

BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM

# Office Correspondence

Date December 10, 1946.

To Chairman Eccles

Subject: Report No. 4 of the Activities

From Mr. Knapp *AK*

of the International Monetary Fund.

Possibly as a result of your recent remarks at Council meetings, Harry White submitted to the Council on November 25 his Report No. 4 on the activities of the International Monetary Fund during September and October 1946 (through some mistake, his reports 2 and 3 covering earlier periods have not yet been distributed).

Report No. 4 does not contain any requests for Council consultation or action. Much of it reports things with which we are quite familiar (especially the matters which were dealt with at the Governors' meeting in September). However, two sections of the Report bring to light new and interesting information.

Mr. White reports the background of the decision made by the Fund on September 11 to announce the early commencement of exchange operations. This was a major decision taken by the Fund on which the Council was never formally consulted. Mr. White reports that:

"Considerable discussion also took place as to the question of whether the coming year would be so unsuitable for exchange stabilization that postponement [of exchange operations] was warranted. Some members of the Executive Board felt that such postponement was warranted because of the difficult economic and monetary situations in certain countries, disturbed political conditions, and the fact that other international economic agencies were not in a position to carry out fully their intended functions. However, the more general view was that conditions were actually better than those which had been forecast at the time the Fund was conceived and the Agreement signed. The risk involved had to be taken in order to make a beginning at monetary collaboration and exchange stabilization. It was agreed that operations would doubtless have to be postponed in the case of some countries. Therefore, on September 11 the Executive Directors decided to send the request for communication of par values without delay. The only dissent was from one member who believed that a delay of a few months was desirable."

Mr. White also reports the discussions which have taken place in the Fund Board of Directors with regard to cooperation and consultation between the Fund and the new International Trade Organization which it is planned to establish late next year.

You will recall that a preparatory committee representing seventeen member countries has recently completed work in London on a draft charter

for this new international agency, a first draft of such a charter having been published and communicated to other governments by the Department of State. Another preparatory meeting is scheduled for Geneva next April, when further discussions will be held concerning the charter and negotiations will be undertaken among the seventeen "nucleus" countries for a reciprocal reduction of tariff barriers. Finally, sometime later in the year there will be a world conference to adopt the charter and extend the area of tariff negotiations.

The Fund's interest in the International Trade Organization is very great. In the Fund Agreement, member countries have committed themselves to use exchange control only with the consent of the Fund (except in the case of capital movements and except in the case of controls applied during the transition period). The value of this commitment is greatly reduced, however, if countries are left free to restrict their international transactions by means of quantitative trade controls. This has always been recognized as a weakness of the Bretton Woods approach and the United States has been attempting to obtain commitments on trade restrictions through the International Trade Organization roughly comparable to the commitments on exchange restrictions through the Fund.

As might have been expected, this attempt has not been successful. Just because foreign countries have given up freedom of action in the field of exchange control they are all the more anxious to preserve such freedom in the field of trade controls. The British were the outstanding exponents of this point of view at the recent London meeting, where they emphasized that the threat of instability in the American economy made it especially important for other countries somehow to maintain close control over their balances of payments.

It now appears, therefore, that when the I.T.O. is set up it will not have anything like the powers of the Fund to enforce a code of conduct by member countries. There will be, however, provision for consultation between the I.T.O. and member countries concerning quantitative trade restrictions and in cases where member countries desire to impose such restrictions to protect their balance of payments position, there will be provision for consultation between the I.T.O. and the Fund.