the Bank would have to pay substantially larger amounts to all of their foreign employees. Foreign countries, which will presumably want to hold down the operating expenses of the Fund and the Bank, might well object on that ground to any change in the present procedure.

With regard to the level of salaries, there is very little specific information available to us except with respect to the salaries fixed at Savannah for the Managing Director of the Fund (and President of the Bank) and for the Executive Directors and their alternates. These were as follows:

	On tax-free basis	Rough equivalent on taxable basis 1/
Managing Director of the Fund (President of the Bank)	$30,000	$63,000
Executive Directors	17,000	25,550
Alternate Directors	11,500	14,900

1/ Based on U.S. Federal income tax.

In addition, we have learned from the Bank's registration statement that the Vice President receives $25,000 tax free, and the General Counsel $20,000 tax free. I have the impression that the directors of the main staff divisions in the Fund and the Bank receive around $14,000 tax free, and I know that there are numerous positions in both agencies at lower levels which pay from $10,000 to $12,000 tax free. This whole salary structure is, of course, far out of line with that of the U.S. Government.

(3) Full-time versus part-time Directors

As you know, this was a subject of considerable controversy at the Savannah Conference, and the outcome was a compromise section in the by-laws which reads as follows:

> "It shall be the duty of an Executive Director and his alternate to devote all the time and attention to the business of the Fund (Bank) that its interests require and between them to be continuously available at the principal office of the Fund (Bank)."

Obviously this is a very elastic provision, since in practice each Executive Director has been left free to judge how much of his time is required by the interests of the Fund (Bank). In practice, many of the foreign Executive Directors in both the Fund and the Bank have been absent a good deal of the time, frequently because they were simultaneously serving as officials of their governments. For example, George Bolton and Louis Rasminsky, the British and Canadian Directors in the Fund, have probably spent the majority of their time at home, while the French and Belgian Directors in the Bank have spent very little time in Washington.

If, as a result of developments in the Bank (the shift in the balance of power to the Bank's management, and the fact that the Bank is now through its strenuous initial period of organization), it were felt that the Bank's Board of Directors needed to meet only at periodic intervals, this could easily be done informally under the present by-laws. It would be no burden for the foreign countries to have an alternate Director continuously available in Washington, since they could appoint people from their embassies to serve in that capacity. The American alternate Director might continue to serve full-time, but the American Director could spend most of his time at some operating position in the Bank (which is, in fact, what Mr. Black is really doing at the present time).

The situation of the Fund is very different, however, and I hope to persuade you that in the Fund there is a real necessity for a Board of Directors serving continuously and as near full-time as possible. The

Fund's Board of Directors has very great responsibilities for coordinating the international monetary policies of the member countries which the Directors represent. Furthermore, their duties by their very nature require day to day attention to world monetary developments and day to day action on sudden changes in exchange controls and exchange rates. Decisions have to be made constantly, unlike the situation in the Bank where loans occur only at substantial intervals. Also, unlike the Bank, it is not feasible to delegate broad authority to the chief executive officer. In the case of the Fund, this would mean vesting excessive power in the Managing Director and would tend to undermine the Fund's essential function of providing a meeting place in which representatives of the member countries can discuss and agree upon cooperative international action in the monetary field.