BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date October 10, 1946.

To Chairman Eccles

From Mr. Knapp

Subject: Results of the recent meeting in Washington of the Boards of Governors of the International Fund and Bank.

JHK

The following memorandum summarizes the results of the recent meeting in Washington of the Boards of Governors of the International Fund and Bank.

The meeting opened with a formal session on Friday, September 27, and the working committees of the Conference were established at meetings held on Saturday, September 28. The real work of the meeting was discharged during the four-day period from Monday, September 30 through Thursday, October 3.

Governors from all the 39 member countries attended the meetings, and several of the countries which were represented at Bretton Woods but which have not yet joined the Fund and the Bank were represented as observers. A notable exception was the U.S.S.R., which never replied to an inquiry from the U. S. Government as to whether they desired to send an observer to the meeting.

A large part of the meeting was devoted to relatively routine business and no sharp cleavages developed as at the Savannah Conference. Such cleavages still exist, some of them on issues which remain undecided, but none of these issues were brought to a head at this meeting.

Rules and Regulations and Amendments to By-laws

The Governors of both the Fund and the Bank adopted certain amendments in the By-laws written at the Savannah Conference, and reviewed with approval draft Rules and Regulations (supplementing the By-laws and Articles of Agreement) which had been prepared by the Executive Directors. In the case of the Bank, this procedure was almost purely routine, but in the case of the Fund, while the Rules and Regulations proposed by the Executive Directors were non-controversial, it was thought that additions of a controversial nature might be proposed by some member countries. As it turned out, no such proposals were made, and the issues involved in them remain unresolved.

(The principal issues referred to are:

a. The question of whether the Fund should seek to maintain secrecy concerning member country applications for changes in exchange rates--the Canadians were expected to propose a regulation which would have authorized the Managing Director to negotiate with member countries on this subject without consultation with the Executive Directors, and

b. The question of whether member countries have automatic access to the Fundfor foreign exchange within their quota limits, or whether the Executive Directors should have the power to examine each separate request for exchange to determine whether it is fully consonant with the provisions of the Fund agreement--the Rules and Regulations as drafted by the Executive Directors duck this issue by providing for a two-day delay between the Fund's receipt of requests for exchange and its action thereon, and no member country proposed to clarify the point further at this time.)

Admission of New Members

The Boards of Governors of the Fund and the Bank approved recommendations from their Executive Directors for the admission of Italy, Turkey, Syria, and Lebanon, with quotas in the Fund (and subscriptions in the Bank) of 180, 43, 6-1/2 and 4-1/2 million dollars, respectively. (The figure of 180 million dollars for Italy may be compared with 275 million for the Netherlands, 225 million for Belgium, and 125 million for Czechoslovakia and Poland.) No difficulty was encountered in the admission of these countries except that the Governor for Yugoslavia challenged the Italian application at every opportunity both in the Fund and in the Bank meetings. However, his motion to give further consideration to the question failed to find a seconder, and in the ballot on Italy's admission which was conducted at the Yugoslav Governor's request he cast the only negative vote. Ethiopia and certain other unidentified countries abstained from voting.

Under the terms of a resolution passed at the Savannah Conference, these four new members (after they have completed certain formalities of ratification) would appear to have the right, together with Denmark which was admitted to membership too late to participate in the original election of Executive Directors, to elect a thirteenth Executive Director in the Fund and in the Bank. As a result of the distribution of votes among these countries, however, it became apparent that Italy would have a very good chance of electing its candidate (this result could only be averted by a solid coalition of the other four countries). Several member countries (notably the United Kingdom and some of the European countries) became very disturbed at this prospect, and various devices were discussed behind the scenes at the Conference to avoid having an Italian Director. Only one device received specific consideration in the meetings, namely an application by Denmark to be allowed to cast its vote retroactively for one of the existing Directors. If such a procedure were permitted, the remaining new members would not have sufficient votes to call for an election, and the election would be deferred until such time as other countries capable of rivaling Italy (e.g. Switzerland or Australia) became members. It was generally recognized, however, that the Danish request could be granted only by a strained interpretation of the Articles of Agreement of the Fund and Bank and of the Savannah resolution, and by common agreement, the Governors disposed of this problem for the time being by referring it to the Executive Directors for study.

Revision of Quotas

Paraguay, which admittedly had been hardly treated at Bretton Woods, received a 75 per cent increase in its Fund quota and Bank subscription upon the recommendation of the Executive Directors. (The Fund quota was raised from 2 to 3.5 million dollars and the Bank quota from 0.8 to 1.4 million dollars.)

A much more troublesome situation was created by a French request for increasing its quota in the Fund and subscription to the Bank from 450 to 675 million dollars. Since the granting of this request would have raised France above the level of China, the Chinese also felt bound to request an increase in their quota, and the Indians announced that they would be forced to do the same in order to maintain their position slightly below the French.

After some hard bargaining, the Executive Directors of the Fund to whom these requests were addressed in the first instance, decided to recommend an increase from 450 to 525 million dollars in the case of France, leaving the others unchanged. Since this did not disturb the relative position of the great powers (the Chinese quota in the Fund is 550 million dollars), the Chinese agreed to withdraw their request and the Indians were likewise prevailed upon to postpone their request. This decision was ratified by the Board of Governors of the Fund, and the Board of Governors of the Bank took corresponding action. France has therefore gained 75 million dollars both in its quota in the Fund and in its subscription to the Bank.

Other Business

The Board of Governors of the Fund adopted a Mexican resolution calling upon the Fund to undertake a study of the silver problem preparatory to the calling of an international conference on this subject by interested countries.

The Board of Governors of the Bank adopted proposals by the Executive Directors for establishing the Advisory Council provided for in the Bank's Articles of Agreement. Pursuant to these proposals, the Executive Directors of the Bank, collaborating in some instances with other specialized agencies of the United Nations, will nominate candidates for each of the positions on the Advisory Council, and the final selection of the Council will be made by the Board of Governors of the Bank at their next annual meeting. You will recall that the Council is supposed to consist of private individuals drawn from various economic groups; it is provided that nominations for the banker on the Council will be made by the Executive Directors of the Bank in consultation with the International Monetary Fund.

The Board of Governors of the Bank approved the employment of an outside accounting firm (Price, Waterhouse and Company) to audit the books of the Bank. However, the Board of Governors of the Fund, feeling that such an outside audit was not so necessary to the public relations of that institution, agreed that as an interim measure the Fund's account should be audited by a committee of experts drawn from the Treasuries of a few member countries. The Fund's Executive Directors have been directed, however, to give further consideration to this problem.

No question was raised at the Governors' meeting concerning the interpretations of the Articles of Agreement of the Fund and the Bank handed down by the Executive Directors in response to requests from the United Kingdom and the United States. Pursuant to instructions in the Bretton Woods Agreements Act, we had asked for interpretations of the scope of operations of the Fund and of the Bank. The Executive Directors of the Bank had given a fully satisfactory answer, but the Executive Directors of the Fund issued an interpretation which was considered by some as not clearly responsive to the request of Congress. However, during the meeting Secretary Snyder found that Congressmen Spence and Wolcott were quite happy with the interpretation as drafted, so no further question was raised about it.

At the close of the meeting, it was agreed that the next Governors' meeting should be held in London in September 1947 and Mr. Dalton, Governor for the United Kingdom, was elected Chairman of the Boards of Governors of the Fund and the Bank to serve through the end of the meeting in London.