

CONFIDENTIAL

June 26, 1950

To: Board of Governors

Subject: European Payments Union

From: M. S. Szymczak

From time to time, I have informed the Board of developments with respect to the European Payments Union. As background for the further report which follows, I have asked the International Group of the Board's staff to prepare a general statement covering the principles and history of the Payments Union project. This statement is appended hereto as Annex I.

From the beginning, the Board's representatives have played an unprejudiced and constructive role in the discussion of the project, and have been commended by all parties accordingly. Thus, at a time when other agencies were sharply divided between those, on the one hand, which urged a complete rejection of any European Payments Union, and those, on the other hand, which insisted that such a Union must necessarily receive the support of the United States Government, the Board's representatives took an intermediate position which was in the end the position taken unanimously by the National Advisory Council in its action of January 23, 1950 (appended hereto as Annex II). The essence of this action was that a European Payments Union would be desirable if it satisfied certain conditions. Of these conditions, the most important was that the establishment of such a Union should not prevent any one participating country or group among the participating countries from moving as rapidly as possible toward full currency convertibility, independently of the rate of progress evidenced by other members of the proposed Union. It should be recorded that the Board's representatives were warmly thanked by both parties to the preceding debate for their role in formulating the NAC action referred to above.

It was generally understood that the ECA negotiators in Paris would proceed to implement the NAC action in spirit as well as in letter, and would keep all NAC agencies informed as to the progress of the negotiations. It was generally understood, further, that all NAC agencies would have an opportunity to express their views as to the soundness of proposed arrangements in time to affect the final result.

In fact, however, the NAC agencies were not informed of the actual details of the proposed Payments Union before they were informed, at a meeting of the NAC staff, that, apart from special arrangements which might be made to take care of the case of Belgium (whose government had just rejected the terms proposed by the ECA representatives), there was no possibility of changing the general character of the proposed agreement in the direction of a greater degree of "hardness" in the provisions for the

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settlement of net adverse balances. Confronted by this situation, I wrote to Mr. Paul Hoffman, on June 16, 1950, the letter appended as Annex III, in which, in addition to expressing grave concern over the "softness" of the proposed arrangement, I made a concrete suggestion as to how the situation might yet be saved.

No reply was received to this letter to Mr. Hoffman. I therefore deemed it necessary to place in the record of the NAC a statement indicating continued concern over the "softness" of the proposed arrangement, and again making concrete suggestions as to how the situation might still be improved. This statement is appended hereto as Annex IV.

I do not propose to take further steps with respect to possible NAC action on the matter unless the Board decides otherwise.

*M. S. Duggan*

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