CHAPTER IX

ECONOMIC AND SOCIAL PROBLEMS: ORGANIZATIONAL DEVELOPMENTS

5. International Monetary Fund and International Bank for Reconstruction and Development.

1. Early Formulation of Proposals

The studies which the United States Government undertook regarding the international financial machinery that would be needed in the post war period were commenced shortly after the outbreak of hostilities in 1939. Secretary of State Cordell Hull in December 1939 appointed from among the higher officers of the Department of State a committee known as the Advisory Committee on Problems of Foreign Relations. This committee had three subcommittees, one to deal with each of the following subjects:

1. Political Problems
2. Limitation and Reduction of Armaments
3. Economic Problems

The subcommittee on Economic Problems, consisting of Messrs. Leo Pasvolsky (Chairman), Adolf Berle, Henry Grady and Herbert Feis, met first in January 1940. Among the early papers it considered was one entitled Interlocking of Commercial, Financial, Monetary and other Economic Problems. This committee was concerned among other things with post war financial and monetary matters, and was expanded in May 1940 to include representatives from other Departments. It accordingly became the Interdepartmental Group to Consider International Economic Problems and

Policies.[1] This group appointed a sub-group on Monetary and Financial Policy which held a series of meetings beginning in the Fall of 1940.

While these meetings were being held, the Treasury Department's Division of Monetary Research under the leadership of Mr. Harry White was giving independent study to these questions, and in the latter part of December 1941 produced a memorandum entitled, "Proposal for a Stabilization Fund of the United and Associated Nations". This draft proposal was submitted to the State Department early in January 1942 with the suggestion that the proposal be presented to the Conference of Ministers of Foreign Affairs of the American Republics which was about to convene in Rio de Janeiro. It was also suggested by the Treasury Department that the proposal be submitted simultaneously to all of the other United Nations. While the proposal was not submitted to the Conference, which met later that month, nor to any other nation at this time, the following resolution, presented by the United States, was adopted by the Rio de Janeiro Conference as Resolution XV:

"WHEREAS:

1. A more effective mobilization and utilization of foreign exchange resources would be of assistance in the struggle against aggression and would contribute to the realization of

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1/ The membership of this group consisted initially of the following: State Department: Leo Pasvolsky (Chairman), Adolf Berle, Henry Grady, Lynn Edminister, Herbert Feis, Harry Hawkins; Treasury Department: Merle Cochran, Harry White; Commerce Department: Grosvenor Jones, Louis Domeratzky, Richard Gilbert; Department of Agriculture: Morcheai Ezekiel, James McCamy, Howard Tolley and Leslie Wheeler.

the economic objectives set forth at the First and Second Meetings of the Ministers of Foreign Affairs of the American Republics at Panama and Habana; and

2. The American Republics which are combined in a common effort to maintain their political and economic independence can cooperate in the creation of an organization to promote stability of foreign exchange rates, encourage the international movement of productive capital, facilitate the reduction of artificial and discriminatory barriers to the movement of goods, assist in the correction of the maldistribution of gold, strengthen monetary systems, and facilitate the maintenance of monetary policies that avoid serious inflation or deflation,

The Third Meeting of the Ministers of Foreign Affairs of the American Republics

RECOMMENDS:

1. That the Governments of the American Republics participate in a special conference of Ministers of Finance or their representatives to be called for the purpose of considering the establishment of an international stabilization fund.

2. That the conference in considering the establishment of such a fund shall formulate the plan of organization, powers and resources necessary to the proper functioning of the fund, shall determine the conditions requisite to participation in the fund, and shall propose prinkiples to guide the fund in its operation."

Studies were continued in the Treasury Department and in

March 1942, a memorandum was prepared entitled, "Preliminary Draft Proposal for United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations". Secretary Morganthau in May 1942, discussed the proposal with President Roosevelt and proposed that the United States call a conference of Ministers of Finance to consider it. The President suggested that the proposal be discussed with the Department of State and other government agencies, and that the question of a possible conference of Ministers of Finance be discussed with Secretary of State Cordell Hull.

Following this discussion with the President an interdepartmental group, which came to be known as the Cabinet Committee, met, May 25, 1942, in Secretary Morganthau's office to consider the proposals.1/ Those present at this meeting believed it desirable that the United States proceed with its plans and endeavor to establish the necessary international financial institutions prior to the post war period. The group agreed that an interdepartmental subcommittee should be established to which the interested agencies would send representatives; this subcommittee would report to the so-called Cabinet Committee.

The first meeting of this interdepartmental subcommittee, known as the American Technical Committee, was held May 28, 1942.

1/ This meeting was attended by: State Department: Leo Pasvolsky, Herbert Feis; Treasury Department: Henry Morganthau, D. W. Bell, Edward Foley, Harry White, Bernard Bernstein and Frank Southard; Commerce Department: Jesse Jones; Board of Governors of the Federal Reserve System: Marriner Eccles and Emanuel Goldenweiser; Board of Economic Warfare: Louis Bean and Frank Coe.

The agencies represented on this Committee were: State Department, Treasury Department, Commerce Department, Board of Governors of the Federal Reserve System, the Securities and Exchange Commission, and the Foreign Economic Administration. It was this Committee under the Chairmanship of Mr. Harry White of the Treasury Department that gave detailed consideration to the plans for a Monetary Fund and Bank, holding numerous meetings over the next few years, and that was to a large extent responsible for the final form of these institutions.1/

During the early discussions of the Committee, Mr. Goldenweiser of the Federal Reserve Board expressed the view that the machinery of the Treasury proposal was geared too much to pre war traditions and that special consideration should be given to broad objectives. Mr. Hansen believed that international cooperation in preventing depressions should receive more attention, and that flexibility in exchange rates was desirable for the smaller countries. The Committee in 1942 discussed the calling of a United Nations Conference of technical experts to consider the Treasury proposal and so recommended to the

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1/ The individuals serving on this Committee varied from time to time, but the principal attendants were as follows: White House: Ben Cohen; State Department: William Adams Brown, E. G. Collado, Frederick Livesey, Leo Pasvolsky, John Parke Young; Treasury Department: Elting Arnold, E. M. Bernstein, J. Henry Bitterman, Ansel F. Luxford, Raymond F. Mikesell, Harry P. White; Commerce: Will Clayton, Hal Lary, August Maffry; Federal Reserve Board: Alice Bourneuf, Walter Gardner, E.A. Goldenweiser; Securities and Exchange Commission: Walter Louchheim; Export Import Bank: Hawthorne Arey, Warren Lee Pierson; Foreign Economic Administration: James W. Angell, V. Frank Coe; National Resources Planning Board: Alvin H. Hansen.

Cabinet Committee. At a meeting of the Cabinet Committee in July 1942,[1] Mr. Acheson said that the State Department believed that no general conference should be held until after preliminary discussions had taken place with the United Kingdom and other large countries. After considerable deliberation it was agreed, in January 1943, that such exploratory discussions should take place with experts from six countries.

During this period considerable work in this field of international financial problems was being carried on in the State Department by the Division of Special Research under the direction of Mr. Leo Pasvolsky, and after the end of 1942, by the new Division of Economic Studies of which Mr. Leroy Stinebower was Chief. This new Division in addition to studying monetary matters prepared a plan for an International Investment Agency to make loans and facilitate the flow of capital. This proposal was transmitted by Assistant Secretary Berle to the American Technical Committee in 1943. The Division of Economic Studies also gave considerable attention to means of reviving private investment and to the question of a possible international organization to develop and enforce standards of investment practice and principles of equitable treatment by foreign governments. Under the chairmanship of Mr. Berle

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1/ The meeting was held in Mr. Morganthau's office at the Treasury and was attended by: White House: Lauchlin Currie; State Department: Dean Acheson and Leo Pasvolsky; Commerce Department: Jesse Jones; Federal Reserve Board: Marriner S. Eccles and E.A. Goldenweiser; Board of Economic Warfare: Louis Bean and V. Frank Coe.

and later Mr. Pasvolsky, a series of meetings was held in the State Department to consider fundamental problems of international finance and investment.

2. Reconciliation of U.S. and British Monetary Proposals; Discussions with Other Countries

During this period when the United States was considering international monetary and financial problems and was making plans for bilateral discussions of its proposals, consideration was being given to the same problems in the United Kingdom. In August 1942, the British Embassy in Washington transmitted to the State and Treasury Departments copies of a plan entitled, "Proposals for an International Clearing Union". The covering letter to Assistant Secretary of State Berle said that the statement was for the informal consideration of United States experts. The proposal had been prepared by Lord Maynard Keynes and came to be known as the "Keynes Plan"; the United States proposal was known as the "White Plan". The United States plan was made available to the British and a series of informal discussions took place between British and American technical experts.

The British and United States proposals had many similarities but differed in several important respects. Both plans provided for the stabilization of exchange rates as a main objective and specified that changes in rates could take place, apart from changes within certain narrow limits, only with the approval of the proposed international organization. Both plans provided for an international currency unit defined in terms of gold, called "bancor" in the British plan and "unitas" in the United States plan, and a quota to be assigned each member based upon its economic importance, the quota to determine the member's drawing privileges on the organization as well as the member's voting rights. The plans differed in their provisions regarding the organization's resources available to members. The United States plan provided for a contributory fund, each member providing its share of the resources based on its assigned quota. Members might have access to these resources under certain conditions in order to meet temporary deficits in their balances of payments.

The British plan on the other hand was based on the overdraft principle and provided that creditor countries on current international account would accept from their debtors a credit balance on the books of the Clearing Union, the balance being in terms of the new currency unit, the "bancor". The "bancor" was to be transferable and acceptable by all member countries in payment of international obligations. A debtor country could in this manner pay for its imports by a debit balance against it on the books of the organization up to the amount of its quota. In its original form the British proposal had provided almost no limit on the amount of credit to be supplied by the creditor country. This provision was opposed by the United States, a potential creditor, and was eliminated by the British in the revised version of their proposal.

The Chancellor of the Exchequer referred in Parliament on February 2, 1943 to the need for "an international monetary mechanism which will serve the requirements of international trade and avoid any need for unilateral action in competitive exchange depreciation . . . a system in which blocked balances and unilateral clearances would be unnecessary . . . an orderly and agreed method of determining the value of national currency units . . . we want to free the international monetary system from those arbitrary, unpredictable and undesirable influences which have operated in the past as a result of large scale speculative movements of short-term capital."

On March 9, 1943, newspapers carried a description of the British and United States plans, the stories originating in London. Accordingly, the two governments decided to release the plans to the public. Before releasing the United States plan on April 7, 1943, Secretary Morganthau appeared on April 5 before a joint secret session of the Senate Committees on Foreign Relations on Banking and Currency and the Special Committee on Post War Economic Policy and Planning, and discussed with them a revised draft of the United States proposal. The British Government released their proposal to the public under date of April 8, 1943, pointing out that it had been discussed with the United States, the Dominions and India but that the British Government was not committed to its principles or details. The United States had also made clear that its proposal was the work of technical experts and did not involve any official commitment.

The revised draft of the United States proposal, already available to the governments of the U.K., the U.S.S.R. and China, was sent under date of March 4, 1943 to the governments of Australia, Belgium, Bolivia, Brazil, Canada, Colombia, Chile, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, Ecuador, El Salvador, Greece, Guatemala, Haiti, Honduras, India, Iraq, Luxemburg, Mexico, the Netherlands, New Zealand, Nicaragua, Norway, Panama, Paraguay, Peru, Poland, Union of South Africa, Uruguay, Venezuela, and Yugoslavia. Secretary Morganthau's covering letter said "The document is sent to you not as an expression of the official views of this Government but rather as an indication of the views widely held by the technical experts of this Government". He also invited these Governments to send technical experts to Washington to make suggestions and to discuss the proposal. In April 1943, the plan was also sent to the governments of Egypt, Ethiopia, Iceland, Iran and Liberia.

In addition to the discussions with British representatives bilateral discussions with representatives of various other countries began in the Spring of 1943. An informal conference was held in Washington June 15, 16, and 17, 1943, attended by such technical representatives as were available in Washington from the above named countries. Representatives of the following countries were present at these meetings: Australia, Belgium, Brazil, Canada, China, Czechoslovakia, Ecuador, Egypt, France, Luxemburg, the Netherlands, Norway, Paraguay, the Phillippines, Poland, U.K., U.S.S.R., Venezuela and the United States.

At this informal conference of 19 countries a number of proposals and memoranda were submitted. The Canadian representatives presented a carefully prepared plan for an "International Exchange Union." This plan provided for an organization with $8 billion of resources embodying many of the features of the British and United States proposals and was intended to be a compromise plan. The Canadian plan was favorably received by many of the representatives and was the basis for considerable discussion. Other proposals and suggestions which received extended attention either at the conference or subsequently, were submitted by China, Ecuador, and France. The similarities of the various views embodied in all these proposals were much more marked than were the differences. The conference considered especially the problems of adjustments of exchange rates, the size of quotas, gold contributions and voting power in the proposed organization.

At meetings between British and American representatives on June 22 and 23, 1943[1] the British were informed that the minimum conditions for U.S. acceptance of membership in a stabilization fund were:

1. The U.K. should not alter its exchange rate prior to the beginning of fund operations.
2. The resources of the fund must be on the contributory rather than the overdraft principle.

1/ The British representatives included Sir Frederick Phillips, Messrs. D.H. Robertson, Lionel Robbins, and Redvers Opie.

3. The U.S. financial commitment must be a limited one, perhaps \$2 or \$3 billion.

4. The U.S. must have a veto over any change in the gold value of the dollar and over any change in the gold value of the proposed new currency unit.

These minimum conditions were set forth in a letter of July 24, 1943 from Mr. Harry White to Lord Keynes. In reply Lord Keynes under date of August 10, 1943 accepted in substance the conditions, stating however that for British acceptance of the fund proposal there must be provision for greater flexibility in exchange rates, and that gold subscriptions should be reduced.

In order that an international conference be successful it was recognized that the United States and the United Kingdom must first reach agreement on all major points. Accordingly, a series of informal conferences between British and American representatives were held with this objective in view. Lord Keynes arrived in Washington in September 1943 at the head of a British delegation to conduct negotiations on various commercial policy and financial subjects and promptly outlined British views regarding the proposed stabilization fund. These views may be summarized as follows:

1. The U.K. would accept the contributory principle with a modification which Lord Keynes would introduce later.

2. The U.K. was agreeable to a maximum subscription

by the U.S. of approximately $3 billion but believed that aggregate quotas should be $10 to $12 billion.

3. The U.K. was prepared to commit itself to maintenance of the present exchange rate for the pound sterling provided agreement was reached on other aspects of the fund proposal.

4. The gold contributions stipulated in the proposal would need to be reduced.

5. Greater flexibility of exchange rates should be provided for; the U.K. could not accept the requirement of approval by a 3/4 majority vote for a change in exchange rates.

6. The provision for approval by an 85% majority vote for a change in the gold value of the new currency unit was unacceptable to the U.K.

7. The provisions in the U.S. proposal for the gradual liquidation of the so-called abnormal sterling balances should be omitted since the British preferred to negotiate this matter themselves.

Lord Keynes presented a memorandum entitled "Exchange Rates" which embodied the following points:

1. Members would agree not to propose a change in exchange rates unless the change was essential to correct a fundamental disequilibrium.

2. The Fund should not withhold its approval of a proposed change if the change, inclusive of

previous changes did not exceed 10 percent within any ten year period.

3. Special consideration should be given to members which had exceeded their quota rights.
4. In the event that it was not possible to obtain the Fund's prior approval to a change in rate, a member could make the change and if the Fund disapproved, the member could then either reverse its action or withdraw from the Fund.
5. The Fund should not disapprove a change in rate necessitated by social or political policies of the member.

In these discussions Lord Keynes took the position that a member should have access to the resources of the Fund without limitation until such member had withdrawn resources equivalent to its quota. The United States representatives, on the other hand, argued that the Fund should exercise control over all drawings on the Fund's resources and that no member should have an automatic right to utilize these resources. The British replied that if a member were to be able to formulate its own policies and programs it would need the assurance of unhampered access to the resources of the Fund. The United States experts believed that discretion on the part of the Fund was essential if the Fund's resources were to be conserved for the purposes for which the Fund was established, and if the Fund were to be influential in promoting what it considered to be appropriate financial policies of members in the interests of the Fund's broad objectives.

These discussions revealed a fundamental difference in viewpoint between the United Kingdom and United States regarding the nature of the Fund and its operations, a difference which frequently reappeared and which has continued to the present time. The British have believed that the Fund should operate as an automatic institution with a minimum of discretion on the part of its management, whereas the U.S. has believed that the Fund can be most effective in achieving its purposes if its operations are conducted on a discretionary basis. According to the United States viewpoint it follows that the Fund should be managed by highly competent and well-paid officers who give their full time to Fund responsibilities.

In the discussions with the British representatives in 1943, the United States insisted that before adjustments in exchange rates could take place a member should first consult with the Fund and obtain its approval. The British preferred latitude for independent member actions. Other matters which were considered at length had to do with the following: problems which would arise in the event that the Fund's holdings of the currency of a member were to become scarce, the amount of each member's subscription payable in gold, voting with respect to adjustments in exchange rates, and the amount of the aggregate quotas. It was agreed that a joint statement should be prepared showing the points of agreement and those

define the convertible currency
not holdings
definition of convertible currency
not possible holdings

that were as yet unresolved.

During the discussions Lord Keynes presented a memorandum entitled "Suggestions for the Monetization of Unitas" dated September 21, 1943. The objective of the proposal was to make the unitas a truly international currency rather than merely an accounting unit. Lord Keynes' proposal provided that each member would pay at least 12 1/2 percent of its quota in gold and the remainder in securities carrying an interest rate of 1 1/2 percent payable in unitas. Each member would be given a balance at the Fund in unitas, such balances to be freely acceptable by all members in the settlement of international obligations. Members would agree to accept unitas in exchange for their own currency up to the point that a member's holdings of unitas reached 120 percent of its quota. Members able to do so should redeem each year in gold or gold convertible currencies their securities in the amount of 2 percent of their quotas. Lord Keynes urged that his proposal would provide a basis for multilateral clearing which did not exist in the United States proposal.

The principal differences between the British and United States representatives at the end of these discussions were on the following points:

1. The amount of gold subscription of each member; the United States proposed 25% of the quota or 10% of gold and foreign exchange holdings, whichever was the smaller; the British proposed 12 1/2%

of the quota. (Later the British accepted the United States proposal but specified that the foreign exchange holdings were to be net official holdings.)

2. Powers of the Fund to limit a member's access to the Fund's resources; the United States believed that the Fund should be able to limit such access at any time whereas the British urged that no restrictions should be imposed prior to the point where the Fund's holdings of a member's currency exceeded 166 percent of the member's quota.
3. Provision for an international currency unit other than a unit of an accounting nature; the United States preferred the latter.
4. Rights of a member to adjust its exchange rate; the British desired that latitude be provided for unilateral changes.
5. Requirements regarding the repurchase by a member of its currency held by the Fund.

Lord Keynes returned to London in the early part of October 1943, but an exchange of views continued between British and American representatives by correspondence, cable, and direct negotiations with British representatives in Washington. The British transmitted in December 1943 a new draft of the joint statement introducing a section entitled "Transitional Arrangements" the substance of which was later embodied in the final agreement. This section provided for a period of three or more years following the war during which members would not be required to accept the obligations of the Fund regarding exchange restrictions.

Bilateral discussions between the United States and various other countries were also held during the latter part of 1943 and the first of 1944. These included discussions with Russian experts who came to Washington early in 1944 and engaged in a series of lengthy discussions. Doubts had been expressed as to how the Russian economy could be related to the proposed organization. After asking numerous questions regarding the proposals the Russian experts stated that they believed it would be possible for the U.S.S.R. to participate in the organization.1/

Agreement between the United States, the United Kingdom and other countries was finally reached on a joint statement setting forth the principal features of the proposal, and on April 21, 1944 there was released to the public the so-called "Joint Statement by Experts on the Establishment of an International Monetary Fund".2/ The statement was published simultaneously in Washington, London, Moscow, Chungking, Ottowa, Rio de Janiero, Mexico City and Habana, and in full or abbreviated form in many other countries. The governments of Russia and China agreed to participate in a financial conference on the basis of this Joint Statement. The British decision to participate in a conference was reached, May 10, 1944, on the

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1/ The U.S.S.R. has not become a member of the Fund or Bank.

2/ See appendix.

understanding that the United Kingdom was not committed to become a member of the proposed institution. This position was the same as that of other governments including the United States where Congressional action would be necessary for the United States to become a member. During the negotiations the Secretary of the Treasury had kept the Congress informed of developments.

3. International Bank Proposal

The original proposal of the Treasury Department in January 1942, noted above, was concerned with the establishment of an international stabilization fund. The proposal as revised in March 1942 included also the outlines of a bank and was entitled "Preliminary Draft Proposal for United Nations Stabilization Fund and a Bank for Reconstruction and Development of the United and Associated Nations." The proposed bank was to have a capital of $10 billion subscribed by the member governments and was designed to make loans fro reconstruction and development purposes. At least 25 percent of the capital was to be paid in gold. The loans were to be partly in local currencies and partly in international currency units, according to estimates of the portion of the loan to be spent at home and abroad.

In the interdepartmental discussions of the Treasury proposal for a monetary fund and bank the possibility was considered of combining the two institutions into a single institution. This suggestion was rejected, however, since it was believed that the functions of the two institutions were distinct and that they would require different types of personnel.

The interdepartmental discussions during 1942 and most of 1943 were given over practically entirely to the proposal for a stabilization fund and there was little or no discussion of the bank. This was due partly to the greater technical difficulties inherent in the fund proposal and also to the fact that currency and exchange difficulties during the nineteen thirties had been so severly disruptive to world trade and to the internal economies of all countries.

Although there was little or no interdepartmental discussion of the bank proposal during this period active study of the question was underway both in the State Department and in the Treasury Department.

At the three day informal conference held in Washington in the middle of June 1943 with representatives from 19 countries, Secretary Morganthau informed the conference that following the consideration of the stabilization fund proposal the next step would be consideration of the proposal for an International Bank for Reconstruction and Development. This was the first announcement to other countries that the United States was considering plans for an international bank.

Under date of September 4, 1943, Assistant Secretary of State Adolf Berle sent to Mr. Harry White of the Treasury Department a proposal for an International Investment Agency which had been prepared in the State Department. This proposal had been prepared in the Division of Economic Studies in consultation with other Divisions and Officers of the Department.

It proposed in some detail an international institution which would make loans to its members for approved purposes.

The Treasury and State Department proposals were fundamentally not very different, each providing for an institution with a substantial amount of capital payable partly in gold and partly (the larger part) in national currencies. The proposed institution was to cooperate with private capital and was not to compete with it in financing reconstruction and development needs of subscribing countries. It would be able to make loans out of its own resources or could guarantee private loans. Repayment prospects of all borrowers were to be carefully examined since the institution was intended to operate on sound financial principles. It could issue its own obligations for sale in the private capital market in order to obtain funds for lending. The Treasury proposal provided that each loan by the bank must be guaranteed by a member government. This was not required in the State Department proposal.

The British proposal for a Clearing Union referred to the need for other institutions, including a Board for International Investment, and mentioned the services which the Clearing Union might perform for such a Board. At the close of the discussions between British and American representatives in the fall of 1943, the United States representatives referred to this country's interest in a bank and gave the British representatives a draft of the bank proposal. A meeting was accordingly arranged for the following morning at which this proposal was discussed. This was the only discussion of a bank during this series of British and American discussions. The Treasury Department published on November 24, 1943 what it called a Preliminary Draft Outline of a Proposal for a Bank for Reconstruction and Development of the United and Associated Nations.

The bilateral discussions with representatives of various countries, including the United Kingdom, which took place late in 1943 and during the first part of 1944 dealt primarily with the fund proposal, although before these discussions were over the bank had received considerable detailed consideration. The foreign representatives participating in these discussions showed a strong interest in the establishment of an international bank. The war-devastated countries desired a source of funds to assist in reconstruction, whereas the relatively undeveloped countries were interested in an institution which would aid them in their plans for economic development.

The discussions between the British and United States representatives centered around the development of the so-called Joint Statement by Experts on the Establishment of an International Monetary Fund, as the basis for an international conference. Agreement on this statement required prolonged and difficult negotiation, and since it was desired to hold a conference promptly time did not permit the preparation of a similar statement with respect to the bank proposal. The discussions with the British and other representatives had, however, indicated a large measure of agreement on the provisions regarding the proposed Bank. Thus it was that when plans were made for the calling of an international conference for July 1944 the proposal for an international bank was not as far advanced as that for the Monetary Fund. Some of the United States experts believed that if the conference could agree upon a Monetary Fund that would be a significant accomplishment and was perhaps all that could be hoped for. While the bank proposal was greatly desired there was a feeling in some quarters that the conference might not be able to develop and agree upon plans for both a monetary fund and a bank, and that a subsequent conference to consider the question of a bank and other investment problems might be necessary.

4. Bretton Woods Conference

In May 1944 the President issued invitations to the 44 United and Associated Nations to send representatives to a United Nations Monetary and Financial Conference to be held at Bretton Woods, New Hampshire, in July 1944. The Conference was to discuss the proposal for an International Monetary Fund within the terms of the Joint Statement and was also to consider the proposal for a Bank for Reconstruction and Development.

In order to develop further some of the many details of the proposals and thereby facilitate the work of the Conference, a preliminary meeting was held at Atlantic City during the latter part of June. On June 15 a group of American financial experts assembled there and were joined a few days later by experts from 16 other countries, namely, Australia, Belgium, Brazil, Canada, Chile, China, Cuba, Czechoslovakia, France, Greece, India, Mexico, Netherlands, Norway, the United Kingdom, and the U.S.S.R. This group worked intensively endeavoring to deal with some of the still unsettled questions and to produce a more finished document. Informal discussions were held and on June 26 a full meeting of this preliminary conference took place.

At these meetings in Atlantic City the British experts headed by Lord Keynes presented proposals regarding the Bank which involved rather extensive changes from the earlier plan, but which met with almost immediate approval by the experts of the other nations including the United States. According to these suggestions only a small portion of the Bank's capital, namely 20 percent, would be paid in and be available for loans. The remaining 80 percent would constitute a guarantee fund to be used, if necessary, in connection with the Bank's guarantees of private loans or to meet other obligations of the Bank. It became clear that the proposal for a Bank was to receive major consideration at the Conference. These proposals, together with suggested changes in the Fund plan, had been prepared by the British delegates in collaboration with the delegates of several European governments in exile who had discussed the matter in London and also on the boat en route to New York.

The group at Atlantic City completed its work there on June 30 and went directly to the Conference at Bretton Woods which convened on July 1, 1944. Forty-four governments were represented at the conference. In addition Denmark, which had no government in exile was represented unofficially by its minister in Washington who attended in his personal capacity upon the invitation of the conference.

The Conference divided itself into three Technical Commissions as follows: Commission I, International Monetary Fund; Commission II, Bank for Reconstruction and Development; and Commission III, Other Means of International Financial Cooperation. These Commissions were broken down into Committees and Subcommittees which considered the various specific sections of the proposed Articles of Agreement for the Monetary Fund and Bank.

A great deal of interest centered around the determination of the quotas to be assigned the countries by the Monetary Fund Agreement. A member's quota determined not only its subscription, payable partly in gold and partly in its own currency, but also was related to its drawing privileges on the Fund and established its voting rights. The countries therefore desired to have their quotas as large as possible. The countries also regarded the size of the quota as a matter of prestige indicating the importance of the country, so that preparation of a schedule of quotas satisfactory to all countries proved to be a very difficult task. The quotas were based upon economic considerations such as the size of a country's foreign trade, fluctuations in its balance of payments and other factors indicating needs for foreign exchange reserves. Lengthy negotiations were necessary and several of the countries were not happy over the final results.

A different attitude prevailed regarding the quotas, or subscriptions as they were called, for the Bank. Although the size of the subscription determined as members voting rights it had no relation to the amount which the member might borrow. The countries therefore desired that their Bank subscriptions be as small as possible. The U.S. and others urged that Bank and Fund quotas be identical for each member, but due to special circumstances several departures from this were made, the United States and a few others accepting larger Bank quotas.

The United States and the United Kingdom continued their differences over the extent to which the Fund should be an automatic institution, the British believing that a member's rights of access to the Fund's resources should be predetermined and according to established rules. The United States, on the other hand, believed that the Fund's operations should be on a discretionary basis. The Articles of Agreement as finally adopted represented somewhat of a compromise of these views.

The United States desire for a strong discretionary Fund led to the provision that the Board of Executive Directors should sit in continuous session. The United States interpreted this to mean that the Directors should devote their full time to their Fund duties. At the inaugural meeting in Savannah in March 1946 however, it developed that the British did not so interpret this provision. It was finally arranged that either the Director or his Alternate should be in continuous attendance at Fund headquarters.

The question of charges to be imposed by the Fund on amounts drawn by members from Fund resources was the subject of considerable discussion. Some of the representatives urged that there be no charges on such drawings. The provisions agreed to provide that the changes increase progressively with the amounts drawn and the length of time such drawings remain unpaid.

The U.S.S.R. proposed that the gold contributions of countries devastated by the war be substantially less than for other members. This provision was not accepted by the conference. The U.S.S.R. also desired that the Bank grant more favorable terms or its loans to countries whose territories had been devastated. The Articles of Agreement of the Bank contain a concession on this score in that they provide that the Bank "shall pay special regard to lightening the financial burden" for members suffering "great devastation from enemy occupation on hostilities". The U.S.S.R. also objected to the Fund provision regarding the obligation of a member to supply information to the Fund. As a result of U.S.S.R. opposition this provision was weakened somewhat.

The Latin American representatives feared that the Bank would be more interested in making reconstruction loans to European countries than in extending development loans to the underdeveloped areas. There was inserted therefore a provision to the effect that the Bank's resources should be used "with equitable consideration to projects for development and projects for reconstruction alike".

Australia, New Zealand, the United Kingdom and a few other countries feared that the Fund provisions regarding the elimination of exchange restrictions and the maintenance of stable exchange rates might be inconsistent with a domestic policy of full employment and other social objectives. Australia desired that the Articles of Agreement set forth that members had an obligation to maintain full employment. Such a provision was not included. The Articles, however, contain a provision that the Fund "shall not object to a proposed change (in rate) because of the domestic, social or political policies of the members".

Considerable discussion, led particularly by the United Kingdom, centered around the language to be used in describing the postwar transitional period and the flexible arrangements and special privileges to be enjoyed by members during this period with respect to the elimination of exchange restrictions, discriminatory currency arrangements and multiple currency practices. Most of the countries maintained exchange restrictions and several Latin American countries had multiple currency arrangements which were inconsistent with the proposed Articles of Agreement. The provision adopted regarding the transitional period permitted the temporary retention of these restrictions and arrangements and their gradual elimination.

Other matters which were the source of extensive discussion had to do with a definition of monetary reserves and of convertible currencies; with voting rights weighted in favor of creditor countries as proposed by the United States and included in the final draft; with the withdrawal of a member, either forced or voluntary, and the payment to such member of its share of the assets, some of the Latin Americans urging that a forced withdrawal would be a ~~stab at~~ reflection on the honor of a country; distribution of assets in the event of liquidation of the Fund or Bank and the relative rights of debtors and creditors; and various technical problems such as provisions regarding a possible scarcity in the Fund's holdings of a particular currency, and provisions regarding the repurchase by a member of its own currency held by the Fund particularly when such holdings represent large drawings by the member on Fund resources.

subscription U.S. larger

Russia & the Bank.

The conference worked strenuously to reconcile the differences of viewpoint, large and small, of the 44 countries and to complete its difficult task in the short time assigned to it. On July 22, 1944, three weeks after the conference began, the Articles of Agreement for the two institutions were complete and the Final Act was signed by representatives of the 44 Governments present. Provision was made for the subsequent participation of other countries in the Fund and Bank. The Articles of Agreement required the formal approval of the various governments in accordance with their various legal processes.

The Articles of Agreement of the International Monetary Fund as finally drafted at Bretton Woods set forth what the nations represented there considered the principles and procedures which nations should follow in the field of currency and exchange, and provided international machinery to help attain these objectives. The purposes of the Fund as stated in Article I are to guide the Fund in all its decisions and are as follows:

(1) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(2) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(3) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(4) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.

(5) To give confidence to members by making the Fund's resources available to them under adequate

safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(6) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

The principal provisions through which the above purposes are to be achieved are in summary form as follows:

1. Member countries undertake to keep their exchange rates as stable as possible and to make no change unless essential to correct a fundamental disequilibrium.

2. Any adjustment of an exchange rate must in all cases be made by consultation with the Fund. Beyond certain narrow limits rates can be adjusted only with the concurrence of the Fund.

3. Par values are to be stated in terms of gold (or U.S. dollars), and gold is to be accepted by members in settlement of accounts.

4. A common pool of resources contributed by the members on the basis of quotas is established and available under safeguarding conditions to meet temporary shortages of exchange. It is designed to help a member maintain the foreign exchange value of its currency until such member has had

time to correct maladjustments. The total of the quotas of the countries[1] represented at Bretton Woods is $8,800,000,000 of which the United States quota is $2.750 billion. The resources of the Fund are not intended to be used to provide capital for reconstruction, investment or for other long term needs but are available only for making payments for current transactions, which are defined in the Articles of Agreement.

5. Member countries agree not to engage in discriminatory or multiple currency practices or similar devices or, except with the approval of the Fund, to impose restrictions up on payments for current international transactions. Existing restrictions and practices are to be abandoned as soon as the postwar transitional period permits. Special provisions provide flexibility in eliminating restrictions and practices during the transitional period.

6. Countries agree to maintain the gold value of their currency held by the Fund so that the assets of the Fund will not depreciate in terms of gold.

7. The Fund may deal only with governments or their agencies and may have no direct contact with the

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1/ Excluding Denmark; see page 25 above.

foreign exchange market.

8. The Fund is governed by a Board of 12 or more Executive Directors which functions in continuous session at the Fund's headquarters. Five of these are appointed by the countries with the five largest quotas and the remainder are elected by the other members. The Board of Governors which has final authority consists of one governor appointed by each member and meets annually. Voting of members is weighted according to the size of a members quota.

The purposes of the International Bank as stated in Article I of the Bank Articles of Agreement are to guide the Bank in all its decisions and are as follows:

(1) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(2) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable

terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(3) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

(4) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(5) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The International Bank was given an authorized capital of $10 billion of which $8.8 billion was assigned to the countries represented at the Bretton Woods Conference. The

United States subscription was $3.175 billion. Only 20 percent of the subscribed capital, however, is paid-in and available for loans by the Bank, the remainder being a guarantee fund which can be called for payment only if needed in connection with the Bank's guarantees or other obligations. Two percent of a member's subscription is payable in gold or United States dollars and the balance in its own currency.

In order to obtain funds for lending the Bank may sell its own obligations in the private capital market. Such sale is intended to be the principal source of funds for the Bank. Loans by the Bank must be exclusively for the benefit of members and are ordinarily for specific projects of reconstruction or development. The Bank may not only make loans itself but may guarantee private loans. Each loan whether guaranteed or made directly by the Bank must be guaranteed by the national government of a member. The Bank is not to compete with private capital and may not make a loan if private capital is available on reasonable terms.

The Bank like the Fund is governed by a Board of at least 12 Executive Directors which is in continuous session at the Bank's headquarters. The Board of Governors consisting of one governor appointed by each member is the final authority and meets annually. Voting is weighted according to the size of a members subscription. In order to become a member of the Bank a country must first become a member of the Fund.