

August 12, 1949

Dear John:

I appreciate the friendly salutation
and return the same.

It certainly looks like you handled
this matter concerning the Ad Hoc Committee
most expeditiously, and I am hopeful that we
have finally come to the end of the road on
it.

With all good wishes,

Sincerely,

Wm. McC. Martin, Jr.

Mr. John Taylor
British Embassy
Washington, D.C.

BRITISH EMBASSY
WASHINGTON

August 5th 49

Dear Bill

(if you will allow me to call you
by your Christian name)

It was very kind of you to lend me
the enclosed documents: they enabled me to clear
up the points at issue with Elting Arnold who
was most cooperative. I have asked Harry Wilson-
Smith to let me have a reply by next Wednesday
& hope we can then present a unanimous report.

Yours sincerely,
John Taylor

SECRET

National Advisory Council
Document No. 88
July 5, 1949

Action No. 337

Meeting No. 131, June 28, 1949

Subject: Report of Ad Hoc Committee of the Board of Governors
of the International Bank Relating to the Duties and
Remuneration of the Executive Directors and Their
Alternates

Action: The following action was taken:

With respect to the report of the Ad Hoc Committee set up at the third annual meeting of the Board of Governors of the Bank to consider the provisions of the Articles of Agreement and By-Laws of the Bank relating to the duties and remuneration of the Executive Directors and their Alternates, the National Advisory Council advises the United States Governor of the International Bank for Reconstruction and Development that:

- (1) He should support a report containing Proposal No. 1 as it presently appears in the report of the Deputies of the Ad Hoc Committee.
- (2) If any member of the Committee is not readily prepared to support Proposal No. 1 a report with alternative proposals should be submitted for consideration at the fourth annual meeting of the Board of Governors.
- (3) The Ad Hoc Committee may also point out that if Proposal No. 1 is now adopted by the Board of Governors, the Governors or an Ad Hoc Committee might, after a suitable interval, review the whole subject of the Bank's Director and their functions.

1. Analysis of mpromise".

As I understand the proposal, the "compromise" would in essence represent the adoption of the views expressed in the letter of April 4 from Mr. Taylor, the British representative. Turning to the specific proposals of the "compromise" it is clear that Mr. Taylor is laying great stress on two statements along the following lines:

"* * * effectiveness of the International Bank would be strengthened by the selection of Executive Directors who are in a position to speak with authority and knowledge of the policies of those countries which they represent, and in which they are resident for the greater part of the year. It is recognized, however, that the immediate implementation of this policy in full would lead to too great and rapid changes in the present structure. * * *"

The quoted statement is interlined opposite page 29 of the mimeographed report and similar material would be retained in the mimeographed report itself beginning on page 33. The proposal by the British to insert such material was expressly referred to at the bottom of page 1 of the staff report and was discussed on page 3. The staff paper goes on to recommend, with clear reference to this situation, that the United States "should support a report containing Proposal No. 1 as it presently appears in the report of the deputies of the Ad Hoc Committee." The Council accepted this recommendation. I would conclude (a) that further action of the Council would be required before the "compromise" could be accepted, and (b) that unless the reasoning of the staff report is erroneous the proposed "compromise" is definitely undesirable.

With regard to the desirability of the "compromise" the staff paper expressly pointed out that Proposal No. 1 was consistent with the historic position of the United States in emphasizing the nature of the Executive Board as an international agency in which continued representation of member countries is combined with the development of an institutional approach to problems of world finance, while the British proposal is a mere return to the position which they have unsuccessfully

advocated at both Bretton Woods and Savannah. The staff paper went on to say that considering the concern of many member countries that the Ad Hoc Committee's work would result in their effective exclusion from the operation of the Bank, it did not appear that the United States should depart from its basic position. It, therefore, seems to me highly significant that in connection with the second insertion of the type of material quoted above, Mr. Taylor wishes to strike from the statement of advantages of the Committee's proposal the following material appearing on page 33:

"Thus Proposal No. 1 emphasizes international representation through immediate availability of the Board, individually and collectively, at the seat of the Bank for all Board functions, including committee meetings, missions on behalf of the Bank, and other appropriate duties in addition to the meetings of the Board itself."

In my opinion, this change removes any doubt as to the purpose and effect of the alleged "compromise" in the minds of the British. As Mr. Taylor more or less indicated in his letter, the report would express itself in favor of the British principles while doing temporary lip service to the position espoused in the staff paper.

The other points in the "compromise" are of much less significance although it is interesting to note again that the material proposed to be inserted on page 30 with regard to combining Bank functions with other public appointments was also expressly considered in the staff paper and expressly recommended against on the ground that it would interfere with the flexibility of action which it is desirable to leave in the hands of member countries. In his editing of the advantages of Proposal No. 1 in the mimeographed report, Mr. Taylor did not strike the comment on flexibility, but at the very least the insertion of the material which he proposes would leave the report in an ambiguous position.

In fact the only portion of the NAC action which Mr. Taylor's "compromise" would adopt is the third point which was added with a view to making a concession to the British. This point was to the effect that if Proposal No. 1 was adopted by the Board of Governors another committee might, after a suitable interval, review the whole subject. The "compromise" would accept this language in place of the original British proposal for a review at the end of a fixed period of two years.

One of the proposed insertions under the "compromise" was not expressly discussed in the NAC paper. This is material relating to the appointment of "personal representatives" as "Ad Hoc Alternates." Although I do not think that much can be said for this material within the general framework of Proposal No. 1 and that of the Articles of Agreement, I do not recommend any strong opposition.

It might also be noted that if Mr. Taylor's proposal was adopted paragraph 71 on page 32 should be omitted as it has substantially no relevance in view of paragraph 80 on page 36, stating that the plan should go into effect after three months. The paragraph on page 32 was really pertinent only to paragraph 81 on page 36 which pertained to the original British proposal.

2. Possible true compromise.

The NAC paper clearly indicated that no effort should be made to reach a compromise since it stated:

"(2) If any member of the Committee is not readily prepared to support Proposal No. 1 a report with alternative proposals should be submitted for consideration at the fourth annual meeting of the Board of Governors."

As I pointed out in an earlier paper, it seems to me that there are some advantages to the United States in its relations with the majority of member countries in having a committee report which presents alternatives since such a report would be a clear indication that no effort was being made to force any particular resolution upon the Board of Governors.

However, if it should be decided that a compromise is desirable, I suggest that it ought to be a true compromise in which the views of both sides are reasonably reflected. I believe that something along the following basic lines would carry out this approach.

- (1) At the end of the section on Conclusions add the following new section:

Some members of the Committee believed that the effectiveness of the International Bank would be strengthened by the selection of Executive Directors who are resident for the greater part of the year in their home countries and thus are in a direct position to speak with authority and knowledge of the policies of those countries which they represent. It was recognized, however, that in any event the immediate implementation of such a policy in full would lead to too great and rapid changes in the present structure. The Committee, therefore, decided to submit for the consideration of the Governors only the single proposal set forth under the following section on Recommendations, with the recognition that the matter might be re-examined after a suitable interval if it appeared that further change might be desirable.

- (2) Paragraph 67 would be changed to refer to only one /
proposal.
- (3) The question of whether the compromise should include
the insertion in paragraph 68, on page 30, of the
proposed new subparagraph (c) desired by the British
depends on the weight assigned to the arguments /
against this paragraph discussed on page 2 above. I
would think it somewhat preferable not to include the
paragraph.
- (4) Of course, in the proposed compromise, Mr. Taylor's
deletion of the important sentence on page 33, which
is also discussed above, would not be accepted and,
likewise, the second insertion of Mr. Taylor's funda-
mental viewpoint would be deleted from the present
text.

cc: Mr. Lynch