SECRET

April 5, 1945

Secretary Morgenthau

Mr. Luxford

Re: Summary Report on Meeting with Bankers in New York on Possible Bretton Woods Compromise.

1. Mr. D. W. Bell arranged for E. M. Bernstein and me to have a preliminary discussion on this matter with Randolph Burgess at his office in New York on last Monday. Mr. Bell had previously spoken to Mr. Burgess about the desirability of seeking to iron out the differences between the Treasury and the bankers, and Burgess had indicated his wholehearted desire to explore the matter further. At Mr. Bell's suggestion, he had talked to Ned Brown when he had been in Chicago last week. Their conversation had lasted five hours. Apparently, Burgess was impressed by Brown's attitude.

2. Bernstein and I called on Burgess at 10 o'clock Monday morning. We made it very clear to him that the purpose of our meeting was merely to determine whether or not there was any basis for compromising the views between the bankers and the Treasury and that it was neither our purpose nor our authority to commit the Treasury to any proposal. Mr. Burgess readily agreed to this approach and made it equally clear that he was without power to speak except in a personal capacity and that he thought our discussions might proceed to best advantage if "we let our minds rove" and felt free to explore points without any degree of commitment involved in the discussions. It was also agreed that our discussions would be completely off the record. We made it very clear to Burgess from the beginning that we felt that the only basis on which a compromise was feasible was to start with the premise that the Bretton Woods agreements could not be amended at this time and that the Fund could not be postponed. On this premise we were perfectly prepared to explore what possible changes could be made in the legislation before Congress that would aid in meeting the bankers' objections.

3. As a result of our discussion with Burgess (which lasted the better part of the whole of Monday), the following points were developed as a possible basis for compromise:

(a) In order to satisfy the bankers' position that the Fund and Bank should be "combined" so that we would avoid the alleged danger of their operations not being coordinated, the legislation before Congress should stipulate that the United States would appoint one man to serve as both Executive Director for the Fund and for the Bank and another man to serve as both Governor of the Fund and the Bank. It would further be contemplated that if a compromise were effected between the bankers and the Treasury, we would informally sound out the Canadians, British, Dutch, Belgians, and perhaps the French on whether they would be disposed to follow the same practice. The purpose of this proposal would be that while it is not feasible at this time to actually consolidate the Bank and Fund the policies and management of the two institutions could be coordinated by having "a single Board of Directors." It was obvious that not all of the governors and directors would be the same on both institutions, but it was felt that if a number of the principal countries pursued this policy, there would be an important nucleus of influential governors and directors who would be fully familiar with both institutions and thus able to integrate and coordinate their operations.

2

(b) To meet the second major objection of the bankers, i.e. that the successful operation of the Fund depended on how well it was managed, two major proposals were evolved. They were:

(i) Responsibility for the formulation of American policy on the Fund and Bank should be vested in a Board to be comprised of the Secretary of the Treasury as Chairman, the Secretary of State, the Chairman of the Board of Governors, the Foreign Economic Administrator and the President of a Federal Reserve Bank elected by the open market committee of the Federal Reserve System. Burgess was extremely 2 adamant against the inclusion of the Secretary of Commerce on this committee. While he granted the significance of the Department of Commerce in the international economic picture, he felt strongly that Wallace would be regarded as "a red flag" in the eyes of the bankers and might constitute an impossible hurdle in our efforts to formulate a compromise. When queried about the naming of a President of a Federal Reserve Bank to the Board in the manner suggested, Burgess explained that they had originally thought in terms of having a banker named to the Board. They believed, however, that this was opened to criticism for two reasons: First, because it might not be appropriate for a non-Government official to be on the Board and secondly, if they succeed in getting a banker on the Board, labor and other interests might also demand representation. Therefore, they felt that the bankers would have confidence in a Federal Reserve Bank President to represent their point of view. He was very open in his statement that "obviously, that man would be Alan Sproul as President of the Federal Reserve Bank of New York." It would also be expected that this Board in addition to laying down general policies for the American Governor and the Executive Director to pursue in the Fund and the Bank would also coordinate the policy of the various United States agencies interested in international monetary and financial matters.

(ii) Congress in enacting the Bretton Woods legislation should lay down the explicit rules of policy to guide the American representatives on the Fund and Bank. The philosophy behind this point was that if the American representatives on the Fund and Bank had specific policy instructions from Congress, it would strengthen their hand a great deal in seeing that the Fund and Bank were wisely managed. Moreover, it would serve as notice to the world of the American conception of how the Fund and Bank should operate. Any country accepting the Fund and Bank would be on full notice of what the American position was. The following points, in particular, were included:

To secure a high degree of coordination between the Fund and the Bank;

To see that basic economic conditions in the various member countries are sound in order that stable exchanges may be practicable;

To see that the Fund does not begin exchange transactions with any member while its basic economic conditions make the maintenance of the stable exchange rate impossible;

To see that the Fund is not used for relief or reconstruction;

To limit the uses of the Fund to meeting seasonal, cyclical and emergency needs for foreign exchange and that long-term stabilization loans be made only by the Bank.

The legislation would require that Congress receive a quarterly report from the American representatives on the Fund and Bank regarding the operations and policies of such institutions and the extent to which they were pursuing policies consistent with those prescribed by Congress.

(c) Congress would require that the American representatives report within two years on how well the Fund and Bank were operating, recommendations as to how they might be made more effective; whether they should be merged into one institution; whether their resources should be increased or decreased; and whether the United States should continue membership in either the Fund or the Bank or in both. The basic principle involved, of course, is one of giving the Fund and Bank a test run so that at the end of a couple of years, we could all again consider what changes, if any, were desirable to improve their operations.

(d) The CED proposal for making it clear that the Bank has authority to make long-term stabilization loans would be included in the legislation with the provision that the American Governor should ask for an amendment if the Bank management did not agree that the Bank already possessed the power to make loans for stabilization purposes.

In addition to the foregoing, Burgessindicated that the bankers would like to have assurances that the United States would press for the headquarters of the Bank and the Fund being in New York. He said that this would "reassure" the bankers that the institutions would not be under undue political influence. The other point that the bankers were interested in according to Burgess was who was going to be named by the United States to the positions of Governor and Executive Director. He was very explicit on the fact that the bankers would like to see Ned Brown named. On the point as to who would be named to the various posts, we made it very clear that this was not within the field of subjects which we felt that we could discuss. A full statement of the actual changes contemplated in the legislation is attached in the form in which it was considered by the various men in New York. The pencilled notations on this text are changes in form that we are presently considering.

4. After formulating this program with Burgess, he was anxious to try it out on several of the key people in New York. He indicated that he would like to sound out Sproul, Fraser, Potter, and Aldrich in New York and then Hemingway and General Ayers. He requested that we join him in the discussion with these various men in New York which he preferred to see first individually rather than in a group.

5. We saw Sproul late Monday afternoon and Burgess outlined to him the program. Sproul was extremely non-committal and said that he would like to talk to John Williams about it before expressing a view.

6. Tuesday morning, we called on Potter and discussed the program. He was warmly receptive. He made it clear that he still did not like the Fund but that he did feel that amendments of this character to the Bill before Congress would reassure him that the interests of the United States were protected and that on that ground, he was not going to oppose the Fund. It was

quite clear that Potter was most anxious to see a compromise effected.

7. At Sproul's request, Bernstein and I had lunch with him and Williams. At this lunch, Williams was impossible, stating that it was nonsense to talk about a Fund until economic conditions abroad were more favorable and that it was far more important to work out a solution to the British problem in the matter of tariffs. Sproul echoed Williams. It was quite clear that with these two, the personal considerations were paramount.

8. Burgess then had Leon Fraser in his office to discuss the problem. Surprisingly enough, Leon Fraser was reasonably sympathetic and cooperative in spirit. He made no assurances and drew the distinction between being called upon to "support" the comprimise and "accept" it. He was disposed to think in terms of accepting it but not in terms of supporting it. By supporting it, he referred to going around the country making speeches, etc. In the final analysis, he said that he would think in terms of telling Congress that he still thought the ABA report was the best solution to the problem but that he would be prepared to accept this compromise.

9. The next morning, Mr. Bell was in New York and a meeting was held in Sproul's office, at which the following were present: Bell, Sproul, Burgess, Fraser, Potter, Williams, Bernstein, and Luxford. At this meeting, Sproul opened by stating, in effect, that while the meeting was in his office, that did not imply that he was in agreement with the proposal. Mr. Bell then explained how he and Mr. Burgess had both felt that it would be an unfortunate thing if after ten years of cooperation between the bankers and the Treasury, they could not work out an amicable settlement of this Bretton Woods issue, particularly when fundamentally we all agreed on the objectives. The proposal was then outlined to the group collectively and Sproul and Williams opened up the attack. Williams, in particular, was very vehement in his criticism. During the bulk of the discussion, Fraser, Potter and Burgess remained silent. Finally, Mr. Potter said he had to leave but that he wanted to make clear that while he still did not like the Fund and probably never would, nevertheless, he felt that this proposal did protect the interests of the United States; that it sounded acceptable to him; and that he would like to see an agreement worked out. Fraser and Burgess then indicated

that they were in sympathy with Potter's position.

Sproul then arranged for Bell, Bernstein and me to see Sloan Colt in the afternoon. We met in Sproul's office and, on this occasion, Sproul was more cooperative. Colt was extremely receptive and thought the compromise an excellent solution to our differences. At one or two points, Sproul even offered constructive suggestions.

10. The agenda as it was left Wednesday afternoon was as follows:

(a) Bell and Burgess were to see Aldrich on Thursday morning.

(b) Burgess was asking Hemingway and General Ayers to come to New York and discuss the proposal with him on Friday.

(c) We were to consult Washington on their attitude on a compromise of this character.

(d) Burgess will submit the compromise to the Administrative Committee of the ABA, which is meeting in New York on April 14, The Reserve City Bankers are having a meeting in New York at approximately the same time and it was contemplated that the compromise would also be discussed with that group. The New York State Bankers would also be consulted.

11. If it should be concluded that a compromise of this character is feasible, then it would be contemplated that representatives of the two groups would probably sit down with Spence and Wolcott and under their auspices formulate proposed amendments to the legislation to effect the compromise.

(Initialed) A.F.Mc

Secret - Revised

Possible Changes in H. R. 2211

1. Section 3: Section 3 is amended to read as follows:

Sec. 3. (a) The United States shall be represented on the Fund and Bank by one person serving as governor and another as executive director of both institutions. The President, by and with the advice and consent of the Senate, shall appoint a governor and executive director to represent the United States on both the Fund and the Bank. The executive director so appointed shall also serve as provisional executive director of both institutions for the purposes of the respective Articles of Agreement. The term of office for the governor shall be five years and for the executive director two years. An executive director shall remain in office, however, until a successor has been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the positions specified in subsection (a) of this section who shall serve for the same terms as his principal; provided: (i) alternates for the positions of governor and executive director of the Fund and Bank respectively need not be the same person and (ii) any alternate for an executive director shall be selected by the President from names recommended to him by the executive director.

(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.

2. Section 4: Section 4 is amended to read as follows:

"INTERNATIONAL MONETARY AND FINANCIAL
COUNCIL AND REPORTS"

Sec. 4. (a) There is hereby established the International Monetary and Financial Council (hereinafter referred to as the Council), consisting of the Secretary of the Treasury, as chairman, the Secretary of State, the Chairman of the Board of Governors of the Federal Reserve System, the Foreign Economic Administrator and a president of a Federal Reserve Bank selected by the Open Market Committee of the Federal Reserve System. The Council shall act under the general direction of the President and in accordance with such policies as the Congress may prescribe from time to time.

(b) The United States governor and executive director of the Fund and Bank and their alternates shall keep the Council fully informed of their activities and shall act in a manner consistent with general policies established by the Council. Except as otherwise provided in section 5 of this Act, the Council is hereby authorized, through the governor and executive director to give or refuse the approval, consent, or agreement of the United States whenever, under the Articles of Agreement of the Fund or of the Bank, such approval, consent or agreement is required before any act may be done by the Fund or the Bank, respectively. No governor or executive director representing the United States shall vote in favor of any waiver of conditions under article V, section 4 or in favor of any declaration of the United States dollar as a scarce currency under article VII, section 3, of the Articles of Agreement of the Fund or on any other major question of policy before the Fund or Bank without prior consultation with the Council.

(c) The Council and the United States Governor and their alternates are directed:

(i) To exercise their full powers and influences to secure coordinated policies on the part of the Fund and the Bank and the highest degree of cooperation and collaboration at every point between their respective managements.

(ii) To exercise their full powers and influence to see that the Fund is used only where it can appropriately be used for current stabilization operations and that the Bank is used only where it can appropriately be used for reconstruction and development projects and for ~~other emergency loans~~ long-term stabilization loans. (8)

(iii) To exercise their full powers and influence to stimulate the basic economic conditions essential to the establishment and maintenance of stable and orderly exchange arrangements among members; to encourage the Fund to communicate its views to members on economic and monetary conditions and developments which would tend to disturb stable and orderly exchange arrangements; to eliminate as soon as conditions permit all forms of restrictive and discriminatory currency arrangements among members; and to facilitate and encourage in other ways the elimination of discriminatory trade arrangements that hamper world trade and other forms of economic warfare that disturb harmonious international economic relations.

new language

c

new

(iv) To exercise their full powers and influence to assure the constructive use of the resources of the Fund and the Bank and to see that they are not used in a manner that imperils the financial integrity of either institution; to see that the Fund does not begin exchange transactions with any member while its basic economic conditions are such as would lead to use of the Fund's resources to sustain an untenable exchange rate, and further, to see that the Fund does not continue exchange transactions with any member after its basic economic conditions are such as would lead to use of the Fund's resources to sustain an untenable exchange rate and thus defeat the purposes of the Fund and be prejudicial to the Fund and its members.

new

(v) To exercise their full powers and influence to prevent the use of the Fund, directly or indirectly, for relief or reconstruction or for indebtedness arising out of the war; to see that the resources of the Fund are used only by countries that can appropriately use such resources to promote exchange stability, to maintain orderly exchange arrangements, and to avoid competitive exchange depreciation; to see that the Fund is kept informed of the necessary corrective measures that are being taken by members that use the resources of the Fund; to limit the use of the resources of the Fund to meeting seasonal, cyclical and emergency needs for foreign exchange for current stabilization purposes;

too strong!

too limiting

to have other reasonable needs for foreign exchange for long-term stabilization purposes considered by the Bank.

(vi) To exercise their full powers and influence to see that when a general scarcity of a currency is developing the report issued by the Fund shall set forth fully the causes of the scarcity and shall contain recommendations designed to bring it to an end; to see that the report recognizes fully the common responsibility of the countries whose holdings of the currency are scarce and of the country whose currency is scarce, and that the recommendations are made not only to the country whose currency is scarce but to the country whose holdings of the currency are scarce; to see that prompt corrective measures are taken so that the scarcity of any currency can be terminated as soon as possible, that the limitations on the transactions in a scarce currency are no more restrictive than is necessary, and that they are relaxed and removed as rapidly as conditions permit; and to see that the right of members whose currency is scarce to make representations on the administration of restrictions on exchange transactions in a scarce currency is fully safeguarded.

Nothing new.

(vii) To transmit to the President and the Congress a quarterly report in detail on the work of the Council, the operations and policies of the Fund and the Bank, and the activities of the United States governor and executive director and their alternates. The report shall include a full statement with respect to the degree to which the Fund and the Bank conform with the provisions of this Act.

(viii) To transmit to the Congress not later than two years after the date of enactment of this Act a special report on the operations and policies of the Fund and the Bank, the extent to which they have achieved the purposes for which they are established, recommendations as to how the Fund and the Bank may be made more effective, recommendations on whether the Fund and the Bank should be merged into one institution, recommendations on whether the resources of the Fund or the Bank should be increased or decreased, recommendations on whether the United States should continue membership in either the Fund or the Bank or in both, and recommendations on any other necessary or desirable changes in the Articles of Agreement for the Fund and the Bank or in this Act.

(d) The Council, with the approval of the President, is also directed to coordinate the activities of all departments and agencies of the United States relating to international monetary and financial matters to the end that the policies of the United States in these fields should be integrated and uniform."

How?

3. <u>Section 9</u>: Section 9 is amended to read as follows:

OBTAINING AND FURNISHING INFORMATION

"Sec. 9. So long as the United States is a member of the Fund, the President may require at any time, in the manner and under the penalties provided in Section 5(b) of the Trading with the enemy Act (U.S.C. title 50, App. Sec. 5), as amended, the furnishing of any data that may be requested by the Fund under Article 8, Section 5, of the Articles of Agreement of the Fund."

4. <u>New Section</u>: Add the following section:

"STABILIZATION LOANS BY THE BANK"

?

"Sec. 13. If the management of the Bank does not interpret its powers under the Articles of Agreement as authorizing the Bank to make or guarantee long-term loans for economic and financial reconstruction in connection with a comprehensive stabilization program, the governor and executive director of the Bank appointed by the United States are hereby directed to propose and support an amendment to the Articles of Agreement for the purpose of explicitly authorizing the Bank, after consultation with the Fund, to make or guarantee such loans. The Council is hereby authorized and directed to accept such amendment on behalf of the United States."

5. New Section: Add the following section:

"WITHDRAWAL"

"Sec. 14. The United States Government expressly reserves the right to withdraw from either the Fund or the Bank, or both, at any time in accordance with the provisions of Article IV, section 1 of the Articles of Agreement of the Fund and Article VI, section 1 of the Articles of Agreement of the Bank. Notice is hereby given that the acceptance of membership in the Fund and Bank shall not be deemed in any way to morally or legally bind the United States to continue such membership if (a) in the opinion of the Government of the United States the policies of either the Fund or Bank are not in accord with the letter or the spirit of the respective Articles of Agreement or the provisions of this Act or (b) if for any other reason the Government of the United States determines it to be in the interest of the United States to withdraw."