

August 22, 1947.

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Dear John:

I am sorry that I got away before having an opportunity to discuss with you a couple of matters relating to the administration of the International Fund and Bank which give me considerable concern. I should like to give you my views on these matters in the following letter. I do not think that this letter should be distributed as a National Advisory Council document, but if you think it appropriate, you might send copies of it to the other members of the Council and discuss it with them in Executive Session.

My principal concern relates to the salary policies being pursued by the Fund and the Bank. I am not fully informed concerning these policies, but from what I have learned, I am very much afraid that there is a public scandal in the making. It seems to me that these policies would not stand examination by a Congressional body and that the prestige and reputation of the Fund and the Bank might be seriously damaged if public attention were focused upon their extravagant expenditures. Your correspondence this spring with Congressman Smith--see N.A.C. Document 414--is just a sample of what we may expect.

In the first place, I am opposed in principle to the payment of tax-free salaries, and I think a serious mistake was made at the Savannah Conference when it was agreed that the Fund and Bank would pay salaries on this basis. I was not present at the Savannah Conference, but I registered my objections at that time through Mr. Knapp, who was representing me there. I am familiar with the arguments which have been advanced to justify this policy, i.e. that it would equalize the "take-home pay" of nationals of different countries holding positions of equal rank in the Fund and Bank hierarchy. However, I do not find this argument convincing in view of the general disadvantages and inequities of tax-free payments. Let me point only to the fact that, as contrasted with the position of the great bulk of American citizens, American employees of the Fund and Bank are rendered

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immune from changes in the Federal income tax, and bachelors among them receive the same "take-home pay" as persons with dependents performing the same work.

Now that the Senate has turned down the proposal to exempt from tax the salaries paid to American nationals by the United Nations, I presume that it will be necessary for the United States to inform the Fund and Bank that it cannot give effect to the Resolution passed at Savannah calling on member governments to grant tax exemption to salaries paid by these institutions. As a result, so long as the Fund and Bank pay salaries on a tax-free basis they will have to continue remitting large amounts directly to the United States Treasury. I imagine that this will be a very sore point with other countries, who may well raise the matter at the London Meeting.

It seems to me that our inability to implement the Savannah Resolution now gives us a good excuse for reversing our position and advocating the payment of all Fund and Bank salaries on a uniform taxable basis. I feel sure that we would encounter no serious objections to such a change on the part of foreign countries. I recognize that if this were done, the Fund and Bank would have to incur larger expenditures; they would have to pay their foreign employees the same gross salaries as American employees, and would realize no saving on payments of taxes to foreign countries since most if not all foreign countries have already waived such payments. However, if salaries were paid gross, foreign countries could go ahead and levy taxes on their own nationals, thus remedying the present very unfair situation in which only the United States derives revenue from salary payments by the Fund and Bank.

With regard to the level of salaries, I recognize the need for the present high salaries of the top management in the Bank, and I suppose the Managing Director of the Fund has to receive the same compensation as the President of the Bank. However, I think the salaries of Executive Directors are definitely too high and that this has led to general over-compensation of the staff all the way down the line. There appears to be a glaring disparity between salaries paid to the staff of the Fund and the Bank and salaries paid to persons having equal or greater responsibility in agencies of the United States Government. Aside from the fact that this creates a target for public and Congressional criticism, it does not make for good relations between personnel in the United States Government and in the Fund and the Bank. Furthermore, this disparity has led to an excessive drain of people from the U.S. Government to the Fund and the Bank and continues to give those institutions an excessive advantage in new recruitment.

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I do not suggest that an effort should be made to bring the Fund and Bank salary schedules completely into line with United States Government standards, but I do think that at least half of the present disparity should be removed through wholesale reduction in the level of salaries paid to the Executive Directors, Alternate Directors, and staff officials in the Fund and the Bank. The present salaries have been fixed with an eye upon the present high rates of U.S. income tax, and a reduction in salaries now might be compensated in part in the future through a reduction in Federal income taxes. I do not believe, however, that action should be deferred until such reduction becomes effective.

In addition to these salary matters, I think the Governors Meeting should scrutinize very carefully the other provisions for employee benefits which the Fund and the Bank have introduced or propose to introduce. Again I am under the impression that these are excessively liberal by comparison with similar benefits provided to employees of the United States Government.

A final remark has to do with the question of how much time the Executive Directors in the Fund and the Bank (and their Alternates) ought to spend on their jobs in order to comply with the By-laws adopted at Savannah requiring them "to devote all the time and attention to the Fund (Bank) that its interests require". I have no reason to believe that the Executive Directors of the Fund have been spending more time on their jobs than is necessary in view of their great and continuous responsibilities. In the case of the Bank, however, especially under the new management, I wonder if the Executive Directors need to spend anything like full time on their jobs. In fact, I should think that meetings at monthly or even longer intervals would be sufficient to enable the Bank's Board to make decisions regarding the Bank's lending and borrowing operations. I presume that this policy could be carried out under the terms of the present By-law 14(d). If this policy were adopted, I would suggest that Executive Directors and their Alternates be compensated on the basis of a substantial per diem for attendance at meetings rather than through payment of salaries. So far as the U.S. Director and his Alternate are concerned, I would assume that Mr. Black could be given an appropriate position in the management of the Bank and that Mr. Hooker could revert to his status as an employee of the United States Government. Problems might arise in the case of some of the foreign directors, but I imagine solutions could be found.

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Honorable John W. Snyder

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I do not know to what extent it will be possible for you to deal with these matters at the London Meeting or otherwise, but I believe they deserve your most serious consideration.

Sincerely yours,

M. S. Eccles, Member,
National Advisory Council.

Honorable John W. Snyder,
Secretary of the Treasury and
Chairman of the National Advisory Council,
Treasury Department,
Washington 25, D. C.

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