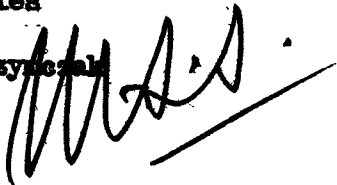


October 5, 1948.

To: Mr. Eccles

From: M. S. Szydziala



1. General

The Governors of the International Fund and Bank, in Washington last week for their Third Annual Meeting, generally agreed that the Fund and Bank were being operated as well as could be expected under current world conditions. While both institutions had had difficulties, it was recognized that these were due to problems whose magnitude was such that the resources of the Fund and Bank could not meet them. The hope was widely expressed that the ERP, involving U. S. Government funds greater than the amounts of dollars available to the Fund and Bank, would bring the world back to a degree of relative stability in which the Fund and Bank could perform their intended functions.

2. Dissent

The dissenting views expressed at the meeting were much milder than had been anticipated. The Czech and Yugoslav Governors objected that the annual reports of the two institutions dwelt unduly on recovery problems in Western Europe and completely ignored the great strides in reconstruction and production in their countries, and that the reports treated the ERP as if it were purely an economic program instead of having important political aspects. They also supported the Polish Director in his objection to the lending policy of the Bank. As to this latter point, Mr. Clayton for the U. S. noted that the Bank must make its loans to countries that have prospects of earning the dollars needed for repayment, and that if any country chose a policy of orienting its trade away from Western Europe and the dollar area, this fact could not be ignored in considering the country's ability to repay. He also pointed out that the Bank must obtain its dollars in the American market

and therefore public opinion in America as to the Bank and its lending policy must be reckoned with, especially since there is now no other market source for Bank funds. The relative mildness of the criticisms was, of course, influenced by the Fund's having just permitted a drawing of \$6 million by Czechoslovakia, and also by the Bank's assurance of early action on the proposed loans to expand timber production in Eastern Europe.

The criticism of the Bank's lending policy by representatives of Latin American and other countries needing development loans was also milder than expected. Apparently they accepted Mr. McCloy's assurances that the Bank was preparing to be much more active in the field of development loans. (There is attached a summary of loans made by the Bank as of June 30, 1948. Likewise, there is attached a summary of drawings on the Fund as of July 31, 1948).

3. Election of New Directors

In the election of Directors for the next two years, there were few changes. Apart from the five Directors appointed by the five biggest members, there were elected nine Directors in each institution to represent the remaining member countries. The Middle Eastern countries and Greece had previously formed a group electing one Director, but with the admission of Turkey, Syria and Lebanon to the Fund and Bank, the Middle East will form a group without Greece and will be represented in the Bank by a Turkish instead of a Greek Director. A new grouping of Italy, Austria, and Greece will be represented by Italian Directors in both institutions. The Australian Director will now represent a group consisting of his country and South Africa. The group of Czechoslovakia, Poland and Yugoslavia continues to have a Director in each institution but there will be a new Czech Director of the Fund in place of Mladek who is an anti-communist. Finland will also be

represented by the Czech in the Fund and the Polish Director in the Bank, but this is considered to be a technicality rather than reflecting any significant political decision on the part of Finland. There will continue to be two Latin American Directors in each institution; the Fund Directors will be from Venezuela (instead of Mexico) and Brazil, and the Bank Directors will be from Colombia (instead of Chile) and Cuba.

4. Future of Bank Directors

The United States put forward the suggestion that a committee study the possibility of changing the Bank Directorships from a full-time to a part-time basis, and the suggestion was accepted without incident. Two years ago at Savannah, the United States vigorously insisted that the Fund Directorships should be full time, and those of the Bank were made full time by the same resolution. Subsequent developments have borne out the wisdom of setting up the Fund Directorships as full-time jobs, but it now seems that the functions of the Bank could be performed adequately by the President and Staff with review and policy consultation by the Directors at perhaps monthly intervals. The resolution contemplating this possible change in the Bank directorship provides for the creation of a committee "to consider the provisions of the Articles of Agreement and By-Laws of the Bank relating to the duties and remuneration of the Executive Directors and their alternates and to recommend to the Board at or before its Fourth Annual Meeting any changes therein which such committee shall deem necessary or advisable." The Committee consists of Belgium, the United States, the United Kingdom, Cuba, Finland, and China - and Belgium is Chairman. I was asked by the Governor for the United States to act as his deputy. The Committee has already held three meetings, and will continue to meet from time to time until it submits its report early in January, perhaps in London or Brussels.

5. Suggested Supervision of Local Currency

The Danish Governor suggested that when the Bank extends credit to a member country it should retain supervision over the local currency that the country receives from selling the imported goods to its nationals. This would parallel the requirement that the United States makes in connection with ERP grants. This proposal will presumably be under study during the coming year, but there would appear to be many reasons why it would be undesirable for the Bank to try to exercise any such power.

6. Suggested Source of Lending Funds

Mr. McCloy brought forward a suggestion that member countries should generally permit the Bank to use, for the purpose of making loans, at least a part of the local currency that they have paid in on their capital subscriptions. Sir Stafford Cripps and Mr. Lieftinck, however, made statements as to why the U. K. and the Netherlands are not in a position to consent to such capital exports from their countries at present.

7. Conclusion

While I attended practically all of the sessions, I was specifically the U. S. Governor's alternate on the Fund's Rules and Regulations Committee.

The Governors decided to hold the 1949 Annual Meeting in Washington, but voted that next year's meeting should consider Paris as the site of the 1950 meeting.

The Chairman of the Board of Governors of the Fund and Bank was The Honorable Yun-Wu Wang of China. The new Chairman of the Board of Governors of the Fund and Bank is M. Mendes-France of France.

The Third Annual Reports of the Fund and Bank are now available and any Board member desiring copies may obtain them directly from our International Section.

Attached hereto is a list of the U. S. Delegation

A handwritten signature in black ink, appearing to be 'M-S-F', written over a horizontal line.

The following table shows loans extended by the International Bank as of June 30, 1948:

	<u>Loans authorized</u>	<u>Disbursements</u>	<u>Unused balance of commitment</u>
	(Millions of U. S. dollars)		
France	250	250	
Netherlands	195	195	
Netherlands shipping companies*	12	12	
Denmark	40	16.4	23.6
Luxembourg	12	8.6	3.4
Chile	16	0	16

* \$8.1 million of this loan was extended by 10 U. S. Commercial banks and guaranteed by the International Bank.

Total drawings on the Fund to July 31, 1948, by country are as follows:

<u>ERP Countries</u>	<u>Quota</u>	<u>Drawings</u>		<u>Total</u>
		(In millions of U. S. dollars)		
		<u>In U.S. dollars</u>	<u>Other</u>	
Belgium	225	33.0	--	33.0
Denmark	68	10.2	--	10.2
France	525	125.0	--	125.0
Netherlands	275	62.5	(6 <u>a/</u> (6.8 <u>b/</u>	75.3
Norway	50	5.0	4.6 <u>c/</u>	9.6
Turkey	43	5.0	--	5.0
United Kingdom	1,300	300.0	--	300.0
		<u>540.7</u>		<u>558.1</u>

a/ Dollar equivalent of purchase of sterling
b/ Dollar equivalent of purchase of Belgian francs
c/ Dollar equivalent of purchase of Belgian francs

Other than ERP countries

Chile	50	8.8	--	8.8
Ethiopia	6	.3	--	.3
India	400	44.2	--	44.2
Mexico	90	22.5	--	22.5
		<u>75.8</u>		<u>75.8</u>

United States

Delegation

John W. Snyder
Secretary of the Treasury

Governor (Fund and Bank)

William L. Clayton
Adviser to the Secretary of
State

Alternate Governor
(Fund and Bank)

Frank A. Southard, Jr.
Associate Director, Div. of
Research and Statistics
Federal Reserve System

Temporary Alternate
Governor (Fund and Bank)

Eugene R. Black
Executive Director, Bank

Adviser (Bank)

Howard Bruce
Economic Cooperation
Administration

Adviser (Fund and Bank)

Preston Delano
Comptroller of the Currency
Treasury Department

Adviser (Fund and Bank)

Edmond M. Hanrahan
Chairman, Securities and
Exchange Commission

Adviser (Fund and Bank)

Paul G. Hoffman
Administrator, Economic
Cooperation Administration

Adviser (Fund and Bank)

John S. Hooker
Alternate Executive
Director, Bank

Adviser (Bank)

Thomas J. Lynch
General Counsel,
Treasury Department

Adviser (Fund and Bank)

William McChesney Martin, Jr.
Chairman, Export-Import Bank

Adviser (Fund and Bank)

Garrison Norton
Assistant Secretary of State

Adviser (Fund and Bank)

Andrew N. Overby
Executive Director, Fund

Adviser (Fund)

Charles Sawyer
Secretary of Commerce

Adviser (Fund and Bank)

James J. Saxon
Assistant to the Secretary of
the Treasury

Adviser (Fund and Bank)

United States
Delegation

(continued)

Brent Spence Congressman, House Committee on Banking and Currency	Adviser (Fund and Bank)
Allan Sproul President, Federal Reserve Bank of New York	Adviser (Fund and Bank)
M. S. Szymczak Member, Board of Governors Federal Reserve System	Adviser (Fund and Bank)
Wayne Chatfield Taylor Economic Cooperation Administration	Adviser (Fund and Bank)
Charles William Tobey Chairman, Senate Banking and Currency Committee	Adviser (Fund and Bank)
Robert F. Wagner Senate Banking and Currency Committee	Adviser (Fund and Bank)
Jesse Paine Wolcott Congressman, Chairman, House Banking and Currency Committee	Adviser (Fund and Bank)
Hawthorne Arey Export-Import Bank	Technical Adviser to Delegation (Bank and Fund)
Elting Arnold Treasury Department	" " "
George L. Bell Commerce Department	" " "
Henry J. Bittermann Treasury Department	" " "
Thomas C. Blaisdell, Jr. Commerce Department	" " "
Clarence I. Blau Commerce Department	" " "
James R. Brooks Commerce Department	" " "
Chester L. Callander Treasury Department	" " "
Philip E. Coleman, III Board of Governors of the Federal Reserve System	" " "

United States Delegation (continued)		Technical Adviser to Delegation (Bank and Fund)
Lewis N. Dembitz Board of Governors of the Federal Reserve System		
Herbert E. Gaston Export-Import Bank	"	"
C. Dillon Glendinning Treasury Department	"	"
J. Burke Knapp State Department	"	"
L. Werner Knoke Federal Reserve Bank of New York	"	"
Walter C. Louchheim, Jr. Securities and Exchange Commission	"	"
James A. McCullough Economic Cooperation Administration	"	"
Raymond F. Mikesell State Department	"	"
Winfield W. Riefler Board of Governors of the Federal Reserve System	"	"
Arthur Smithies Economic Cooperation Administration	"	"
Harold R. Spiegel State Department	"	"
Frank M. Tamagna Board of Governors of the Federal Reserve System	"	"
Rifat Tirana Export-Import Bank	"	"
Henry C. Wallich Economic Cooperation Administration	"	"
George H. Willis Treasury Department	"	"
John Parke Young State Department	"	"
Walter C. Sauer Export-Import Bank	"	"