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PARTICIPATION OF THE UNITED STATES IN THE INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT

FROM THE

COMMITTEE ON BANKING AND CURRENCY

TO ACCOMPANY

H. R. 3314

A BILL TO PROVIDE FOR THE PARTICIPATION OF THE UNITED STATES IN THE INTERNATIONAL MONETARY FUND AND THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Note: House Hearings held in April, 1945

MAY 30, 1945.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

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79TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
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MAY 30, 1945.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. SPENCE, from the Committee on Banking and Currency, submitted the following

REPORT

[To accompany H. R. 3314]

The Committee on Banking and Currency, to whom was referred the bill (H. R. 3314) to provide for the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development, having considered the same, report favorably thereon without amendment and recommend that the bill do pass.

I. GENERAL STATEMENT

The full hearings which this committee held on the Bretton Woods proposals for an International Monetary Fund and an International Bank for Reconstruction and Development extending over a period of 9 weeks, were based on H. R. 2211. After the close of the hearings certain strengthening and clarifying amendments were favorably acted on by the committee. Rather than report H. R. 2211 to the House with amendments it was decided to introduce a new bill into which the amendments above referred to could be incorporated. The new bill was accordingly introduced and is the one here being reported by the committee.

A large number of witnesses have been heard and additional material has been placed in the record of the hearing for the consideration of the committee and the Congress. Nearly all witnesses were agreed that the objectives of the fund and bank are essential to orderly international monetary and financial relations in the postwar period. A few witnesses expressed the view that some changes should be made in the articles of agreement for the fund and bank. The overwhelming weight of the testimony, however, was for approval of the Bretton Woods agreements as set forth in the final act of the United Nations Monetary and Financial Conference, dated July 22, 1944.

It was the general view of the witnesses, and it is the view of this committee, that changes in the articles of agreement for the fund or the bank would endanger the establishment of both institutions and would delay, if not destroy, the opportunity for international monetary and financial cooperation. A number of competent witnesses suggested changes in the bill, as originally introduced, which would not impair the agreements for the fund and the bank, and certain of these changes which, in our opinion, improve the legislation have been included in the bill being reported.

The articles of agreement of the fund and bank require deposit of documents showing that the United States is in a position to carry out the obligations under the agreements. The legislation here proposed will make it possible to file these documents. The bill recommended by the committee, which is explained in detail hereinafter in this report, authorizes the President to accept membership on behalf of the United States in the fund and the bank, in accordance with the articles of agreement, contains the provisions of law necessary to make such membership effective, and establishes certain principles to guide this country's participation in the conduct of the affairs of these institutions.

BRETTON WOODS CONFERENCE

The Bretton Woods Conference was preceded by more than 3 years of careful preparation. In 1941 the technical staff of the Treasury prepared a memorandum on postwar monetary and financial problems, recommending the establishment of an International Fund and an International Bank. In 1942, at the direction of President Roosevelt, a committee representing a number of Government departments and agencies was formed to work on these proposals. In 1943 a tentative proposal for a fund was submitted to the finance ministers of the United Nations and bilateral discussions were held with the technical representatives of some 30 countries. These discussions led to the publication in April 1944 of a joint statement of principles on the establishment of an International Monetary Fund. The joint statement provided sufficient basis for an agreement on international monetary cooperation to warrant the calling by President Roosevelt of the United Nations Monetary and Financial Conference in July 1944. (See pt. II of this report.)

RELATION TO THE PROGRAM FOR PEACE

The Bretton Woods program is an essential part of a larger program for the establishment of an enduring peace. Unless we provide a sound economic foundation for peace, there is danger that the political arrangements for maintaining the peace may not work well or may break down entirely. The importance of international economic relations was recognized in the Dumbarton Oaks plan which provides for the establishment of an Economic and Social Council through which countries can cooperate in securing sound economic and social conditions conducive to the maintenance of peace. The establishment of the fund and bank are important to the proper functioning of the Economic and Social Council. (See pt. III of this report.)

EXPERIENCE OF THE 1920'S AND 1930'S

The Bretton Woods program for the International Monetary Fund and the International Bank for Reconstruction and Development is based on the international currency and investment experience of the 1920's and 1930's. Immediately following the last war there were serious monetary disorders in many countries with sharp fluctuations in the values of many currencies, some of which were completely destroyed. Even when most countries were able to stabilize their currencies in the latter part of the 1920's, many of them adopted rates which tended to overvalue or undervalue their currencies. This was an inevitable consequence of unilateral action and the absence of an effective means of international cooperation.

When the depression came in the early 1930's, one country after another was forced off the gold standard and the international exchange mechanism which was reestablished in the 1920's again broke down. Countries employed competitive currency depreciation and some of them resorted to the use of other discriminatory monetary devices. Germany, for example, made effective use of monetary weapons as instruments of economic warfare which she waged years before she began her military conquests. The result of these monetary disorders was a drastic decline in both world trade and international investment. The low level of international trade and investment in the 1930's undoubtedly helped to make our own depression more severe and had a retarding effect upon our recovery after 1933.

Unless steps are taken to assure international cooperation, these same practices are likely to reappear after this war in even more extreme form. (See pts. IV and VI of this report.)

POLICY OF THE UNITED STATES

For more than 10 years it has been the policy of the United States to promote international cooperation for the maintenance of exchange stability and the elimination of restrictive and discriminatory exchange practices. Following the establishment of our exchange stabilization fund, the United States Treasury made bilateral stabilization agreements with a number of countries. These agreements provide for financial assistance to countries in stabilizing their exchange rates and for consultation on common economic problems. In 1936 our Government took the lead in the formulation of the Tripartite Declaration with Great Britain and France, to which Belgium, the Netherlands, and Switzerland subsequently adhered. Although these arrangements were valuable in maintaining some degree of order and stability in international monetary relations, they could not, of course, adequately meet the growing crisis. On the basis of this experience the Treasury came to the conclusion that international monetary problems can only be solved by means of truly multilateral agreements such as are provided by the fund and bank.

The Bretton Woods program is directly related to our domestic objective of providing jobs for our workers in industry and assuring fair prices and markets for our farmers. Although exports account for a relatively small part of the total market for our products, they nevertheless can mean the difference between prosperity and depression for both agriculture and industry. If we are to expand and

stabilize the export demand for our products, we must remove the currency restrictions which have been imposed upon international trade in the past and encourage an adequate flow of international investment. Only by working for an expansion of world trade as a whole can we expect to increase our own exports. Before many countries can resume international trade, their economies must be reconstructed. For this reason the speedy inauguration of the bank is essential to a high level of American trade. (See pts. V and VII of this report.)

THE FUND AND BANK

The International Monetary Fund is primarily a means for international cooperation and collaboration on international monetary problems. It provides for a general agreement on international currency policies and practices. Among the important objectives of the fund are the promotion of exchange stability, the ultimate elimination of exchange restrictions on current international transactions, and outlawing the use of such weapons of economic warfare as multiple currency devices and other discriminatory exchange practices. The fund will have resources of 8.8 billion dollars which it can use to help members that need such help in limited amounts to maintain stable and orderly exchanges. The United States subscription to the fund will be 2.750 billion dollars.

The International Bank for Reconstruction and Development has for its purpose the promotion of sound international loans to countries in need of foreign capital for the reconstruction of industries devastated by the war and for the development of their resources. The bank's operations will consist chiefly of guaranteeing international loans for sound productive projects made through the usual private investment channels. In exceptional cases the bank will make loans out of its own resources and out of funds raised by sale of its own securities. The bank will have capital amounting to 9.1 billion dollars subscribed by 44 countries, of which the United States will subscribe 3.175 billion dollars. (See pts. VIII and IX of this report.)

TESTIMONY BEFORE THE COMMITTEE

In the course of the committee's extensive hearings on H. R. 2211, a large number of witnesses were examined representing all shades of opinion with respect to the Bretton Woods program. The witnesses examined included representatives of the Treasury, State, and Commerce Departments and of other Government agencies. In addition, the committee heard the testimony of bankers, businessmen, and economists and representatives of agriculture, labor, and other groups interested in international affairs. More than 100 organizations have adopted resolutions and statements recommending approval of the Bretton Woods program. The Bretton Woods proposals have also had wide support from the press, and this support has come from all sections of the country, from supporters of both parties and independents, from conservative as well as liberal newspapers.

On the whole, the testimony was overwhelmingly in favor of United States participation in the fund and the bank. In some instances witnesses indicated to the committee the desirability of making changes in the bill as originally introduced, and the desirable changes are incorporated in the present legislation. (See pts. X and XI of this report.)

CRITICISM OF THE FUND AND BANK

Little testimony was given before the committee in opposition to the bank, the bulk of the opposition being directed at the International Monetary Fund. The criticisms of the fund were of two general types: First, it was said that the fund will not really stabilize currencies and will not abolish exchange controls because the provisions of the agreement are not sufficiently rigid; second, it was said that our subscription to the fund will be lost because there are not sufficient safeguards on the use of the fund's resources.

Regarding the first criticism, the committee believes that absolutely rigid exchange rates, even if desirable, would be completely unacceptable to other countries. The fund provides a large measure of exchange stability, while permitting necessary changes in exchange rates through an orderly process which avoids competitive exchange depreciation. Likewise, this country cannot insist upon the immediate removal by other countries of all exchange restrictions on current transactions. Some controls will be necessary in the transition period until countries adjust their economies to the great changes caused by the war.

The committee is of the opinion that the fund agreement contains all of the safeguards on the use of its resources which are necessary. The management of the fund clearly has the power to see that the fund's resources are used in accordance with its purposes. However, as a measure of caution, the bill provides for securing further assurance that the resources of the fund will be used only for current stabilization operations arising out of seasonal, cyclical, and emergency fluctuations in the balance of payments. (See pt. XII of this report.)

ALTERNATIVES TO BRETTON WOODS

In the course of the hearings, it was suggested by some witnesses that no international stabilization arrangement is needed either because stabilization is regarded as a matter for each country to deal with by itself or because the adoption of the gold standard by all countries would remove the necessity for such a mechanism. The committee cannot agree that international currency stabilization is possible without close international cooperation. It believes, moreover, that the reestablishment of the gold standard by a substantial number of countries is most unlikely in the near future.

Another suggestion would substitute for the multilateral agreement under the fund, bilateral agreements with individual countries for the stabilization of exchange rates of key currencies. It is the view of the committee that agreements on exchange rates and exchange practices must be multilateral in character and must include many countries if they are to succeed.

The committee is of the opinion that the alternatives presented by the witnesses during the course of the hearings do not offer a practical basis for international monetary policy after the war. (See pt. XIII of this report.)

AMENDMENTS AND RESERVATIONS

In the light of the testimony and suggestions presented by witnesses, the committee has considered the possibility of amending the articles

of agreement or accepting them with reservations as to the interpretation of certain provisions.

The committee believes that there is serious risk involved in proposing amendments to the present wording of the articles of agreement and that they should be avoided. An adequate amendment procedure is provided in the articles of agreement and changes of a specific character that appear advisable in the light of experience can be made without great difficulty. With regard to the proposals which have been made for reservations as to the proper interpretation of the articles of agreement, the committee after careful consideration has concluded that the supposed dangers to which they are directed do not warrant incurring the risk of other reservations on the part of the 43 nations which have not yet passed upon the Bretton Woods agreements. (See pt. XIV of this report.)

RECOMMENDATION

The committee believes that any safeguards, in addition to those in the agreements, necessary for the protection of our interests have been provided in the legislation in a manner that will prove acceptable to other countries and will avoid the necessity for a new conference. The committee, therefore, recommends the passage of the bill. (See pts. XV and XVI of this report.)

II. The Bretton Woods Conference

The articles of agreement for the International Monetary Fund and the International Bank for Reconstruction and Development (which are set forth in full in the appendix to this report) were prepared by a Conference of the United Nations, called by President Roosevelt, which met at Bretton Woods, N. H., from July 1 to 22, 1944, and were submitted to the governments of the participating countries for their approval.

The Conference was the outgrowth of a long period of consultation among the United Nations for the purpose of finding a practical means of assuring international monetary and financial cooperation after the war. The articles of agreement for the fund and bank represent a harmonization of the views of the delegates of all countries. Of necessity these documents cannot embody all of the preferences of any one country. In brief, they are a compromise designed to establish a practical basis for the cooperation of all the United Nations in dealing with postwar monetary and financial problems.

ORIGIN OF UNITED STATES PROPOSALS

The proposals for the fund and the bank grew out of a long period of careful preparation. In 1941, Secretary Morgenthau asked the Treasury staff to study the international monetary and investment problems that would be faced after the war and to suggest a practical means of dealing with them. As a result, a memorandum was prepared recommending the establishment of an International Fund and an International Bank. In December 1941 it was agreed by the State and Treasury Departments that one of the recommendations of this memorandum—that for an International Stabilization Fund—should be presented to the Conference of Ministers of Foreign Affairs of the American Republics which was to meet at Rio de Janeiro in

January 1942. A resolution was adopted by that Conference calling for the participation of the American republics in a conference of finance ministers to consider the establishment of an International Stabilization Fund.

In the meantime, the Treasury staff continued its work on the memorandum regarding the fund and bank. In the spring of 1942, the memorandum was revised and expanded, and then presented by Secretary Morgenthau to President Roosevelt. The President requested the Treasury to continue study of the problems in consultation with the Department of State, the Department of Commerce, the Board of Governors of the Federal Reserve System, the Foreign Economic Administration, and other interested departments and agencies of the Government. Accordingly, a technical committee representing a number of agencies was formed to work on these proposals. The membership of this committee was not confined exclusively to technical advisers. An Assistant Secretary of State, an Assistant Secretary of Commerce, at that time Mr. W. L. Clayton, and occasionally, a member of the Board of Governors of the Federal Reserve System, as well as other policy-making officials met directly with the technical committee. A committee of Cabinet officers and agency heads met from time to time with Secretary Morgenthau to review the work of the technical committee and to give it further instructions in matters of policy.

In the spring of 1943 the work of the technical committee had progressed so far that a tentative proposal for a fund was submitted to the Cabinet committee. With the approval of President Roosevelt and Secretary Hull, Secretary Morgenthau sent the tentative proposal for an International Stabilization Fund to the finance ministers of the United Nations for study by their technical advisers. Secretary Morgenthau appeared before three committees of the House (including this committee) and three committees of the Senate to explain to them the fundamental principles of the proposal for an International Fund. The tentative proposal was also published in the press. About the same time, in April 1943, a tentative proposal for an International Clearing Union, prepared by the United Kingdom Treasury, was also submitted to the finance ministers of the United Nations.

DISCUSSIONS PRECEDING THE CONFERENCE

There followed a period of extended bilateral discussions in Washington which lasted for about a year, to which some 30 countries sent technical representatives. On occasion, representatives of 3 or 4 countries met together; and in June 1943, representatives of about 18 countries met as an informal group to exchange views on the proposed International Fund.

While these discussions were going on, work was in progress by members of the Treasury staff and by the technical committee on the problem of international investment. A revised draft of a proposal for a Bank for Reconstruction and Development was completed by the technical committee and submitted to the Cabinet committee. In October 1943 Secretary Morgenthau appeared before the interested committees of the House and Senate and explained to them the guiding principles of the tentative proposal for an International Bank. The next month, with the approval of President Roosevelt and Secretary Hull, this tentative proposal was submitted to the finance

ministers of the United Nations. It was also published in the press. Bilateral discussions on this proposal were held with the technical experts of other countries.

In the meantime, extended discussions on the tentative proposals for the fund and bank were going on with interested groups in this country—with representatives of banking, business, agriculture, and labor, and with organizations interested in international problems—which resulted in revisions of the tentative proposals.

In the spring of 1944, after long and careful study, the technical representatives of various countries approved the publication of a joint statement of principles on the establishment of an International Monetary Fund. Prior to the publication of this joint statement, Secretary Morgenthau appeared before the interested committees of the House and Senate to inform them of the status of the proposals for a fund and bank. Considerable progress had also been made in the discussions on an International Bank, although no joint statement was issued on this proposal. Because there was sufficient agreement on principles, it appeared probable that definitive proposals could be prepared by a Conference which would prove acceptable to the participating countries. President Roosevelt, therefore, invited the 44 United Nations to an International Monetary and Financial Conference, to consider the establishment of an International Monetary Fund, and if possible an International Bank.

In preparation for the formal conference in July 1944, a preliminary meeting was held in Atlantic City, attended by representatives of about 15 countries. At this meeting, the principles of the joint statement were expanded and alternative provisions submitted by a number of countries were discussed informally. It was agreed at the preliminary meeting to present all alternative proposals on the fund and bank to the Conference for its decision. An agenda for the work of the Bretton Woods Conference was also prepared.

UNITED STATES DELEGATION

As was expected, the United States delegation took a leading part in the work of the Conference. In the American delegation, President Roosevelt included four congressional delegates—the chairmen and the ranking minority members of the House and Senate Committees on Banking and Currency. In addition, the chairman and the ranking minority member of the House Committee on Coinage, Weights, and Measures assisted in the work of the Conference as advisers to the American delegation. It is worth noting that this was the first of the United Nations conferences dealing with the problems growing out of this war in which congressional Members were included in the American delegation.

All the work of the Conference was made currently available to the representatives of the press so that they and the public could be fully informed on what was done at Bretton Woods. No proposal of consequence that was considered by the Conference was kept from the members of the press. Every alternative provision was available to them in the same form in which it was submitted to the Conference. Members of the United States delegation saw the press daily, as spokesmen for the Conference, to discuss the progress of the work.

At Atlantic City, the agenda committee had recommended that the Conference be organized with three commissions, one on the fund, one

on the bank, and one on other questions. Each commission had four committees—on purposes and policies, on operations, on organization and management, and on legal status. The Conference approved this form of organization. Secretary Morgenthau, the chairman of the United States delegation, was elected president of the Conference. Mr. Harry D. White, Assistant Secretary of the Treasury, was elected chairman of the Commission on the Fund, and Lord Keynes, the chairman of the United Kingdom delegation, was elected chairman of the Commission on the Bank.

The detailed work of the Conference was done, of course, in the commissions and in the committees. The American delegation all served on the commissions and the committees. Judge Fred M. Vinson, Director of War Mobilization and Reconversion, was the leader of the American delegation on Commission I. Dean Acheson, Assistant Secretary of State, was the leader of the American delegation on Commission II. The rest of the delegation, including the congressional representatives, assisted with the work of these commissions. Senators Wagner and Tobey, and Congressmen Spence, Wolcott, Somers, and Reed (Illinois) took an important part in the deliberations of the Conference and the discussions of the delegation.

The United States delegation operated as a team. It met in Washington a number of times before the Conference to study the documents and to consider the problems to be worked out. At the Conference, the United States delegation met every day and on numerous occasions two and three times a day if an important issue required further consideration. Secretary Morgenthau, as chairman of the delegation, insisted that there must be opportunity for every member of the delegation to express his views on every issue at all times. And every important question was discussed in the fullest possible way. A point at issue was agreed, and agreed unanimously, only after the fullest discussion.

ATTITUDE OF THE CONFERENCE

In every conference there are bound to be differences of opinion and these differences must be reconciled. There can be no benefit to anybody from a prolonged and bitter debate among the United States, England, Russia, China, France, and other countries on issues that could be settled by discussion and negotiation. The United States delegation took the lead in ironing out some of these problems. In fact, in considerable part the success of the Conference was due to this careful reconciliation of minor differences without permitting them to become the basis for division and opposition within the Conference.

The Conference worked in a spirit of complete cooperation and harmony. All the nations represented at Bretton Woods were interested in finding the best means for cooperation in dealing with international monetary and financial problems. Every country realized that the effectiveness of its own economic policies depended to a considerable extent upon removing the monetary disorders and obstructions that stifled world trade in the 1930's. At the same time, every country represented at Bretton Woods was concerned with protecting its own interests, the American delegation no less than the others. In this atmosphere of enlightened self-interest the United Nations found the basis for working together to their mutual advantage.

Judge Vinson, the vice chairman of the American delegation, stated to the committee that the work of the Conference was an inspiration to all free people who believe that international problems can be solved by the method of discussion and agreement.

After extended consideration by the committees of the Conference, by the commissions of the Conference, and by the Conference meeting in plenary session, the articles of agreement for the fund and bank were embodied in a final act of the Conference and later submitted to all participating governments for their approval. The bill now reported by this committee provides for the acceptance of these agreements by the United States.

III. Bretton Woods and the Structure of Peace

The Bretton Woods program for the International Monetary Fund and the International Bank for Reconstruction and Development can be best understood by considering it in relation to the complete plan for securing international cooperation to establish a prosperous and peaceful world.

ECONOMIC BASIS FOR PEACE

There is widespread recognition of the principle that the establishment of an enduring peace requires more than the setting up of political machinery for dealing with threatened aggression. It is necessary to provide a sound economic foundation for peace. The most continuous and extensive relations between countries are through their international economic transactions. The spirit manifested in these economic relations is carried over to the political field. That is why in the interest of peace it is essential to see that international economic relations contribute to the well-being of all countries and that they do not become points of conflict that endanger peace.

It is now accepted as a fundamental axiom that peace is possible only if countries work together and prosper together. For this reason, the economic aspects of the postwar peace are equally as important as its political aspects. This view was expressed most emphatically by Secretary of State Stettinius in a speech to the Chicago Council on Foreign Relations prior to the convening of the San Francisco Conference. He said:

> The close cooperation of the United Nations in a program for economic reconstruction and expansion * * * is fundamental to the success of the world organization. Without it the world will be able neither to recover from the effects of this war nor to prevent the next war.

RELATION TO INTERNATIONAL SECURITY ORGANIZATION

The plan for an International Security Organization drafted in preliminary form at Dumbarton Oaks and now under consideration at San Francisco takes cognizance of this important aspect of peace. The Dumbarton Oaks plan provides for the establishment of an Economic and Social Council through which countries can cooperate in establishing sound economic and social conditions that will contribute to the well-being of all peoples and thereby facilitate the maintenance of peace. Developments at the San Francisco Conference, while the committee hearings were going on, have indicated the

increased stress that is being placed by many countries on the importance of the Economic and Social Council in the maintenance of peace.

The establishment of the fund and bank, in which this country would participate under this bill, are important to the functioning of the Economic and Social Council. In many respects, they are the very heart of the program for international economic cooperation. The rejection of the fund or the bank would make impossible any further progress on international economic cooperation; and, as many witnesses testified, failure to establish the fund and bank would hamper the efforts now being made by the United Nations to establish an enduring peace structure. Since the immediate and urgent problems of the postwar period are likely to be economic, failure to deal with them through international cooperation will have important political as well as economic and social consequences.

IV. The Experience of the 1920's and the 1930's

The Bretton Woods program for the International Monetary Fund and the International Bank for Reconstruction and Development grows out of the experience of the 1920's and the 1930's and is based on policies developed by this country to deal with international monetary problems through international cooperation.

CURRENCY STABILIZATION IN THE 1920'S

After the First World War, there were serious monetary disorders, with many currencies disrupted and some currencies completely destroyed. At considerable sacrifice, currencies were finally stabilized, some at the prewar parity, others at a new parity, and still others through the establishment of a new monetary system. By 1929, all major currencies were back on the gold standard. This process of stabilization was undertaken unilaterally, each country determining its policy for itself. In some cases there were stabilization loans, and in others there were informal discussions among the heads of central banks. But the fact remains that each country regarded currency stabilization as its own exclusive business and proceeded to establish the parity of its currency without regard to the effect of its action on other countries.

As a consequence of this method of dealing with international currency problems, some currencies that were stabilized with such great difficulty soon proved to be overvalued, while others were undervalued. In countries with overvalued currencies, exchange rates were under constant pressure. The effect was to increase the difficulty of maintaining exports and employment in these countries. In a vain effort to maintain the established value of these currencies, countries put pressure on their domestic wages and prices, inducing depression at home and reducing the demand in these countries for domestic and import goods. The depression in the countries with overvalued currencies affected to some extent business conditions in all countries. As experience later proved, the weakness of a major currency is a source of danger to all currencies.

When the great depression came, the whole pattern of exchange rates became untenable. The raw-material countries like Argentina,

Australia, and Brazil were compelled to depreciate in 1929. In 1931 Great Britain and the rest of the British Empire, nearly all of Europe, most of South America, and Japan were forced off gold. In 1934, the United States and the rest of the Latin-American Republics devalued their currencies. And finally, in 1935 and 1936, the countries constituting the gold bloc were compelled to abandon gold.

If countries that departed from the gold standard had cooperated with each other to adjust the foreign exchange value of their currencies to the proper level, the world might have been saved from economic disaster. Unfortunately, again each country revalued its currency to suit its immediate interests, and there was a strong tendency toward competitive depreciation of currencies. In part, this was a reflection of an eagerness to avoid the mistakes of the 1920's, when important currencies were overvalued. In part, excessive depreciation was used to bring about a forced expansion of exports in an attempt to pull out of the depression. A number of countries resorted to the use of discriminatory currency devices—exchange control, multiple currencies, bilateral clearing, and other currency tricks—to secure a larger share of a shrinking volume of world trade. The over-all effect was to intensify monetary disorder and to spread depression from country to country.

CURRENCY WARFARE USED BY GERMANY

When Germany, in 1931, established exchange control, she blocked the free transfer of funds by foreigners who wished to repatriate their holdings. To realize anything on their blocked funds, they had to sell their marks at a discount, a practice encouraged by Germany because it afforded a bounty to foreign importers of German goods. Whereas the official rate of the mark was 40 cents, some blocked marks, representing the repatriation of loans to Germany, were sold for as little as 15 or 20 cents. Buyers in other countries that used these marks secured a discount of 50 percent or more on their purchases in Germany.

This device of multiple rates of exchange for the same currency proved so useful in securing unfair trade advantages that Germany instituted the system on a wide scale. New types of marks were developed to exploit every possible demand, selling at different exchange rates, depending on who held them, to whom they were transferred, and to what uses they were put.

Multiple exchange rates were a device for exploiting creditors and competitors through the use of discriminatory monopoly prices in international transactions. Those who had to buy essential German goods were compelled to use high-priced marks. But in the sale of German goods for which the demand was not very great, for the transfer of remittances to Germany, including funds transferred by Germans abroad in anticipation of their return to Germany, marks were offered at bargain prices.

BILATERAL CLEARING AGREEMENTS

Another device developed by Germany was the bilateral clearing agreement. Because Germany did not generally permit the payment of external debts in the 1930's, some countries with a large import surplus from Germany threatened to withhold the funds due to German exporters and to use these funds to pay their own nationals. As a result of this pressure, Germany agreed that some of the proceeds

of German exports could be used to pay foreign creditors. This was done through clearing agreements.

The Nazi masters of Germany soon recognized the great potentialities of this device. In many cases, the German exchange authorities refused to permit German importers to buy goods from some countries unless these countries undertook to accept payment in German goods. In other cases, particularly in southeastern Europe, the German Government entered into agreements for the bulk purchase of staple commodities for a period of years at apparently generous prices in marks. With this policy, Germany's imports from the Balkan countries increased enormously. In turn, Germany forced on these countries through bilateral clearing agreements the purchase at excessive prices of such goods as Germany was willing to export. During the period of German conquest, the bilateral clearing arrangements were extended to all the occupied countries of Europe and became the basis for compulsory multilateral clearing through Berlin. This clearing scheme enabled Germany to exploit occupied Europe through the accumulation of unpaid clearing balances amounting to 100 billion marks.

There can be no doubt that after Hitler came to power Germany deliberately used these devices as instruments of economic warfare, in preparation for the war to come. The multiple currencies, which began with the discount on blocked marks held by American and other creditors, were expanded until in 1938 there were more than 30 different kinds of marks. German clearing agreements, which numbered only 4 in 1932, and were largely concerned with repayment of debts, expanded until in 1938 there were more than 35 bilateral clearing agreements, designed to assure Germany access to the resources of Europe. Some of the German clearing agreements were made with countries in the Western Hemisphere, with the deliberate intention of destroying the close economic relations of the United States and other democratic countries with Latin America.

EFFECT ON WORLD TRADE AND INVESTMENT

Against this background of destructive currency tactics, it is little wonder that between 1929 and 1932 the value of world trade fell by nearly 70 percent. And even after considerable industrial recovery had taken place in nearly all countries the dollar value of world trade in the 1930's remained 40 percent below the level of the 1920's. In the decline in world trade, the United States suffered relatively more than did any other country. Our share of total world exports fell by more than 30 percent between 1928 and 1934.

The experience of the 1920's and the 1930's with international investment is equally disheartening. Throughout the 1920's this country invested freely abroad. In too many instances, loans were made without consideration of their economic soundness or the ability of the borrower to repay. When the great depression came, we stopped lending almost completely, although we had an export surplus. And when the political and social disorders in Europe became a threat to peace, the capital flight to this country put added pressure on some currencies. The resulting currency disorders in turn were one factor in discouraging international investment after recovery began in 1933.

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There can be no doubt that the failure to restore international trade and investment in the 1930's delayed and hampered the process of recovery. The widespread use of the devices of currency warfare prolonged and intensified the depression. This country, the United Kingdom, and other countries which made no use of such currency tactics, were their principal victims.

V. Monetary Policy of the United States After 1934

In this country there was an acute awareness of the dangers to world peace and prosperity arising from these disorderly currency practices. It was recognized that exchange problems are international in character and that no unilateral policy can, in fact, succeed. For this reason, the policy of the United States since 1934 has been directed toward securing international cooperation for the maintenance of stable and orderly exchange rates and the elimination of restrictive and discriminatory exchange practices.

BILATERAL STABILIZATION AGREEMENTS

Through its Exchange Stabilization Fund, established in 1934, the United States Treasury has made bilateral agreements with a number of countries to help maintain exchange stability. These agreements provide for the purchase of the other country's currency with dollars, up to a stated amount, for the purpose of stabilizing its rate of exchange. The Treasury can terminate such agreements at any time, and after notice can require the other country to repurchase its currency within a reasonable period at a dollar rate which safeguards the Treasury against loss. The bilateral stabilization agreements also provide for consultation on common economic problems, and provide specifically that no change in the exchange rate will be made by the other country except after consultation with the Treasury. This same type of bilateral currency agreement has since been used by a number of other countries.

THE TRIPARTITE DECLARATION

An attempt at multilateral cooperation was made by the United States, England, and France in the tripartite declaration of 1936. The immediate purpose of the declaration was to prevent further exchange depreciation as a consequence of the contemplated devaluation of the French franc. In the declaration, the three governments stated their intention to consult on exchange policy in order to avoid new exchange disturbances that might result from the proposed adjustment. The declaration also called for the expansion of international trade and the relaxation and ultimate abolition of the quota system on imports and of controls on exchange transactions. Later, the Governments of Belgium, the Netherlands, and Switzerland affirmed their adherence to the declaration.

While our bilateral stabilization arrangements and the tripartite declaration helped maintain a degree of order and stability in international monetary relations, they were inadequate. In the first place, the political and economic insecurity of the 1930's resulted in steady pressure upon the currencies of some countries. In the second

place, the aggressive German currency policy forced other countries in self-defense to adopt restrictions of the very type that the tripartite declaration was designed to eliminate. For these reasons the bilateral arrangements and the tripartite declaration could not achieve their objectives.

MULTILATERAL AGREEMENT NECESSARY

On the basis of this experience, the Treasury had come to the conclusion, even before the war, that international monetary problems could be solved only if a truly multilateral arrangement could be devised. The proposal for the International Monetary Fund and the International Bank for Reconstruction and Development, now being considered by 43 other members of the United Nations, offers a unique opportunity to secure approval of the sort of international cooperation that the United States has urged upon the world for a decade. The action of the Bretton Woods Conference indicates that the United Nations are prepared to adopt such a policy.

VI. Threats to Post-War Peace and Security

The world cannot afford to repeat the errors that were made in dealing with international currency and investment problems in the 1920's and the 1930's. If it should, the consequences would be far more disastrous than ever before since restrictive and discriminatory practices would be employed in many countries with greater ingenuity and increased efficiency. It is necessary, therefore, to take steps now to see that monetary and financial problems are dealt with through the cooperation of the United Nations. Otherwise, because of the disorganized and precarious condition of the world economy after the war, many countries may under the pressure of necessity deal with international monetary and investment problems on a unilateral basis. They will seem forced to employ direct controls over all international transactions as a means of restoring their balance of payments position. They will feel compelled to enter into bilateral political arrangements to secure the help they need. The inevitable result will be a world trading system dominated by governments.

POSTWAR RECONSTRUCTION PROBLEM

The destruction resulting from this war is without parallel in magnitude. In many countries, transportation systems, roads, and bridges have been completely destroyed; factories have been bombed and stripped of their productive equipment; harbors and public utilities and public works have been wrecked and disorganized. Unexploded mines litter the fields. While such conditions persist, normal production cannot be resumed. In many countries, even the raw materials for production are completely lacking.

For 6 years world trade has been practically cut off from the European Continent and from parts of Asia. In the case of England, long-held international investments have been liquidated and large foreign obligations have been incurred to carry on the war. In all countries productive facilities and labor have been shifted away from the export industries to war production. Whatever international trade has gone

on during the war has been largely intended to contribute to the prosecution of the war. In some of the greatest trading countries, these policies have been adopted rigorously with the sole purpose of facilitating victory.

The task of reconstructing the world economy will be difficult. As a first step, it will be necessary to restore to many countries their producing and trading power. They must be given the opportunity to secure equipment and materials as a means of opening the channels of trade. Nor can international trade and investment be restored until orderly currency arrangements have been established and the wartime restrictions that prevent or hamper the movement of goods and capital across national boundaries have been removed.

POSTWAR CURRENCY PROBLEMS

In setting exchange rates after the war, some countries may be tempted to undervalue their currencies in order to facilitate the restoration of their position in the export markets. Others may be tempted to overvalue their currencies. In many countries the continuance of some wartime controls over exchange transactions is to be expected. The danger is that these controls will be made a part of the permanent exchange policy of the country. And if some countries utilize the devices of currency warfare to secure unfair advantages, other countries will feel compelled to do so in self-protection. The end result could only be a resumption of the disastrous currency warfare of the 1930's, though more vicious in character and more extensive in scope.

The enormity of the task of postwar adjustment has led important sectors of opinion in some countries to advocate the use of direct control of international transactions by the State. The proponents of direct control urge that governments must act directly to assure a large and stable volume of world trade on advantageous terms. They urge that governments enter into bilateral clearing arrangements for the purpose. In this way, it is said, a large importing country could make advantageous agreements with raw-material-producing countries, eager for assured markets and fair prices, and willing to accept payment in the industrial goods of the importing country.

Some of the advocates of such a policy also recommend the maintenance of freely fluctuating exchange rates to permit a country to adjust its balance of payments promptly with countries with which it has no bilateral clearing arrangement. Moreover, they would use exchange controls to see that imports are confined to commodities of a character conforming to this general policy. Even in some of the countries that bitterly opposed the discriminatory and restrictive currency practices of the 1930's, an influential part of the public would apparently not object now to the use of these devices.

STATE CONTROL OF INTERNATIONAL TRANSACTIONS

Some of the advocates of this policy no doubt believe that direct control of the balance of payments by the state is ideally suited under any conditions to secure the greatest advantages from international trade. But they are few in number. The majority of the people in

these countries would prefer a solution along freer lines. If some of them seem prepared to support such a policy, it is because they fear that no other policy can deal with the enormous problems of the postwar period. The establishment of the fund and bank will offer enlightened public opinion in the United Nations the opportunity to support a policy of international cooperation for the benefit of all countries.

There is another danger to free enterprise in the reconstruction problem that will be faced by many countries. It is essential that war-torn countries restore promptly their industry and agriculture. Although to a considerable extent this will be done by domestic industry, some imports of capital equipment from other countries will be necessary. If this equipment can be secured on reasonable terms, there is every reason to hope that international investment on the basis of private enterprise and private loans will be restored and will continue. On the other hand, if some countries should find it difficult to secure through private investment the minimum capital needed from abroad, they will be tempted to seek this capital in other ways. Foreign loans may be arranged on a political rather than an economic basis. Such a policy would be most unfortunate, for it could only mean a resumption of the use of power politics in international economic relations.

The dangers of the postwar period must not be underestimated. What is at stake is the principle of free enterprise in international trade and investment. Direct control of the balance of payments requires extraordinary extension of state control. These dangers are widely recognized in many countries and are freely admitted. They would be accepted only if no alternative program were available. As compared with international cooperation on monetary and financial problems, it is certain that nearly all countries would prefer the latter.

THREAT OF ECONOMIC BLOCS

Apart from its economic aspects, direct control of international trade and investment by the state through bilateral agreements would have unfortunate political consequences in a world of communities that must work together. Even if such bilateral arrangements were made in the friendliest spirit, the participating countries might be brought into sharp conflict with countries outside the agreement. Inevitably, therefore, such arrangements would result in a system of economic blocs. Countries that were unable or unwilling to organize their international trade along such lines would be compelled to revert to economic isolation.

The kind of world economic system we seek depends upon international arrangements to assure stable and orderly exchanges. It depends upon international arrangements to encourage sound and productive international investment. The people of this country have the greatest interest in maintaining a world in which international trade and investment are governed by economic rather than political considerations. We can have such a world only if we can secure the cooperation of other countries in matters of monetary and financial policy.

VII. The Bretton Woods Program and Domestic Policy

The Bretton Woods program for the International Monetary Fund and the International Bank for Reconstruction and Development must be considered in relation to our domestic economic policies. There is general agreement that the primary objective of our economic policy after the war must be to provide jobs for workers in industry and to assure fair prices and steady markets for farmers. We can achieve this objective only if we find markets at home and abroad to match the miraculous producing power of our factories and farms.

Our main dependence must always be on the home market. We have in this country the greatest concentration of consuming and investing power in all the world. The 140,000,000 American people buy most of the world's production of automobiles, refrigerators, and radios, and of machinery, equipment, and appliances. These are the goods typical of American mass production, symbolic of the high American standard of living.

IMPORTANCE OF FOREIGN MARKETS

While fully recognizing the predominant importance of the demand for our output by our own consumers and producers, we must not overlook the significance of foreign markets. During the 1920's about one-tenth of our agricultural and industrial production was sold abroad. Our exports declined drastically from 1929 to 1932, from more than 5 billion dollars to slightly more than 1.5 billion dollars. Our exports may seem to be only a small part of our total production. They nevertheless mean the difference between prosperity and depression for both agriculture and industry. This is evident when we look at foreign markets in terms of particular industries.

In 1938, exports accounted for 27 percent of our production of aircraft parts; 22 percent of our office machinery and appliances; 18 percent of our printing and bookbinding machinery; 17 percent of our farm machinery and appliances; 15 percent of our pharmaceuticals; 14 percent of our industrial machinery; 14 percent of our automobiles and trucks; 12 percent of our radio equipment; and 11 percent of our refined-oil products. It is no less true that export markets are essential to our agriculture. In 1938, our exports accounted for 30 percent of our production of tobacco; 30 percent of our cotton; 19 percent of our rice; 16 percent of our pears; 13 percent of our apples; 12 percent of our wheat; 12 percent of our lard; and 11 percent of our hops.

To retain and expand our foreign markets we must bear in mind that our imports are the principal means other countries have for paying obligations to Americans. When countries stop buying our exports, one reason may be that they do not have enough dollar exchange. Our imports provide other countries with dollars they can use to buy our goods and to meet service requirements on our investments. At the same time, imports are essential to provide our industries with raw materials and our consumers with many basic articles of consumption.

Only through imports are we able to consume a large variety of goods not produced in the United States or produced here in small amount. This is true of coffee and tea, silk, sugar, tropical fruits, and a score of other commodities of daily consumption. Furthermore, our industries depend upon imports for many indispensable

raw materials. For example, to make the high-speed specialty steels which modern industry and transport require, we imported 40 different commodities from more than 50 countries. We depend on Bolivia for our tin, on Canada for nickel, and on a number of countries for our natural rubber. We must supplement our domestic supplies of bauxite for the production of aluminum, our supplies of manganese, copper, chromium, and other essential metals. The war has shown us the serious difficulties which develop when anything arises to interfere with these customary imports. Without these imports, our production would be seriously handicapped and our standard of living would be lowered.

The 44 nations that participated in the Bretton Woods Conference recognized that the expansion of international trade and the resumption of international investment are essential to the realization of our hopes for a prosperous and peaceful world. It will not be possible to secure the expansion and the steady growth of international trade unless we establish an environment of stability and order in exchange practices, free from the currency warfare and the restrictions of the 1930's, until the countries devastated by war have had an opportunity to reconstruct and restore their producing and trading power. Once the appropriate environment is created, international trade can be expanded far beyond the levels of the 1930's, and all countries can participate profitably in this trade.

If our exports of goods and services could reach $10,000,000,000 a year during the postwar decade, it would mean the employment of millions of our workers and farmers in the production of goods for foreign demand. To attain such a level of exports, it would be necessary for this country to buy imports and to make foreign investments in sufficient volume to provide other countries enough dollar exchange to pay for our exports. Our imports would provide us with raw materials for industry and a more varied collection of goods and services for consumers. At the same time, our international investment would facilitate reconstruction and development in countries which cannot provide for all of their urgent investment needs out of their own current savings.

If international investment is to be of continuing importance in the world economy, there must be assurance that creditor countries will import, that they will maintain a balance of payments that will make it possible for debtor countries to meet their obligations. These observations do not in any way conflict with the conclusion that an expansion of international trade and a resumption of international investment are desirable. They indicate that international trade and investment must be of a balanced character both among countries and from one period to another.

CURRENCY ARRANGEMENTS NECESSARY FOR TRADE

The expansion of international trade and the resumption of international investment will be facilitated if the great trading countries adopt a common international monetary policy. Such a policy must be directed toward securing and maintaining orderly and stable exchange arrangements and freedom in exchange transactions. The experience of the 1930's shows clearly that the use of exchange depreciation and discriminatory currency practices to secure trade advantages inevitably encourages retaliatory measures that diminish

the volume of international trade and investment, and distort the pattern of international payments. Only through international cooperation will it be possible to avoid such restrictive measures which inevitably affect all countries.

After the experience of the 1930's, it is quite obvious that orderly international currency arrangements, as well as national prosperity in the United States and in other countries, cannot be based on the prewar volume of international trade and investment. Unless measures are taken, national and international, to raise the real volume of international trade by at least 50 percent above the prewar level, direct control of the balance of payments in some countries will be difficult to avoid. With $80,000,000,000 of international trade a year during the postwar decade, it will be possible for the countries that must increase their prewar level of exports in order to obtain essential imports to secure the necessary expansion of exports without depressing their living standards and without the use of cutthroat tactics in international markets. With such a level of international trade, the countries that have suffered severe economic dislocation can pass from the postwar transition into a period of stability, order, and freedom in exchange relations.

RECONSTRUCTION WILL FACILITATE TRADE

Until the world has been restored to economic health, it will be difficult to secure adequate expansion of international trade and investment. The occupied areas of Europe and Asia are important factors in the world economy; they must be restored and reconstructed promptly.

Similarly, countries that have not had the opportunity for economic development should have access to the foreign capital they need, on reasonable terms. The volume of international trade is certain to rise as productivity is increased in all countries. The trade of the United States has always been largest with such countries as Canada and England, which are highly industrialized and have high standards of living.

There is no reason why this should not be equally true in other areas as they are developed. The measures that must be taken in each country for restoration of the national economy are primarily of a domestic character. But sound international investment for productive purposes will facilitate reconstruction and development, and international monetary cooperation will give every country the confidence it needs to proceed with the task of economic restoration.

The fund and bank can make an important contribution to the establishment of a balanced and growing world economy. They can help and encourage those countries whose economies have been disrupted by war and which must go through a period of transition or reconstruction to take the measures necessary to restore their position in the world economy. The fund and bank can set standards for international monetary and investment policy. Together they can provide the means for constant and broad cooperation on international monetary and financial problems. In a world cooperating in this manner, the international trade and investment of the United States will make a substantial contribution to our industrial and agricultural prosperity.

VIII. Analysis of the International Monetary Fund

Despite the technical nature of the problems with which the International Monetary Fund must deal, its essential principles are quite simple and can be summarized in four statements. First, the members of the fund recognize that international monetary problems are an international responsibility and must be dealt with through international cooperation. Second, the members of the fund will establish the initial parities of their currencies in agreement with the fund and will not change these parities thereafter except after consultation with the fund, and in accordance with the agreement. Third, the members of the fund agree, after the postwar transition, not to impose restrictive currency devices and to remove the restrictions they now have as soon as conditions permit. Fourth, countries that abide by these standards of fair exchange practice will be given limited help, under adequate safeguards, to supplement the use of their own monetary reserves in maintaining stable and orderly exchange arrangements.

These are the essential features of the agreement for the fund. The technical provisions in the articles of agreement are elaborated in great detail in order to state explicitly the safeguards that have been established to assure the proper operation of the fund. But these technical details do not modify in any way the fundamental principles upon which we must pass judgment.

A summary of the essential features of the fund follows:

COOPERATION AND COLLABORATION

The fund agreement provides a means through which countries can cooperate and collaborate in the solution of international monetary problems. The member countries will find the fund a convenient place to discuss international monetary problems, exchange views, and work out practical programs. Moreover, the fund will establish standards of fair exchange practice that will assure all countries that their international economic position will not be impaired by arbitrary and destructive measures taken by others. Cooperation through the fund will facilitate for many countries the difficult task of adjustment from wartime to peacetime conditions.

STABLE AND ORDERLY EXCHANGES

One of the more important functions of the fund will be to provide orderly and stable exchange rates. The fund agreement provides that the initial par value of each member's currency, expressed in terms of gold or the United States dollar, will be based on exchange rates prevailing 2 months before the fund comes into force. If the member or the fund believes this par value is unsatisfactory and cannot be maintained without excessive use of the fund's resources, they must agree on a suitable par value. For countries occupied by the enemy, the period during which an initial par value is to be determined may be extended by agreement between the fund and the member country. In the meantime, the fund may engage in limited exchange transactions with such countries at a tentative parity under such conditions and in such amounts as the fund may prescribe. The bill before this committee requires the par value of the dollar to remain at its present gold content.

After initial parities have been established, member countries must maintain their currencies stable within a range 1 percent above or below parity. A change in parity can be made only on the proposal of a member after consultation with the fund and only for the purpose of correcting a fundamental disequilibrium. The present bill provides that no change in the par value of the dollar may be proposed without the authorization of Congress. A uniform change in the par values of all currencies may be made by a majority vote of the fund, with the approval of each country having 10 percent or more of the total quotas; that is, the United States, the United Kingdom, and the Soviet Union. The United States, therefore, retains a veto over any uniform change in par values, and such a change can be made only with the express approval of Congress. Any country that does not wish to have the parity of its currency changed as a result of such action may notify the fund of its decision to retain the same parity.

Because the war has brought great economic changes to which adjustment can be made only gradually in the postwar period, a method must be provided to correct promptly any errors in initial parities. Such correction is clearly preferable to allowing a persistent overvaluation or undervaluation of a currency, as happened in the 1920's. To assure prompt adjustment of minor errors in initial parities, the fund cannot object to a proposed change which, together with all previous increases or decreases, does not exceed 10 percent of the initial par value. On all other changes in parity a member must request the concurrence of the fund.

While the fund has every reason to object to exchange depreciation where equilibrium could be better restored in other ways, it is not desirable to force upon a member country a rigid exchange that can be maintained only by a sharp reduction of wage rates and domestic prices. Exchange stability is for the purpose of encouraging international trade and investment. To insist on exchange rigidity at the cost of a severe deflation would defeat these purposes and spread depression from country to country. Nor can it be expected that countries will cut their social-security programs or forego other social measures because they might affect exchange rates. For these reasons, the fund agreement provides that if a change in parity is necessary to correct a fundamental disequilibrium, the fund cannot object because of the domestic social or political policies of the country.

The fund agreement forbids multiple currency practices, except as approved by the fund, and the countries that now follow such practices must consult with the fund as to their progressive removal. In a number of American republics such multiple exchange rates are an important part of the tax structure. The spread between buying and selling rates has been a substantial source of revenue in many cases, and their removal must be undertaken gradually as other measures can be adopted to raise the needed revenues. There may be occasions when temporary use of multiple exchange rates may be necessary in connection with violent fluctuations in the balance of payments. The fund would have to pass on the need for multiple exchange rates at such times.

Under these provisions, the fund in practice will provide greater assurance of orderly and stable exchange arrangements than could be achieved under a precarious gold standard, with each country in a

crisis changing the parity of its currency at will. If any change, beyond the minor changes aggregating 10 percent, is made in the parity of a currency after the fund has expressed its objection, the member becomes ineligible to use the resources of the fund, and if the difference between the member and the fund continues, the country may be compelled to withdraw from membership in the fund.

FREEDOM IN EXCHANGE TRANSACTIONS

In general, exchange controls restrict and divert international trade and investment into uneconomic channels by limiting the amount of foreign exchange made available to pay for imports and to meet service requirements on foreign investments. To eliminate such practices, the fund agreement establishes the principle that no restriction may be imposed on payments and transfers for current international transactions, including interest and dividends on foreign investments and moderate amortization and depreciation payments.

To avoid capital flights, member countries are authorized to control international capital movements, and the fund may require a member to exercise controls to prevent use of the fund's resources for large or sustained outflows of capital. None of these provisions is intended to interfere with capital transactions required in the ordinary course of trade, banking, or other business, or to prevent capital investment for productive purposes when they are made out of a member's own resources. When capital controls are imposed, they may not be used to restrict payments for current transactions or to delay unduly the transfer of funds in settlement of commitments. Their sole purpose is to prevent international monetary instability originating in capital outflows.

Countries like the United States, with large resources, would be perfectly free to allow all outward capital movements, and no country could be required to introduce controls to prevent small and intermittent movements of capital. In cases where controls are necessary, supervision or reports might be sufficient for this purpose. Experience with foreign funds control in this country has shown that banks can, without detailed controls, be relied upon to see that transactions are not carried out contrary to regulations. Supervision of a similar character would probably be adequate in countries like England and Canada. There are countries in which comprehensive control of payments may be needed to prevent an unauthorized outflow of capital. But the fund would, in any case, tend to minimize capital flights and thus reduce the necessity for controls.

Countries that now have exchange controls on current transactions must consult with the fund as to their progressive removal and could retain them only with the approval of the fund. Countries whose international payments must cover relief and reconstruction are permitted to continue exchange controls during the postwar transition; but they must withdraw such restrictions as soon as they are able to balance their international payments without excessive use of the fund. In all other cases, exchange controls on current transactions require the approval of the fund. The fund would authorize a country to impose such controls temporarily if a serious adverse balance of payments could not be corrected promptly by other measures. Obviously, when a country finds that it cannot export enough to meet

its current international payments, it must either have help from the fund or be permitted to limit the obligations it incurs to make payments in foreign exchange. In some instances, the temporary use of exchange controls, while corrective measures are put into effect, could be advantageous to both the country employing the controls and other members of the fund.

SCARCE CURRENCIES

If any country should have a persistently large favorable balance of payments, its currency, from the point of view of other countries, would tend to become scarce. However, it appears unlikely that a scarcity of a currency will develop. But if this should occur, the fund will provide a means of dealing with the problem without a general revision of parities.

First, the fund would report on the causes of the scarcity and the measures necessary to correct it. The scarcity of a member's currency could be due to inadequate imports by that country or to excessive imports by other countries. The appropriate remedies would depend on the facts in the particular case. Then, if its own holdings became inadequate to meet the demand, the fund could apportion its sales of the scarce currency with due regard to the relative needs of members and other pertinent considerations. The fund would, of course, never entirely exhaust its supply of any currency, for it would acquire gold and the scarce currency from its other transactions. The fund is also permitted to borrow a scarce currency with the approval of the member concerned. The present bill, however, provides that no loan shall be made by the United States to the fund without the express authorization of Congress.

When the currency of a country is generally scarce, other countries must take steps to curtail the demand. Without the fund, there would be no limit on the restrictions that could be imposed. Under the fund agreement, the limitations on exchange operations with respect to a scarce currency may be imposed only after consultation with the fund; they may be no more restrictive than is necessary to curtail the demand for the scarce currency; and the limitations must be removed as rapidly as conditions permit. In the meantime, the fund will use its resources to relieve the scarcity and it will recommend corrective measures. While a country is bound to give consideration to the recommendations of the fund, it remains free to take whatever action it deems desirable in connection with the recommendations.

A more detailed discussion of scarce currency with relation to the United States is presented in part XII below.

HELP FROM THE FUND

Exchange stability and freedom of exchange transactions are possible only if countries have resources out of which to meet an adverse balance of payments. Otherwise, they are compelled to force a prompt adjustment in their accounts through exchange depreciation or exchange control. Either policy might restrict the volume of trade and have a depressing effect on business in all countries. If other adjustments are preferable, a country should have help in avoiding extreme measures.

The fund will have resources of 8.8 billion dollars in gold and in national currencies, subscribed by 44 countries on the basis of appropriate quotas, to help members maintain the exchange policies of the fund. Of this amount, the United States would subscribe 2.750 billion dollars and other countries 6.050 billion dollars. The subscription in gold for each country will amount to 25 percent of its quota or 10 percent of its gold and dollar holdings, whichever is less. The gold portion of the subscription of the United States will be 687.5 million dollars; the total for other countries, approximately 1.1 billion dollars. Under this bill, no change in the subscription of the United States may be made without prior authorization of Congress.

Although the fund's resources are not exceptionally large, they are extremely important. After urgent postwar needs are met, gold and dollar reserves of foreign countries may amount to about $16,000,000,000. It cannot be assumed, however, that these reserves will all be available for use in maintaining free and stable exchanges. Many countries will have far smaller reserves than they need to meet large fluctuations in their balance of payments. Even if these resources were better distributed, foreign countries as a group would hesitate to draw down their exchange reserves below $10,000,000,000 to maintain the fund's exchange policies. By making its resources available to member countries, the fund will give them confidence to use their own reserves, and the aggregate resources that can be used to maintain stable and free exchanges will be considerably increased.

CONDITIONS FOR USE OF THE FUND

A member country may purchase foreign exchange in limited amounts from the fund for its own currency without special action by the fund. It should be noted that the fund's holdings of currency are guaranteed against depreciation in terms of gold. Subject to quantitative and qualitative limitations, the fund gives each member a constitutional right to purchase foreign exchange for local currency; but the fund can terminate this right for any country that is not carrying out the purposes of the fund. This is substantially the same technique used in our own stabilization agreements.

On the quantitative side, unless the fund expressly waives these limits, a country may not acquire foreign exchange from the fund for its own currency in a net amount in excess of 25 percent of its quota in any 12-month period; nor can it purchase foreign exchange from the fund for its own currency if the fund's holdings of its currency exceed its quota by 100 percent. If a country has monetary reserves in excess of its quota, it must use its own reserves to the same extent that it draws upon the resources of the fund; and when its reserves exceed its quota, a country must use one-half of the increase in its monetary reserves to repurchase its currency from the fund.

On the qualitative side, the fund does not permit use of its resources to support an untenable exchange rate. The fund would not accept an initial parity that would cause excessive use of its resources; nor would it begin exchange transactions with a country that is not in a position to maintain balance in its payments without excessive use of the fund. A country using the fund is expected to take steps to correct any continuing maladjustments in its international accounts. For violation of the purposes or provisions of the fund, a country may

be suspended from using the fund's resources; and if the violation persists, it may be required to withdraw from membership.

The fund's resources are a revolving fund, available to member countries to meet an adverse balance of payments while they adopt measures to adjust their international accounts. The effectiveness of the fund would obviously be limited if its resources were not in readily usable form. To discourage unnecessary use of the fund, a charge of three-fourths of 1 percent is imposed on all exchange transactions with the fund. To encourage restoration of the fund's assets to their ideal combination (25 percent in gold and 75 percent in members' currencies, in proportion to quotas) charges are levied on balances held by the fund in excess of the quota. When any charge reaches 4 percent, the fund and the member must consider means of reducing the fund's holdings of that member's currency. If agreement is not reached, the charge continues to rise to 5 percent, and thereafter the fund may levy such charges as it deems appropriate.

ASSURANCE OF RESPONSIBLE MANAGEMENT

Some critics have expressed doubt that in practice these safeguards will be adequate. It is quite clear to all countries that use of the fund's resources is conditioned upon maintaining policies in accord with the purposes of the fund. All countries will have an interest in the sound and constructive use of the fund.

Provision is made to assure responsible management for the fund. The United States and the other four countries with the largest quotas will appoint executive directors. The remaining members will elect seven executive directors by the method of proportionate representation. The voting power of members is closely related to their quotas. Special consideration is given to the position of creditor countries, the two largest of which will be entitled to name executive directors, if they do not already do so under other provisions of the agreement. And in voting on use of the fund's resources, the voting power of creditor countries is increased while that of debtor countries is decreased. Thus the vote of the United States might be increased from 28 percent to as much as 35 percent of the total vote.

IX. Analysis of the Bank for Reconstruction and Development

The Bretton Woods Conference recognized that it will not be possible to assure orderly international economic relations in a devastated and undeveloped world. Before the war, Europe did one-half of the world's trade. More than half the people of the world still lack the modern means of production. Until Europe has been reconstructed, until the Far East and the American republics have built up their economies, the postwar readjustment must be protracted and incomplete.

The process of reconstruction and development must be undertaken by each country largely with its own resources, using local labor and local materials. There will be need for some foreign capital, particularly for machinery and equipment. Foreign capital provided on reasonable terms for sound projects will be beneficial to the borrowing countries and the lending countries. Sound international investment will contribute to the expansion of world trade and will facilitate the maintenance of orderly exchange arrangements.

PRINCIPLES OF THE BANK

The Bretton Woods Conference recognized that international investment is an international problem and, therefore, proposed the establishment of an International Bank for Reconstruction and Development. The essential principles of the bank are simple. Private international investment for sound productive projects will be encouraged. If private investors are not prepared to make worthwhile foreign loans, the International Bank will guarantee the loans or make the loans directly out of funds raised through the sale of its debentures. In exceptional cases, the bank will make the loans out of its own resources.

It is almost certain that in the period immediately after the war, when loans for reconstruction will be most urgently needed, investors will hesitate to make foreign loans. The bank will facilitate foreign investment by assuming much of the risk. For this purpose the bank will have capital amounting to 9.1 billion dollars subscribed by 44 countries. The subscription of the United States will be 3.175 billion dollars. Under this bill, no increase in the capital of the bank or in the subscription of the United States may be made without the authorization of Congress. Because the benefits of international investment are world-wide, the risks should be shared by all countries, and this would be done through the bank.

GUARANTIES OF SECURITIES

The bank is designed to encourage private international investment by guaranteeing securities sold to private investors for approved projects of reconstruction and development. Where the market is not prepared to make a loan on reasonable terms, even with the bank's guaranty, the bank might make the loan directly from funds raised by issuing its own securities, or out of its own capital. Loans will be made or guaranteed by the bank only after a committee investigates the proposed project and reports that it will contribute to the productivity of the country and that it is within the capacity of the borrowing country to service. Each loan must be guaranteed by the government of the country in which the project is located, or by that country's central bank. Provision is made to assure the use of loans for the purposes for which they are made.

The bank will guarantee loans for approved projects in return for a commission of 1 to 1½ percent of the outstanding principal. A similar commission will be charged on direct loans, as the bank will offer the securities to the public if the market becomes favorable. The commissions collected by the bank must be held as a special reserve to meet obligations arising out of defaults. On the basis of loans liquidated in 30 equal annual payments, 3 percent or more interest to the market, 1½ percent commission to the bank, and 1¼ percent earnings on reserves, the special reserve of the bank would be more than enough to restore any capital used to meet losses even if one issue out of four should go into default. Nevertheless, if the accumulated reserves are inadequate to meet defaults, the bank may call upon its capital, of which 80 percent is set aside as a surety fund for this purpose. Calls on capital are payable in gold or United States dollars or in the currency needed to meet the bank's obligations. To give added security to investors, outstanding loans made or

guaranteed by the bank may not exceed the unimpaired capital and reserves of the bank.

EFFECT ON INVESTMENT POLICY

The bank can be an important factor in placing international investment on a constructive basis. With full knowledge of the international economic position of a borrowing country, the bank could prevent it from undertaking excessive obligations to service loans. Furthermore, by maintaining reasonable interest rates, the bank places the greatest possible moral obligation on borrowers. In periods of exchange crisis, the bank could also utilize its resources to permit for a time the servicing of international investment in local currency under a guaranty of repurchase, thus avoiding defaults because of temporary conditions.

X. THE RECORD ON THE BRETTON WOODS PROGRAM

The committee's hearings on H. R. 2211 were thorough and extensive. The hearings continued through a period of 9 weeks, with a brief interruption during the congressional recess. The witnesses examined included representatives of the Treasury, State, and Commerce Departments, and of other Government agencies. In addition, there was testimony from bankers, businessmen, and economists, and from representatives of agriculture, labor, and organizations interested in international affairs. There were also a large number of statements and various exhibits submitted for the record.

It is significant that almost all witnesses examined accepted the objectives of the fund and the bank as desirable and agreed to the need for international cooperation to attain these objectives. Some of the objections appeared to be largely a matter of words, a way of phrasing. In some instances, the testimony of witnesses indicated to the committee the desirability of making changes in the bill as originally introduced, and these desirable changes have been made. On the whole the testimony was overwhelmingly in favor of participation in the fund and bank.

POSITION TAKEN BY PRESIDENT ROOSEVELT AND PRESIDENT TRUMAN

In a message to Congress prior to the introduction of this bill, the late President Roosevelt expressed his strong support for the Bretton Woods legislation. He said:

> If we are to measure up to the task of peace with the same stature as we have measured up to the task of war, we must see that the institutions of peace rest firmly on the solid foundations of international political and economic cooperation. The cornerstone for international political cooperation is the Dumbarton Oaks proposal for a permanent United Nations. International political relations will be friendly and constructive, however, only if solutions are found to the difficult economic problems we face today. The cornerstone for international economic cooperation is the Bretton Woods proposal for an International Monetary Fund and an International Bank for Reconstruction and Development.
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> In this message, I have recommended for your consideration the immediate adoption of the Bretton Woods agreements and suggested other measures which will have to be dealt with in the near future. They are all parts of a consistent whole. That whole is our hope for a secure and fruitful world, a world in which plain people in all countries can work at tasks which they do well, exchange in

peace the products of their labor, and work out their several destinies in security and peace; a world in which governments, as their major contribution to the common welfare, are highly and effectively resolved to work together in practical affairs, and to guide all their actions by the knowledge that any policy or act that has effects abroad must be considered in the light of those effects.

The point in history at which we stand is full of promise and of danger. The world will either move toward unity and widely shared prosperity or it will move apart into necessarily competing economic blocs. We have a chance, we citizens of the United States, to use our influence in favor of a more united and cooperating world. Whether we do so will determine, as far as it is in our power, the kind of lives our grandchildren can live.

President Truman has made it clear and emphatic that he favors the enactment of the legislation for participation in the fund and bank in order to establish a sound foundation for peaceful trade among nations. In a message to Congress on April 16, President Truman said:

> We have learned to fight with other nations in common defense of our freedom. We must now learn to live with other nations for our mutual good. We must learn to trade more with other nations so that there may be—for our mutual advantage—increased production, increased employment, and better standards of living throughout the world.

At his first press conference, the next day, April 17, President Truman expressly endorsed the Bretton Woods legislation. He stated that he is for the fund and bank proposals all the way, and that he would have done everything possible as Vice President to help President Roosevelt get the Bretton Woods proposals through the Senate.

POSITION TAKEN BY SECRETARY HULL AND SECRETARY STETTINIUS

The Honorable Cordell Hull, when Secretary of State, strongly urged the adoption of the proposals for currency stabilization and international investment. In April 1944, at the time the joint statement on the International Monetary Fund was published, the former Secretary of State said:

> If such programs can be put into operation before the end of the war, we will save much time in the task of bringing about domestic and world-wide prosperity when hostilities cease and immeasurably strengthen the prospects for an enduring peace.
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> In my estimation, world stabilization of currencies and promotion of fruitful international investment, which are basic to an expansion of mutually beneficial trade, are of first order of importance for the postwar period.

In a speech before the Council on Foreign Relations, in Chicago, the Secretary of State, Mr. Stettinius, expressed his emphatic approval of the Bretton Woods agreements. After discussing the need for reconstruction and for stabilization of currencies, Secretary Stettinius said:

> We have the International Bank and other financial measures to make possible the financing of this economic reconstruction and of further economic development in the immediate postwar years. And we have the Monetary Fund providing for stabilization of currencies on a basis of gold and for ending economic warfare in the form of currency manipulation and exchange restrictions.
>
> These are the foundations for building up the extensive and profitable international trade which is essential to high levels of production and employment in the United States.

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STATEMENT BY SECRETARY MORGENTHAU

In testimony given before this committee, Secretary Morgenthau, who was chairman of the United States delegation and president of the Bretton Woods Conference, emphasized the great economic benefit that the United States will realize from the fund and bank. Secretary Morgenthau said:

The legislation which you have been good enough to ask me to discuss with you today is perhaps the most important measure for postwar international cooperation yet to come before Congress.

Right at the outset, therefore, I would like you to know that I have examined it just as carefully as I know how, and I am convinced of one fundamental fact: The Bretton Woods agreements are good for every American citizen.

I have been in close contact with every step of their development. I have watched the many months of arduous preliminary work. I have taken part in the deliberations of the conference at Bretton Woods, N. H. I have studied the discussion that has taken place in the 7 months since then. And I can assure you that the program we are advocating is definitely good business for the United States.

* * * * * * *

The Bretton Woods agreements are a firm step toward the solution of two problems which concern the American people more than anything except only the progress of our fighting men overseas. These problems are the organization of world security and the development of the world's resources for the benefit of all its people. Of course, the two objectives are as interdependent as the blades of a pair of scissors. One will not work very well without the other.

Legislation to carry out the Bretton Woods program is the first practical test of our willingness to cooperate in the work of world reconstruction and stabilization. It is also one very important step toward the orderly, expanding foreign trade upon which the future prosperity of our agriculture and our industry depends.

In calling attention to the broad implications of action on the pending legislation for the cause of peace, Secretary Morgenthau said:

We cannot say that we will join the other nations in an organization to maintain peace, but will not help to remove one of the most dangerous causes of war—economic dislocations. We cannot say we believe in cooperation to beat fascism, but will not cooperate in the removal of one of fascism's chief weapons—economic aggression. We cannot say we want equality of all nations and leave some of them at the financial mercy of others.

We are committed by all that we have said and done in these last 4 years to a community of power in the world, not to the irresponsible, unilateral wielding of power. The Bretton Woods agreements offer us the machinery for bringing the strength of 44 nations to the task of stabilizing the media by which peoples exchange their goods, conduct business with each other, and provide for a mutual rise in standards of living.

STATEMENT BY MR. DEAN ACHESON

The Assistant Secretary of State, Mr. Dean Acheson, gave vigorous support to the present legislation. In the course of an able statement before this committee, he called attention to the fact that the Bretton Woods proposals have been designed to prevent a repetition of the dangerous economic warfare of the interwar period. Mr. Acheson said:

It is useless to talk about the International Bank and Fund out of the context of the conditions with which they will have to deal and the defects which they seek to correct.

Perhaps the first fact to bear in mind is that great areas of the world have been devastated by the war. Military action between contending armies or by aircraft has left a wake of unexampled destruction in many countries. Many countries will have their economies and monetary systems so weakened or disrupted that

in the absence of mutual help they must fight for survival with all the economic weapons the use of which they have so well learned during the war and the years preceding it.

Import quotas, restrictions on current transactions involving foreign exchange, multiple currencies in a single country, each of which had its own value and could be used only for certain purposes, are the obvious weapons. They work only until other governments begin to utilize them. Then they become economic warfare. The net result is shrinking international trade, lower levels of living, and hostility between nations.

The Bretton Woods proposals present us with a chance to avoid this disaster by acting in common with the other nations of the world to put aside the implements of economic warfare and make possible an expansion of production and consumption and trade. The proposals include plans for an International Monetary Fund and an International Bank for Reconstruction and Development.

In response to a question calling attention to the suggestion that the United States should delay signing the Bretton Woods agreements as a threat to other countries, Mr. Acheson pointed out that no country is more vulnerable to currency warfare than the United States. Our own interests require the prompt establishment of the fund and bank.

STATEMENT BY MR. H. D. WHITE

The Assistant Secretary of the Treasury, Mr. Harry D. White, offered comprehensive testimony on both the economic background of the Bretton Woods proposals and on their detailed character. He emphasized the importance of the agreements in establishing fair-exchange practices, and the remarkable degree of international agreement that had been achieved at the Conference. He stated:

I would like to call your attention to the fact that the Bretton Woods proposals are not like the usual international agreements which have been proposed in the past, dealing with economic matters. They do not contain mere subscriptions to or adherence to a body of pious generalizations. They are not a statement of resolutions which reflect merely the hope of many nations but which contain no powers, and no resources, and no teeth. It is not that kind of a document.

The proposals drafted at Bretton Woods consist of institutions with powerful resources. They contain powers which are great and specific and effective, which can influence the well-being of each country.

Under those circumstances, how was it possible for the representatives of 44 countries to get together and agree on that document?

It was possible only because of the simple fact that all the people who have knowledge of the situation that will confront us, all the experts on international money and credit, on foreign exchange, recognized that something must be done along those lines if we were to prevent the chaotic situation certain to occur during the postwar years if we do nothing about it now.

It was the recognition of the fact that, unless something like the Bretton Woods proposals were put forward for the nations of the world to accept and adhere to, we could not have economic prosperity in the international sphere and without international economic prosperity—without what we might call international economic peace—international political peace would be much more difficult to maintain.

Mr. White also presented testimony showing how the restrictive currency practices of the interwar period affected adversely the economic position of the United States:

Economic warfare helped diminish world trade and the decline in world trade helped intensify economic warfare. Countries became desperate and took every step possible to increase their trade.

* * * * * * *

Now, let us see how we fared in all this. We did not want to take part in economic warfare. Our policy in the foreign field was similar to that which we aimed at in the domestic field, a policy of free enterprise, of reasonable trade

practices. We wanted export markets. We were eager to increase our exports, but we wanted to do it by producing goods at lower prices or by offering better goods for the same price. That is what we depended upon to increase our foreign trade and that is what we would like to depend upon to increase our foreign trade in the future.

OTHER GOVERNMENT TESTIMONY

The Board of Governors of the Federal Reserve System presented a statement to the committee strongly supporting the Bretton Woods agreements. In the statement the Board said:

> Without the institutions proposed by these agreements we would be confronted with disrupted currency conditions and with trade and exchange policies and practices which foreign countries might be forced to adopt in self-preservation but which would nevertheless have disorganizing effects on world trade. In rebuilding the machinery of international finance after the war it will be vital to avoid the recurrence of practices which developed after the First World War and to eliminate abuses which were prevalent in international lending. Effective action in these fields would form a counterpart to essential programs of domestic reconstruction. The greatest contribution to international prosperity and stability that the United States can make is to maintain full employment and a rising standard of living at home. In order to establish international trade on a sound and enduring foundation, it must be based upon a balanced exchange of goods and services. On such a basis it will contribute an important steadying influence to our domestic economy.
>
> The International Monetary and Financial Conference of representatives of 44 nations held last summer in Bretton Woods resulted in agreements for the creation of 2 new international financial institutions: the International Monetary Fund and the International Bank for Reconstruction and Development. The International Monetary Fund would exert an influence toward exchange stability and thus reduce the exchange risks for exporters and importers. It would require member countries to maintain established exchange rates and would provide machinery for making in an orderly manner by mutual agreement such changes in exchange rates as may be necessary. Members undertake to eliminate as soon as possible monetary practices which interfered with the flow of world trade before the war, such as discriminatory exchange restrictions, multiple currency arrangements, and bilateral clearing agreements. It would help to give assurance to member countries that the proceeds of sales to any country could be used for the purchase of goods in any other country.
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> As a companion institution to the fund, the Bank for Reconstruction and Development would be a lending institution to promote the international flow of long-term capital. It would make loans for productive and developmental purposes out of its own capital or out of funds borrowed in the market and would guarantee such loans offered to private investors. It is intended to make or guarantee such loans as would in the long run increase the borrower's ability to balance its international accounts. It would help to restore economies destroyed or disrupted by war, to reconvert their productive facilities to peacetime needs, and to develop the resources of less-developed countries.
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> * * * * * * *
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> From the point of view of the Board of Governors the establishment of the fund and the bank would be desirable because they would contribute to world recovery and to the maintenance of economic stability at a high level which is the main objective of the Board's policy. The monetary and credit structure of this country is continually and seriously affected by international transactions. In the past this country's monetary authorities have had to meet difficult situations when our banking system was called upon to absorb an excessive amount of foreign funds arising out of surplus commodity exports and capital movements from foreign countries. The adoption of the proposed agreements should help to moderate these disturbing influences.

In connection with this legislation, the Board suggested the addition of a provision for a council to provide the necessary guidance to the representatives of the United States on the fund and the bank. This suggestion has been incorporated in the bill.

Judge Fred M. Vinson, Director of War Mobilization and Reconversion, vigorously supported the Bretton Woods legislation in testimony before this committee. As vice chairman of the American delegation at the Bretton Woods Conference, he is in an excellent position to evaluate the spirit and accomplishments of that Conference. He stated:

> One of the most encouraging features of the Bretton Woods Conference was the fine spirit with which countries worked together. We had a number of problems on any of which irreconcilable differences might have developed. This did not happen because all countries showed a willingness to accommodate themselves to the general views of the Conference.
>
> Let me illustrate. The question of quotas was one of these difficult problems. The American delegation discussed and approved a tentative list of quotas for the fund. These quotas were discussed informally with each country to get its views. Finally, the quota committee, of which I was chairman, submitted a recommendation on quotas which was approved by the Commission. There were some countries that were not satisfied with their quotas, but the Conference sustained the report of the quota committee as generally fair to all alike.

After discussing the circumstances under which the Soviet Union increased its subscription to the bank from $900,000,000 to $1,200,000,000, Judge Vinson said:

> This is one dramatic instance that reveals the harmony and the spirit of cooperation that was manifested throughout the Conference. This is one of the many reasons why I feel that the Bretton Woods Conference is an inspiration to free people in all countries who believe in the democratic process of discussion and agreement, who believe that international problems can be dealt with through international cooperation.
>
> The Monetary Fund and the International Bank represent our first efforts in the field of international economic cooperation. If we believe in economic cooperation, we must not allow them to fail. If we cannot agree on such modest efforts as these, other nations will have little faith in our will to cooperate at all.

Mr. W. L. Clayton, Assistant Secretary of State in charge of economic matters, stated that he thoroughly approved of the Bretton Woods legislation. He discussed the Bretton Woods proposals from the point of view of his long experience in international trade and presented valuable testimony showing the restrictive effect of currency manipulation on the exports of the United States. He stated:

> Some time after Hitler came into power in Germany, they adopted what they called the barter system of trade, which they exercised through exchange controls. They started that system and we had an opportunity in the United States to make a deal with them on that basis but declined to do so. However, Germany did make these bilateral agreements, barter agreements, with a number of the principal cotton-producing countries of the world, Brazil being the principal one, and by 1938 Brazil was furnishing Germany 29 percent of Germany's imports of cotton, and the United States was furnishing 28 percent. So that between 1929 and 1938, about 9 years, we went down from 70 to 24 percent in the German cotton trade, and Brazil went up from a quarter of 1 to 29 percent.
>
> Now, I do not claim that that was entirely due to this bilateral exchange arrangement, but it was largely due to it, and I had occasion personally to observe the workings of it. They would make these deals that, for all the exports from Germany to Brazil, they would have the exchange put aside and put in a fund to pay for the exports of commodities—cotton and one or two other commodities from Brazil to Germany. So they had set up an arrangement there which funneled these Brazilian cotton exports to the German cotton mills almost regardless of price, quality, or anything else. It was a bilateral arrangement which brought that about.

Mr. Wayne C. Taylor, President of the Export-Import Bank, strongly supported the bill. On the basis of his extensive experience

in international banking, Mr. Taylor replied to the criticisms of the fund which have been made. He stated:

> The various possible alternatives to Bretton Woods which I have mentioned are all essentially negative rather than positive in character. They aim at rejection of the proposed fund but do not offer anything tangible in its place. However favorably disposed the critics of Bretton Woods may be toward the general idea of international monetary cooperation, they have failed to cope in a constructive manner with the down-to-earth problem of working out an alternative set of principles and procedures.
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> Another suggestion that has been made is that we revive the international gold standard. This has the virtue of being a more positive proposal than any of the other alternatives. But we all know that, in fact, it would be utterly impossible to obtain anything approaching general acceptance of a rigid gold standard. However, the Bretton Woods plan contains the best and most practical features of the international gold standard.

REPORT OF THE COLMER COMMITTEE

The Special Committee of the House on Postwar Economic Policy and Planning, in its sixth report, recommended principles for international monetary cooperation similar to those established by the proposed fund. The committee said:

> The committee believes that the monetary proposals made in this report will preserve most of the advantages of the gold standard while eliminating its disadvantages. It is hoped, by the means outlined, to establish a monetary system which is stable without being completely rigid. The proposals of the committee may be summarized in the following points:
>
> (1) An agreement should be reached between the leading nations of the world for stabilizing exchange rates at levels which, so far as possible, will create a balanced condition between supply and demand in the foreign exchange market of each country. Perhaps the best way to accomplish this objective is to relate all of the currencies involved to gold.
>
> (2) To enable the participating nations to maintain these exchange rates in the face of temporary discrepancies between supply and demand in their individual foreign exchange markets, an international reserve of foreign currencies should be established, and each country should be permitted, subject to proper safeguards, to purchase foreign currencies from this reserve.
>
> (3) To correct more fundamental and persistent discrepancies in the exchange markets, occasional changes in the par values of certain currencies may be necessary. The committee believes that these changes should be made in an orderly manner, through an international organization established for the purpose.

This same committee also expressed general approval of the proposed Bank for Reconstruction and Development. The committee said:

> The principal advantage of the proposed bank is its ability to deal with long-range development projects. Loans made through the bank are intended to be parts of broadly conceived development projects, and not isolated ventures. For the borrowing country as a whole, such loans might be very productive and profitable. But piecemeal and uncentralized, they might completely fail. Under the bank's leadership, it is therefore likely that much investment can be undertaken which would otherwise have been unproductive. Thus, the bank will serve a dual purpose. First, by guaranteeing private loans it will increase the flow of foreign investment; second, by participating in broad programs of industrial development, it will aid in increasing standards of living throughout the world.

GROUPS FAVORING BRETTON WOODS

The committee heard testimony from representatives of a large number of groups favoring the Bretton Woods proposals. These groups include banking, business, labor, agriculture, economic, civic, and peace organizations. In addition, many resolutions and statements endorsing the Bretton Woods proposals have been presented to the committee for inclusion in the record.

TESTIMONY OF BANKERS

While the principal witnesses in opposition to the Bretton Woods agreements represented the American Bankers Association, the committee heard testimony from other bankers in favor of the fund and the bank. Mr. E. E. Brown, chairman of the board of directors of the First National Bank of Chicago, and a delegate to the Bretton Woods Conference, gave able testimony in support of the fund and the bank. In stressing the need for the fund, he stated:

> The end of this war is not only going to leave most European countries which have been devastated by the war with currencies which it will be almost impossible to sustain without some mutual assistance, but it is also likely to leave other countries not devastated by the war, but whose economies have been disrupted by the war, with similar unstable currencies.
>
> Unless something is done to bring about at least relative stability of currencies, two things are going to happen: In the first place, you are going to have very little or no international trade. In the second place, you are going to have a situation in the various countries whose currency is unstable which is apt to produce economic chaos.

In his testimony, Mr. Brown stated that the fund should be established promptly and not be put off until after the period of transition.

Mr. Brown also stressed the fact that many bankers in the United States have strongly supported the Bretton Woods proposals. In reply to a question, he stated:

> Well, a great many of our large banks favor this plan. It is true that most of the banks in New York do not, but the banks of the American Bankers Association are by no means a unit. Very many of the large and prominent banks have not joined in their opposition to these agreements. * * * I have been told, for instance, that most of the Philadelphia banks have agreed to send a memorial; I do not know whether this committee has received it or not, expressing their belief that the plan should be adopted. I know a great many large banks in the Middle West; their presidents and officers have told me their banks are in favor of adopting the Bretton Woods agreements.

Evidence was presented to show that the Pennsylvania Bankers Association and the Independent Bankers Association have approved the Bretton Woods agreements. In a report submitted to the committee endorsing the fund and bank, the Independent Bankers Association urged Congress to act favorably on the Bretton Woods legislation at the earliest possible date and without crippling reservations.

The committee received a communication in favor of the fund and the bank signed by the presidents of 11 of the largest banking institutions in Philadelphia representing approximately $3,000,000,000 of resources. The memorandum submitted by the Philadelphia bankers states:

> We believe the agreements do provide a fair basis for effective financial collaboration among the United Nations as a counterpart of collective security in the political sphere.
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> * * * * * * *
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> In view of the broad principles and objectives of the Bretton Woods agreements, the undersigned join in recommending that the Congress, after full and free discussion, give favorable consideration to the passage of legislation toward these ends, since the agreements in our judgment give reasonable promise of avoiding the major financial errors committed after the last war, and seem flexible enough to be modified in the light of experience.

TESTIMONY OF BUSINESS GROUPS

The Bretton Woods proposals have received widespread support from business and industry. Innumerable business groups have expressed their complete approval of the proposals for the fund and the bank and have adopted resolutions to this effect. The analysis below covers only a small part of the favorable testimony of business groups.

The Committee for Economic Development, a group of outstanding business leaders, endorsed the proposals. Mr. Ralph Flanders, president of the Federal Reserve Bank of Boston and chairman of the Research Committee of the Committee for Economic Development, accompanied by Mr. Harry Scherman of the Research Committee, testified before this committee. Mr. Flanders said:

> Our study of this agreement extended over several months. It included meetings both with proponents and with those who are dubious about the undertaking. In the course of this study, we became convinced of the need for international action for financing reconstruction and development. All the nations of the earth, including our own, have a particular interest in this matter, but all have a common interest as well. Each nation of the United Nations will profit more from a general advance in production and living standards the world over, than would be the case if the improvement were confined to its own territory.
>
> We furthermore became convinced of the advantage of international action for the determination and stabilization of foreign exchange rates at practical levels. Unless a practical measure of stabilization is attained and maintained, the desirable flow of international trade will be seriously handicapped and the world will face the danger of competitive exchange devaluations which, in the long run, will injure all and profit none.

The Committee on Economic Development made a helpful suggestion on the Bretton Woods legislation by proposing clarification of one of the provisions in the agreement for the bank. They proposed that the power of the bank to make stabilization loans, already implicit, should be made explicit. This suggestion has received support from Government, business, and banking groups and has been very favorably received by the committee. With this clarification, which can be made without modifying the articles of agreement, the Committee on Economic Development reported:

> We recommend the approval of the International Bank for Reconstruction and Development and also recommend that at an appropriate time, which would not delay its approval, its powers be broadened to include the extension of general long-term or short-term loans for stabilization purposes.
>
> After the bank is strengthened in this way, we feel that the management of the fund should be able to use the fund strictly for currency transactions. Accordingly, the dangers inherent in the fund as it now stands would be substantially reduced and we would recommend that the fund be approved.

The suggestion of the Committee on Economic Development has been included in the present bill.

Mr. Carl M. Wynne, managing director of Overseas Industries, Inc., who has had 25 years' experience in international trade, expressed his wholehearted approval of the pending legislation. He also spoke for the Chicago Export Managers Club, which represents some 250 foreign sales managers of industrial and merchandising concerns in Chicago. On their behalf, he offered for the record a resolution supporting the Bretton Woods proposals.

In a resolution, the National Foreign Trade Council emphasized the importance of accepting the Bretton Woods proposals substantially as drafted. The resolution stated, in part:

> Rejection of the act would involve prolonged delays in pursuit of the broad objectives sought, and would lay the United States open to the charge of failing

to cooperate internationally at a time when such cooperation is of vital importance not only to the world at large but also to the United States itself. Any modifications of the act which would require renegotiation of the terms of the Bretton Woods agreements at this late date would involve risks greatly exceeding whatever risks may be involved in adopting them promptly and substantially as drafted in the proposed legislation.

The committee received a statement from Oscar Johnston, president of the National Cotton Council, vigorously supporting the legislation. Part of Mr. Johnston's statement follows:

At the annual session of the National Cotton Council, which convened in Memphis, Tenn., January 24, 1945, the delegate members of the council unanimously approved the Bretton Woods program as that program had been announced. Because of this action on the part of its membership, I, as president of the council, am authorized to speak for the council in support of the Bretton Woods program.

The delegate membership of the council is composed of representatives from each of the six raw cotton interests; namely, cotton producers, ginners, warehousemen, merchants, spinners, and cottonseed crushers. The delegates to represent each interest are selected by their respective interest organizations within each of the 18 States in which cotton is produced. I speak, therefore, with respect to this subject matter, as the accredited and authorized representative of the entire raw cotton industry.

The South and the Cotton Belt should urge the Congress to approve the Bretton Woods monetary pact and the proposal for the International Bank for Reconstruction and Development without substantial changes. In our opinion, both represent steps forward toward the restoration of a stable and expanded international trade after the war. The cotton industry has a greater stake in the restoration of trade than have most other industries. The alternative to flourishing international trade after the war is a return to economic nationalism and more and more Government controls on the cotton industry and every other industry. If we are uneasy over the spread of totalitarianism and the expansion of bureaucracy, we should work to combat the forces which cause them by doing all in our power by reviving world commerce.

The National Planning Association, composed of leaders of business, agriculture, and labor experienced in foreign affairs, has also strongly supported the Bretton Woods proposals. The statement which it submitted to this committee reads, in part, as follows:

The fate of the Bretton Woods proposals for an International Bank and an International Fund will be largely determined by this country's attitude. If the proposals are generally adopted, the nations of the world would stand committed to the principle of multilateral trade and free exchanges, and they would be afforded instruments with which to put this principle progressively into effect. Currencies would be defined in terms of gold; and the extent to which, and the methods by which parities once established could be changed are so circumscribed that the danger of a new period of competitive currency depreciation and multiple exchange rates as weapons of economic warfare would be removed. The agreements do not contemplate accomplishing the impossible overnight. They recognize fully that, after the war, in the early transitional period, the continuation of certain restrictive measures must be countenanced. Yet the way to their gradual elimination is clearly pointed.

Failure to approve the agreements would be attended with the gravest consequences. It would involve at the very least prolonged delay in reaching any agreement in this field. Thus, we would enter the postwar period deprived of two extremely important weapons on the economic front. Under such circumstances, a new upsurge of economic nationalism, with all the disruptive features involved, would appear to be almost inevitable; and the hope of an expanding world economy might be lost overnight.

VIEWS OF ECONOMISTS

Almost all of the economists of the country have been united in their support of the Bretton Woods proposals.

Dr. O. M. W. Sprague, emeritus professor of economics, Harvard University, drew upon his long experience as an adviser and consultant

to the United States Treasury, the Federal Reserve Board, and the Bank of England, and his connection with private firms engaged in international business, to emphasize his belief that the International Bank would be seriously weakened if the fund were not also established. On this point, he said:

> Now, if we are going to have disordered exchange and bilateral clearing arrangements, I think there are very, very few so-called productive foreign loans which are in any certain sense really secure.
>
> * * * * * * *
>
> That is partly my reason for feeling that I would not like to assent to or favor the adoption of the bank without at the same time favoring or securing the adoption of the fund proposal as well.

Dr. Sprague also emphasized that the fund will be well protected against the danger of excessive use of its resources by member countries. On this point, he said:

> I do not think that there is any sound reason for supposing that countries in general will, because of the fund, adopt a more reckless policy than they would in the absence of the fund.
>
> * * * * * * *
>
> That is, I think, the most important point that I have come here to emphasize, that I simply do not believe very many countries will use their quotas freely and improvidently.

Twenty-one economists from the University of North Carolina and Duke University have written to the committee urging full support for the agreements. Their letter states:

> Inauguration of the two institutions will go far in meeting the problems brought about by the changed circumstances of modern international trade. They are designed to facilitate the maximum practicable freedom of international trade, but at the same time provide adequate latitude to each member nation in the control of its own domestic economy.
>
> * * * * * * *
>
> It is our considered judgment that the proposed international financial institutions provide the facilities by and through which international financial problems can be worked out in concert and to the mutual advantage of all parties.

Seven economists from Stanford University have placed themselves on record as supporting the Bretton Woods proposals. They state:

> With the overwhelming majority of our academic-economist colleagues who have been polled, it is our conviction that the Bretton Woods agreements should be acted upon favorably by Congress with the least possible delay.

The committee received a letter from Prof. Seymour Harris, of Harvard University, representing the Economists' Committee on the Bretton Woods program, with which was submitted a statement in support of Bretton Woods signed by 224 of the members of the American Economic Association specializing in money, international trade, and related fields. Their statement reads in part as follows:

> We, the undersigned economists, urge the Congress to accept the Bretton Woods agreements providing for an International Monetary Fund and International Bank for Reconstruction and Development.
>
> If expanding international trade is to make its much-needed contribution to the prosperity of the United States and of the world, exchange relations between currencies must be established on a stable and orderly basis and there must be a steady flow of international investment to increase the productive efficiency of the countries of the world. Action is, of course, required in other no less important fields such as trade barriers and commodities in world surplus. Although the Monetary Fund and the International Bank do not furnish a complete solution to the international economic problems, they will contribute substantially toward solving the exchange and investment problems.

The committee is informed that a subsequent poll by the Economists' Committee, covering all members of the American Economic Association, showed that 90 percent of those who replied favored approval of the Bretton Woods proposals.

VIEWS OF LABOR ORGANIZATIONS

The committee heard the testimony of the larger labor organizations. The testimony was uniformly favorable to the Bretton Woods proposals.

Mr. William Green, president of the American Federation of Labor, testified that his organization recommends the adoption of the Bretton Woods proposals. Mr. Green said:

> The American Federation of Labor, in accordance with its stated policy of supporting a world organization to aid in resolving differences between nations and in bringing about a lasting peace, recommends that the Congress adopt the Bretton Woods agreements, with necessary clarification and safeguards, as of vital importance in implementing the functions of such a world organization. We take this position because we experienced after the First World War the alternatives to cooperative action in this field and we know they would bring even more direful consequences now * * *.
>
> The policy followed between the wars of national self-interest in competitive currency depreciation, fostered depressions, discriminatory control of foreign exchange, bilateral agreements for barter, high tariffs, controlled reduction of imports, dumping, and similar forms of economic warfare, did in some cases aid temporarily in solving domestic problems for individual countries but in the long run contracted international trade and lowered the standard of living in all countries and strengthened trends toward isolation.
>
> The proposed fund provides a plan for the elimination of such practices and the gradual restoration of the orderly and stable exchange relationships essential to expanding international trade. It has been recognized that equitable exchange rates cannot be determined immediately because of the present disruption of international trade. Provision for flexibility has therefore been made in the agreements, permitting gradual relaxation of wartime exchange and currency controls, as well as limited currency devaluation. The fund should aid nations in relaxing these controls.

Mr. Philip Murray has written to the committee that the Congress of Industrial Organizations strongly supports the Bretton Woods proposals in their present form. His letter states:

> The Congress of Industrial Organizations, following the mandate of its members expressed at the 1944 convention, is in support of the bill to ratify the Bretton Woods agreement as it is now before your committee.
>
> This support is given in the firm belief that the agreement of the 44 United Nations worked out at Bretton Woods last summer is the best guaranty of a greatly expanded and stabilized world trade that will afford protection to American businessmen, markets to American farmers, and jobs for American workers.
>
> The agreement is also a concrete demonstration of the fact that the United Nations, even before final victory over the Axis, can work out successful solutions to their mutual problems in unity and accord. As such, the agreement is a tribute to the leaders of this Nation and of all the United Nations. It is a long step in the direction of the collaboration of the free nations which is the keystone of world peace and security.

Supplementing the letter of Mr. Murray, the committee heard the testimony of Mr. James B. Carey, secretary-treasurer of the Congress of Industrial Organizations. Mr. Carey said:

> The Congress of Industrial Organizations stands squarely behind the International Monetary Fund and the International Bank for Reconstruction and Development proposed at the United Nations Monetary and Financial Conference held last summer at Bretton Woods and now before your committee in H. R. 2211. It is our considered opinion that both the fund and the bank should

be endorsed by the United States without further delay and without amendments or changes.

Bretton Woods represents one of the most important cornerstones on which full international cooperation so essential to winning and maintaining the peace must be built. Throughout America and in the Congress of Industrial Organizations, Bretton Woods means jobs and security. Our president, Philip Murray, has estimated that some 5,000,000 jobs for Americans can be found in export trades after the war, if the Bretton Woods proposals are adopted.

The committee heard testimony from Mr. B. A. Whitney, director of education and research, of the Brotherhood of Railroad Trainmen. Mr. Whitney said:

Unless through international cooperation we can develop fair rules of the game and encourage all the principal countries of the world to subscribe to them, we shall in all probability be faced again with the widespread use of multiple currency devices, barter agreements, dumping, import quotas, and restrictive exchange control.

May I point out that it does not require a great deal of insight into the technical details of international finance to foresee that a world plunged into universal economic conflict is a world headed for poverty, suspicion, hatred, a world committed to live—and to die—by the sword.

As I study the Bretton Woods proposals, I am impressed with the fact that they substitute cooperation for conflict, and they provide a means by which the risk of reconstructing the devastated countries and developing the backward countries can be profitably shared by every civilized nation.

In addition, a large number of local, State, and National labor unions have written to the committee to express their support of the Bretton Woods proposals.

VIEWS OF FARM ORGANIZATIONS

Representatives of the major national farm organizations appeared before this committee and testified in favor of the Bretton Woods proposals. The committee was impressed by their wholehearted support of the program for international monetary and financial cooperation.

Mr. Edward A. O'Neal, president of the American Farm Bureau Federation, urged the approval of the fund and the bank as an aid to peace and prosperity. Mr. O'Neal said in part:

The farmers of the Nation are looking to Congress for leadership, and they are hoping that this distinguished body will exercise intelligent judgment and demonstrate a willingness to cooperate in plans which will lessen the likelihood of another war within the next generation. Certainly if we can spend over $7,000,000,000 a month to fight a war, if we can sacrifice the lives of thousands of our best young men, we should be willing to risk nominal sums in an effort to promote peaceful relationships among the nations. The total commitments involved on behalf of this Nation in both the bank and the fund are less than $6,000,000,000. Furthermore, barring extremely unfortunate experiences, the most of these funds will be an investment, not an expenditure * * *.

We believe that the proposed bank and the proposed fund are a necessary part of international cooperation, and also necessary for a satisfactory domestic economy. As we understand it, one of the primary purposes of the International Monetary Fund is to prevent the misuse of monetary manipulations (e. g., currency depreciation and exchange control), for the purpose of improving the competitive position of domestic producers, while the International Bank for Reconstruction and Development will facilitate international loans for the postwar reconstruction and the economic development of undeveloped areas and thus facilitate a larger volume of trade * * *.

Mr. Russell Smith, legislative secretary of the National Farmers' Union, urged the committee to approve the Bretton Woods agreements without amendment. In his statement he said:

> Farmers always have been the traditional supporters of abundant production, of wide distribution, of the fewest possible barriers to the free flow of goods and services. We believe firmly that the Bretton Woods agreement offers a practicable way of stimulating demand for American products, thereby assisting in maintaining full employment in this country, and in turn providing an expanded and expanding market for agricultural products * * *.
>
> What impresses us as profoundly necessary is that the International Bank for Reconstruction be set up and that the International Monetary Fund start operating, both as soon as possible. Alongside the supremely beneficent moral effect for the world of American adherence to the objectives of the agreements, differences as to details sink into insignificance.

Albert S. Goss, master of the National Grange, also testified in support of the Bretton Woods proposals. The National Grange originally supported the bank but recommended dropping the fund. After further investigation, however, the executive committee became convinced that it would be possible to strengthen and preserve the fund for the performance of important stabilization activities. They, therefore, adopted the following resolution authorizing support of the Bretton Woods proposals:

> *Resolved*, That the Washington office be authorized to support the creation of an International Monetary Fund in connection with an International Bank, provided that adequate safeguards can be provided to protect the fund from losses due to diluting the assets with weak currency, and provision can be made for channeling transactions involving the use of credit through the bank.
>
> If the activities which can be classed as stabilization operations can be separated from those activities which rightfully belong in the field of credit, we believe that the Bretton Woods proposal holds very substantial promise for promoting sound trade. We believe this can be done.

Mr. Goss said that if the fund's stabilization operations were confined to providing assistance to meet short-period needs for foreign exchange, the suggestion of the Grange would be fully met. Other witnesses have suggested that the fund should not be used for relief or reconstruction purposes, and that it should be concerned with seasonal, cyclical, and emergency needs.

In the opinion of the committee, the articles of agreement already provide for the use of the fund's resources in this way. The committee has, nevertheless, incorporated in the bill a section calling for such an interpretation from the fund. Because of the varying duration of business cycles, it is not possible or desirable to restrict the operations of the fund further than to state that the fund's resources are to be used only for seasonal, cyclical, and emergency needs for foreign exchange in connection with current transactions.

VIEWS OF CIVIC ORGANIZATIONS

Representatives of a number of organizations interested in public affairs appeared before the committee and offered statements in favor of the Bretton Woods proposals.

Americans United for World Organization sent the committee a statement supporting the fund and bank. Their statement reads in part, as follows:

> The temptation is very great for many countries to use war as an antitoxin to depression. Often this isn't done consciously. You merely start with the kinds

of currency warfare that I've been discussing. On its heels inevitably come diplomatic warfare, and the growth of suspicions and bitterness among nations, and finally the spark—the incident—and war is again with us.

The purpose of the Bretton Woods Conference in New Hampshire was to prevent that happening again. In a planet filled with nations of unequal strength and unequal wealth and prosperity the only basic cure is an agreement not to engage in currency warfare. That's the real meaning of currency stabilization.

The Conference at Bretton Woods was the first of the peace conferences of World War II. If it fails to be accepted by the United States, the peace itself has been deadlocked. Victory on the battlefields will not solve these questions. It will take a more intricate and difficult victory in our Nation's Capital.

Miss Anna Lord Strauss, president of the National League of Women Voters, informed the committee of the interest of the members of her organization in the Bretton Woods proposals. She pointed out that no one country could or should be solely responsible for dealing with international monetary problems and that other countries are eager to cooperate. Miss Strauss said:

Not one, but all nations are concerned with monetary problems. The burden of solving them, therefore, should rest on every country, and not just on the United States. It is too much to ask us to carry so heavy a responsibility.

* * * * * * *

I do not think all the good will be on our side. I think there will be plenty of it on the other side if we show the way, and I think it is incumbent upon us to show the way, because we are the most untouched country, because of the war, and the richest, and the one to which countries are looking, and I think, whether you like it or not, if you are big and strong and rich, you carry responsibility toward a country of a smaller size and I think that is one of the important elements we have to remember in all our international dealings, that whether we like it or not we are looked to as leaders, and we must carry out that responsibility.

The committee has received a letter from the National Congress of Parents and Teachers urging the committee to approve the Bretton Woods proposals. They write:

We believe, with our President and Commander in Chief, that "the fund agreement spells the difference between a world caught again in the maelstrom of panic and economic warfare culminating in war—as in the 1930's, or a world in which members strive for a better life through mutual trust, cooperation, and assistance."

Dr. Helen Dwight Reed, representing the American Association of University Women, emphasized the importance of international agreement on currency and financial problems. She said:

The stability of international finance is one of the cornerstones; and the universal recognition by these nations that there is that common interest of all of us in currency stabilization, in financial stability, and, on the other hand, in the reconstruction of devastated areas and the building up of the resources of the world, for the sake of the whole world, that that could be done through international processes without putting all the responsibility on selfish national interests; that is the great achievement and that is the thing that we must not block at this point.

The participants of the National Peace Conference also informed the committee of their support of the Bretton Woods proposals. Their resolution reads as follows:

As reconstruction and economic prosperity are essential to world order, and as the Monetary Fund and the International Bank proposed in the Bretton Woods agreements will contribute to their attainment, the conferees of the National Peace Conference, voting as individuals, urge the adoption by the United States Congress of measures in support of these two international institutions.

The United Nations Monetary and Financial Conference reached agreement on the stabilization of currency and the provision of capital loans for economic development. In such highly technical fields we are dependent upon expert

knowledge. We, ourselves, do not profess this knowledge. But common consent concerning economic measures must be achieved if war is to be avoided. We must find a way. Delegates from 44 nations assembled at Bretton Woods, N. H., reached a common decision. The proposals were adopted unanimously. The United States delegation was bipartisan.

We consider the economic and monetary issue one of the most momentous in modern history. Here is an initial venture in international economic cooperation. We must make a beginning if the economic chaos that has repeatedly followed war is to be prevented. Heretofore, the lack of organization in this field has been a major factor leading to war.

The United Christian Council for Democracy, representing six church associations, wrote to the committee as follows:

We offer for your consideration the enclosed statement on the Bretton Woods international monetary agreement. Our position as liberal churchmen is one of full support for the plan—both the fund and the bank. We favor its ratification by the Congress at once without crippling amendments or reservations.

We trust that it is your judgment, also, that this plan for collective security in monetary matters constitutes a fundamental and necessary part of the total world security program which the San Francisco Conference is still further to advance.

PUBLIC SUPPORT FOR BRETTON WOODS PROGRAM

This brief analysis indicates, but does not fully cover the wide public support of the Bretton Woods proposals by the public. Support has come from all sections of the country and from people in all walks of life. More than 100 organizations, including nearly all large organizations concerned with public affairs, have adopted resolutions and issued statements recommending approval of the Bretton Woods program. The committee has received thousands of communications urging favorable action. In the light of this evidence, the committee cannot doubt that the American people are overwhelmingly in favor of the participation of this country in the proposed organizations for international monetary and financial cooperation.

XI. Support of the Press

The Bretton Woods proposals have had widespread support from the press. It is interesting to note that this support has come from all sections of the country, supporters of both parties and independents, conservative as well as liberal newspapers.

The arguments presented by the press do not differ substantially from those given to the committee by the witnesses that were heard. Emphasis is given to the point that economic as well as political cooperation is essential to the maintenance of peace. The importance of an expansion of international trade and a resumption of international investment to the prosperity of this country is stressed. Finally, the press urges the enactment of the legislation for the Bretton Woods proposals without amendments or reservations to the agreements.

Some of the more important of the many editorial statements supporting the Bretton Woods proposals are given below.

Atlanta Constitution, March 12, 1945:

The Bretton Woods plan is an essential part of the postwar program for the establishment of better conditions in the economic set-up of the world and for the creation of a world in which lasting peace may be achieved.

It bodes ill for the plans we would make for a brave and secure new world if special interests succeed in spiking the first practical moves to create that security through cooperative organization between the nations.

The Sun, Baltimore, March 11, 1945:

Though these hearings may seem to lack drama for the person unlearned in the jargon of economics, it is not an exaggeration to say that the eyes of the responsible authorities of every member of the United Nations are upon them. Consideration of the Bretton Woods proposals is in a sense a test case. This is the first of the series of international agreements by which the nations seek to patch up the ravages of war and restore stability in their dealings with each other. The fate of these proposals in Congress is bound to be taken abroad as an indication of our country's true willingness to collaborate with other nations.

* * * * * * *

If Congress endorses these proposals, devised with so much labor, the cause of collaboration will be immensely strengthened. The formal adherence of the United States will, by a kind of gravity, attract the adherence of others; and the proposals will at least have a test. If Congress rejects them, then the fate of this particular experiment is settled. Such an agreement without American participation would be a farce. Further, if Congress rejects the proposals, the outlook for other forms of collaboration becomes less promising. The skeptics will say "I told you so," and their fingers will be crossed in future negotiations.

Evening Sun, Baltimore, March 9, 1945:

The International Bank proposed at Bretton Woods, together with the Export-Import Bank, will, if the Johnson Act is repealed, provide machinery for arranging such credits. But can they be arranged by any institution in a world not committed to the maintenance of monetary stability? And what effect would American refusal to join in the Bretton Woods plan for monetary stability have on our economic position in general? Would it invite other countries to think more favorably of those bilateral trade and currency measures which were the plague of the interwar period? Would such a refusal have an unfortunate effect on all plans for international cooperation, political as well as economic? These are questions for Congress to consider with just as much care as it weighs the technical objections to the Monetary Fund itself.

Birmingham (Ala.) Age Herald, February 14, 1945:

The attitude of Congress toward the Bretton Woods agreements will indicate the degree of earnestness and willingness with which it will approach the various phases of United States participation in world cooperation. It is important, therefore, that Congress rise above the levels of a petty partisanship.

As the President's message to Congress said, political cooperation will not be enough to assure an enduring peace. There must also be economic cooperation. In a way, therefore, Congress is called upon now, in regard to the Bretton Woods agreement, to exercise the same high spirit of statesmanship, of compromise on the international level, as will be necessary in the case of the peace treaties to come.

Bismarck (N. Dak.) Tribune, March 26, 1945:

The most important aspect of Bretton Woods is not the economic one. Its important aspect is its bearing on security—on the fact that the San Francisco Conference will meet on April 25. If Congress passes the bill before that, a great impetus will have been given to the success of the Dumbarton Oaks proposals or any other plan for world security. If Congress fails to pass the bill, the United States will again, as in 1920, appear in the eyes of the world to be withdrawing from international responsibility.

All who believe in the cause of a world organization, whether it be Dumbarton Oaks or some other variety, should use their influence to urge the passage of Bretton Woods without change. They should wire their Congressmen and their Senators, demanding passage of Bretton Woods as it stands.

Boston Globe, February 14, 1945:

The President's message to Congress, urging ratification of the Bretton Woods agreements, will become an historic document, not only for the importance of the issue it presents but also for the clear terms in which its states the choice between cooperation and chaos in the postwar world. * * * The other proposals that the President says are still to be submitted extend the area of economic cooperation. * * * They will not be achieved without cost, and this Nation must bear a large part of the cost. But the cost of peace is a small part of the cost of war. We learned last time that political peace without economic peace is like a house built on the sands. The purpose of these proposals is to put a secure foundation under the coming peace, that it may last.

Christian Science Monitor, Boston, April 20, 1945:

To keep the lines of the controversy clear, we should point out that it is the stabilization features of the plan Bretton Woods proposes, not the bank, which are under fire. They are under fire from critics who contend the monetary plan is unworkable, that the United States contribution to the fund will be lost, and that a bilateral agreement between the United States and Britain is what is needed now to put us on the road to currency stability.

There are, however, quite as many, if not more, pitfalls in the bilateral approach to currency stabilization as in the system proposed at Bretton Woods. Moreover, bilateral measures could hardly contribute to needed expansion of world trade as effectively as an all-round agreement among the United Nations to keep their currencies in an orderly relationship. The critics of Bretton Woods have given scant attention to the safeguards set up to protect American interests in the fund, and its advocates feel there has been a distinct tendency to exaggerate the dangers.

Chicago Daily News, September 5, 1944:

The Bretton Woods agreement is one of the many steps that must be taken if the postwar world is to differ from the prewar world—if we are to cooperate with other nations in laying the economic foundations of a lasting peace. The agreement sets up cooperative machinery for the purpose of maintaining a stable basis of exchange for the world's goods. * * * The fund is not a bank. It is a mechanism for accomplishing by agreement what used to be accomplished by the automatic gold standard. And that system of exchange, whatever anybody may think of it, is dead, if only because one Nation (our own) has cornered most of the world's gold.

Chicago Sun, March 13, 1945:

In view of this broad base of public support for the general principle of world economic cooperation, Congress has a clear duty to adopt the Bretton Woods legislation. The danger is that special interests may persuade Congress to tinker with the machinery so laboriously put together by fiscal experts. * * *

At bottom, then, the issue must be decided on the broad question of whether our own national interest justifies an investment of $6,000,000,000 in cooperative institutions intended to expand world trade. In other words, should America export and import more goods after the war than before?

The answer is a clear affirmative. The world wants our exports, and we want the employment which producing them will yield; other countries likewise want to produce, and we want their goods in exchange for our own. Our stake in expanded world trade thus demands participation in a world bank and fund whose function is to stimulate expansion. It is on this basis that Congress should adopt the Bretton Woods agreements without substantial change.

Cincinnati Enquirer, July 13, 1944:

One of the brightest hopes of an enduring peace after this war has been the manner in which the United Nations have approached the postwar financial and economic problems in the conference at Bretton Woods. According to all indications, the big powers, and small ones, too, are in notable harmony on the principle of a United Nations Bank and International Monetary Stabilization Fund.

We cannot live in a bankrupt world. Because of our wealth and industrial capacity, it is greatly to our advantage if it is not outright essential to have the world's finances in a reasonable state of equilibrium. And to us it seems elemental that this can be achieved much better through a United Nations Bank and International Monetary Fund supported morally or financially by all the nations, than if we go back to the "Uncle Shylock" policy. The cost, we believe, would be less. And the danger of trouble would be much less.

If we are to have an international monetary stabilization scheme, now is the time to arrange it, so it can grapple with, and if possible avert, world-wide financial chaos at the end of the war.

Corpus Christi (Tex.) Caller, July 19, 1944:

The stabilization fund agreement reached by the experts seems to us sensible, equitable, and—yes—Christian. Under the plan, nations who have will help nations who have not. By so doing the "haves" will help themselves and their

people. The United States would invest about $2,750,000,000 in the $8,800,-000,000 world-stabilization fund. It would not have a controlling voice, but it would have a dominant voice by virtue of its large investment. There is little chance that all the nations would gang up against us in operating the fund to the disadvantage of the United States. * * * The United States has been operating its own $2,000,000,000 stabilization fund since 1934 at a profit. There is no reason to believe that a world-stabilization fund operated by and for nations that conscientiously are trying to put their domestic economic houses in order would show a loss.

Des Moines (Iowa) Register, March 10, 1945:

At Bretton Woods 44 nations came together and said, in effect: "Look, this arbitrary juggling around of our currencies is hurting all of us. Why don't we agree to talk it over, before any one of us alters the value of his money? Why don't we agree on certain definite values as a start, and promise not to make total changes thereafter of more than 10 percent in our currency values without approval by the majority? Since we all do occasionally run into hard times, let's all chip in and create a fund from which anybody can draw temporarily if he gets in a tight spot, and thereby avoid the temptation to juggle his money. And finally, let's agree to talk all these problems over, and quit our dog-eat-dog policies." Does it not make sense? It is up to our Congress whether we join in and make it work.

Detroit News, March 11,1945:

These plans can be perfected later. In fact, they almost inevitably will be, because they are all experimental in greater or less degree.

If they are sufficiently experimental to offer hope of a future safer and better than the past has been, they must involve expedients that are new and untried and certain to be revised more than once in the light of subsequent experience.

* * * * * * *

These are times in which boldness of spirit in the international field will be found more profitable than caution.

It is a time for risking, not for holding back. It is a time for realizing to the fullest possible extent on the new sense of interdependence abroad in the world, and the opportunity thus offered is a fleeting one.

Jacksonville (Fla.) Journal, March 26, 1945:

The Bretton Woods agreement is the first test of successful international cooperation. If that fails, the possibilities for success in other areas of United Nations activity are indeed remote. The Treasury Department is quite correct in alleging that the success of the bank plan depends on whether the plan is accepted in its entirety. For if this country amputates any important segment, another world-wide conference would have to be convened and vote on the amended agreement or draw up an entirely new formula. The psychological effect upon the San Francisco Conference would most certainly be an undesirable one. The Bretton Woods accord is vital to any system of harmonious international relationships and the monetary fund of the proposed international bank is vital to the former.

News, Los Angeles, February 15, 1945:

American acceptance or rejection of economic isolationism is the major battle which moves into Congress in the next few days with bills to carry out the Bretton Woods agreements. The American people's unquestioned determination for a durable peace based on international collaboration swings in the balance. What will you do about it?

The outlook is tough. The congressional road down which Bretton Woods must pass holds many perils. This is true largely because the people have not acquainted themselves with what Bretton Woods means in bread-and-butter, life-and-limb terms * * *.

The Courier-Journal, Louisville, Ky., March 11, 1945:

The most fateful of issues is involved—how fateful we well may see in light of the approaching conference of the United Nations in San Francisco, when the pattern of world organization will be shaped or discarded. What we do or refrain from doing as to the Bretton Woods proposals, the nature and support of reservations that are bound to be offered, as reservations to the League of Nations' compact were offered with intent to destroy in 1919—these things will

show what we may be depended to do in the entire area of cooperation for peace and stability.

The plan developed at Dumbarton Oaks, the subject of the San Francisco Conference, is a plan for ending the warfare of arms and physical destruction. The plan developed at Bretton Woods is a plan of ending the no less dangerous economic conflict, the warfare of dollars-competitive combinations, sinister provocations of bankruptcy for a profit, bitter trade rivalries.

Milwaukee Journal, March 27, 1945:

Since the Bretton Woods proposals were developed by representatives of many nations, it would seem wise policy for our country to get the plan started by accepting it as it is. If we begin to insist on modifications as a basis for acceptance, many of the other nations may insist on other changes—and we may not get started at all.

The minor objections that have been raised to the International Bank, and the somewhat stronger objections to the International Fund, do not seem important enough to risk losing the entire program. Let's accept both the bank and fund—and then work for modification later, if they appear desirable or necessary as experience indicates.

Minneapolis Tribune, March 14, 1945:

In his speech here Monday night Secretary Morgenthau presented the monetary agreements made at Bretton Woods to Minneapolis and the Northwest in terms that meant something very definite to them. Exchange stability and foreign currency manipulation are measures which seem far removed from the everyday life of the Minnesota farmer or businessman. When these monetary measures are translated into falling wheat prices and declining exports, as Secretary Morgenthau translated them for his audience Monday night, however, they become a matter of vital concern to us.

It is the contribution which these monetary agreements can make in preventing a recurrence of the trade debacle that hit Northwest agriculture and business after the last war that makes Bretton Woods a live issue for the Northwest. Insofar as it can prevent 42-cent wheat, 23-cent corn, and 3-cent hogs, or head off $200,000,000 decline in the value of wheat exports, Bretton Woods and its proposals are something in which the Northwest has a substantial stake. Obviously, fluctuations in foreign exchange values are only secondary to depression in explaining a price collapse of this magnitude.

Tennessean, Nashville, Tenn., March 12, 1945:

It is to be regretted that the 2 times 20 nations which will be compelled to fall back on the restrictive controls of the thirties if we fail to accept the agreements cannot be heard as witnesses. There is no other choice to Bretton Woods than these vicious tools of economic nationalism. If the war has dimmed our memory of their paralyzing effect, a mere recital of a partial list of them should be sufficient to make them fresh again—exchange controls, punitive tariffs, import licenses, exchange quotas, embargoes, exchange dumping, punitive administrative controls, aski marks, barter, cartels.

It is not to be assumed that other nations will forego these controls which impoverish us as well as them unless America overcomes their skepticism by accepting a fully responsible place in a system of collective economic security.

Newark (N. J.) News, March 16, 1945:

Conceding there are risks—there are risks all along the route to an enduring peace—the fact remains that the Monetary Fund agreement, as with the bank agreement, was the joint product of 44 nations. Naturally compromises had to be made, but the result was accepted as the best means toward maintaining stable and orderly exchange rates so essential to expansion of foreign trade. In view of our past failures in that sphere the move is entitled to a fair trial. The price is not too great.

The Journal of Commerce, New York, May 4, 1945:

Actually, the Bretton Woods agreements represent a rudimentary and quite limited approach toward international economic collaboration. Because economic policies of particular countries which lead to international maladjustments first become clearly apparent in monetary instability, there is logic in making a Monetary Fund a central agency for economic cooperation between nations.

However, unless this Monetary Fund is supplemented with suitable tariff, investment and other politics in individual countries to promote equilibrium in the balance of international payments, it will break down as its critics have freely predicted.

The International Monetary Fund should not be launched with any expectation that it will end monetary or economic instability overnight or for all time. If such expectations exist, they will lead to disillusionment and disappointment. On the other hand, if the fund is launched as a limited and tentative effort to substitute cooperative for ex parte action by individual countries in shaping their monetary and foreign trade policies, it could well prove a really significant step toward a lasting solution of these problems.

PM, New York, March 16, 1945:

It is not the fact of monetary power, but the use to be made of it, that makes Bretton Woods a foundation stone of peace and security. Its purpose is to use the money systems of the world to promote its welfare. It is to repair the ravages of war, build up backward nations, make customers for progressive nations, and prevent the outbreak of economic wars which will lead inevitably to the bloody carnage of new battlefields.

Let us keep the basic fact in mind that without Bretton Woods, Dumbarton Oaks will fall. The failure of either one will start us down the road to World War III and the destruction of civilization. The whole American will to peace must be put behind them both. They must not fail.

New York Post, April 27, 1945:

Never has the importance of congressional approval of the Bretton Woods bill shone through so vitally and cleanly than it has at this United Nations Conference—for virtually every delegation has at one time or another during the last 3 days anxiously asked our representatives about the chances for its passage.

To the delegates of the 45 other countries gathered at this parley, how Congress votes on our participation in the Bretton Woods bank and fund will be the key to how it will act on United States participation in a world peace and security organization.

Philadelphia Bulletin March 24, 1945:

Popular and political objection to such plans often takes the view that America is being asked to make sacrifies for the sole benefit of various weaker sisters in the family of nations. Surely the history of the depression years in this country has afforded convincing proof that financial chaos and social discontent affecting any considerable number of nations have hurtful reactions in every country of the globe, including the richest and most powerful.

Bretton Woods treads the path of mutual aid for the benefit of all. Its object, as these local leaders in finance say, is to develop a more united and cooperative world. The bankers who take this broad view help the country to put the entire proposal on a high plane on which alone it can have proper consideration. They set an example to others in their calling by aiding the layman, the average citizen, to realize that he is helped as his country helps the rest of the world.

Philadelphia Record, March 23, 1945:

We are gratified indeed to see 11 prominent Philadelphia bankers taking national leadership in the fight for the Bretton Woods program for postwar economic stability.

In a memorandum to Congress, the heads of 11 of the city's biggest banks declare the Bretton Woods proposals, "in our judgment give reasonable promise of avoiding the major financial errors committed after the last war, and seem flexible enough to be modified in the light of experience."

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True, we do not believe Bretton Woods a perfect instrument. With the 11 Philadelphia bankers, we expect it will be modified in the light of experience. But having spent more than 200 billions to win this war, America can afford a $3,000,000,000 investment in peace.

Portland (Oreg.) Daily Journal, March 23, 1945:

Both proposals are, in their details, hard for laymen to understand, and some of the so-called experts display confusion. Both are objectively essential. Underlying future trade, exchange and international stability must be steady rehabilitation from war, revival of enterprise, opportunity in the markets and incentive

along the lines of trade. This means credit sustained by an international joining of hands. It means dependable money. It means stern bars against the juggling of exchange in the search for old-time speculative profits. It means the elimination of usury.

That he fears the Bretton Woods proposal for an international stabilization fund will cause the United States again to be branded as "Uncle Shylock," was testified by President Burgess of the Bankers Association. To the layman, it looks as if the Bretton Woods program will save the name-calling and permit the United States to continue a sane, service approach in meeting the obligations we have assumed in world leadership.

St. Louis Globe-Democrat, February 16, 1945:

Congress should endorse both the International Monetary Fund and International Bank for Reconstruction and Development embodied in the Bretton Woods agreement. It should do so without undue hedging or delay.

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Certainly we cannot afford to do nothing. There can be no full employment for us without foreign trade, for on our 10 percent margin of that trade depends our high standard of wages. And there can be no foreign trade without world monetary stability. The fund proposes to insure that stability, while the bank's purpose is to see that needy nations get the loans by which alone they can rebuild their capacity to trade with us.

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We can hold Dumbarton Oaks peace conferences until doomsday, but they will not prevent war unless some economic formula is accepted by all under which each nation has a fair opportunity to survive and prosper.

St. Louis Post-Dispatch, March 8, 1945:

The Bretton Woods agreement on which Secretary Morgenthau now testifies before Congress is in somewhat the same case as the Crimea agreement. Perhaps no one likes it in every detail. But it is so great an advance in international cooperation that we cannot afford to lose it to misplaced perfectionism.

The International Monetary Fund will maintain orderly relationships among the world's currencies, outlawing such manipulations as the Nazis used to prepare themselves for war. It will also cause progressive termination of the alarming restrictions that even the United Nations now find necessary in trading among themselves. A report of the American Bankers' Association, to be sure, worries because the proposed stabilization method goes "beyond what has been heretofore accepted." That is true, but the older method failed in an orgy of throat-cutting and competitive interference with trade. Now that all governments are deeply involved in the business life of their countries, currencies must be kept stable by acts of governments or not at all.

St. Paul Pioneer Press, March 13, 1945:

Banking opinion on the fund is far from unanimous. Those bankers in opposition, in final analysis, are against the fund as it stands because it does not provide for ordinary lending procedure. Secretary Morgenthau makes a very forceful point when he declares that this line of attack is based on a misconception, and possibly a most natural one in this case. The bankers put the emphasis on the loan procedure when that is not the primary consideration at all. The fund is not an investment institution. The essential aspect of the fund is its provision of standards for fair dealing in money rates among the nations. Giving help to some countries to maintain these standards after they have been set is incidental to the main objective. It is not a matter of making long-term stabilization loans but of establishing constant cooperation in meeting international currency problems.

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Banking opinion is inherently conservative toward innovations in the field of finance; in this case, it is being overconservative.

Seattle Star, March 22, 1945:

The Bretton Woods proposals, establishing a world currency stabilizing fund which in itself is expected to go a long way toward increasing world trade and, doing so, take away some of the causes of wars, has been given a formal O. K. by the Committee for Economic Development.

This organization, formed of more than 2,000 big business firms, sees the place in our economic structure that the world fund will fill. And it is interested enough

in the future of this world to be willing to overlook certain economic rules provided that, in the overlooking, they lead to peace.

Springfield (Mass.) Republican, March 23, 1945:

In the month intervening before the San Francisco Conference on the Dumbarton Oaks proposals for a world security organization, Congress will have a timely opportunity to place the stamp of its approval on the international financial proposals, which are scarcely less necessary to the stability of the postwar world than organization for international security. The opportunity should not be missed or fumbled.

The weight of expert American opinion obviously favors the Bretton Woods agreements unchanged, now that the bankers' committee has failed to command the unqualified support of the Committee for Economic Development. On this basis alone Congress may well approve the Bretton Woods bills as now drafted.

The Washington (D. C.) Post, March 8, 1945:

The International Monetary Fund and Bank agreed upon at the Bretton Woods conference are long-term propositions aimed at the establishment of enduring order in the economic sphere, just as the Dumbarton Oaks proposals are aimed at the establishment of permanent political machinery to curb aggression. They represent, therefore, the first concrete test of congressional willingness to endorse the practical measures for international cooperation agreed upon by representatives of the United Nations.

Secretary Morgenthau presented the argument for endorsement of the Bretton Woods measures with admirable clarity, dignity, and restraint. In his testimony yesterday before the House Banking and Currency Committee he by no means sought to dodge an evaluation of the fund and the bank on their merits. But he emphasized, very properly in our judgment, that favorable action by Congress will be taken as a sign that "we in the United States are thoroughly sincere in our devotion to the principles of international cooperation." If there are imperfections in the machinery proposed, they can be corrected once the machinery is set in motion. It can be set in motion, however, only if we, along with other nations, are ready to waive superficial differences for the sake of basic agreement.

Winston-Salem (N. C.) Journal, March 31, 1945:

Congress is now debating a bill the passage of which will be a vitally important first step to lasting peace. We refer, of course, to the measure providing for congressional ratification of the Bretton Woods agreements.

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If Bretton Woods is not perfect today, we should remember that neither was the Constitution of the United States when it was first accepted by the States. But just as the Constitution provided machinery for amendment, so does Bretton Woods.

If Congress wants to strike an effective blow for lasting peace, it seems to us that the thing for it to do is to pass the bill ratifying the Bretton Woods agreements, with the understanding that they can be amended later.

Some part of the press has, of course, opposed the Bretton Woods proposals. In general, the arguments of opposing newspapers have been of the same character as those heard by the committee. These arguments are considered in part XII of the report.

XII. Arguments Against the Fund and the Bank

Little testimony was given before the committee in opposition to the proposal for the bank. One or two witnesses objected on the ground that there was no need for an international organization to encourage international investment. On the whole, almost all the witnesses favored the bank without qualification.

The opposition to this legislation is apparently directed at the International Monetary Fund. Some of the opposition witnesses represented the American Bankers Association; others represented business organizations. Several economists appeared in opposition. In general, the committee had little testimony or exhibits, except from some

members of these groups, in opposition to the proposal for the International Monetary Fund.

The committee is cognizant of the earnest desire of the witnesses that opposed the fund or bank to be helpful in their criticisms. Many of these witnesses expressed their agreement with the objectives of the Bretton Woods proposals. Their opposition was based upon a fear that under the provisions of the agreement the resources of the fund might be used without adequate safeguards, and they proposed various amendments to the agreements and changes in H. R. 2211. The committee believes that the necessary safeguards are provided in the agreement. In addition the language of the bill establishes other safeguards. For this reason, the committee is of the opinion that no changes in the agreements are necessary.

The testimony of the opponents is reviewed briefly below.

THE FUND IS COMPLEX

One argument against the fund is that the articles of agreement of the fund are complex.

Admittedly, the fund agreement states in great detail the principles, procedures, and techniques for the operation of the fund. That is wholly to be expected in a basic document setting up two world organizations with large resources and important powers. In order to safeguard those assets adequately, and to assure a proper use of those powers, a considerable number of carefully drawn provisions dealing with technical aspects of the fund's operations are essential.

As was often pointed out, the essential principles of the fund are clear and simple. They provide for international consultation on international monetary problems, for the maintenance of stable and orderly exchange arrangements, for the gradual elimination of exchange restrictions and discriminations that affect international trade, and they provide help to members who abide by these principles.

It was clear from the testimony on the detailed provisions of the fund agreement that it was necessary to have the provisions stated in great detail in order to provide the necessary safeguards that would assure the proper operation of the fund. In fact, the committee heard no testimony that would indicate that there was any defect in the technical provisions for the fund.

THE FUND IS NOVEL

It has been stated that "the plan for the Monetary Fund introduces a method of lending which is novel and contrary to accepted credit principles."

In the view of the committee, not much weight can be given to the argument that the fund is novel. Clearly, there should be no objection to using new methods to deal with an unprecedented international situation. Even opponents of the fund admit that the economic and monetary situation after this war is likely to be of a character requiring new measures and concerted action.

The testimony introduced in the record shows that in fact the fund's method of operation will not be novel. The United States Treasury through our own stabilization fund has made about 15 bilateral stabilization agreements with 12 countries, with aggregate commitments of several hundred million dollars. After 8 years of

operation under these agreements, this country has not lost one dollar. It appears that the International Monetary Fund would undertake exchange operations in much the same way and with much the same safeguards as the United States stabilization fund. The only significant difference is that the fund would operate on a multilateral rather than on a bilateral basis.

A good deal was made of the point that the fund makes credit available to members for stabilization purposes in a manner contrary to accepted credit principles.

In the opinion of the committee, this point was not sustained. The fund will not, of course, conduct its operations in the same way that a bank makes loans to a local merchant. The fund will sell foreign exchange in limited amounts, for a member's currency, to a country that needs such help to maintain stable exchange rates and freedom in exchange transactions. Such help will give a country time to take the necessary corrective measures without resorting to restrictions and discriminations that may cause and spread depression. When a country in good faith abides by the principles of the fund and meets the tests specified in the fund agreement, it is reasonable to say that the aid extended will be in accord with the credit principles that should govern stabilization operations.

This point is further discussed below.

THE FUND PROVIDES AUTOMATIC CREDIT

The charge has been made in the testimony of certain witnesses that the fund provides automatic credits for countries regardless of their credit worthiness or the purposes for which the credits are to be used. It is said that the management of the fund will have no real power over the use of the fund's resources because each member has an absolute right to credits up to the limit of its quota.

The committee has been assured, both by the delegates participating in the Bretton Woods Conference, and by bankers and experts in international finance who have studied the documents of the Conference, that the fund's management will have ample power to control the use of its resources and that there is no unqualified right to credits from the fund. There are both qualitative and quantitative limitations on the ability of a country to purchase foreign exchange from the fund with its own currency. In the words of a prominent banker who testified before the committee, the quotas are in the nature of a line of credit extended by a bank to its customers, the use of which is circumscribed by safeguards and subject to continual scrutiny.

Those who state that access to the fund is an automatic right to every member overlook certain very important safeguards found in the fund agreement. These safeguards may be summarized as follows:

(*a*) The fund would not begin exchange transactions with countries until those countries are in a position to keep exchange rates stable without excessive use of the fund.

(*b*) No country could purchase exchange from the fund except to help it to make payments for imports and other current transactions. The fund could not be used to finance flights of capital.

(*c*) The executive directors of the fund could stop a country at any time from purchasing exchange if in the opinion of the directors the country was acting contrary to the purposes of the fund, including

the fund's objective of promoting exchange stability and maintaining orderly exchange arrangements.

(*d*) All of the currency holdings of the fund are guaranteed against depreciation in terms of gold. A country using the fund's resources must use its own monetary reserves in equal amount if its monetary reserves are in excess of its quota and it must repurchase its currency with gold as soon as its balance of payments and its reserve position permit. If the repurchase is delayed unduly, the fund can impose such charges as it deems appropriate to bring about prompt repurchase.

If a member country agrees not to impose exchange restrictions on current transactions and not to allow a depreciation of its currency, it must be given assurance of assistance in periods of adversity, provided it abides by the principles of the fund and takes whatever measures are necessary to correct the situation. Just as a businessman who undertakes a business commitment needs to be able to count on a line of credit from his bank so long as he uses the credits extended to him in accordance with certain prescribed purposes, so must a nation be assured that it can count on obtaining stabilization help in time of need.

THE FUND IS PREMATURE

It has been said by some of the critics of the fund that to establish the fund during the next year or so would be premature; that it would be better to wait several years until nations have attained a greater degree of economic stability before attempting to stabilize foreign exchange rates.

The committee believes that some of the most urgent problems in the postwar transition period will be international monetary problems and that the prompt establishment of the fund is essential to their solution.

The immediate problem will be the establishment of the initial pattern of exchange rates. Unless exchange rates of all countries are determined in relation to each other and through international consultation, we may have a repetition of the experience that followed the First World War. There would be danger of overvaluation of some currencies and undervaluation of others, and subsequent unilateral adjustment that might degenerate into competitive exchange depreciation. The fund is necessary to provide a means of establishing an initial pattern of exchange rates, through consultation, that will be suited to the changed conditions after the war.

During the transition period, countries will establish their postwar exchange policies. It is of the utmost importance to see that these policies include the maintenance of stable and orderly exchange arrangements and the elimination of multiple currency practices and other devices of currency warfare. In some countries, it will be necessary for a time to continue wartime controls on exchange transactions. There can be no objection to the temporary retention of such controls, provided the countries that use them accept now the obligation to remove them as soon as their international payments can be brought into equilibrium. This is precisely what they do under the fund.

The prompt restoration of international trade and investment after the war requires the establishment of the fund. Some countries will

need help during the transition to meet a temporary adverse balance of payments. Otherwise they will feel compelled to maintain restrictions that can soon be abandoned. If they can get such help from the fund when they need it they will be in a position to accept the obligations with respect to fair exchange practices specified in the fund agreement.

To postpone the establishment of the fund is to risk the resumption of currency warfare. And if countries should establish policies contrary to the principles of the fund, their economies would become adjusted to such restrictions and it might become impossible to abandon them later on. The period immediately after the war—the transition period—is the time when future exchange policies will take final shape. The fund is necessary to see that these policies are in accord with the principles for which the United States stands.

THE FUND WILL BE CONTROLLED BY DEBTORS

The criticism has been made that the fund will be managed by its debtors, because the United States alone does not have a majority of the votes.

This criticism seems to imply that the fund is merely a financial institution whose sole function is to lend money and it seeks to indicate that the United States is putting up more than half of the assets of the fund. Neither view is correct.

The fund is designed primarily to deal with international currency problems. It embodies an agreement on the maintenance of fair exchange standards. Policies on exchange rates, on exchange restrictions, and on multiple currencies will all be subject to the fund's supervision. In such an institution, it would be entirely unreasonable and even unwise to give any country the deciding vote in its management. Each country should have influence based in its international position. It is on this basis that subscriptions to the fund were determined and the voting power was apportioned.

The United States, as the largest subscriber, will have the largest number of votes in the fund. Approximately 28 percent of the total number of votes will be cast by the governor and the executive director representing the United States. With so large a vote, there can be no doubt that the United States will have a substantial voice in the determination of its policies.

The aggregate subscription of countries other than the United States will be slightly more than $6,000,000,000 if all the countries represented at the Bretton Woods Conference become members of the fund. Of this amount, approximately 1.1 billion dollars will be subscribed in gold and the remainder in local currencies bearing a gold value guaranty. Those who hold that these other currencies subscribed to the fund are worthless or that they would not be used are misinformed. These currencies are in demand every day the world over and are valuable for the same reason that other currencies are valuable, namely, their ability to purchase goods and services in the countries of issue.

Nor is there any basis for the assumption that United States dollars will be the only currency which the fund will be called upon to sell. No one can tell just how long and by how much the United States or any other country will continue to have a favorable or an unfavorable balance of payments. It is to be expected that for several years

after the war the United States will be one of several countries—and doubtless the chief country—that will have an export surplus of goods and services. But how large that excess will be and how long it will continue depends upon a number of factors none of which can be accurately forecast. It depends upon the level of business activity here and abroad, upon the tariff changes we make, upon the amount of our tourist expenditures, the level of exchange rates that will finally emerge, and how much of the world's trade other leading countries will be able to regain, and finally how much short-term and long-term credit Americans are willing to extend during the postwar years. Altogether, it is completely unwarranted to assume that all or most countries will wish to purchase as much dollars from the fund as they can.

In any case the argument that the fund will be controlled by the countries which are purchasers of exchange from the fund seems to imply that a conspiracy can somehow establish policies contrary to the interests of the United States and other countries. This is an attitude that cannot be reconciled with the interests and the objectives of the 44 countries that would be members of the fund. No country has any reason to wish to see the fund's resources misused. It is difficult to believe that a fund in which the United States has 28 percent of the voting power, the United Kingdom and the rest of the British Commonwealth of Nations 25 percent, the Soviet Union, China, and France together 23 percent, the American republics 10 percent, and the Netherlands and Belgium 5 percent, would permit a combination that would impair the usefulness of the fund. The fund's resources constitute the second line of reserves for all countries, and few countries will approve the dissipation of these resources.

It should not be inferred that the influence of the United States will be limited simply to the proportion of its formal voting strength. The power and influence of the United States over decisions of the fund, if directed toward reasonable use of the fund's resources, will in all probability be far greater than its voting strength would indicate. Finally, the right to withdraw from the fund will prove a powerful deterrent against any conspiracy aimed at any one country or group of countries.

THE FUND WILL NOT STABILIZE

The argument has been made that the adoption of the fund will not result in the stabilization of currencies, because of the provisions which permit changes in the par value of a currency after consultation with the fund and generally with its concurrence.

The fund agreement provides that the value of each member's currency must be defined in terms of gold or the United States dollar. Members agree not to permit their exchange rates to vary by more than 1 percent above or below par. Changes in the par value of a member's currency may be made only when a change is necessary to correct a fundamental disequilibrium and then only after consultation with the fund. If the change proposed by a member country plus all previous changes, whether increases or decreases, is less than 10 percent of the original parity, the member country need only consult with the fund before making the change in the par value of its currency. If the sum of the proposed change plus all previous changes is more

than 10 percent, the fund by a majority of the member votes will either concur or object to the proposed change.

Stability and order in exchange rates does not mean absolute rigidity. No one pretends that the initial pattern of exchange rates adopted when the fund begins operations is going to be perfect or that the appropriate rate will be chosen in each case. Clearly some changes will be necessary and should be made in an orderly manner. The maintenance of stability and order in exchange rates does mean, however, the avoidance of unnecessary changes; and when changes become necessary, they are to be made only after consultation and with full consideration of their effects on other countries.

Unless positive steps are taken to establish fair exchange practices, the postwar period will inevitably be characterized by unstable exchange rates and chaotic exchange practices. Conditions under an agreement which provides for limited flexibility in exchange rates must be compared with conditions which would prevail in the absence of the fund. Except for a few years in the late 1920's, most countries were off the gold standard during the interwar period. Exchange rates during this period in many instances fluctuated widely from week to week, while in other cases they were fixed by means of rigid exchange controls. The stability offered by the fund will be far greater than the world has seen since 1914; and it will be far greater than we can possibly expect in the postwar world without international monetary cooperation.

THE FUND SANCTIONS EXCHANGE CONTROLS

Some witnesses have criticized the fund on the ground that it permits the use of exchange controls for certain purposes and under certain conditions. It is said that instead of eliminating exchange controls, the fund will actually encourage their use.

In the view of this committee, this is essentially an argument for impossible perfection. In effect, the argument is that if we cannot abolish all exchange controls, we should not try to eliminate any. An international agreement that is to succeed must be realistic, and it must not commit countries to more stringent policies than they can in fact carry out. Moreover, it was generally recognized by financial experts who appeared as witnesses that exchange controls on capital movements are absolutely necessary for some countries, for some time at least, if they are to maintain order in their currency systems.

It is a fundamental purpose of the fund to eliminate the use of exchange controls in connection with current transactions. It is agreed by all countries that exchange controls on current trade and the blocking of the income from international loans and investments can only discourage international trade and investment. There is general agreement that such practices must be eliminated as soon as possible and this principle is recognized in the fund. Under the articles of agreement, a country will be permitted to restrict the transfer of funds involving large exports of capital. This is the only way in which a capital flight can be prevented. On the other hand, except during the transition period, restrictions on the transfer of the proceeds of exports and other current payments can be maintained only with the approval of the fund.

Since the fund is not designed to meet the enormous immediate demand for foreign exchange on the part of war-devastated countries, and since their gold and foreign exchange resources are limited, it is to be expected that some of the existing restrictions on demands of their nationals for foreign exchange will have to be maintained by some countries until they are otherwise able to maintain an appropriate balance in their foreign exchange position. For this reason, the fund agreement provides that during the transition period member countries may retain and adapt some of their exchange restrictions that have been in operation during the war. In accordance with the agreement, these restrictions will be withdrawn as soon as it is clear that a country will be able to settle its balance of payments, in the absence of such restrictions, without excessive use of the fund.

There is only one other provision under which the fund permits exchange control on current transactions. When the currency of a country becomes generally scarce, it is necessary for countries to restrict the obligations they incur in the scarce currency. There is no other way by which they can meet their obligations unless additional foreign exchange resources are placed at their disposal. This question is discussed below.

In the opinion of this committee, these provisions regarding exchange control provide the maximum practical assurance of freedom in exchange transactions for current international trade wherever and whenever this is possible. No country is in a position to undertake greater obligations on the removal of exchange restrictions.

EFFECT OF A SCARCITY OF DOLLARS

Objection has been made to article VII of the fund agreement because, when dollars become scarce, the fund may permit members to limit the sale of dollars. This argument seems to imply that somehow the fund will be responsible for a scarcity, and that it will give countries the power to do something which they could not have done in the absence of the fund.

If a scarcity of dollars develops, it will be notwithstanding the efforts of the fund to prevent it. The fund neither creates nor is responsible for the appearance of the scarcity. On the contrary, it serves to postpone, diminish, and sometimes prevent the development of a scarcity. When the fund authorizes its members to limit the sale of dollars, the members will be doing what they would be compelled to do in any event. The chief difference would be that limitations under the fund would be no more restrictive and of no longer duration than necessary in the light of each member's existing and accruing supply of dollars. Furthermore, other countries would be required to give sympathetic consideration to the views of the United States on the administration of limitations on the sale of dollars.

The committee was impressed with the testimony of several witnesses regarding the probable supply of gold and dollars that will become available to other countries to pay for exports from the United States. Except for a brief period during the 1930's, there has been no scarcity of dollars in time of peace. And even in the 1930's the scarcity of the dollar was almost entirely due to the perverse movement of capital to the United States seeking refuge from the political and economic disorders that gripped the world. Provided the United States

maintains a reasonably high level of employment, and provided further that there is a reasonable volume of foreign investment, the supply of dollars is likely to be ample to meet the needs of the world taken as a whole. Temporary shortages of dollars and other currencies are likely to arise in certain countries, and it will be the function of the fund to help meet these needs. The provision of temporary exchange assistance by the fund to a few countries will prevent them from precipitating a wave of currency depreciation and exchange restrictions.

It is the view of this committee that the scarce currency provisions of the fund would not be harmful to the interests of the United States. Rather they are a frank recognition of a possible, although not highly probable, development in the postwar period, and they provide an orderly means of dealing with the scarcity of a currency if that should happen.

XIII. Alternatives to the Bretton Woods Program

In the course of the hearings on H. R. 2211, several alternatives to the Bretton Woods proposals were suggested by witnesses. The committee is of the opinion that these alternatives do not offer a practical basis for international monetary policy after the war.

The most important of these alternatives are discussed in the following paragraphs.

LET EACH COUNTRY STABILIZE BY ITSELF

One alternative would be to reject both the fund and bank proposals on the ground that no international stabilization arrangement or lending agency is needed. According to this view, currency stabilization is wholly a matter of a country's internal policies. Any attempt to help other countries to stabilize their currencies would be futile, and in any event other countries could not be counted on to abide by their agreements. So far as international loans are concerned, all necessary loans to credit-worthy countries will be made by private institutions without the help of the fund or the bank.

The committee rejects the view that international monetary cooperation and financial assistance to other countries in stabilizing their currencies is either futile or wasteful. Past experience indicates that in general other nations are willing to abide by their commitments, provided they can do so without serious damage to their economies. Moreover, there is nothing in our past experience to indicate that the stabilization operations of the fund will be unsuccessful or accompanied by large losses.

In considering the view that private financial institutions will be able to handle all worthy foreign loans, it should be borne in mind that the rapid reconstruction of the war-torn areas of Europe and Asia is vital to the peace and prosperity of the world. In many cases, the credit standing of these countries immediately after the war will not be sufficiently well established for such loans to be attractive to private lenders except at excessively high and burdensome interest rates. Also many countries will need foreign capital for the development of their resources, capital which cannot always be obtained at reasonable interest rates from the usual private investment sources.

It is a mistake to assume that because a loan is not attractive to

private financial institutions at reasonable interest rates, it is, therefore, unwise to make the loan. If made in moderate amounts and for productive purposes, these loans in the aggregate should prove a sound and profitable investment. By sharing the risk of loss among a large number of countries, the bank will make productive loans possible that could not be made by private financial institutions by themselves, but that will nevertheless prove to be of general benefit to the whole world.

HAVE ALL COUNTRIES ADOPT THE GOLD STANDARD

This approach takes the position that the only workable international monetary standard is the automatic gold standard and that all other systems lead inevitably to currency instability and inflation. It is suggested that the United States might get the world back on gold by calling another world conference specifically for this purpose.

The assumption that countries will sooner or later return to the traditional gold standard after the war is unrealistic. The fact is that the United States is perhaps the only major country in the world that is prepared to maintain the gold standard as it existed in the late 1920's. Most countries believe that rigid adherence to the gold standard would force upon them adjustments harmful to domestic employment, and that they would become subject to alternate inflation and deflation with movements of gold in and out of the country. We in this country are in the fortunate position of having an abundance of gold, so that gold movements need not interfere with our domestic policies. We must face the fact, however, that nearly every other important country has gone on record opposing gold. Consequently, a policy based on imposing the gold standard on other countries is doomed to failure. If we should insist on such a program, an international agreement on monetary policy of any kind would be extremely difficult and would probably be impossible of attainment at this time.

The fund agreement embodies the fundamental advantages of stability and order that can be secured from the gold standard without forcing its rigidities on countries which are unwilling and unable to accept them. All currencies are defined in terms of gold, and with gold it will be possible to buy the currency of any member country at a nearly fixed price for the purpose of settling international payments. Also, in connection with current transactions, the currency of every member would be freely convertible by exporters and foreign investors into their own currencies.

The committee is impressed by the fact that entirely too much emphasis is put on the name to be given to the exchange provisions of the fund agreement. Because some people in this country have called these arrangements a form of the gold standard and others in England have called them the opposite of a gold standard, there is said to be a misunderstanding on the meaning of these exchange provisions. In fact, the provisions are clear enough. They provide for defining currencies in terms of gold, for maintaining exchanges stable within 1 percent of parity, and for making changes in parity only after consultation with the fund. It is not of great consequence what name is given to these arrangements. It is significant that they provide for stability and order in exchange rates.

KEY CURRENCY APPROACH

Advocates of the key currency approach oppose an agreement for the general stabilization of the currencies of the United Nations. Instead, they propose that we seek to stabilize only the so-called key currencies, or the currencies in terms of which the bulk of the world's trade is carried on. For the time being, it is suggested that stabilization efforts be limited to stabilizing the dollar-sterling rate by means of a large stabilization loan or a grant-in-aid to Great Britain. Eventually it is intended that all other currencies will be tied more or less firmly to one or the other of the key currencies. The view is expressed by some of the advocates of this approach that the value of many of the other currencies should be permitted to fluctuate freely.

Stabilization of the rates of exchange of the so-called key currencies would not provide the world with the kind of international monetary policy necessary for a high level of world trade. While the dollar and sterling are the most important currencies for purposes of international trade, it is not possible to neglect the other currencies. Only a very small proportion of the trade of the entire world is represented by trade between Great Britain and the United States. It would appear to be excessively optimistic to think of exchange stability exclusively in terms of the dollar-sterling rate. The currencies of all countries are important to the extent that they affect international trade and investment.

In fact, if other currencies are permitted to fluctuate, even the stabilization of the dollar-sterling rate will become more difficult and may become impossible. It should be noted that a considerable number of currencies were depreciated before the sterling depreciation of 1931, and that the undervaluation of other currencies contributed to the weakness of sterling. Currency stabilization cannot be regarded as the special problem of the United States and Great Britain. It is an international problem that can be dealt with only through international cooperation among all countries.

Under the key-currency approach other currencies would be expected to attach themselves to the dollar or sterling and to pursue exchange policies conforming to those set for them by the United States or by the United Kingdom. Such a system based on key currencies would inevitably divide the world into economic blocs. It would have all the economic disadvantages of bilateralism, and all the political dangers of a world divided into conflicting groups. The fund is based on the principle that all countries have a common interest in international monetary problems, and all should cooperate in dealing with such problems.

Those who emphasize the stabilization of exchange rates between a few key currencies overlook what will be a significant postwar currency problem, namely, the retention of exchange restrictions and clearing arrangements which played such a large part in stifling world trade since the great depression and the break-down of the gold standard in the 1930's. Formally, at least, currencies may very well be stabilized after the war with reference to sterling, the dollar, or gold, but in much the same way as the German mark was stabilized during the 1930's. Such stability has little meaning when trade is carried on in terms of special currencies with a wide variety of rates, under bilateral clearing arrangements, and with rigid control of foreign exchange transactions.

Agreements on exchange rates and exchange practices must be multilateral in character. Nations cannot agree to give up exchange controls and other restrictive devices unless all nations enter into an agreement not to employ them. Likewise, nations cannot make commitments with regard to their exchange rates until similar commitments are made by other countries. It is a mistake to think that we can begin in a small way with an agreement with one country and ultimately get all other countries to subscribe to the kind of exchange policies that we have advocated. No important nation would be prepared to enter into a long-period agreement with us for the freeing of its exchanges and the stabilization of its exchange rate unless most other countries commit themselves to the same principles.

REJECT THE FUND AND AMEND THE BANK

The alternative that has perhaps received the widest attention is that the agreement for the fund be rejected and the agreement for the bank be changed to permit it to make stabilization loans and to enter into agreements with members regarding exchange policies. It is said by the proponents of this alternative that in this way the bank could perform the functions of both the fund and the bank more efficiently and with only half the capital.

If the question were whether all the functions of the bank and fund were to be performed by two institutions or by one, it would still be necessary to weigh the advantages of combined or separate organization. Conceivably, some minor advantages in the coordination of policy might be gained from having one institution instead of two. On the other hand, it should be recognized that the functions of the fund and the bank will be distinct and specialized, requiring the services of specialists in each field.

The functions of the two institutions are so different that in the opinion of the committee a separation of their operations is considered highly desirable. The fund is concerned with broad economic considerations that affect exchange policy and fluctuations in the exchange markets. It is concerned with the seasonal and cyclical developments that alter the balance of payments of a country and put pressure on its exchange rates. These are highly specialized problems. The bank on the other hand is concerned with the long-range problem of loans for reconstruction and development. It is concerned with the question whether countries can profitably use foreign loans to develop their economy and to expand their international trade, and whether their balance-of-payments position over two or three decades will be adequate for servicing and repaying the loans.

In this country, we have recognized the essential distinction between these functions in our domestic legislation. Under the Banking Act of 1933, commercial and investment banking were separated. The fund, whose functions comprise stabilization operations and the determination of exchange standards, is so far specialized in its work as to be even more remote from the work of the bank than is ordinary commercial banking.

The alternative under discussion, however, involves far more than merely combining the functions and the resources of the fund and the bank. If the fund is eliminated, under the proposal which has been

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made, we would automatically lose the basic agreement on exchange policy which was drawn up at the Bretton Woods Conference. The following are some of the important provisions of the fund agreement that would be dropped if the fund were not established:

(*a*) The fund provides a means for determining the initial pattern of exchange rates after the war. If countries are left to fix their own exchange rates without consultation with other countries, an appropriate pattern of exchange rates would be almost unattainable. Some currencies would be overvalued, others undervalued, without any basis for adjustment through consultation. Successful trade and financial relations in the future will depend in considerable measure upon common action in setting exchange rates after this war.

(*b*) The fund agreement provides for the stabilization of exchange rates, and a method for making necessary changes in exchange rates after consultation and with consideration of the effects on the economy of other countries. In this way, the fund establishes orderly exchange arrangements and eliminates competitive exchange depreciation.

(*c*) Members of the fund agree not to impose restrictions after the transition period on the making of payments or the transfer of such payments so long as the transactions arise out of current business.

(*d*) The fund agreement provides for the elimination of other currency devices of economic warfare which interfere with international trade and which in the past have often been directed against the exports of this country.

The proposal to give the bank power to make stabilization loans cannot be regarded as an adequate substitute for the fund. Without an agreement on exchange standards, stabilization loans would become meaningless. In fact, a number of witnesses testified that without the fund it would not be possible for the bank to operate successfully.

It is quite evident from the developments at the Bretton Woods Conference that the vast majority of the United Nations firmly believe that the best and most desirable solution is international cooperation through the fund in the working out of international monetary problems. It was fully recognized also that the objective of the bank for encouraging adequate international investment would be jeopardized without an international agreement on currency stabilization and exchange policy.

A final difficulty with the proposal to amend the bank and abolish the fund is that it would require another international conference. This would entail much delay, and there is little reason to believe that a satisfactory agreement could be reached on exchange policies if we rejected the basic structure of the Bretton Woods proposals. The rejection of the fund agreement by this country would crush the hopes of the vast majority of people in other countries who want to see a world in which international trade and investment can be carried on by businessmen, free from the stifling effect of discriminatory currency practices and complete government control of exchange transactions.

There is nevertheless much that can be done to secure coordination of the activities of the fund and bank. Clearly what is needed is the coordination of broad policies while recognizing and retaining the specialization and separation of the two institutions in their operations. In the opinion of the committee this has been accomplished by provisions in the bill.

XIV. Amendments and Reservations to the Agreements

The committee has considered the possibility of amending the articles of agreement or accepting them with reservations as to the interpretation of certain provisions. This problem has been examined in the light of the testimony and the suggestions presented to the committee.

Some of the suggestions to improve the Bretton Woods proposals are not based on the amendment of any specific provisions of the articles of agreement of the fund and bank. In some instances the modifications sought can be made adequately in the legislation that Congress enacts since they relate to the manner in which the United States will participate in the operation of the institutions rather than the content of the articles of agreement. The Committee for Economic Development has suggested that the bank's authority to make long-term stabilization loans be clarified. Although the provisions of the agreement itself are involved in this suggestion, the committee believes a satisfactory solution has been found without the necessity of calling another conference. The same consideration applies to the section of the legislation dealing with the currency transactions of the fund. This solution will be discussed in the next part of this report.

Some critics of the International Monetary Fund, whose principal spokesmen are the committees of the American Bankers Association, have proposed amendments to the articles of agreement. The pivotal suggestion is that the fund be not approved and that a department be set up in the bank to make stabilization loans. As stated above, the fund and bank operate for different purposes: the fund in the field of monetary stabilization; the bank in the field of economic stabilization, reconstruction, and development.

The committee has concluded that the device of amending the articles of agreement for the fund and bank involves serious risk. If the United States should propose amendments to the agreements, other countries would undoubtedly do this too. A whole new set of principles would have to be examined, and the difficult procedure of negotiation and compromise would have to begin all over again. The prospect of reaching a satisfactory agreement a second time would be dim indeed. Moreover, an adequate amendment procedure is provided in the articles of agreement. Changes of a specific nature that appear advisable in the light of experience can be made without great difficulty. The interests of the United States, moreover, are fully protected, since no amendment can go into effect without our approval, and the bill requires that Congress pass upon any proposed amendment before this country accepts it.

There have been several proposals for reservations as to the proper interpretation of the articles of agreement of the fund. The committee, after considering these carefully, has concluded that the supposed dangers to which they are directed are not serious. If accepted, these reservations would open the way for reservations on the part of the 43 nations that have not yet passed upon the Bretton Woods agreements. We believe that it would be unwise for the United States to jeopardize the establishment of the fund and the bank by attempting to formulate modifications in the articles of agreement by unilateral

action. Nor do we see any possibility of postwar monetary and financial cooperation if other nations should follow such practices, thus requiring a reexamination of the whole problem anew.

XV. Analysis of the Bill by Sections

Because of its conviction that the fund and bank are essential to successful political as well as economic cooperation and that they will play an important part in the establishment of a just and lasting peace, the committee has designed this legislation to give the American representatives every opportunity to make these institutions an outstanding example of what can be accomplished by right-minded nations acting in concert. The bill makes clear to the whole world that the United States will be guided by a unified policy in its participation in the fund and bank. The Congress, the administration officials concerned, and the American representatives will be enabled, under the provisions of the bill, to work together in bringing about the kind of international monetary and financial relations toward which the Bretton Woods agreements are directed.

The bill recommended by the committee has 14 sections. Sections 13 and 14 of the bill did not appear in H. R. 2211. Sections 3, 4, and 9 of the bill contain substantial modifications of the corresponding sections of H. R. 2211.

SHORT TITLE

Section 1 provides a short title: "Bretton Woods Agreements Act."

ACCEPTANCE OF MEMBERSHIP

Section 2 authorizes the President to accept membership for the United States in the fund and the bank. This section, in effect, constitutes approval by the Congress of the articles of agreement formulated at the Bretton Woods Conference.

APPOINTMENT OF GOVERNOR AND EXECUTIVE DIRECTORS

Section 3 provides for the appointment of United States representatives on the fund and bank. H. R. 2211 as originally introduced authorized the President, by and with the advice and consent of the Senate, to appoint one Governor and one alternate for the fund and another Governor and another alternate for the bank. The committee has amended this provision by requiring that the same person be named to serve as Governor of both the fund and bank. A similar provision has been inserted with respect to the alternates of the Governors, so that there will be only one alternate.

The committee believes that a single individual representing the United States as Governor on both institutions will be in a better position to coordinate the policies and practices of the fund and the bank. The great difference between their tasks, the specialized training that will be required for their personnel, and the difference in their methods of operation, make it essential that the fund and bank be organized and operated separately. It is only on basic questions of policy that coordination is required, and this can be achieved by placing the ultimate responsibility for their activities in the same

individuals. In this way effective cooperation between the two institutions can be achieved at the highest level of responsibility without destroying their independence or their separate organization. It is believed that many other countries will follow the example of the United States and appoint one Governor to serve the two institutions.

The President, by and with the advice and consent of the Senate, is also authorized to appoint an executive director of the fund and an executive director of the bank. Under H. R. 2211 the executive directors, once appointed, would have selected and appointed their own alternates, with the approval of the President. The present bill provides that the President shall appoint the alternates, subject to confirmation by the Senate. The principle of having the executive director participate in the selection of his alternate is preserved by having the President appoint an alternate from among those persons recommended to him by the executive director.

The Governor and his alternate will serve for 5 years. Executive directors and their alternates will serve for 2 years, but executive directors will hold office until their successors are appointed in order that the fund and the bank may be able to function without interruption at all times.

While the fund and the bank are being organized, the executive directors are considered to be provisional in character. This distinction is made in the articles of agreement in order to preserve a voice in the management for all countries accepting membership before January 1, 1946, but at some date subsequent to the organization of the fund and the bank. Since the United States is entitled to appoint its own executive director, the provisional status of the first executive directors has no real significance so far as this country is concerned.

In view of the fact that the positions of Governor and alternate for the Governor will not require the full-time services of these officials, and in view of the fact that executive directors and their alternates will be paid by the fund and the bank, the bill provides that none of these persons shall receive any salary or other compensation from the United States for their services as Governor, executive director, or alternate.

NATIONAL ADVISORY COUNCIL ON INTERNATIONAL MONETARY AND FINANCIAL PROBLEMS

In addition to the need for harmony in the formulation of policies by the two institutions, it is important that the policies to be followed by the American representatives be worked out by the officials responsible for American activities that will affect and be affected by the operations of the fund and bank. It is equally important to coordinate the activities of those Government agencies making or participating in foreign loans or engaging in foreign financial, exchange, or monetary transactions.

The committee believes that these purposes can be accomplished through enactment of section 4 of the bill, which establishes a Council consisting of the Secretary of the Treasury, as Chairman, the Secretary of State, the Secretary of Commerce, the Chairman of the Board of Governors of the Federal Reserve System, and the Chairman of the Board of Trustees of the Export-Import Bank of Washington.

These officials will be familiar with the objectives of the United States in the fields where the fund and the bank operate and will, therefore, be in a position to see whether the representatives of the United States on the fund and bank exercise their authority in accordance with the best interests of the United States.

The Council's chief function will be to provide continuing contact between the representatives of the United States on the fund and the bank and the appropriate officials of the United States Government and especially the Congress. It will recommend to the President general policy directives for the guidance of the United States representatives on the fund and the bank; advise and consult with the President and the American representatives on the major problems arising in the administration of the fund and bank; coordinate the policies and operations of the representatives of the United States on the fund and bank, the policies and operations of the Export-Import Bank and other Government agencies to the extent that they make or participate in foreign loans or engage in foreign financial, exchange, or monetary transactions; and transmit, at least semiannually, reports to the President and the Congress.

Under the general direction of the President, the Council will also give or refuse the approval, consent, or agreement of the United States to proposed actions of the fund and bank when such approval, consent or agreement is required, but in exercising this power the Council will be limited by the prohibitions contained in section 5. In addition, the American representatives must obtain the Council's approval before they vote in favor of a waiver of the conditions under which a member can purchase exchange from the fund, or before they vote in favor of a declaration of the United States dollar as a scarce currency.

The committee has recognized the possibility that the experience we will have with the fund and the bank may reveal adjustments that can be made in this Nation's cooperation with other countries on monetary and financial problems. The Council, therefore, is required to transmit to the President and the Congress every 2 years a special report on the operations and policies of the fund and bank.

Each report will cover and include: The extent to which the fund and the bank have achieved the purposes for which they were established; the extent to which the operations and policies of the fund and the bank have adhered to, or departed from, the general policy directives formulated by the council, and the council's recommendations in connection therewith; the extent to which the operations and policies of the fund and the bank have been coordinated, and the council's recommendations in connection therewith; recommendations on whether the resources of the fund and the bank should be increased or decreased; recommendations as to how the fund and the bank may be made more effective; recommendations on any other necessary or desirable changes in the articles of agreement of the fund and of the bank or in this act; and an over-all appraisal of the extent to which the operations and policies of the fund and the bank have served, and in the future may be expected to serve, the interests of the United States and the world in promoting sound international economic cooperation and furthering world security.

In order that the council may properly carry out its responsibilities, the representatives of the United States on the fund and the bank, the Export-Import Bank and other affected agencies, are required to provide the council with such information concerning their activities as the council requires.

ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

Section 5 prohibits the making of fundamental changes in the fund or bank, or in the participation of the United States in these institutions unless Congress approves such changes. Except upon approval by Congress, it will prohibit:

1. Changing the quota of the United States in the fund.
2. Changing the par value of the United States dollar.
3. Increasing the capital stock of the bank.
4. Increasing the subscription of the United States to the bank.
5. Making loans to the fund or the bank by any agency of the United States Government.
6. Accepting any amendment to either the fund or bank agreements.

This last provision has the effect of preventing amendments to the agreements without the approval of Congress since United States acceptance is essential to the adoption of an amendment. This limitation will not, of course, apply to the amendments, if any, necessitated by sections 13 and 14 of the bill.

PAR VALUE OF THE DOLLAR

Section 6 of the bill provides that when the United States is requested by the fund to communicate the par value of the dollar, such par value shall not be communicated as other than 15$\frac{5}{21}$ grains of gold nine-tenths fine, which is the present weight of the gold dollar. Under the articles of agreement of the fund the par value thus communicated will be the par value of the dollar for the purposes of the fund until changed in the manner provided in the articles of agreement. Under section 5 of this bill no one on behalf of the United States is permitted to propose or agree to any change in the par value of the dollar unless expressly authorized by Congress, and under the articles of agreement the consent of the United States is required to any change in the par value of the dollar.

DEPOSITORIES

Section 7 directs the Federal Reserve banks to act as depositories or fiscal agents of the fund and bank when requested to do so. In carrying out such functions, they will be supervised and directed by the Board of Governors of the Federal Reserve System.

PAYMENT OF SUBSCRIPTIONS

Section 8 sets forth the procedure to be followed in paying the United States subscriptions to the fund and the bank. The subscription of the United States to the fund is 2.750 billion dollars, and to

the bank, 3.175 billion dollars. The total subscription to the two institutions is, therefore, 5.925 billion dollars.

While the entire subscription to the fund must be paid when the fund has announced its intention of beginning exchange transactions, the subscription to the the bank (except for 63.5 million dollars, which must be paid immediately) is payable only as called by the bank from time to time. Eighteen percent of the subscription to the bank, or 571.5 million dollars can be called for the purpose of making loans, and at least $254,000,000 of this amount will be called in the first year of the bank's operations. The balance of the United States subscription to the bank, or 2.540 billion dollars, can be called only when needed to meet losses suffered by the bank in the course of its operations. In view of the fact that the United States must certify, when it signs the articles of agreement of the bank, that it is then prepared to carry out all its obligations under those articles, the balance must be readily available.

Partly because the entire amount of 5.925 billion dollars must be made available at once even though a substantial portion, if needed at all, may not be used for a considerable number of years, and partly because the payments which must be made by the United States are investments and not expenditures, section 8 provides that the stabilization fund created by Congress in 1934 for the purpose of stabilizing the exchange value of the dollar, will be used to meet part of our subscription. The remainder will be met by using the proceeds of United States Government bonds issued in the future as has been commonly done with investments in other Government corporations in the United States.

Section 8 (a) directs the Secretary of the Treasury to use 1.8 billion dollars of the present stabilization fund to pay part of the subscription to the United States to the fund. The stabilization fund was originally created with 2 billion dollars of the profit realized by the United States when the gold content of the dollar was reduced in 1934. During the 11 years of the stabilization fund's operation, an additional 80 million dollars has been accumulated, so that its total assets now amount to 2.080 billion dollars. Section 10 of the Gold Reserve Act of 1934, as amended, provides that the powers in connection with the stabilization fund shall expire on June 30, 1945. Since the subscription to the International Monetary Fund will reduce the stabilization fund to about $280,000,000, the time limit is omitted and the reduced stabilization fund will become permanent. The smaller stabilization fund will continue to be extremely useful in supplementing the work of the International Monetary Fund with respect to those countries that have close economic ties with the United States, and particularly those with which we now have bilateral stabilization agreements. If the United States withdraws from the fund or the fund is liquidated, and the money for the subscription paid out of the stabilization fund is returned to the United States, it will not go back into the stabilization fund but will be credited to the general fund of the Treasury and made available for use only in accordance with subsequent appropriations made by Congress.

Section 8 (b) authorizes the Secretary of the Treasury to issue United States Government bonds and to use the proceeds to pay that part of the United States subscription to the fund that is not covered by the transfer of money from the existing stabilization fund. He is

authorized to raise the funds subscribed by the United States to the bank in the same way, but payments to the bank will be made from time to time as called in accordance with the articles of agreement. This method of financing has been used a number of times in the past, beginning in 1932, and is particularly appropriate when money must be raised to make investments as contrasted to expenditures. The same financing procedure is authorized by acts of Congress relating to the Reconstruction Finance Corporation, the Federal Farm Mortgage Corporation, the Federal Deposit Insurance Corporation, the Home Owners Loan Corporation, the United States Housing Authority, the Tennessee Valley Authority, and the Commodity Credit Corporation.

Section 8 (c) will serve to reduce the cost to the United States of participation in the fund and bank. Both institutions will have large dollar balances on deposit in the Federal Reserve banks and these balances will frequently be greater than needed for immediate operating purposes. The articles of agreement permit the United States to substitute for such dollar balances nonnegotiable, non-interest-bearing notes payable on demand. With these notes, the fund and bank will be in a position to obtain dollars when needed, and the United States will be relieved of the interest cost that would be involved if the full amount of the subscriptions to the fund and bank were provided in the form of cash. The amount of non-interest-bearing notes issued to the fund and outstanding is limited to the subscription of the United States, which is $2,750,000,000. The amount of such notes issued to the bank and outstanding is limited to the amount of the subscription of the United States to the bank actually paid in for the purpose of making loans, which will not exceed $635,000,000.

Section 8 (d) provides that any money received by the United States through the distribution of net income of the fund or the bank will be paid into the general fund of the Treasury, so that it can be used only in accordance with appropriations made by Congress.

OBTAINING AND FURNISHING INFORMATION

Section 9 of H. R. 2211 authorized the President to collect information requested by the fund in accordance with the articles of agreement, and information essential for the guidance of the United States in its participation in the fund and bank. The procedure and penalties to be applied were those contained in section 5 (b) of the Trading With the Enemy Act. The committee has rewritten this section to provide that the President may, by order or regulation, require the furnishing of information he determines to be necessary to enable the United States to comply with requests of the fund for information. The information is to be collected only in such detail as is necessary to comply with the requests of the fund and is not to be furnished to the fund in such manner as to disclose the affairs of any person. If there is a refusal to furnish information, a court order can be obtained and disobedience will be punishable as contempt.

The committee has also added a provision making it unlawful for any officer, employee, adviser, or consultant of the Government to disclose information obtained under section 9, except in the course of his official duties, or to use such information for his personal benefit. Violation of this provision will subject the guilty person to 5 years imprisonment, $5,000 fine, or both.

THE JOHNSON ACT

Section 10 suspends with respect to members of the fund and bank the operation of the so-called Johnson Act of April 13, 1934. Under that act, no person can purchase the new security issues of, or lend money to, a government that is in default on its obligations to the Government of the United States. Since the fund and bank are to supplement private agencies, it will be necessary for member countries to use commercial and investment banking facilities as much as possible. Section 10 provides the minimum change necessary to enable the fund and bank to operate properly. It suspends the Johnson Act restrictions in respect to those countries which are members of the fund and bank.

JURISDICTION AND VENUE OF ACTIONS

Section 11 confers upon the district courts of the United States jurisdiction to try any case to which the fund or bank is a party. It also authorizes the removal of cases from a State court to a Federal court when the fund or the bank is a defendant.

STATUS, IMMUNITIES, AND PRIVILEGES

Section 12 gives full force and effect in the United States, its Territories and possessions, to the provisions of the articles of agreement that confer upon the fund and the bank a legal status, and certain immunities and privileges, as follows:

1. They will have legal personality and the ability to contract, to acquire and dispose of property, and to sue in our courts.
2. The fund will be immune from suit unless it consents to be sued, and will not be subject to having its property attached except to execute a judgment.
3. The assets and the archives of the fund and the bank will be free from all types of interference.
4. The communications of the fund and bank will be treated with the same respect as those of foreign governments.
5. The officials and employees of the fund and the bank will be given treatment substantially similar to that accorded to persons in the diplomatic service.
6. The fund and bank will be immune from taxation and each official and employee will be immune from taxation on his salary or emoluments by any country other than his own. In addition, securities issued or guaranteed by either institution will be protected against discriminatory taxation, but will have no special tax privilege.

Section 12 gives effect to that portion of the bank agreement which provides that if the bank should wind up its affairs and distribute its assets to the member countries, the recipients would be entitled to the same privileges and immunities with respect to those assets that the bank had prior to distribution. It also gives effect to that portion of the fund agreement which provides that when other member countries have exchange controls which are consistent with the articles of agreement, United States courts will not enforce exchange contracts that violate such controls.

STABILIZATION LOANS BY THE BANK

Section 13 is for the purpose of carrying out a suggestion originally made by the Committee for Economic Development. This suggestion, which met with the approval of many other interested organizations and with a considerable segment of public opinion, was that the bank should have clear power to make long-term stabilization loans when such loans are needed and appropriate. It is the view of the committee that the bank agreement, as drafted at Bretton Woods, provides such authority. The committee agrees with the Committee for Economic Development, however, in the belief that the management of the fund will be in a better position to confine the use of the fund's resources to current stabilization operations if it can say that applications for such long-term stabilization loans should properly be made to the bank rather than the fund.

The committee has determined that an amendment or reservation is unnecessary because the articles of agreement of the bank already empower the bank to make such loans, and the result desired can be achieved through an official interpretation by the bank that it so construes the articles of agreement. Accordingly, section 13 requires the United States representatives to secure such an interpretation and, if the bank takes a contrary position, to propose and support an appropriate amendment to the articles of agreement of the bank. If it should become necessary to amend the agreement in this way—and the committee believes that this will not be necessary—the President is authorized and directed to accept such an amendment on behalf of the United States.

STABILIZATION OPERATIONS OF THE FUND

Section 14 is the result of the committee's reaction to doubts raised by some of the interested groups that have studied the fund proposal as to the scope of that institution's operations. Fear has been expressed that the fund's activities will not be limited to current monetary stabilization operations in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions. Fear has also been expressed that the fund's resources will be used for relief or reconstruction or to meet large or sustained capital outflows.

The committee believes that an amendment to the agreement will not be required to make it clear that the resources of the fund are to be used only in accordance with the principles stated in section 14 of the bill. It is the understanding of the committee that this is the intention under the fund agreement, and that it is so regarded by other countries. To avoid any doubt on this point, the bill requires the United States representatives to secure an official interpretation from the fund. If the interpretation should not be in accord with this understanding, the United States, as well as other countries will make it manifest that the proper operation of the fund necessitates an amendment to the articles of agreement of the fund. In such a case, the American representatives are required to propose and support an appropriate amendment and the President is authorized and directed to accept such an amendment on behalf of the

United States. By virtue of the reporting provisions of section 4 of the bill, Congress will be kept informed of the operations and policies of the fund and will be in a position to take such action as it may deem appropriate in the event such policies and operations do not conform to the spirit of section 14 of the bill.

XVI. Conclusion

The committee believes that international monetary and financial cooperation is essential if international trade and investment are to be resumed after the war. In its opinion, the most practical way to secure such cooperation is through the establishment of the International Monetary Fund and the International Bank for Reconstruction and Development. If the Bretton Woods proposals are not adopted, reconstruction in the devastated countries will be long delayed, and there is real danger that the currency warfare that preceded this war will be resumed in even more extreme form. Such a development would be a constant threat to the peace and prosperity of the world.

We believe that this legislation will strengthen the fund and bank and make the United States participation in these institutions more effective. These desirable objectives are accomplished by the bill without opening the agreements to amendments or reservations, and this is done in a manner that should meet with the approval of the other 43 nations represented at the Bretton Woods Conference.

The committee recommends that the bill be passed to authorize the participation of the United States in the International Monetary Fund and the International Bank for Reconstruction and Development.

XVII. Changes in Existing Law

In compliance with paragraph 2a of rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italics, existing law in which no change is proposed is shown in roman):

SECTION 10 OF GOLD RESERVE ACT OF 1934 AS AMENDED

Sec. 10. (a) For the purpose of stabilizing the exchange value of the dollar, the Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President.

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the

President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

[(c) All the powers conferred by this section shall expire June 30, 1945, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated.]

(c) The Secretary of the Treasury is directed to use $1,800,000,000 of the fund established in this section to pay part of the subscription of the United States to the International Monetary Fund; and any repayment thereof shall be covered into the Treasury as a miscellaneous receipt.

ACT OF APRIL 13, 1934 (JOHNSON ACT)

AN ACT To prohibit financial transactions with any foreign government in default on its obligations to the United States

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That hereafter it shall be unlawful within the United States or any place subject to the jurisdiction of the United States for any person to purchase or sell the bonds, securities, or other obligations of, any foreign government or political subdivision thereof or any organization or association acting for or on behalf of a foreign government or political subdivision thereof, issued after the passage of this Act, or to make any loan to such foreign government, political subdivision, organization, or association, except a renewal or adjustment of existing indebtedness while such government, political subdivision, organization, or association, is in default in the payment of its obligations, or any part thereof, to the Government of the United States. Any person violating the provisions of this Act shall upon conviction thereof be fined not more than $10,000 or imprisoned for not more than five years, or both.

SEC. 2. As used in this Act the term "person" includes individual, partnership, corporation, or association other than a public corporation created by or pursuant to special authorization of Congress, or a corporation in which the Government of the United States has or exercises a controlling interest through stock ownership or otherwise.

SEC. 3. While any foreign government is a member both of the International Monetary Fund and of the International Bank for Reconstruction and Development, this Act shall not apply to the sale or purchase of bonds, securities, or other obligations of such government or any political subdivision thereof or of any organization or association acting for or on behalf of such government or political subdivision, or to the making of any loan to such government, political subdivision, organization, or association.

APPENDIX

ARTICLES OF AGREEMENT

INTERNATIONAL MONETARY FUND

The Governments on whose behalf the present Agreement is signed agree as follows:

Introductory Article

The International Monetary Fund is established and shall operate in accordance with the following provisions:

Article I. Purposes

The purposes of the International Monetary Fund are:

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

(ii) 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.

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

(iv) 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.

(v) 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.

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

The Fund shall be guided in all its decisions by the purposes set forth in this Article.

Article II. Membership

Section 1. *Original members.*—The original members of the Fund shall be those of the countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before the date specified in Article XX, Section 2 (*e*).

Sec. 2. *Other members.*—Membership shall be open to the governments of other countries at such times and in accordance with such terms as may be prescribed by the Fund.

Article III. Quotas and Subscriptions

Section 1. *Quotas.*—Each member shall be assigned a quota. The quotas of the members represented at the United Nations Monetary and Financial Conference which accept membership before the date specified in Article XX, Section 2 (*e*), shall be those set forth in Schedule A. The quotas of other members shall be determined by the Fund.

Sec. 2. *Adjustment of quotas.*—The Fund shall at intervals of five years review, and if it deems it appropriate propose an adjustment of, the quotas of the members. It may also, if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned. A four-fifths majority of the total voting power shall be required for any change in quotas and no quota shall be changed without the consent of the member concerned.

Sec. 3. *Subscriptions: Time, place, and form of payment.*—(*a*) The subscription of each member shall be equal to its quota and shall be paid in full to the Fund at the appropriate depository on or before the date when the member becomes eligible under Article XX, Section 4 (*c*) or (*d*), to buy currencies from the Fund.

(*b*) Each member shall pay in gold, as a minimum, the smaller of—

(i) twenty-five percent of its quota; or

(ii) ten percent of its net official holdings of gold and United States dollars as at the date when the Fund notifies members under Article XX, Section 4 (*a*) that it will shortly be in a position to begin exchange transactions.

Each member shall furnish to the Fund the data necessary to determine its net official holdings of gold and United States dollars.

(*c*) Each member shall pay the balance of its quota in its own currency.

(*d*) If the net official holdings of gold and United States dollars of any member as at the date referred to in (*b*) (ii) above are not ascertainable because its territories have been occupied by the enemy, the Fund shall fix an appropriate alternative date for determining such holdings. If such date is later than that on which the country becomes eligible under Article XX, Section 4 (*c*) or (*d*), to buy currencies from the Fund, the Fund and the member shall agree on a provisional gold payment to be made under (*b*) above, and the balance of the member's subscription shall be paid in the member's currency, subject to appropriate adjustment between the member and the Fund when the net official holdings have been ascertained.

Sec. 4. *Payments when quotas are changed.*—(*a*) Each member which consents to an increase in its quota shall, within thirty days after the date of its consent, pay to the Fund twenty-five percent of the increase in gold and the balance in its own currency. If, however, on the date when the member consents to an increase, its monetary reserves are less than its new quota, the Fund may reduce the proportion of the increase to be paid in gold.

(*b*) If a member consents to a reduction in its quota, the Fund shall, within thirty days after the date of the consent, pay to the member an amount equal to the reduction. The payment shall be made in the member's currency and in such amount of gold as may be necessary to prevent reducing the Fund's holdings of the currency below seventy-five percent of the new quota.

Sec. 5. *Substitution of securities for currency.*—The Fund shall accept from any member in place of any part of the member's currency which in the judgment of the Fund is not needed for its operations, notes or similar obligations issued by the member or the depository designated by the member under Article XIII, Section 2, which shall be non-negotiable, non-interest bearing and payable at their par value on demand by crediting the account of the Fund in the designated depository. This Section shall apply not only to currency subscribed by members but also to any currency otherwise due to, or acquired by, the Fund.

Article IV. Par Values of Currencies

Section 1. *Expression of par values.*—(*a*) The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944.

(*b*) All computations relating to currencies of members for the purpose of applying the provisions of this Agreement shall be on the basis of their par values.

Sec. 2. *Gold purchases based on par values.*—The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

Sec. 3. *Foreign exchange dealings based on parity.*—The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity

(i) in the case of spot exchange transactions, by more than one percent; and

(ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

Sec. 4. *Obligations regarding exchange stability.*—(*a*) Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

(*b*) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

SEC. 5. *Changes in par values.*—(*a*) A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(*b*) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

(*c*) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten percent of the initial par value, the Fund shall raise no objection;

(ii) does not exceed a further ten percent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests;

(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(*d*) Uniform changes in par values made under Section 7 of this Article shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of (*c*) above.

(*e*) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(*f*) The Fund shall concur in a proposed change which is within the terms of (*c*) (ii) or (*c*) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

SEC. 6. *Effect of unauthorized changes.*—If a member changes the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines; and if, after the expiration of a reasonable period, the difference between the member and the Fund continues, the matter shall be subject to the provisions of Article XV, Section 2 (*b*).

SEC. 7. *Uniform changes in par values.*—Notwithstanding the provisions of Section 5 (*b*) of this Article, the Fund by a majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members, provided each such change is approved by every member which has ten percent or more of the total of the quotas. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

SEC. 8. *Maintenance of gold value of the Fund's assets.*—(*a*) The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member.

(*b*) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

(*c*) Whenever the par value of a member's currency is increased, the Fund shall return to such member within a reasonable time an amount in its currency equal to the increase in the gold value of its currency held by the Fund.

(*d*) The provisions of this Section shall apply to a uniform proportionate change in the par values of the currencies of all members, unless at the time when such a change is proposed the Fund decides otherwise.

SEC. 9. *Separate currencies within a member's territories.*—A member proposing a change in the par value of its currency shall be deemed, unless it declares otherwise, to be proposing a corresponding change in the par value of the separate currencies of all territories in respect of which it has accepted this Agreement under Article XX, Section 2 (*g*). It shall, however, be open to a member to declare that its proposal relates either to the metropolitan currency alone, or only to one or more specified separate currencies, or to the metropolitan currency and one or more specified separate currencies.

ARTICLE V. TRANSACTIONS WITH THE FUND

SECTION 1. *Agencies dealing with the Fund.*—Each member shall deal with the Fund only through its Treasury, central bank, stabilization fund, or other similar fiscal agency and the Fund shall deal only with or through the same agencies.

SEC. 2. *Limitation on the Fund's operations.*—Except as otherwise provided in this Agreement, operations on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with the currency of another member in exchange for gold or for the currency of the member desiring to make the purchase.

SEC. 3. *Conditions governing use of the Fund's resources.*—(*a*) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

(i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;

(ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce;

(iii) The proposed purchase would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five percent of its quota during the period of twelve months ending on the date of the purchase nor to exceed two hundred percent of its quota, but the twenty-five percent limitation shall apply only to the extent that the Fund's holdings of the member's currency have been brought above seventy-five percent of its quota if they had been below that amount;

(iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2 (*a*), that the member desiring to purchase is ineligible to use the resources of the Fund.

(*b*) A member shall not be entitled without the permission of the Fund to use the Fund's resources to acquire currency to hold against forward exchange transactions.

SEC. 4. *Waiver of conditions.*—The Fund may in its discretion, and on terms which safeguard its interests, waive any of the conditions prescribed in Section 3 (*a*) of this Article, especially in the case of members with a record of avoiding large or continuous use of the Fund's resources. In making a waiver it shall take into consideration periodic or exceptional requirements of the member requesting the waiver. The Fund shall also take into consideration a member's willingness to pledge as collateral security gold, silver, securities, or other acceptable assets having a value sufficient in the opinion of the Fund to protect its interests and may require as a condition of waiver the pledge of such collateral security.

SEC. 5. *Ineligibility to use the Fund's resources.*—Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it shall present to the member a report setting forth the views of the Fund and prescribing a suitable time for reply. After presenting such a report to a member, the Fund may limit the use of its resources by the member. If no reply to the report is received from the member within the prescribed time, or if the reply received is unsatisfactory, the Fund may continue to limit the member's use of the Fund's resources or may, after giving reasonable notice to the member, declare it ineligible to use the resources of the Fund.

SEC. 6. *Purchases of currencies from the Fund for gold.*—(*a*) Any member desiring to obtain, directly or indirectly, the currency of another member for gold shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund.

(*b*) Nothing in this Section shall be deemed to preclude any member from selling in any market gold newly produced from mines located within its territories.

SEC. 7. *Repurchase by a member of its currency held by the Fund.*—(*a*) A member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund's holdings of its currencies in excess of its quota.

(*b*) At the end of each financial year of the Fund, a member shall repurchase from the Fund with gold or convertible currencies, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

(i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to one-half of any increase that has occurred during the year in the Fund's holdings of its currency plus one-half of any increase, or minus one-half of any decrease, that has occurred during the year in the member's monetary reserves.

This rule shall not apply when a member's monetary reserves have decreased during the year by more than the Fund's holdings of its currency have increased.

(ii) If after the repurchase described in (i) above (if required) has been made, a member's holdings of another member's currency (or of gold acquired from that member) are found to have increased by reason of transactions in terms of that currency with other members or persons in their territories, the member whose holdings of such currency (or gold) have thus increased shall use the increase to repurchase its own currency from the Fund.

(*c*) None of the adjustments described in (*b*) above shall be carried to a point at which—

(i) the member's monetary reserves are below its quota, or

(ii) the Fund's holdings of its currency are below seventy-five percent of its quota, or

(iii) the Fund's holdings of any currency required to be used are above seventy-five percent of the quota of the member concerned.

SEC. 8. *Charges.*—(*a*) Any member buying the currency of another member from the Fund in exchange for its own currency shall pay a service charge uniform for all members of three-fourths percent in addition to the parity price. The Fund in its discretion may increase this service charge to not more than one percent or reduce it to not less than one-half percent.

(*b*) The Fund may levy a reasonable handling charge on any member buying gold from the Fund or selling gold to the Fund.

(*c*) The Fund shall levy charges uniform for all members which shall be payable by any member on the average daily balances of its currency held by the Fund in excess of its quota. These charges shall be at the following rates:

(i) *On amounts not more than twenty-five percent in excess of the quota:* no charge for the first three months; one-half percent per annum for the next nine months; and thereafter an increase in the charge of one-half percent for each subsequent year.

(ii) *On amounts more than twenty-five percent and not more than fifty percent in excess of the quota:* an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.

(iii) *On each additional bracket of twenty-five percent in excess of the quota:* an additional one-half percent for the first year; and an additional one-half percent for each subsequent year.

(*d*) Whenever the Fund's holdings of a member's currency are such that the charge applicable to any bracket for any period has reached the rate of four percent per annum, the Fund and the member shall consider means by which the Fund's holdings of the currency can be reduced. Thereafter, the charges shall rise in accordance with the provisions of (*c*) above until they reach five percent and failing agreement, the Fund may then impose such charges as it deems appropriate.

(*e*) The rates referred to in (*c*) and (*d*) above may be changed by a three-fourths majority of the total voting power.

(*f*) All charges shall be paid in gold. If, however, the member's monetary reserves are less than one-half of its quota, it shall pay in gold only that proportion of the charges due which such reserves bear to one-half of its quota, and shall pay the balance in its own currency.

ARTICLE VI. CAPITAL TRANSFERS

SECTION 1. *Use of the Fund's resources for capital transfers.*—(*a*) A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund. If, after receiving such a request, a member fails to exercise appropriate controls, the Fund may declare the member ineligible to use the resources of the Fund.

(*b*) Nothing in this Section shall be deemed—

(i) to prevent the use of the resources of the Fund for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking or other business, or

(ii) to affect capital movements which are met out of a member's own resources of gold and foreign exchange, but members undertake that such capital movements will be in accordance with the purposes of the Fund.

Sec. 2. *Special provisions for capital transfers.*—If the Fund's holdings of the currency of a member have remained below seventy-five percent of its quota for an immediately preceding period of not less than six months, such member, if it has not been declared ineligible to use the resources of the Fund under Section 1 of this Article, Article IV, Section 6, Article V, Section 5, or Article XV, Section 2 (*a*), shall be entitled, notwithstanding the provisions of Section 1 (*a*) of this Article, to buy the currency of another member from the Fund with its own currency for any purpose, including capital transfers. Purchases for capital transfers under this Section shall not, however, be permitted if they have the effect of raising the Fund's holdings of the currency of the member desiring to purchase above seventy-five percent of its quota, or of reducing the Fund's holdings of the currency desired below seventy-five percent of the quota of the member whose currency is desired.

Sec. 3. *Controls of capital transfers.*—Members may exercise such controls as are necessary to regulate international capital movements, but no member may exercise these controls in a manner which will restrict payments for current transactions or which will unduly delay transfers of funds in settlement of commitments, except as provided in Article VII, Section 3 (*b*), and in Article XIV, Section 2.

Article VII. Scarce Currencies

Section 1. *General scarcity of currency.*—If the Fund finds that a general scarcity of a particular currency is developing, the Fund may so inform members and may issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. A representative of the member whose currency is involved shall participate in the preparation of the report.

Sec. 2. *Measures to replenish the Fund's holdings of scarce currencies.*—The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

(i) Propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.

(ii) Require the member to sell its currency to the Fund for gold.

Sec. 3. *Scarcity of the Fund's holdings.*— (*a*) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the Fund's ability to supply that currency, the Fund, whether or not it has issued a report under Section 1 of this Article, shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the scarce currency with due regard to the relative needs of members, the general international economic situation, and any other pertinent considerations. The Fund shall also issue a report concerning its action.

(*b*) A formal declaration under (*a*) above shall operate as an authorization to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. Subject to the provisions of Article IV, Sections 3 and 4, the member shall have complete jurisdiction in determining the nature of such limitations, but they shall be no more restrictive than is necessary to limit the demand for the scarce currency to the supply held by, or accruing to, the member in question; and they shall be relaxed and removed as rapidly as conditions permit.

(*c*) The authorization under (*b*) above shall expire whenever the Fund formally declares the currency in question to be no longer scarce.

Sec. 4. *Administration of restrictions.*—Any member imposing restrictions in respect of the currency of any other member pursuant to the provisions of Section 3 (*b*) of this Article shall give sympathetic consideration to any representations by the other member regarding the administration of such restrictions.

Sec. 5. *Effect of other international agreements on restrictions.*— Members agree not to invoke the obligations of any engagements entered into with other members prior to this Agreement in such a manner as will prevent the operation of the provisions of this Article.

Article VIII. General Obligations of Members

Section 1. *Introduction.*—In addition to the obligations assumed under other articles of this Agreement, each member undertakes the obligations set out in this Article.

SEC. 2. *Avoidance of restrictions on current payments.*—(*a*) Subject to the provisions of Article VII, Section 3 (*b*), and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

(*b*) Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, co-operate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

SEC. 3. *Avoidance of discriminatory currency practices.*—No member shall engage in, or permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

SEC. 4. *Convertibility of foreign-held balances.*—(*a*) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

(i) that the balances to be bought have been recently acquired as a result of current transactions; or

(ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

(*b*) The obligation in (*a*) above shall not apply

(i) when the convertibility of the balances has been restricted consistently with Section 2 of this Article, or Article VI, Section 3; or

(ii) when the balances have accumulated as a result of transactions effected before the removal by a member of restrictions maintained or imposed under Article XIV, Section 2; or

(iii) when the balances have been acquired contrary to the exchange regulations of the member which is asked to buy them; or

(iv) when the currency of the member requesting the purchase has been declared scarce under Article VII, Section 3 (*a*); or

(v) when the member requested to make the purchase is for any reason not entitled to buy currencies of other members from the Fund for its own currency.

SEC. 5. *Furnishing of information.*—(*a*) The Fund may require members to furnish it with such information as it deems necessary for its operations, including, as the minimum necessary for the effective discharge of the Fund's duties, national data on the following matters:

(i) Official holdings at home and abroad, of (1) gold, (2) foreign exchange.

(ii) Holdings at home and abroad by banking and financial agencies, other than official agencies, of (1) gold, (2) foreign exchange.

(iii) Production of gold.

(iv) Gold exports and imports according to countries of destination and origin.

(v) Total exports and imports of merchandise, in terms of local currency values, according to countries of destination and origin.

(vi) International balance of payments, including (1) trade in goods and services, (2) gold transactions, (3) known capital transactions, and (4) other items.

(vii) International investment position, *i. e.*, investments within the territories of the member owned abroad and investments abroad owned by persons in its territories so far as it is possible to furnish this information.

(viii) National income.

(ix) Price indices, *i. e.*, indices of commodity prices in wholesale and retail markets and of export and import prices.

(x) Buying and selling rates for foreign currencies.

(xi) Exchange controls, *i. e.*, a comprehensive statement of exchange controls in effect at the time of assuming membership in the Fund and details of subsequent changes as they occur.

(xii) Where official clearing arrangements exist, details of amounts awaiting clearance in respect of commercial and financial transactions, and of the length of time during which such arrears have been outstanding.

(*b*) In requesting information the Fund shall take into consideration the varying ability of members to furnish the data requested. Members shall be under no obligation to furnish information in such detail that the affairs of individuals or corporations are disclosed. Members undertake, however, to furnish the desired information in as detailed and accurate a manner as is practicable, and, so far as possible, to avoid mere estimates.

(*c*) The Fund may arrange to obtain further information by agreement with members. It shall act as a centre for the collection and exchange of information on monetary and financial problems, thus facilitating the preparation of studies designed to assist members in developing policies which further the purposes of the Fund.

SEC. 6. *Consultation between members regarding existing international agreements.*—Where under this Agreement a member is authorized in the special or temporary circumstances specified in the Agreement to maintain or establish restrictions on exchange transactions, and there are other engagements between members entered into prior to this Agreement which conflict with the application of such restrictions, the parties to such engagements will consult with one another with a view to making such mutually acceptable adjustments as may be necessary. The provisions of this Article shall be without prejudice to the operation of Article VII, Section 5.

ARTICLE IX. STATUS, IMMUNITIES AND PRIVILEGES

SECTION 1. *Purpose of Article.*—To enable the Fund to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Fund in the territories of each member.

SEC. 2. *Status of the Fund.*—The Fund shall possess full juridical personality, and, in particular, the capacity

(i) to contract;

(ii) to acquire and dispose of immovable and movable property;

(iii) to institute legal proceedings.

SEC. 3. *Immunity from judicial process.*—The Fund, its property and its assets, wherever located and by whomsoever held, shall enjoy immunity from every form of judicial process except to the extent that it expressly waives its immunity for the purpose of any proceedings or by the terms of any contract.

SEC. 4. *Immunity from other action.*—Property and assets of the Fund, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

SEC. 5. *Immunity of archives.*—The archives of the Fund shall be inviolable.

SEC. 6. *Freedom of assets from restrictions.*—To the extent necessary to carry out the operations provided for in this Agreement, all property and assets of the Fund shall be free from restrictions, regulations, controls and moratoria of any nature.

SEC. 7. *Privilege for communications.*—The official communications of the Fund shall be accorded by members the same treatment as the official communications of other members.

SEC. 8. *Immunities and privileges of officers and employees.*—All governors, executive directors, alternates, officers and employees of the Fund

(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity;

(ii) not being local nationals, shall be granted the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;

(iii) shall be granted the same treatment in respect of traveling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

SEC. 9. *Immunities from taxation.*—(*a*) The Fund, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Fund shall also be immune from liability for the collection or payment of any tax or duty.

(*b*) No tax shall be levied on or in respect of salaries and emoluments paid by the Fund to executive directors, alternates, officers or employees of the Fund who are not local citizens, local subjects, or other local nationals.

(*c*) No taxation of any kind shall be levied on any obligation or security issued by the Fund, including any dividend or interest thereon, by whomsoever held

(i) which discriminates against such obligation or security solely because of its origin; or

(ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Fund.

SEC. 10. *Application of Article.*—Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Fund of the detailed action which it has taken.

ARTICLE X. RELATIONS WITH OTHER INTERNATIONAL ORGANIZATIONS

The Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article XVII.

ARTICLE XI. RELATIONS WITH NON-MEMBER COUNTRIES

SECTION 1. *Undertakings regarding relations with non-member countries.*—Each member undertakes:

(i) Not to engage in, nor to permit any of its fiscal agencies referred to in Article V, Section 1, to engage in, any transactions with a non-member or with persons in a non-member's territories which would be contrary to the provisions of this Agreement or the purposes of the Fund;

(ii) Not to cooperate with a non-member or with persons in a non-member's territories in practices which would be contrary to the provisions of this Agreement or the purposes of the Fund; and

(iii) To cooperate with the Fund with a view to the application in its territories of appropriate mesaures to prevent transactions with non-members or with persons in their territories which would be contrary to the provisions of this Agreement or the purposes of the Fund.

SEC. 2. *Restrictions on transactions with non-member countries.*—Nothing in this Agreement shall affect the right of any member to impose restrictions on exchange transactions with non-members or with persons in their territories unless the Fund finds that such restrictions prejudice the interests of members and are contrary to the purposes of the Fund.

ARTICLE XII. ORGANIZATION AND MANAGEMENT

SECTION 1. *Structure of the Fund.*—The Fund shall have a Board of Governors, Executive Directors, a Managing Director, and a staff.

SEC. 2. *Board of Governors.*—(*a*) All powers of the Fund shall be vested in the Board of Governors, consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as chairman.

(*b*) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

(i) Admit new members and determine the conditions of their admission.

(ii) Approve a revision of quotas.

(iii) Approve a uniform change in the par value of the currencies of all members.

(iv) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary or administrative character).

(v) Determine the distribution of the net income of the Fund.

(vi) Require a member to withdraw.

(vii) Decide to liquidate the Fund.

(viii) Decide appeals from interpretations of this agreement given by the Executive Directors.

(*c*) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

(*d*) A quorum for any meeting of the Board of Governors shall be a majority of the governors exercising not less than two-thirds of the total voting power.

(*e*) Each governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

(*f*) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Fund, may obtain a vote of the governors on a specific question without calling a meeting of the Board.

(*g*) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Fund.

(*h*) Governors and alternates shall serve as such without compensation from the Fund, but the Fund shall pay them reasonable expenses incurred in attending meetings.

(*i*) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the Managing Director.

SEC. 3. *Executive Directors.*—(*a*) The Executive Directors shall be responsible for the conduct of the general operations of the Fund, and for this purpose shall exercise all the powers delegated to them by the Board of Governors.

(*b*) There shall be not less than twelve directors who need not be governors, and of whom

(i) five shall be appointed by the five members having the largest quotas;

(ii) not more than two shall be appointed when the provisions of (*c*) below apply;

(iii) five shall be elected by the members not entitled to appoint directors, other than the American Republics; and

(iv) two shall be elected by the American Republics not entitled to appoint directors.

For the purposes of this paragraph, members means governments of countries whose names are set forth in Schedule A, whether they become members in accordance with Article XX or in accordance with Article II, Section 2. When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the number of directors to be elected.

(*c*) If, at the second regular election of directors and thereafter, the members entitled to appoint directors under (*b*) (i) above do not include the two members, the holdings of whose currencies by the Fund have been, on the average over the preceding two years, reduced below their quotas by the largest absolute amounts in terms of gold as a common denominator, either one or both of such members, as the case may be, shall be entitled to appoint a director.

(*d*) Subject to Article XX, Section 3 (*b*) elections of elective directors shall be conducted at intervals of two years in accordance with the provisions of Schedule C, supplemented by such regulations as the Fund deems appropriate. Whenever the Board of Governors increases the number of directors to be elected under (*b*) above, it shall issue regulations making appropriate changes in the proportion of votes required to elect directors under the provisions of Schedule C.

(*e*) Each director shall appoint an alternate with full power to act for him when he is not present. When the directors appointing them are present, alternates may participate in meetings but may not vote.

(*f*) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the members who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(*g*) The Executive Directors shall function in continuous session at the principal office of the Fund and shall meet as often as the business of the Fund may require.

(*h*) A quorum for any meeting of the Executive Directors shall be a majority of the directors representing not less than one-half of the voting power.

(*i*) Each appointed director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted towards his election. When the provisions of Section 5 (*b*) of this Article are applicable, the votes which a director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which a director is entitled to cast shall be cast as a unit.

(*j*) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (*b*) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(*k*) The Executive Directors may appoint such committees as they deem advisable. Membership of committees need not be limited to governors or directors or their alternates.

SEC. 4. *Managing Director and staff.*—(*a*) The Executive Directors shall select a Managing Director who shall not be a governor or an executive director. The Managing Director shall be chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Directors so decide.

(*b*) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Directors, the ordinary business of the Fund. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the staff of the Fund.

(*c*) The Managing Director and the staff of the Fund, in the discharge of their functions, shall owe their duty entirely to the Fund and to no other authority. Each member of the Fund shall respect the international character of this duty and shall refrain from all attempts to influence any of the staff in the discharge of his functions.

(*d*) In appointing the staff the Managing Director shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

SEC. 5. *Voting.*—(*a*) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States dollars.

(*b*) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (*a*) above, adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand United States dollars of net sales of its currency up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand United States dollars of its net purchases of the currencies of other members up to the date when the vote is taken;

provided, that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

(*c*) For the purpose of all computations under this Section, United States dollars shall be deemed to be of the weight and fineness in effect on July 1, 1944, adjusted for any uniform change under Article IV, Section 7, if a waiver is made under Section 8 (*d*) of that Article.

(*d*) Except as otherwise specifically provided, all decisions of the Fund shall be made by a majority of the votes cast.

SEC. 6. *Distribution of net income.*—(*a*) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to reserve and what part, if any, shall be distributed.

(*b*) If any distribution is made, there shall first be distributed a two percent non-cumulative payment to each member on the amount by which seventy-five percent of its quota exceeded the Fund's average holdings of its currency during that year. The balance shall be paid to all members in proportion to their quotas. Payments to each member shall be made in its own currency.

SEC. 7. *Publication of reports.*—(*a*) The Fund shall publish an annual report containing an audited statement of its accounts, and shall issue, at intervals of three months or less, a summary statement of its transactions and its holdings of gold and currencies of members.

(*b*) The Fund may publish such other reports as it deems desirable for carrying out its purposes.

SEC. 8. *Communication of views to members.*—The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a two-thirds majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious

disequilibrium in the international balance of payments of members. If the member is not entitled to appoint an executive director, it shall be entitled to representation in accordance with Section 3 (*j*) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members.

Article XIII. Offices and Depositories

Section 1. *Location of offices.*—The principal office of the Fund shall be located in the territory of the member having the largest quota, and agencies or branch offices may be established in the territories of other members.

Sec. 2. *Depositories.*—(*a*) Each member country shall designate its central bank as a depository for all the Fund's holdings of its currency, or if it has no central bank it shall designate such other institution as may be acceptable to the Fund.

(*b*) The Fund may hold other assets, including gold, in the depositories designated by the five members having the largest quotas and in such other designated depositories as the Fund may select. Initially, at least one-half of the holdings of the Fund shall be held in the depository designated by the member in whose territories the Fund has its principal office and at least forty percent shall be held in the depositories designated by the remaining four members referred to above. However, all transfers of gold by the Fund shall be made with due regard to the costs of transport and anticipated requirements of the Fund. In an emergency the Executive Directors may transfer all or any part of the Fund's gold holdings to any place where they can be adequately protected.

Sec. 3. *Guarantee of the Fund's assets.*—Each member guarantees all assets of the Fund against loss resulting from failure or default on the part of the depository designated by it.

Article XIV. Transitional Period

Section 1. *Introduction.*—The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

Sec. 2. *Exchange restrictions.*—In the post-war transitional period members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

Sec. 3. *Notification to the Fund.*—Each member shall notify the Fund before it becomes eligible under Article XX, Section 4 (*c*) or (*d*), to buy currency from the Fund, whether it intends to avail itself of the transitional arrangements in Section 2 of this Article, or whether it is prepared to accept the obligations of Article VIII, Sections 2, 3, and 4. A member availing itself of the transitional arrangements shall notify the Fund as soon thereafter as it is prepared to accept the above-mentioned obligations.

Sec. 4. *Action of the Fund relating to restrictions.*—Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the Restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement. The member shall be given a suitable time to reply to such representations. If the Fund finds that the member persists in maintaining restrictions which are inconsistent with the purposes of the Fund, the member shall be subject to Article XV, Section 2 (*a*).

SEC. 5. *Nature of transitional period.*—In its relations with members, the Fund shall recognize that the postwar transitional period will be one of change and adjustment and in making decisions on requests occasioned thereby which are presented by any member it shall give the member the benefit of any reasonable doubt.

ARTICLE XV. WITHDRAWAL FROM MEMBERSHIP

SECTION 1. *Right of members to withdraw.*—Any member may withdraw from the Fund at any time by transmitting a notice in writing to the Fund at its principal office. Withdrawal shall become effective on the date such notice is received.

SEC. 2. *Compulsory withdrawal.*—(*a*) If a member fails to fulfill any of its obligations under this Agreement, the Fund may declare the member ineligible to use the resources of the Fund. Nothing in this Section shall be deemed to limit the provisions of Article IV, Section 6, Article V, Section 5, or Article VI, Section 1.

(*b*) If, after the expiration of a reasonable period the member persists in its failure to fulfill any of its obligations under this Agreement, or a difference between a member and the Fund under Article IV, Section 6, continues, that member may be required to withdraw from membership in the Fund by a decision of the Board of Governors carried by a majority of the governors representing a majority of the total voting power.

(*c*) Regulations shall be adopted to ensure that before action is taken against any member under (*a*) or (*b*) above, the member shall be informed in reasonable time of the complaint against it and given an adequate opportunity for stating its case, both orally and in writing.

SEC. 3. *Settlement of accounts with members withdrawing.*—When a member withdraws from the Fund, normal transactions of the Fund in its currency shall cease and settlement of all accounts between it and the Fund shall be made with reasonable despatch by agreement between it and the Fund. If agreement is not reached promptly, the provisions of Schedule D shall apply to the settlement of accounts.

ARTICLE XVI. EMERGENCY PROVISIONS

SECTION 1. *Temporary suspension.*—(*a*) In the event of an emergency or the development of unforseen circumstances threatening the operations of the Fund, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred twenty days the operation of any of the following provisions:

(i) Article IV, Sections 3 and 4 (*b*).
(ii) Article V, Sections 2, 3, 7, 8 (*a*) and (*f*).
(iii) Article VI, Section 2.
(iv) Article XI, Section 1.

(*b*) Simultaneously with any decision to suspend the operation of any of the foregoing provisions, the Executive Directors shall call a meeting of the Board of Governors for the earliest practicable date.

(*c*) The Executive Directors may not extend any suspension beyond one hundred twenty days. Such suspension may be extended, however, for an additional period of not more than two hundred forty days, if the Board of Governors by a four-fifths majority of the total voting power so decides, but it may not be further extended except by amendment of this Agreement pursuant to Article XVII.

(*d*) The Executive Directors may, by a majority of the total voting power, terminate such suspension at any time.

SEC. 2. *Liquidation of the Fund.*—(*a*) The Fund may not be liquidated except by decision of the Board of Governors. In an emergency, if the Executive Directors decide that liquidation of the Fund may be necessary, they may temporarily suspend all transactions, pending decision by the Board.

(*b*) If the Board of Governors decides to liquidate the Fund, the Fund shall forthwith cease to engage in any activities except those incidental to the orderly collection and liquidation of its assets and the settlement of its liabilities, and all obligations of members under this Agreement shall cease except those set out in this Article, in Article XVIII, paragraph (*c*), in Schedule D, paragraph 7, and in Schedule E.

(*c*) Liquidation shall be administered in accordance with the provisions of Schedule E.

ARTICLE XVII. AMENDMENTS

(*a*) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the chairman of the Board of Governors who shall bring the proposal

before the Board. If the proposed amendment is approved by the Board the Fund shall, by circular letter or telgram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Fund shall certify the fact by a formal communication addressed to all members.

(*b*) Notwithstanding (*a*) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Fund (Article XV, Section 1);

(ii) the provision that no change in a member's quota shall be made without its consent (Article III, Section 2);

(iii) the provision that no change may be made in the par value of a member's currency except on the proposal of that member (Article IV, Section 5 (*b*)).

(*c*) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

Article XVIII. Interpretation

(*a*) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director it shall be entitled to representation in accordance with Article XII, Section 3 (*j*).

(b) In any case where the Executive Directors have given a decision under (*a*) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

(*c*) Whenever a disagreement arises between the Fund and a member which has withdrawn, or between the Fund and any member during liquidation of the Fund, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Fund, another by the member or withdrawing member and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Fund. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Article XIX. Explanation of Terms

In interpreting the provisions of this Agreement the Fund and its members shall be guided by the following:

(*a*) A member's monetary reserves means its net official holdings of gold, of convertible currencies of other members, and of the currencies of such non-members as the Fund may specify.

(*b*) The official holdings of a member means central holdings (that is, the holdings of its Treasury, central bank, stabilization fund, or similar fiscal agency).

(*c*) The holdings of other official institutions or other banks within its territories may, in any particular case, be beemed by the Fund, after consultation with the member, to be official holdings to the extent that they are substantially in excess of working balances; provided that for the purpose of determining whether, in a particular case, holdings are in excess of working balances, there shall be deducted from such holdings amounts of currency due to official institutions and banks in the territories of members or non-members specified under (*d*) below.

(*d*) A member's holdings of convertible currencies means its holdings of the currencies of other members which are not availing themselves of the transitional arrangments under Article XIV, Section 2, together with its holdings of the currencies of such non-members as the Fund may from time to time specify. The term currency for this purpose includes without limitation coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding twelve months.

(*e*) A member's monetary reserves shall be calculated by deducting from its central holdings the currency liabilities to the Treasuries, central banks, stabilization funds, or similar fiscal agencies of other members of non-members specified under (*d*) above, together with similar liabilities to other official institutions and other banks in the territories of members, or non-members specified under (*d*) above. To these net holdings shall be added the sums deemed to be official holdings of other official institutions and other banks under (*c*) above.

(*f*) The Fund's holdings of the currency of a member shall include any securities accepted by the Fund under Article III, Section 5.

(*g*) The Fund, after consultation with a member which is availing itself of the transitional arrangements under Article XIV, Section 2, may deem holdings of the currency of that member which carry specified rights of conversion into another currency or into gold to be holdings of convertible currency for the purpose of the calculation of monetary reserves.

(*h*) For the purpose of calculating gold subscriptions under Article III, Section 3, a member's net official holdings of gold and United States dollars shall consist of its official holdings of gold and United States currency after deducting central holdings of its currency by other countries and holdings of its currency by other official institutions and other banks if these holdings carry specified rights of conversion into gold or United States currency.

(*i*) Payments for current transactions means payments which are not for the purpose of transferring capital, and includes, without limitation:

(1) All payments due in connection with foreign trade, other current business, including services, and normal short-term banking and credit facilities;

(2) Payments due as interest on loans and as net income from other investments;

(3) Payments of moderate amount for amortization of loans or for depreciation of direct investments;

(4) Moderate remittances for family living expenses.

The Fund may, after consultation with the members concerned, determine whether certain specific transactions are to be considered current transactions or capital transactions.

Article XX. Final Provisions

Section 1. *Entry into force.*—This Agreement shall enter into force when it has been signed on behalf of governments having sixty-five percent of the total of the quotas set forth in Schedule A and when the instruments referred to in Section 2 (*a*) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Sec. 2. *Signature.*—(*a*) Each government on whose behalf this agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(*b*) Each government shall become a member of the Fund as from the date of the deposit on its behalf of the instrument referred to in (*a*) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(*c*) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article II, Section 2, of all signatures of this Agreement and of the deposit of all instruments referred to in (*a*) above.

(*d*) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of its total subscription in gold or United States dollars for the purpose of meeting administrative expenses of the Fund. The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Fund when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(*e*) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(*f*) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 2.

(*g*) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(*h*) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (*a*) above may be delayed until one hundred eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (*d*) above shall be returned to it.

(*i*) Paragraphs (*d*) and (*h*) shall come into force with regard to each signatory government as from the date of its signature.

SEC. 3. *Inauguration of the Fund.*—(*a*) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member having the largest quota shall call the first meeting of the Board of Governors.

(*b*) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries for which the largest quotas are set forth in Schedule A shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule C and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(*c*) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

SEC. 4. *Initial determination of par values.*—(*a*) When the Fund is of the opinion that it will shortly be in a position to begin exchange transactions, it shall so notify the members and shall request each member to communicate within thirty days the par value of its currency based on the rates of exchange prevailing on the sixtieth day before the entry into force of this Agreement. No member whose metropolitan territory has been occupied by the enemy shall be required to make such a communication while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. When such a member communicates the par value of its currency the provisions of (*d*) below shall apply.

(*b*) The par value communicated by a member whose metropolitan territory has not been occupied by the enemy shall be the par value of that member's currency for the purposes of this Agreement unless, within ninety days after the request referred to in (*a*) above has been received, (i) the member notifies the Fund that it regards the par value as unsatisfactory, or (ii) the Fund notifies the member that in its opinion the par value cannot be maintained without causing recourse to the Fund on the part of that member or others on a scale prejudicial to the Fund and to members. When notification is given under (i) or (ii) above, the Fund and the member shall, within a period determined by the Fund in the light of all relevant circumstances, agree upon a suitable par value for that currency. If the Fund and the member do not agree within the period so determined, the member shall be deemed to have withdrawn from the Fund on the date when the period expires.

(*c*) When the par value of a member's currency has been established under (*b*) above, either by the expiration of ninety days without notification, or by agreement after notification, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions.

(*d*) In the case of a member whose metropolitan territory has been occupied by the enemy, the provisions of (*b*) above shall apply, subject to the following modifications:

(i) The period of ninety days shall be extended so as to end on a date to be fixed by agreement between the Fund and the member.

(ii) Within the extended period the member may, if the Fund has begun exchange transactions, buy from the Fund with its currency the currencies of other members, but only under such conditions and in such amounts as may be prescribed by the Fund.

(iii) At any time before the date fixed under (i) above, changes may be made by agreement with the Fund in the par value communicated under (*a*) above.

(*e*) If a member whose metropolitan territory has been occupied by the enemy adopts a new monetary unit before the date to be fixed under (*d*) (i) above, the par value fixed by that member for the new unit shall be communicated to the Fund and the provisions of (*d*) above shall apply.

(*f*) Changes in par values agreed with the Fund under this Section shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of Article IV, Section 5 (*c*).

(*g*) A member communicating to the Fund a par value for the currency of its metropolitan territory shall simultaneously communicate a value, in terms of that currency, for each separate currency, where such exists, in the territories in respect of which it has accepted this Agreement under Section 2 (*g*) of this Article, but no member shall be required to make a communication for the separate currency of a territory which has been occupied by the enemy while that territory is a theater of major hostilities or for such period thereafter as the Fund may determine. On the basis of the par value so communicated, the Fund shall compute the par value of each separate currency. A communication or notification to the Fund under (*a*), (*b*) or (*d*) above regarding the par value of a currency, shall also be deemed, unless the contrary is stated, to be a communication or notification regarding the par value of all the separate currencies referred to above. Any member may, however, make a communication or notification relating to the metropolitan or any of the separate currencies alone. If the member does so, the provisions of the preceding paragraphs (including (*d*) above, if a territory where a separate currency exists has been occupied by the enemy) shall apply to each of these currencies separately.

(*h*) The Fund shall begin exchange transactions at such date as it may determine after members having sixty-five percent of the total of the quotas set forth in Schedule A have become eligible, in accordance with the preceding paragraphs of this Section, to purchase the currencies of other members, but in no event until after major hostilities in Europe have ceased.

(*i*) The Fund may postpone exchange transactions with any member if its circumstances are such that, in the opinion of the Fund, they would lead to use of the resources of the Fund in a manner contrary to the purposes of this Agreement or prejudicial to the Fund or the members.

(*j*) The par values of the currencies of governments which indicate their desire to become members after December 31, 1945, shall be determined in accordance with the provisions of Article II, Section 2.

Done at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 2.

SCHEDULE A. QUOTAS

[In millions of United States dollars]

Country	Quota	Country	Quota
Australia	200	Iran	25
Belgium	225	Iraq	8
Bolivia	10	Liberia	.5
Brazil	150	Luxembourg	10
Canada	300	Mexico	90
Chile	50	Netherlands	275
China	550	New Zealand	50
Colombia	50	Nicaragua	2
Costa Rica	5	Norway	50
Cuba	50	Panama	.5
Czechoslovakia	125	Paraguay	2
Denmark	(1)	Peru	25
Dominican Republic	5	Philippine Commonwealth	15
Ecuador	5	Poland	125
Egypt	45	Union of South Africa	100
El Salvador	2.5	Union of Soviet Socialist Republics	1,200
Ethiopia	6	United Kingdom	1,300
France	450	United States	2,750
Greece	40	Uruguay	15
Guatemala	5	Venezuela	15
Haiti	5	Yugoslavia	60
Honduras	2.5		
Iceland	1		
India	400	Total	8,800

[1] The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign this Agreement but before signature takes place.

SCHEDULE B. PROVISIONS WITH RESPECT TO REPURCHASE BY A MEMBER OF ITS CURRENCY HELD BY THE FUND

1. In determining the extent to which repurchase of a member's currency from the Fund under Article V, Section 7 (*b*), shall be made with each type of monetary reserve, that is, with gold and with each convertible currency, the following rule, subject to 2 below, shall apply:

(*a*) If the member's monetary reserves have not increased during the year, the amount payable to the Fund shall be distributed among all types of reserves in proportion to the member's holdings thereof at the end of the year.

(*b*) If the member's monetary reserves have increased during the year, a part of the amount payable to the Fund equal to one-half of the increase shall be distributed among those types of reserves which have increased in proportion to the amount by which each of them has increased. The remainder of the sum payable to the Fund shall be distributed among all types of reserves in proportion to the member's remaining holdings thereof.

(*c*) If after all the repurchases required under Article V, Section 7 (*b*), had been made, the result would exceed any of the limits specified in Article V, Section 7 (*c*), the Fund shall require such repurchases to be made by the members proportionately in such manner that the limits will not be exceeded.

2. The Fund shall not acquire the currency of any nonmember under Article V, Section 7 (*b*) and (*c*).

3. In calculating monetary reserves and the increase in monetary reserves during any year for the purpose of Article V, Section 7 (*b*) and (*c*), no account shall be taken, unless deductions have otherwise been made by the member for such holdings, of any increase in those monetary reserves which is due to currency previously inconvertible having become convertible during the year; or to holdings which are the proceeds of a long-term or medium-term loan contracted during the year; or to holdings which have been transferred or set aside for repayment of a loan during the subsequent year.

4. In the case of members whose metropolitan territories have been occupied by the enemy, gold newly produced during the five years after the entry into force of this Agreement from mines located within their metropolitan territories shall not be included in computations of their monetary reserves or of increases in their monetary reserves.

SCHEDULE C. ELECTION OF EXECUTIVE DIRECTORS

1. The election of the elective executive directors shall be by ballot of the governors eligible to vote under Article XII, Section 3 (*b*) (iii) and (iv).

2. In balloting for the five directors to be elected under Article XII, Section 3 (*b*) (iii), each of the governors eligible to vote shall cast for one person all of the votes to which he is entitled under Article XII, Section 5 (*a*). The five persons receiving the greatest number of votes shall be directors, provided that no person who received less than nineteen percent of the total number of votes that can be cast (eligible votes) shall be considered elected.

3. When five persons are not elected on the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (*a*) those governors who voted in the first ballot for a person not elected, and (*b*) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above twenty percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above twenty percent of the eligible votes the twenty percent shall be deemed to include, first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until twenty percent is reached.

5. Any governor part of whose votes must be counted in order to raise the total of any person above nineteen percent shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed twenty percent.

6. If, after the second ballot, five persons have not been elected, further ballots shall be held on the same principles until five persons have been elected, provided that after four persons are elected, the fifth may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

7. The directors to be elected by the American Republics under Article XII, Section 3 (*b*) (iv) shall be elected as follows:

(*a*) Each of the directors shall be elected separately.

(*b*) In the election of the first director, each governor representing an American Republic eligible to participate in the election shall cast for one person all the votes to which he is entitled. The person receiving the largest number of votes shall be elected provided that he has received not less than forty-five percent of the total votes.

(*c*) If no person is elected on the first ballot, further ballots shall be held, in each of which the person receiving the lowest number of votes shall be eliminated, until one person receives a number of votes sufficient for election under (*b*) above.

(*d*) Governors whose votes contributed to the election of the first director shall take no part in the election of the second director.

(*e*) Persons who did not succeed in the first election shall not be ineligible for election as the second director.

(*f*) A majority of the votes which can be cast shall be required for election of the second director. If at the first ballot no person receives a majority, further ballots shall be held in each of which the person receiving the lowest number of votes shall be eliminated, until some person obtains a majority.

(*g*) The second director shall be deemed to have been elected by all the votes which could have been cast in the ballot securing his election.

Schedule D. Settlement of Accounts with Members Withdrawing

1. The Fund shall be obligated to pay to a member withdrawing an amount equal to its quota, plus any other amounts due to it from the Fund, less any amounts due to the Fund, including charges accruing after the date of its withdrawal; but no payment shall be made until six months after the date of withdrawal. Payments shall be made in the currency of the withdrawing member.

2. If the Fund's holdings of the currency of the withdrawing member are not sufficient to pay the net amount due from the Fund, the balance shall be paid in gold, or in such other manner as may be agreed. If the Fund and the withdrawing member do not reach agreement within six months of the date of withdrawal, the currency in question held by the Fund shall be paid forthwith to the withdrawing member. Any balance due shall be paid in ten half-yearly installments during the ensuing five years. Each such installment shall be paid, at the option of the Fund, either in the currency of the withdrawing member acquired after its withdrawal or by the delivery of gold.

3. If the Fund fails to meet any installment which is due in accordance with the preceding paragraphs, the withdrawing member shall be entitled to require the Fund to pay the installment in any currency held by the Fund with the exception of any currency which has been declared scarce under Article VII, Section 3.

4. If the Fund's holdings of the currency of a withdrawing member exceed the amount due to it, and if agreement on the method of settling accounts is not reached within six months of the date of withdrawal, the former member shall be obligated to redeem such excess currency in gold or, at its option, in the currencies of members which at the time of redemption are convertible. Redemption shall be made at the parity existing at the time of withdrawal from the Fund. The withdrawing member shall complete redemption within five years of the date of withdrawal, or within such longer period as may be fixed by the Fund, but shall not be required to redeem in any half-yearly period more than one-tenth of the Fund's excess holdings of its currency at the date of withdrawal plus further acquisitions of the currency during such half-yearly period. If the withdrawing member does not fulfill this obligation, the Fund may in an orderly manner liquidate in any market the amount of currency which should have been redeemed.

5. Any member desiring to obtain the currency of a member which has withdrawn shall acquire it by purchase from the Fund, to the extent that such member has access to the resources of the Fund and that such currency is available under 4 above.

6. The withdrawing member guarantees the unrestricted use at all times of the currency disposed of under 4 and 5 above for the purchase of goods or for payment of sums due to it or to persons within its territories. It shall compensate the Fund for any loss resulting from the difference between the par value of its currency on the date of withdrawal and the value realized by the Fund on disposal under 4 and 5 above.

7. In the event of the Fund going into liquidation under Article XVI, Section 2, within six months of the date on which the member withdraws, the account between the Fund and that government shall be settled in accordance with Article XVI, Section 2, and Schedule E.

Schedule E. Administration of Liquidation

1. In the event of liquidation the liabilities of the Fund other than the repayment of subscriptions shall have priority in the distribution of the assets of the Fund. In meeting each such liability the Fund shall use its assets in the following order:

(*a*) the currency in which the liability is payable;

(*b*) gold;

(*c*) all other currencies in proportion, so far as may be practicable, to the quotas of the members.

2. After the discharge of the Fund's liabilities in accordance with 1 above, the balance of the Fund's assets shall be distributed and apportioned as follows:

(*a*) The Fund shall distribute its holdings of gold among the members whose currencies are held by the Fund in amounts less than their quotas. These members shall share the gold so distributed in the proportions of the amounts by which their quotas exceed the Fund's holdings of their currencies.

(*b*) The Fund shall distribute to each member one-half the Fund's holdings of its currency, but such distribution shall not exceed fifty percent of its quota.

(*c*) The Fund shall apportion the remainder of its holdings of each currency among all the members in proportion to the amounts due to each member after the distributions under (*a*) and (*b*) above.

3. Each member shall redeem the holdings of its currency apportioned to other members under 2 (*c*) above, and shall agree with the Fund within three months after a decision to liquidate upon an orderly procedure for such redemption.

4. If a member has not reached agreement with the Fund within the three-month period referred to in 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (*c*) above to redeem the currency of that member apportioned to other members. Each currency apportioned to a member which has not reached agreement shall be used, so far as possible, to redeem its currency apportioned to the members which have made agreements with the Fund under 3 above.

5. If a member has reached agreement with the Fund in accordance with 3 above, the Fund shall use the currencies of other members apportioned to that member under 2 (*c*) above to redeem the currency of that member apportioned to other members which have made agreements with the Fund under 3 above. Each amount so redeemed shall be redeemed in the currency of the member to which it was apportioned.

6. After carrying out the preceding paragraphs, the Fund shall pay to each member the remaining currencies held for its account.

7. Each member whose currency has been distributed to other members under 6 above shall redeem such currency in gold or, at its option, in the currency of the member requesting redemption, or in such other manner as may be agreed between them. If the members involved do not otherwise agree, the member obligated to redeem shall complete redemption within five years of the date of distribution, but shall not be required to redeem in any half-yearly period more than one-tenth of the amount distributed to each other member. If the member does not fulfill this obligation, the amount of currency which should have been redeemed may be liquidated in an orderly manner in any market.

8. Each member whose currency has been distributed to other members under 6 above guarantees the unrestricted use of such currency at all times for the purchase of goods or for payment of sums due to it or to persons in its territories. Each member so obligated agrees to compensate other members for any loss resulting from the difference between the par value of its currency on the date of the decision to liquidate the Fund and the value realized by such members on disposal of its currency.

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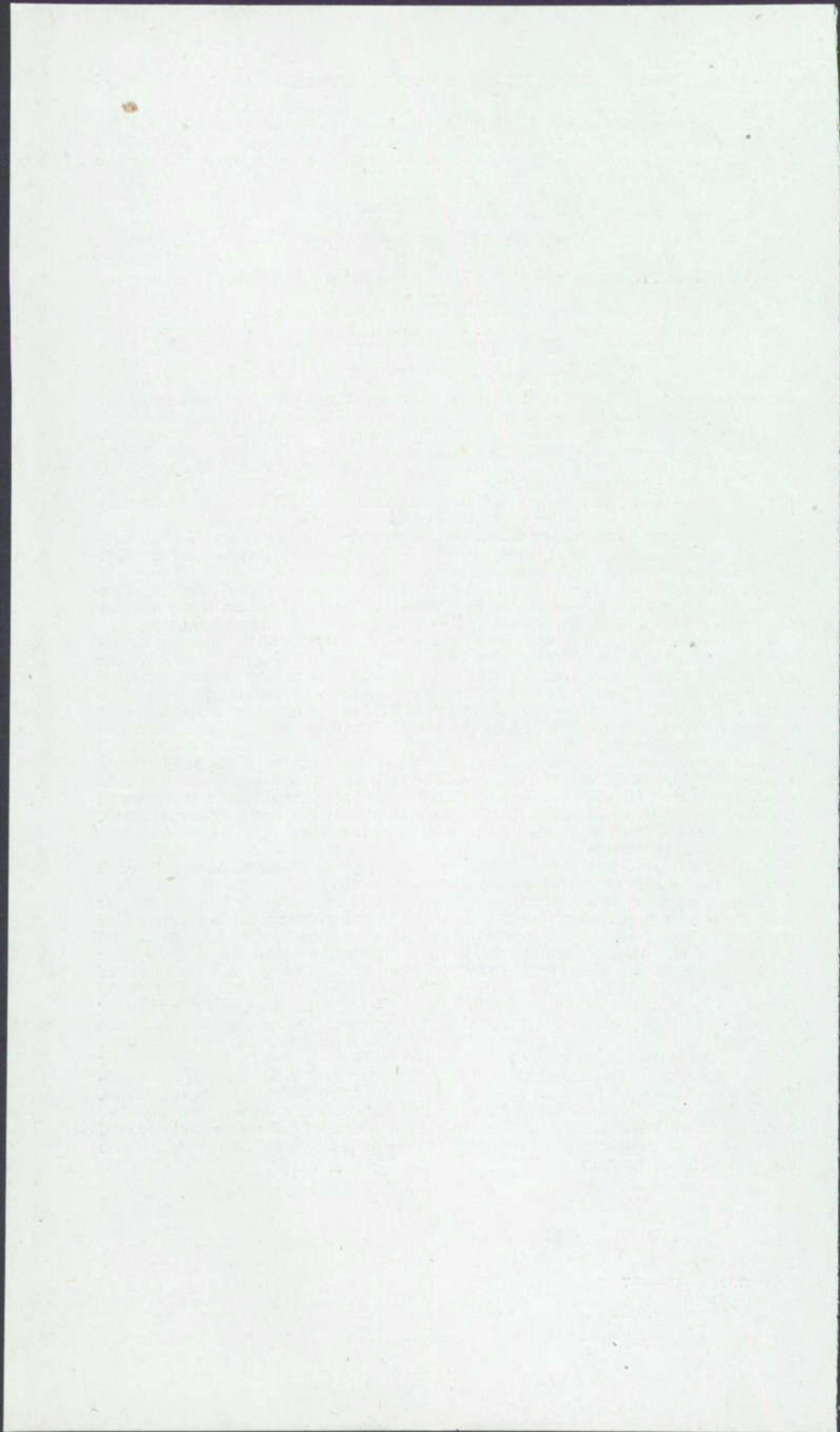

ARTICLES OF AGREEMENT

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

The Governments on whose behalf the present Agreement is signed agree as follows:

Introductory Article

The International Bank for Reconstruction and Development is established and shall operate in accordance with the following provisions:

Article I. Purposes

The purposes of the Bank are:

(i) 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.

(ii) 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.

(iii) 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.

(iv) 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.

(v) 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 postwar years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

The Bank shall be guided in all its decisions by the purposes set forth above.

Article II. Membership in and Capital of the Bank

Section 1. *Membership.*—(*a*) The original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank before the date specified in Article XI, Section 2 (*e*).

(*b*) Membership shall be open to other members of the Fund, at such times and in accordance with such terms as may be prescribed by the Bank.

Sec. 2. *Authorized capital.*—(*a*) The authorized capital stock of the Bank shall be $10,000,000,000, in terms of United States dollars of the weight and fineness in effect on July 1, 1944. The capital stock shall be divided into 100,000 shares having a par value of $100,000 each, which shall be available for subscription only by members.

(*b*) The capital stock may be increased when the Bank deems it advisable by a three-fourths majority of the total voting power.

Sec. 3. *Subscription of shares.*—(*a*) Each member shall subscribe shares of the capital stock of the Bank. The minimum number of shares to be subscribed by the original members shall be those set forth in Schedule A. The minimum number of shares to be subscribed by other members shall be determined by the Bank, which shall reserve a sufficient portion of its capital stock for subscription by such members.

(*b*) The Bank shall prescribe rules laying down the conditions under which members may subscribe shares of the authorized capital stock of the Bank in addition to their minimum subscriptions.

(*c*) If the authorized capital stock of the Bank is increased, each member shall have a reasonable opportunity to subscribe, under such conditions as the Bank shall decide, a proportion of the increase of stock equivalent to the proportion which its stock theretofore subscribed bears to the total capital stock of the Bank, but no member shall be obligated to subscribe any part of the increased capital.

SEC. 4. *Issue price of shares.*—Shares included in the minimum subscriptions of original members shall be issued at par. Other shares shall be issued at par unless the Bank by a majority of the total voting power decides in special circumstances to issue them on other terms.

SEC 5. *Division and calls of subscribed capital.*—The subscription of each member shall be divided into two parts as follows:

(i) twenty percent shall be paid or subject to call under Section 7 (i) of this Article as needed by the Bank for its operations;

(ii) the remaining eighty percent shall be subject to call by the Bank only when required to meet obligations of the Bank created under Article IV, Sections 1 (*a*) (ii) and (iii).

Calls on unpaid subscriptions shall be uniform on all shares.

SEC. 6. *Limitation on liability.*—Liability on shares shall be limited to the unpaid portion of the issue price of the shares.

SEC. 7. *Method of payment of subscriptions for shares.*—Payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the members as follows:

(i) under Section 5 (i) of this Article, two percent of the price of each share shall be payable in gold or United States dollars, and, when calls are made, the remaining eighteen percent shall be paid in the currency of the member;

(ii) when a call is made under Section 5 (ii) of this Article, payment may be made at the option of the member either in gold, in United States dollars or in the currency required to discharge the obligations of the Bank for the purpose for which the call is made;

(iii) when a member makes payments in any currency under (i) and (ii) above, such payments shall be made in amounts equal in value to the member's liability under the call. This liability shall be a proportionate part of the subscribed capital stock of the Bank as authorized and defined in Section 2 of this Article.

SEC. 8. *Time of payment of subscriptions.*—(*a*) The two percent payable on each share in gold or United States dollars under Section 7 (i) of this Article, shall be paid within sixty days of the date on which the Bank begins operations, provided that

(i) any original member of the Bank whose metropolitan territory has suffered from enemy occupation or hostilities during the present war shall be granted the right to postpone payment of one-half percent until five years after that date;

(ii) an original member who cannot make such a payment because it has not recovered possession of its gold reserves which are still seized or immobilized as a result of the war may postpone all payment until such date as the Bank shall decide.

(*b*) The remainder of the price of each share payable under Section 7 (i) of this Article shall be paid as and when called by the Bank, provided that

(i) the Bank shall, within one year of its beginning operations, call not less than eight percent of the price of the share in addition to the payment of two percent referred to in (*a*) above;

(ii) not more than five percent of the price of the share shall be called in any period of three months.

SEC. 9. *Maintenance of value of certain currency holdings of the Bank.*—(*a*) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Bank, depreciated to a significant extent within that member's territories, the member shall pay to the Bank within a reasonable time an additional amount of its own currency sufficient to maintain the value, as of the time of initial subscription, of the amount of the currency of such member, which is held by the Bank and derived from currency originally paid in to the Bank by the member under Article II, Section 7 (i), from currency referred to in Article IV, Section 2 (*b*), or from any additional currency furnished under the provisions of the present paragraph, and which has not been

repurchased by the member for gold or for the currency of any member which is acceptable to the Bank.

(*b*) Whenever the par value of a member's currency is increased, the Bank shall return to such member within a reasonable time an amount of that member's currency equal to the increase in the value of the amount of such currency described in (*a*) above.

(*c*) The provisions of the preceding paragraphs may be waived by the Bank when a uniform proportionate change in the par values of the currencies of all its members is made by the International Monetary Fund.

SEC. 10. *Restriction on disposal of shares.*—Shares shall not be pledged or encumbered in any manner whatever and they shall be transferable only to the Bank.

ARTICLE III. GENERAL PROVISIONS RELATING TO LOANS AND GUARANTEES

SECTION 1. *Use of resources.*—(*a*) The resources and the facilities of the Bank shall be used exclusively for the benefit of members with equitable consideration to projects for development and projects for reconstruction alike.

(*b*) For the purpose of facilitating the restoration and reconstruction of the economy of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration and reconstruction.

SEC. 2. *Dealings between members and the Bank.*—Each member shall deal with the Bank only through its Treasury, central bank, stabilization fund or other similar fiscal agency, and the Bank shall deal with members only by or through the same agencies.

SEC. 3. *Limitations on guarantees and borrowings of the Bank.*—The total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased at any time, if by such increase the total would exceed one hundred percent of the unimpaired subscribed capital, reserves and surplus of the Bank.

SEC. 4. *Conditions on which the Bank may guarantee or make loans.*—The Bank may guarantee, participate in, or make loans to any member or any political subdivision thereof and any business, industrial, and agricultural enterprise in the territories of a member, subject to the following conditions:

(i) When the member in whose territories the project is located is not itself the borrower, the member or the central bank or some comparable agency of the member which is acceptable to the Bank, fully guarantees the repayment of the principal and the payment of interest and other charges on the loan.

(ii) The Bank is satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan under conditions which in the opinion of the Bank are reasonable for the borrower.

(iii) A competent committee, as provided for in Article V, Section 7, has submitted a written report recommending the project after a careful study of the merits of the proposal.

(iv) In the opinion of the Bank the rate of interest and other charges are reasonable and such rate, charges and the schedule for repayment of principal are appropriate to the project.

(v) In making or guaranteeing a loan, the Bank shall pay due regard to the prospects that the borrower, and, if the borrower is not a member, that the guarantor, will be in position to meet its obligations under the loan; and the Bank shall act prudently in the interests both of the particular member in whose territories the project is located and of the members as a whole.

(vi) In guaranteeing a loan made by other investors, the Bank receives suitable compensation for its risk.

(vii) Loans made or guaranteed by the Bank shall, except in special circumstances, be for the purpose of specific projects of reconstruction or development.

SEC. 5. *Use of loans guaranteed, participated in or made by the Bank.*—(*a*) The Bank shall impose no conditions that the proceeds of a loan shall be spent in the territories of any particular member or members.

(*b*) The Bank shall make arrangements to ensure that the proceeds of any loan are used only for the purposes for which the loan was granted, with due attention to considerations of economy and efficiency and without regard to political or other non-economic influences or considerations.

(*c*) In the case of loans made by the Bank, it shall open an account in the name of the borrower and the amount of the loan shall be credited to this account in the currency or currencies in which the loan is made. The borrower shall be permitted by the Bank to draw on this account only to meet expenses in connection with the project as they are actually incurred.

Article IV. Operations

Section 1. *Methods of making or facilitating loans.*—(*a*) The Bank may make or facilitate loans which satisfy the general conditions of Article III in any of the following ways:

(i) By making or participating in direct loans out of its own funds corresponding to its unimpaired paid-up capital and surplus and, subject to Section 6 of this Article, to its reserves.

(ii) By making or participating in direct loans out of funds raised in the market of a member, or otherwise borrowed by the Bank.

(iii) By guaranteeing in whole or in part loans made by private investors through the usual investment channels.

(*b*) The Bank may borrow funds under (*a*) (ii) above or guarantee loans under (*a*) (iii) above only with the approval of the member in whose markets the funds are raised and the member in whose currency the loan is denominated, and only if those members agree that the proceeds may be exchanged for the currency of any other member without restriction.

Sec. 2. *Availability and transferability of currencies.*—(*a*) Currencies paid into the Bank under Article II, Section 7 (i), shall be loaned only with the approval in each case of the member whose currency is involved; provided, however, that if necessary, after the Bank's subscribed capital has been entirely called, such currencies shall, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to such contractual payments on loans guaranteed by the Bank.

(*b*) Currencies received by the Bank from borrowers or guarantors in payment on account of principal of direct loans made with currencies referred to in (*a*) above shall be exchanged for the currencies of other members or reloaned only with the approval in each case of the members whose currencies are involved; provided, however, that if necessary, after the Bank's subscribed capital has been entirely called, such currencies shall, without restriction by the members whose currencies are offered, be used or exchanged for the currencies required to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to such contractual payments on loans guaranteed by the Bank.

(*c*) Currencies received by the Bank from borrowers or guarantors in payment on account of principal of direct loans made by the Bank under Section 1 (*a*) (ii) of this Article. shall be held and used, without restriction by the members, to make amortization payments, or to anticipate payment of or repurchase part or all of the Bank's own obligations.

(*d*) All other currencies available to the Bank, including those raised in the market or otherwise borrowed under Section 1 (*a*) (ii) of this Article, those obtained by the sale of gold, those received as payments of interest and other charges for direct loans made under Sections 1 (*a*) (i) and (ii), and those received as payments of commissions and other charges under Section 1 (*a*) (iii), shall be used or exchanged for other currencies or gold required in the operations of the Bank without restriction by the members whose currencies are offered.

(*e*) Currencies raised in the markets of members by borrowers on loans guaranteed by the Bank under Section 1 (*a*) (iii) of this Article, shall also be used or exchanged for other currencies without restriction by such members.

Sec. 3. *Provision of currencies for direct loans.*—The following provisions shall apply to direct loans under Sections 1 (*a*) (i) and (ii) of this Article.

(*a*) The Bank shall furnish the borrower with such currencies of members, other than the member in whose territories the project is located, as are needed by the borrower for expenditures to be made in the territories of such other members to carry out the purposes of the loan.

(*b*) The Bank may, in exceptional circumstances when local currency required for the purposes of the loan cannot be raised by the borrower on reasonable terms, provide the borrower as part of the loan with an appropriate amount of that currency.

(*c*) The Bank, if the project gives rise indirectly to an increased need for foreign exchange by the member in whose territories the project is located, may in exceptional circumstances provide the borrower as part of the loan with an appropriate amount of gold or foreign exchange not in excess of the borrower's local expenditure in connection with the purposes of the loan.

(*d*) The Bank may, in exceptional circumstances, at the request of a member in whose territories a portion of the loan is spent, repurchase with gold or foreign exchange a part of that member's currency thus spent but in no case shall the part so repurchased exceed the amount by which the expenditure of the loan in those territories gives rise to the increased need for foreign exchange.

SEC. 4. *Payment provisions for direct loans.*—Loan contracts under Section 1 (*a*) (i) or (ii) of this Article shall be made in accordance with the following payment provisions:

(*a*) The term and conditions of interest and amortization payments, maturity and date of payment of each loan shall be determined by the Bank. The Bank shall also determine the rate and any other terms and conditions of commission to be charged in connection with such loan.

In the case of loans made under Section 1 (*a*) (ii) of this Article during the first ten years of the Bank's operations, this rate of commission shall be not less than one percent per annum and not greater than one and one-half percent per annum, and shall be charged on the outstanding portion of any such loan. At the end of this period of ten years, the rate of commission may be reduced by the Bank with respect both to the outstanding portions of loans already made and to future loans, if the reserve accumulated by the Bank under Section 6 of this Article and out of other earnings are considered by it sufficient to justify a reduction. In the case of future loans the Bank shall also have discretion to increase the rate of commission beyond the above limit, if experience indicates that an increase is advisable.

(*b*) All loan contracts shall stipulate the currency or currencies in which payments under the contract shall be made to the Bank. At the option of the borrower, however, such payments may be made in gold, or subject to the agreement of the Bank, in the currency of a member other than that prescribed in the contract.

(i) In the case of loans made under Section 1 (*a*) (i) of this Article, the loan contracts shall provide that payments to the Bank of interest, other charges and amortization shall be made in the currency loaned, unless the member whose currency is loaned agrees that such payments shall be made in some other specified currency or currencies. These payments, subject to the provisions of Article II, Section 9 (*c*), shall be equivalent to the value of such contractual payments at the time the loans were made, in terms of a currency specified for the purpose by the Bank by a three-fourths majority of the total voting power.

(ii) In the case of loans made under Section 1 (*a*) (ii) of this Article, the total amount outstanding and payable to the Bank in any one currency shall at no time exceed the total amount of the outstanding borrowings made by the Bank under Section 1 (*a*) (ii) and payable in the same currency.

(*c*) If a member suffers from an acute exchange stringency, so that the service of any loan contracted by that member or guaranteed by it or by one of its agencies cannot be provided in the stipulated manner, the member concerned may apply to the Bank for a relaxation of the conditions of payments. If the Bank is satisfied that some relaxation is in the interests of the particular member and of the operations of the Bank and of its members as a whole, it may take action under either, or both, of the following paragraphs with respect to the whole, or part, of the annual service:

(i) The Bank may, in its discretion, make arrangements with the member concerned to accept service payments on the loan in the member's currency for periods not to exceed three years upon appropriate terms regarding the use of such currency and the maintenance of its foreign exchange value; and for the repurchase of such currency on appropriate terms.

(ii) The Bank may modify the terms of amortization or extend the life of the loan, or both.

SEC. 5. *Guarantees.*—(*a*) In guaranteeing a loan placed through the usual investment channels, the Bank shall charge a guarantee commission payable periodically on the amount of the loan outstanding at a rate determined by the Bank. During the first ten years of the Bank's operations, this rate shall be not less than one percent per annum and not greater than one and one-half percent per annum. At the end of this period of ten years, the rate of commission may be reduced by the Bank with respect both to the outstanding portions of loans

already guaranteed and to future loans if the reserves accumulated by the Bank under Section 6 of this Article and out of other earnings are considered by it sufficient to justify a reduction. In the case of future loans the Bank shall also have discretion to increase the rate of commission beyond the above limit, if experience indicates that an increase is advisable.

(*b*) Guarantee commissions shall be paid directly to the Bank by the borrower.

(*c*) Guarantees by the Bank shall provide that the Bank may terminate its liability with respect to interest if, upon default by the borrower and by the guarantor, if any, the Bank offers to purchase, at par and interest accrued to a date designated in the offer, the bonds or other obligations guaranteed.

(*d*) The Bank shall have power to determine any other terms and conditions of the guarantee.

SEC. 6. *Special reserve.*—The amount of commissions received by the Bank under Sections 4 and 5 of this Article shall be set aside as a special reserve, which shall be kept available for meeting liabilities of the Bank in accordance with Section 7 of this Article. The special reserve shall be held in such liquid form, permitted under this Agreement, as the Executive Directors may decide.

SEC. 7. *Methods of meeting liabilities of the Bank in case of defaults.*—In cases of default on loans made, participated in, or guaranteed by the Bank:

(*a*) The Bank shall make such arrangements as may be feasible to adjust the obligations under the loans, including arrangements under or analogous to those provided in Section 4 (c) of this Article.

(*b*) The payments in discharge of the Bank's liabilities on borrowings or guarantees under Section 1 (a) (ii) and (iii) of this Article shall be charged:

(i) first, against the special reserve provided in Section 6 of this Article;

(ii) then, to the extent necessary and at the discretion of the Bank, against the other reserves, surplus and capital available to the Bank.

(*c*) Whenever necessary to meet contractual payments of interest, other charges or amortization on the Bank's own borrowings, or to meet the Bank's liabilities with respect to similar payments on loans guaranteed by it, the Bank may call an appropriate amount of the unpaid subscriptions of members in accordance with Article II, Sections 5 and 7. Moreover, if it believes that a default may be of long duration, the Bank may call an additional amount of such unpaid subscriptions not to exceed in any one year one percent of the total subscriptions of the members for the following purposes:

(i) To redeem prior to maturity, or otherwise discharge its liability on, all or part of the outstanding principal of any loan guaranteed by it in respect of which the debtor is in default.

(ii) To repurchase, or otherwise discharge its liability on, all or part of its own outstanding borrowings.

SEC. 8. *Miscellaneous operations.*—In addition to the operations specified elsewhere in this Agreement, the Bank shall have the power:

(i) To buy and sell securities it has issued and to buy and sell securities which it has guaranteed or in which it has invested, provided that the Bank shall obtain the approval of the member in whose territories the securities are to be bought or sold.

(ii) To guarantee securities in which it has invested for the purpose of facilitating their sale.

(iii) To borrow the currency of any member with the approval of that member.

(iv) To buy and sell such other securities as the Directors by a three-fourths majority of the total voting power may deem proper for the investment of all or part of the special reserve under Section 6 of this Article.

In exercising the powers conferred by this Section, the Bank may deal with any person, partnership, association, corporation or other legal entity in the territories of any member.

SEC. 9. *Warning to be placed on securities.*—Every security guaranteed or issued by the Bank shall bear on its face a conspicuous statement to the effect that it is not an obligation of any government unless expressly stated on the security.

SEC. 10. *Political activity prohibited.*—The Bank and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in Article I.

Article V. Organization and Management

Section 1. *Structure of the Bank.*—The Bank shall have a Board of Governors, Executive Directors, a President and such other officers and staff to perform such duties as the Bank may determine.

Sec. 2. *Board of Governors.*—(*a*) All the powers of the Bank shall be vested in the Board of Governors consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as Chairman.

(*b*) The Board of Governors may delegate to the Executive Directors authority to exercise any powers of the Board, except the power to:

(i) Admit new members and determine the conditions of their admission;

(ii) Increase or decrease the capital stock;

(iii) Suspended a member;

(iv) Decide appeals from interpretations of this Agreement given by the Executive Directors;

(v) Make arrangements to cooperate with other international organizations (other than informal arrangements of a temporary and administrative character);

(vi) Decide to suspend permanently the operations of the Bank and to distribute its assets;

(vii) Determine the distribution of the net income of the Bank.

(*c*) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

(*d*) A quorum for any meeting of the Board of Governors shall be a majority of the Governors, exercising not less than two-thirds of the total voting power.

(*e*) The Board of Governors may by regulation establish a procedure whereby the Executive Directors, when they deem such action to be in the best interests of the Bank, may obtain a vote of the Governors on a specific question without calling a meeting of the Board.

(*f*) The Board of Governors, and the Executive Directors to the extent authorized, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Bank.

(*g*) Governors and alternates shall serve as such without compensation from the Bank, but the Bank shall pay them reasonable expenses incurred in attending meetings.

(*h*) The Board of Governors shall determine the remuneration to be paid to the Executive Directors and the salary and terms of the contract of service of the President.

Sec. 3. *Voting.*—(*a*) Each member shall have two hundred fifty votes plus one additional vote for each share of stock held.

(*b*) Except as otherwise specifically provided, all matters before the Bank shall be decided by a majority of the votes cast.

Sec. 4. *Executive Directors.*—(*a*) The Executive Directors shall be responsible for the conduct of the general operations of the Bank, and for this purpose, shall exercise all the powers delegated to them by the Board of Governors.

(*b*) There shall be twelve Executive Directors, who need not be governors, and of whom:

(i) five shall be appointed, one by each of the five members having the largest number of shares;

(ii) seven shall be elected according to Schedule B by all the Governors other than those appointed by the five members referred to in (i) above.

For the purpose of this paragraph, "members" means governments of countries whose names are set forth in Schedule A, whether they are original members or become members in accordance with Article II, Section 1 (*b*). When governments of other countries become members, the Board of Governors may, by a four-fifths majority of the total voting power, increase the total number of directors by increasing the number of directors to be elected.

Executive directors shall be appointed or elected every two years.

(*c*) Each executive director shall appoint an alternate with full power to act for him when he is not present. When the executive directors appointing them are present, alternates may participate in meetings but shall not vote.

(*d*) Directors shall continue in office until their successors are appointed or elected. If the office of an elected director becomes vacant more than ninety days before the end of his term, another director shall be elected for the remainder of the term by the governors who elected the former director. A majority of the votes cast shall be required for election. While the office remains vacant, the alternate of the former director shall exercise his powers, except that of appointing an alternate.

(*e*) The Executive Directors shall function in continuous session at the principal office of the Bank and shall meet as often as the business of the Bank may require.

(*f*) A quorum for any meeting of the Executive Directors shall be a majority of the Directors, exercising not less than one-half of the total voting power.

(*g*) Each appointed director shall be entitled to cast the number of votes allotted under Section 3 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted toward his election. All the votes which a director is entitled to cast shall be cast as a unit.

(*h*) The Board of Governors shall adopt regulations under which a member not entitled to appoint a director under (*b*) above may send a representative to attend any meeting of the Executive Directors when a request made by, or a matter particularly affecting, that member is under consideration.

(*i*) The Executive Directors may appoint such committees as they deem advisable. Membership of such committees need not be limited to governors or directors or their alternates.

SEC. 5. *President and staff.*—(*a*) The Executive Directors shall select a President who shall not be a governor or an executive director or an alternate for either. The President shall be Chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The President shall cease to hold office when the Executive Directors so decide.

(*b*) The President shall be chief of the operating staff of the Bank and shall conduct, under the direction of the Executive Directors, the ordinary business of the Bank. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the officers and staff.

(*c*) The President, officers and staff of the Bank, in the discharge of their offices, owe their duty entirely to the Bank and to no other authority. Each member of the Bank shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

(*d*) In appointing the officers and staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

SEC. 6. *Advisory Council.*—(*a*) There shall be an Advisory Council of not less than seven persons selected by the Board of Governors including representatives of banking, commercial, industrial, labor, and agricultural interests, and with as wide a national representation as possible. In those fields where specialized international organizations exist, the members of the Council representative of those fields shall be selected in agreement with such organizations. The Council shall advise the Bank on matters of general policy. The Council shall meet annually and on such other occasions as the Bank may request.

(*b*) Councillors shall serve for two years and may be reappointed. They shall be paid their reasonable expenses incurred on behalf of the Bank.

SEC. 7. *Loan committees.*—The committees required to report on loans under Article III, Section 4, shall be appointed by the Bank. Each such committee shall include an expert selected by the governor representing the member in whose territories the project is located and one or more members of the technical staff of the Bank.

SEC. 8. *Relationship to other international organizations.*—(*a*) The Bank, within the terms of this Agreement, shall cooperate with any general international organization and with public international organizations having specialized responsibilities in related fields. Any arrangements for such cooperation which would involve a modification of any provision of this Agreement may be effected only after amendment to this Agreement under Article VIII.

(*b*) In making decisions on applications for loans or guarantees relating to matters directly within the competence of any international organization of the types specified in the preceding paragraph and participated in primarily by members of the Bank, the Bank shall give consideration to the views and recommendations of such organization.

SEC. 9. *Location of offices.*—(*a*) The principal office of the Bank shall be located in the territory of the member holding the greatest number of shares.

(*b*) The Bank may establish agencies or branch offices in the territories of any member of the Bank.

SEC. 10. *Regional offices and councils.*—(*a*) The Bank may establish regional offices and determine the location of, and the areas to be covered by, each regional office.

(*b*) Each regional office shall be advised by a regional council representative of the entire area and selected in such manner as the Bank may decide.

SEC. 11. *Depositories.*—(*a*) Each member shall designate its central bank as a depository for all the Bank's holdings of its currency or, if it has no central bank, it shall designate such other institution as may be acceptable to the Bank.

(*b*) The Bank may hold other assets, including gold, in depositories, designated by the five members having the largest number of shares and in such other designated depositories as the Bank may select. Initially, at least one-half of the gold holdings of the Bank shall be held in the depository designated by the member in whose territory the Bank has its principal office, and at least forty percent shall be held in the depositories designated by the remaining four members referred to above, each of such depositories to hold, initially, not less than the amount of gold paid on the shares of the member designating it. However, all transfers of gold by the Bank shall be made with due regard to the costs of transport and anticipated requirements of the Bank. In an emergency the Executive Directors may transfer all or any part of the Bank's gold holdings to any place where they can be adequately protected.

SEC. 12. *Form of holding of currency.*—The Bank shall accept from any member, in place of any part of the member's currency, paid in to the Bank under Article II, Section 7 (i), or to meet amortization payments on loans made with such currency, and not needed by the Bank in its operations, notes or similar obligations issued by the Government of the member or the depository designated by such member, which shall be non-negotiable, non-interest-bearing and payable at their par value on demand by credit to the account of the Bank in the designated depository.

SEC. 13. *Publication of reports and provision of information.*—(*a*) The Bank shall publish an annual report containing an audited statement of its accounts and shall circulate to members at intervals of three months or less a summary statement of its financial position and a profit and loss statement showing the results of its operations.

(*b*) The Bank may publish such other reports as it deems desirable to carry out its purposes.

(*c*) Copies of all reports, statements and publications made under this section shall be distributed to members.

SEC. 14. *Allocation of net income.*—(*a*) The Board of Governors shall determine annually what part of the Bank's net income, after making provision for reserves, shall be allocated to surplus and what part, if any, shall be distributed.

(*b*) If any part is distributed, up to two percent noncumulative shall be paid, as a first charge against the distribution for any year, to each member on the basis of the average amount of the loans outstanding during the year made under Article IV, Section 1 (*a*) (i), out of currency corresponding to its subscription. If two percent is paid as a first charge, any balance remaining to be distributed shall be paid to all members in proportion to their shares. Payments to each member shall be made in its own currency, or if that currency is not available in other currency acceptable to the member. If such payments are made in currencies other than the member's own currency, the transfer of the currency and its use by the receiving member after payment shall be without restriction by the members.

ARTICLE VI. WITHDRAWAL AND SUSPENSION OF MEMBERSHIP: SUSPENSION OF OPERATIONS

SECTION 1. *Right of members to withdraw.*—Any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank at its principal office. Withdrawal shall become effective on the date such notice is received.

SEC. 2. *Suspension of membership.*—If a member fails to fulfill any of its obligations to the Bank, the Bank may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one year from the date of its suspension unless a decision is taken by the same majority to restore the member to good standing.

While under suspension, a member shall not be entitled to exercise any rights under this Agreement, except the right of withdrawal, but shall remain subject to all obligations.

SEC. 3. *Cessation of membership in International Monetary Fund.*—Any member which ceases to be a member of the International Monetary Fund shall automatically cease after three months to be a member of the Bank unless the Bank by three-fourths of the total voting power has agreed to allow it to remain a member.

SEC. 4. *Settlement of accounts with governments ceasing to be members.*—(*a*) When a government ceases to be a member, it shall remain liable for its direct obligations to the Bank and for its contingent liabilities to the Bank so long as any part of the loans or guarantees contracted before it ceased to be a member are outstanding; but it shall cease to incur liabilities with respect to loans and guarantees entered into thereafter by the Bank and to share either in the income or the expenses of the Bank.

(*b*) At the time a government ceases to be a member, the Bank shall arrange for the repurchase of its shares as a part of the settlement of accounts with such government in accordance with the provisions of (*c*) and (*d*) below. For this purpose the repurchase price of the shares shall be the value shown by the books of the Bank on the day the government ceases to be a member.

(*c*) The payment for shares repurchased by the Bank under this section shall be governed by the following conditions:

(i) Any amount due to the government for its shares shall be withheld so long as the government, its central bank or any of its agencies remains liable, as borrower or guarantor, to the Bank and such amount may, at the option of the Bank, be applied on any such liability as it matures. No amount shall be withheld on account of the liability of the government resulting from its subscription for shares under Article II, Section 5 (ii). In any event, no amount due to a member for its shares shall be paid until six months after the date upon which the government ceases to be a member.

(ii) Payments for shares may be made from time to time, upon their surrender by the government, to the extent by which the amount due as the repurchase price in (*b*) above exceeds the aggregate of liabilities on loans and guarantees in (*c*) (i) above until the former member has received the full repurchase price.

(iii) Payments shall be made in the currency of the country receiving payment or at the option of the Bank in gold.

(iv) If losses are sustained by the Bank on any guarantees, participations in loans, or loans which were outstanding on the date when the government ceased to be a member, and the amount of such losses exceeds the amount of the reserve provided against losses on the date when the government ceased to be a member, such government shall be obligated to repay upon demand the amount by which the repurchase price of its shares would have been reduced, if the losses had been taken into account when the repurchase price was determined. In addition, the former member government shall remain liable on any call for unpaid subscriptions under Article II, Section 5 (ii), to the extent that it would have been required to respond if the impairment of capital had occurred and the call had been made at the time the repurchase price of its shares was determined.

(*d*) If the Bank suspends permanently its operations under Section 5 (*b*) of this Article, within six months of the date upon which any government ceases to be a member, all rights of such government shall be determined by the provisions of Section 5 of the Article.

SEC. 5. *Suspension of operations and settlement of obligations.*—(*a*) In an emergency the Executive Directors may suspend temporarily operations in respect of new loans and guarantees pending an opportunity for further consideration and action by the Board of Governors.

(*b*) The Bank may suspend permanently its operations in respect of new loans and guarantees by vote of a majority of the Governors, exercising a majority of the total voting power. After such suspension of operations the Bank shall forthwith cease all activities, except those incident to the orderly realization, conservation, and preservation of its assets and settlement of its obligations.

(*c*) The liability of all members for uncalled subscriptions to the capital stock of the Bank and in respect of the depreciation of their own currencies shall continue until all claims of creditors, including all contingent claims, shall have been discharged.

(*d*) All creditors holding direct claims shall be paid out of the assets of the Bank, and then out of payments to the Bank on calls on unpaid subscriptions. Before

making any payments to creditors holding direct claims, the Executive Directors shall make such arrangements as are necessary, in their judgment, to insure a distribution to holders of contingent claims ratably with creditors holding direct claims.

(*e*) No distribution shall be made to members on account of their subscriptions to the capital stock of the Bank until

(i) all liabilities to creditors have been discharged or provided for, and

(ii) a majority of the Governors, exercising a majority of the total voting power, have decided to make a distribution.

(*f*) After a decision to make a distribution has been taken under (*e*) above, the Executive Directors may by a two-thirds majority vote make successive distributions of the assets of the Bank to members until all of the assets have been distributed. This distribution shall be subject to the prior settlement of all outstanding claims of the Bank against each member.

(*g*) Before any distribution of assets is made, the Executive Directors shall fix the proportionate share of each member according to the ratio of its shareholding to the total outstanding shares of the Bank.

(*h*) The Executive Directors shall value the assets to be distributed as at the date of distribution and then proceed to distribute in the following manner:

(i) There shall be paid to each member in its own obligations or those of its official agencies or legal entities within its territories, insofar as they are available for distribution, an amount equivalent in value to its proportionate share of the total amount to be distributed.

(ii) Any balance due to a member after payment has been made under (i) above shall be paid, in its own currency, insofar as it is held by the Bank, up to an amount equivalent in value to such balance.

(iii) Any balance due to a member after payment has been made under (i) and (ii) above shall be paid in gold or currency acceptable to the member, insofar as they are held by the Bank, up to an amount equivalent in value to such balance.

(iv) Any remaining assets held by the Bank after payments have been made to members under (i), (ii), and (iii) above shall be distributed *pro rata* among the members.

(*i*) Any member receiving assets distributed by the Bank in accordance with (*h*) above, shall enjoy the same rights with respect to such assets as the Bank enjoyed prior to their distribution.

Article VII. Status, Immunities, and Privileges

Section 1. *Purpose of Article.*—To enable the Bank to fulfill the functions with which it is entrusted, the status, immunities and privileges set forth in this Article shall be accorded to the Bank in the territories of each member.

Sec. 2. *Status of the Bank.*—The Bank shall possess full juridical personality, and, in particular, the capacity:

(i) to contract;

(ii) to acquire and dispose of immovable and movable property;

(iii) to institute legal proceedings.

Sec. 3. *Position of the Bank with regard to judicial process.*—Actions may be brought against the Bank only in a court of competent jurisdiction in the territories of a member in which the Bank has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members. The property and assets of the Bank shall, wheresoever located and by whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery of final judgment against the Bank.

Sec. 4. *Immunity of assets from seizure.*—Property and assets of the Bank, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Sec. 5. *Immunity of archives.*—The archives of the Bank shall be inviolable.

Sec. 6. *Freedom of assets from restrictions.*—To the extent necessary to carry out the operations provided for in this Agreement and subject to the provisions of this Agreement, all property and assets of the Bank shall be free from restrictions, regulations, controls and moratoria of any nature.

Sec. 7. *Privilege for communications.*—The official communications of the Bank shall be accorded by each member the same treatment that it accords to the official communications of other members.

Sec. 8. *Immunities and privileges of officers and employees.*—All governors, executive directors, alternates, officers and employees of the Bank

(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Bank waives this immunity;

(ii) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;

(iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.

Sec. 9. *Immunities from taxation.*—(*a*) The Bank, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Bank shall also be immune from liability for the collection or payment of any tax or duty.

(*b*) No tax shall be levied on or in respect of salaries and emoluments paid by the Bank to executive directors, alternates, officials or employees of the Bank who are not local citizens, local subjects, or other local nationals.

(*c*) No taxation of any kind shall be levied on any obligation or security issued by the Bank (including any dividend or interest thereon) by whomsoever held

(i) which discriminates against such obligation or security solely because it is issued by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the place of currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Bank.

(*d*) No taxation of any kind shall be levied on any obligation or security guaranteed by the Bank (including any dividend or interest thereon) by whomsoever held

(i) which discriminates against such obligation or security solely because it is guaranteed by the Bank; or

(ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Bank.

Sec. 10. *Application of Article.*—Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Bank of the detailed action which it has taken.

Article VIII. Amendments

(*a*) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a governor or the Executive Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board the Bank shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendment, the Bank shall certify the fact by a formal communication addressed to all members.

(*b*) Notwithstanding (*a*) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Bank provided in Article VI, Section 1;

(ii) the right secured by Article II, Section 3 (*c*);

(iii) the limitation on liability provided in Article II, Section 6.

(*c*) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

Article IX. Interpretation

(*a*) Any question of interpretation of the provisions of this Agreement arising between any member and the Bank or between any members of the Bank shall be submitted to the Executive Directors for their decision. If the question particularly affects any member not entitled to appoint an executive director, it shall be entitled to representation in accordance with Article V, Section 4 (*h*).

(*b*) In any case where the Executive Directors have given a decision under (*a*) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board, the Bank may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Bank and a country which has ceased to be a member, or between the Bank and any member during the permanent suspension of the Bank, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Bank, another by the country involved and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the Permanent Court of International Justice or such other authority as may have been prescribed by regulation adopted by the Bank. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

Article X. Approval Deemed Given

Whenever the approval of any member is required before any act may be done by the Bank, except in Article VIII, approval shall be deemed to have been given unless the member presents an objection within such reasonable period as the Bank may fix in notifying the member of the proposed act.

Article XI. Final Provisions

Section 1. *Entry into force.*—This Agreement shall enter into force when it has been signed on behalf of governments whose minimum subscriptions comprise not less than sixty-five percent of the total subscriptions set forth in Schedule A and when the instruments referred to in Section 2 (*a*) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before May 1, 1945.

Sec. 2. *Signature.*—(*a*) Each government on whose behalf this Agreement is signed shall deposit with the Government of the United States of America an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(*b*) Each government shall become a member of the Bank as from the date of the deposit on its behalf of the instrument referred to in (*a*) above, except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(*c*) The Government of the United States of America shall inform the governments of all countries whose names are set forth in Schedule A, and all governments whose membership is approved in accordance with Article II, Section 1 (*b*), of all signatures of this Agreement and of the deposit of all instruments referred to in (*a*) above.

(*d*) At the time this Agreement is signed on its behalf, each government shall transmit to the Government of the United States of America one one-hundredth of one percent of the price of each share in gold or United States dollars for the purpose of meeting administrative expenses of the Bank. This payment shall be credited on account of the payment to be made in accordance with Article II, Section 8 (*a*). The Government of the United States of America shall hold such funds in a special deposit account and shall transmit them to the Board of Governors of the Bank when the initial meeting has been called under Section 3 of this Article. If this Agreement has not come into force by December 31, 1945, the Government of the United States of America shall return such funds to the governments that transmitted them.

(*e*) This Agreement shall remain open for signature at Washington on behalf of the governments of the countries whose names are set forth in Schedule A until December 31, 1945.

(*f*) After December 31, 1945, this Agreement shall be open for signature on behalf of the government of any country whose membership has been approved in accordance with Article II, Section 1 (*b*).

(*g*) By their signature of this Agreement, all governments accept it both on their own behalf and in respect of all their colonies, overseas territories, all territories under their protection, suzerainty, or authority and all territories in respect of which they exercise a mandate.

(*h*) In the case of governments whose metropolitan territories have been under enemy occupation, the deposit of the instrument referred to in (*a*) above may be delayed until one hundred and eighty days after the date on which these territories have been liberated. If, however, it is not deposited by any such government before the expiration of this period, the signature affixed on behalf of that government shall become void and the portion of its subscription paid under (*d*) above shall be returned to it.

(*i*) Paragraphs (*d*) and (*h*) shall come into force with regard to each signatory government as from the date of its signature.

SEC. 3. *Inauguration of the Bank.*—(*a*) As soon as this Agreement enters into force under Section 1 of this Article, each member shall appoint a governor and the member to whom the largest number of shares is allocated in Schedule A shall call the first meeting of the Board of Governors.

(*b*) At the first meeting of the Board of Governors, arrangements shall be made for the selection of provisional executive directors. The governments of the five countries, to which the largest number of shares are allocated in Schedule A, shall appoint provisional executive directors. If one or more of such governments have not become members, the executive directorships which they would be entitled to fill shall remain vacant until they become members, or until January 1, 1946, whichever is the earlier. Seven provisional executive directors shall be elected in accordance with the provisions of Schedule B and shall remain in office until the date of the first regular election of executive directors which shall be held as soon as practicable after January 1, 1946.

(*c*) The Board of Governors may delegate to the provisional executive directors any powers except those which may not be delegated to the Executive Directors.

(*d*) The Bank shall notify members when it is ready to commence operations.

Done at Washington, in a single copy which shall remain deposited in the archives of the Government of the United States of America, which shall transmit certified copies to all governments whose names are set forth in Schedule A and to all governments whose membership is approved in accordance with Article II, Section 1 (*b*).

SCHEDULE A. SUBSCRIPTIONS

[Millions of dollars]

Country	Amount	Country	Amount
Australia	200	Iran	24
Belgium	225	Iraq	6
Bolivia	7	Liberia	.5
Brazil	105	Luxembourg	10
Canada	325	Mexico	65
Chile	35	Netherlands	275
China	600	New Zealand	50
Colombia	35	Nicaragua	.8
Costa Rica	2	Norway	50
Cuba	35	Panama	.2
Czechoslovakia	125	Paraguay	.8
Denmark	(1)	Peru	17.5
Dominican Republic	2	Philippine Commonwealth	15
Ecuador	3.2	Poland	125
Egypt	40	Union of South Africa	100
El Salvador	1	Union of Soviet Socialist Republics	1,200
Ethiopia	3	United Kingdom	1,300
France	450	United States	3,175
Greece	25	Uruguay	10.5
Guatemala	2	Venezuela	10.5
Haiti	2	Yugoslavia	40
Honduras	1		
Iceland	1		
India	400	Total	9,100

[1] The subscription of Denmark shall be determined by the Bank after Denmark accepts membership in accordance with these Articles of Agreement.

SCHEDULE B. ELECTION OF EXECUTIVE DIRECTORS

1. The election of the elective executive directors shall be by ballot of the Governors eligible to vote under Article V, Section 4 (*b*).

2. In balloting for the elective executive directors, each governor eligible to vote shall cast for one person all of the votes to which the member appointing him is entitled under Section 3 of Article V. The seven persons receiving the greatest number of votes shall be executive directors, except that no person who receives less than fourteen percent of the total of the votes which can be cast (eligible votes) shall be considered elected.

3. When seven persons are not elected on the first ballot, a second ballot shall be held in which the person who received the lowest number of votes shall be ineligible for election and in which there shall vote only (*a*) those governors who voted in the first ballot for a person not elected and (*b*) those governors whose votes for a person elected are deemed under 4 below to have raised the votes cast for that person above fifteen percent of the eligible votes.

4. In determining whether the votes cast by a governor are to be deemed to have raised the total of any person above fifteen percent of the eligible votes, the fifteen percent shall be deemed to include first, the votes of the governor casting the largest number of votes for such person, then the votes of the governor casting the next largest number, and so on until fifteen percent is reached.

5. Any governor, part of whose votes must be counted in order to raise the total of any person above fourteen percent, shall be considered as casting all of his votes for such person even if the total votes for such person thereby exceed fifteen percent.

6. If, after the second ballot, seven persons have not been elected, further ballots shall be held on the same principles until seven persons have been elected, provided that after six persons are elected, the seventh may be elected by a simple majority of the remaining votes and shall be deemed to have been elected by all such votes.

Countries Represented and Chairmen of Delegations

Australia.—Leslie G. Melville, Economic Adviser to the Commonwealth Bank of Australia.
Belgium.—Camille Gutt, Minister of Finance and Economic Affairs.
Bolivia.—Rene Ballivian, Financial Counselor, Bolivian Embassy, Washington.
Brazil.—Arthur de Souza Costa, Minister of Finance.
Canada.—J. L. Ilsley, Minister of Finance.
Chile.—Luis Alamos Barros, Director, Central Bank of Chile.
China.—Hsiang-Hsi K'ung, Vice President of Executive Yuan and concurrently Minister of Finance; Governor of the Central Bank of China.
Colombia.—Carlos Lleras Restrepo, former Minister of Finance and Comptroller General.
Costa Rica.—Francisco de P. Gutierrez Ross, Ambassador to the United States; former Minister of Finance and Commerce.
Cuba.—E. I. Montoulieu, Minister of Finance.
Czechoslovakia.—Ladislav Feierabend, Minister of Finance.
Dominican Republic.—Anselmo Copello, Ambassador to the United States.
Ecuador.—Esteban F. Carbo, Financial Counselor, Ecuadoran Embassy, Washington.
Egypt.—Sany Lackany Bey.
El Salvador.—Agustin Alfaro Moran.
Ethiopia.—Blatta Ephrem Tewelde Medhen, Minister to the United States.
French Delegation.—Pierre Mendes-France, Commissioner of Finance.
Greece.—Kyriakos Varvaressos, Governor of the Bank of Greece; Ambassador Extraordinary for Economic and Financial Matters.
Guatemala.—Manuel Noriega Morales.
Haiti.—Andre Liautaud, Ambassador to the United States.
Honduras.—Julian R. Caceres, Ambassador to the United States.
Iceland.—Magnus Sigurdsson, Manager, National Bank of Iceland.
India.—Sir Jeremy Raisman, Member for Finance, Government of India.
Iran.—Abol Hassan Ebtehaj, Governor of National Bank of Iran.
Iraq.—Ibrahim Kamal, Senator and former Minister of Finance.
Liberia.—William E. Dennis, Secretary of the Treasury.
Luxembourg.—Hugues Le Gallais, Minister to the United States.
Mexico.—Eduardo Suarez, Minister of Finance.
Netherlands.—J. W. Beyen, Financial Adviser to the Netherlands Government.
New Zealand.—Walter Nash, Minister of Finance; Minister to the United States.
Nicaragua.—Guillermo Sevilla Sacasa, Ambassador to the United States.
Norway.—Wilhelm Keilhau, Director, Bank of Norway, p. t., London.
Panama.—Guillermo Arango, President, Investors Service Corporation of Panama.
Paraguay.—Celso R. Velazquez, Ambassador to the United States.
Peru.—Pedro Beltrain, Ambassador-designate to the United States.
Philippine Commonwealth.—Colonel Andres Soriano, Secretary of Finance.
Poland.—Ludwick Grosfeld, Minister of Finance.
Union of South Africa.—S. F. N. Gie, Minister to the United States.
Union of Soviet Socialist Republics.—M. S. Stepanov, Deputy People's Commissar of Foreign Trade.
United Kingdom.—Lord Keynes.

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UNITED STATES OF AMERICA.—Henry Morgenthau, Jr., Secretary of the Treasury.
URUGUAY.—Mario Le Gamma Acevedo, Expert, Ministry of Finance.
VENEZUELA.—Rodolfo Rojas, Minister of the Treasury.
YUGOSLAVIA.—Vladimir Rybar, Counselor of the Yugoslav Embassy, Washington.
Henrik de Kauffmann, Danish Minister to the United States, in his personal capacity.

UNITED STATES DELEGATES

HENRY MORGENTHAU, Jr., Secretary of the Treasury—Chairman.
FRED M. VINSON, Director, Office of Economic Stabilization—Vice Chairman.
DEAN ACHESON, Assistant Secretary of State.
EDWARD E. BROWN, President, First National Bank of Chicago.
LEO T. CROWLEY, Administrator, Foreign Economic Administration.
MARRINER S. ECCLES, Chairman, Board of Governors of the Federal Reserve System.
MABEL NEWCOMER, Professor of Economics, Vassar College.
BRENT SPENCE, House of Representatives; Chairman, Committee on Banking and Currency.
CHARLES W. TOBEY, United States Senate; Member, Committee on Banking and Currency.
ROBERT F. WAGNER, United States Senate; Chairman, Committee on Banking and Currency.
HARRY D. WHITE, Assistant to the Secretary of the Treasury.
JESSE P. WOLCOTT, House of Representatives; Member, Committee on Banking and Currency.

UNITED STATES TECHNICAL ADVISERS

E. M. BERNSTEIN, Treasury Department—Executive Secretary of the Delegation.
JAMES W. ANGELL, Foreign Economic Administration.
MALCOLM BRYAN, First Vice President, Federal Reserve Bank of Atlanta.
E. G. COLLADO, Department of State.
HENRY EDMISTON, Vice President, Federal Reserve Bank of St. Louis.
WALTER GARDNER, Board of Governors, Federal Reserve System.
E. A. GOLDENWEISER, Board of Governors, Federal Reserve System.
A. H. HANSEN, Board of Governors, Federal Reserve System.
FREDERICK LIVESEY, Department of State.
WALTER LOUCHHEIM, Jr., Securities and Exchange Commission.
AUGUST MAFFRY, Department of Commerce.
NORMAN T. NESS, Treasury Department.
LEO S. PASVOLSKY, Department of State.
WARREN PIERSON, Export-Import Bank.
CHAUNCEY W. REED, House of Representatives; Member, Committee on Coinage, Weights, and Measures.
ANDREW L. SOMERS, House of Representatives; Chairman, Committee on Coinage, Weights, and Measures.
M. S. SZYMCZAK, Board of Governors, Federal Reserve System.

UNITED STATES LEGAL ADVISERS

ANSEL F. LUXFORD, Treasury Department—Chief Legal Adviser.
BEN V. COHEN, Office of Economic Stabilization.
OSCAR COX, Foreign Economic Administration.
E. B. STROUD, Vice President, Federal Reserve Bank of Dallas.

MINORITY VIEWS OF HON. FREDERICK C. SMITH AND HON. HOWARD H. BUFFETT

GENERAL STATEMENT

The minority believes that the future of civilization depends upon the maintenance of the solvency of the United States and the stability of the dollar. Accordingly, we share with every thinking citizen the earnest desire to establish sound foundations for international cooperation and stable monetary conditions everywhere. The achievement of these purposes is the high road to the restoration of peace and personal liberty.

The question before the House is not the need for currency stability and international cooperation. In a world where the only place the value of money often can be determined is in black markets, resulting from fiat currency, no one can question the desperate need for stability. The question is whether the Bretton Woods proposals will (1) promote the objective of monetary stabilization and cooperation, (2) constitute the best available means for achieving that purpose.

The Bretton Woods proposals are so intricate and complicated that the attempt to discuss them adequately is a difficult, if not an impossible, task. During the lengthy hearings various experts interpreted the agreements in a multitude of ways. More significant, however, was the fact that no substantial evidence was offered that the delegates who ratified the plan were in agreement on the meaning of many vital clauses which determine the operation of the so-called stabilization fund.

Accordingly, we urge the Members of the House to appraise this proposal, not by the stated objectives, but by whether or not this diversely understood proposal, in its present state, is the best approach, or even a practical approach, toward the achievement of monetary stabilization.

We believe the Members of Congress are realists. We submit that the plan's advocates should prove conclusively, by authoritative evidence, that there has been a genuine meeting of the minds among the principals who are considering these agreements. Unless competent evidence is placed before the House that the nations understand each other on the modus operandi of the plan, truly intelligent debate is impossible. Rosy and glowing American oratory about the benefits of this plan is either futile, or worse still, misleading, until Congress secures competent testimony regarding the conceptions of this proposal held by other nations.

Certainly recent events should teach us that international agreements, like individual contracts, should represent a clear and definite understanding between the signatories. Even at the outset, Bretton Woods lacks this elemental virtue.

Accordingly, we believe the plan, with or without the committee amendments, defective and unworkable. Members may find guidance in appraising the scheme from the analysis by one outstanding economist:

> Some people seem to believe that Bretton Woods is a cheap way of buying currency stability, or even world peace. It is nothing of the kind. It is a very high fee for entering the game. We have no right to sit down to play it until we know what the rules are going to be and how the others propose to play.

As stated, a stable, dependable money is a vital prerequisite to genuine international cooperation and a durable peace. However, an unconditional prerequisite to a stable currency is a stable government, a government which lives within its income from taxes. The United States cannot successfully stabilize the currency of any country. It can lend money to a government and temporarily give support to its currency and thus help to tide it over a passing financial difficulty. But unless that government determines to put its own house in order, any help it might receive from the outside must remain palliative and cannot possibly be curative.

These facts are basic to the consideration of the so-called Bretton Woods agreements.

The greatest and, indeed, the only enduring contribution the United States can make to stabilizing the currencies of other countries and to general prosperity throughout the world is to see to it that her own currency, the dollar, is kept stable and the credit of her Government secure.

Great Britain and other countries will no doubt need financial assistance in the postwar period, and the United States should give them what aid is appropriate. But the United States should retain full control over any lending transactions she may undertake. Any other policy must be harmful to our welfare.

The basic structure of the International Monetary Fund and Bank would consist of a coalition of 44 governments and would constitute an authoritarian world-wide trade and monetary cartel. This world-embracing corporate body would usurp the social or private function of carrying on international trade and commerce and substitute therefor authoritarian domination over such pursuits.

It would be well to distinguish between the kind of cooperation the proponents of this scheme are thinking of and that to which we have been in the past accustomed. The kind of cooperation they have in mind undertaking is basically different from that which Americans have in the past experienced. We commonly think of cooperation as voluntary association and dealing of private individuals with each other, whether within the confines of a single country or across national boundary lines.

Now, the only cooperation that is involved in this international monetary scheme is that which is required to bind the governments concerned to a common agreement to take over and operate functions of international lending, of foreign exchange markets, of regulating foreign trade, and so forth, which functions are now being performed by private individuals and institutions.

Thus, instead of promoting true international cooperation, which the advocates of the scheme so loudly proclaim to be their goal, they would destroy what is left of this and give us in its stead international authoritarianism.

COMPOSITION OF THE FUND

The "capitalization" of the International Monetary Fund and Bank would be, roundly, $18,000,000,000. The share of the United States would be about one-third of this total, or $6,000,000,000. About $4,000,000,000 of this would be raised by a "public-debt transaction to be authorized by the Secretary of the Treasury," an insidious method of taxation. This would be added to the public debt.

The remainder of our subscription would be derived from the gold stabilization fund, which consists of the so-called profit the Government acquired by debasing the gold dollar.

This method of financing would be highly inflationary. Does not its very nature bode ill?

HOW THE FUND WOULD OPERATE—LEGALIZING CURRENCY DEBASEMENT

Down through the ages currency debasement has been universally regarded as the most deadly form of state robbery. It has brought upon the peoples of the world untold distress and suffering, hunger, revolutions, wars, and, according to some historians, left in its wake ruins of once grand empires.

The very essence of politically managed currency is debasement. It has as its result the expropriation of the fruits of the people's labor. When peace arrives it will be the source of the most fearful evil which will beset our troubled world. Herman Rauschning in his work, The Redemption of Democracy, says:

> It is more than a mere joke that managed currency and concentration camps differ only in degree.

Bretton Woods means managed currency.

When the Constitutional Convention at Philadelphia was considering the question of giving to the Congress power to "emit bills of credit," a managed currency from which the colonists had suffered so severely, Mr. George Read "thought the words [to emit bills of credit], if not struck out, would be as alarming as the mark of the Beast in Revelation." And Mr. John Langdon said he "had rather reject the whole plan [Constitution], than retain the three words 'and emit bills'."

Now, will the Congress of the United States proceed to make the scourge of civilization, currency debasement, legal and respectable, easy of accomplishment, unlimited in amount, permanent, and worldwide?

Article IV, section 5, of the fund agreement starts out by saying:

> A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

But the term, "fundamental disequilibrium," is not defined in the agreement. Although a number of witnesses before the committee considered the term, nearly all of them admitted that they did not know what it meant. A few stated what they thought it might mean.

After making specific provisions for member governments to debase their currencies 10 percent without the concurrence of the fund and by additional unspecified amounts with it, the provision in effect concludes by saying that any member government may debase its currency by any amount so long as it believes that to be necessary

to the proper functioning of its domestic social or political policies. Is there any other reason for debasing a currency except an alleged disordered condition of domestic social or political policies?

Lord Keynes, in a speech before the House of Lords May 18, 1943, made it very clear that each country would have the right to debase its currency to any extent it might desire. The Bretton Woods Conference press release No. 51, July 21, 1944, implemented Keynes' position and concluded by striking off this masterpiece of confused thinking, which more severe critics of the fund might call outright double talk.

To summarize, the fund attempts to provide the greatest degree of exchange stability that is consistent with the economic necessities of the members. It introduces stability without rigidity, and elasticity without looseness.

Prof. O. M. W. Sprague, the best and one of the very few informed witnesses for Bretton Woods, frankly stated that he thought the fund would not give to currencies any inherent or intrinsic stability. Even Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve, who has been one of the principal advocates of deficit financing, has admitted that the stability of the value of a currency is dependent upon sound fiscal policies of the government issuing such currency. Before the House Banking and Currency Committee February 27, 1945, he said:

Now, the way to protect the dollar is for the Congress to not appropriate more money than they are willing to raise by the levy of taxes.

Since this proposition holds for the dollar, it must apply to every other currency.

Professor Sprague stated further:

Well, that is what I think it means. It is relative stability, similar policies and movements and trends all around the world.

Whatever else this may mean it is certain that it does not remotely suggest any relationship between the system of currency debasement provided in the fund proposal and real currency stability.

In addition to providing for currency debasement by individual countries, article IV, section 7, further provides for uniform debasement of the currencies of all member governments. Russia, Britain, and the United States would be given the power to put this provision into effect.

But section 5 of H. R. 3314 prohibits this from being done except with approval of Congress. This prohibition becomes ominous when we reflect upon its real meaning. Legalizing currency debasement, whether by individual governments or collectively, would be tantamount to legalizing welshing by governments on their international as well as national debts, for such debasements would inevitably lead to such repudiation. The passage of section 5 of H. R. 3314 would be recognition by Congress of the need or inevitability of universal repudiation of international and national debts. Does Congress wish to do this?

What the fund would actually do, if it operated according to the stated plan, would be, not to stabilize currencies but by authoritarian means peg some foreign exchange, in terms of the dollar at an overvalued rate. This would naturally result in lowering the price of dollars in terms of foreign currencies or lowering the price of our goods to foreigners.

QUOTAS OF THE FUND, ARTICLE III

The aggregate of all quotas of the fund would be $8,800,000,000.

Each member is given a "quota," which shall be equal to its "subscription" of shares. Quotas are not based alone on economic considerations, but military and political as well.

The quotas are in general divided into two categories, those of creditor and debtor countries. To a creditor country a quota means an amount of money it places in the fund to be lent to debtor countries. To a debtor country a quota means an amount of money it can borrow from the creditor countries, principally the United States. The United States would be the principal creditor country, would furnish about 31 percent of the total subscription, which would represent about 75 percent of the lendable assets.

Each member would be required to pay 25 percent of its quota in gold, or 10 percent of its net gold holdings and United States dollars. The remainder of its subscription would consist of government I O U's. However, the total subscription of the United States would be gold, or the same as gold, since dollars are internationally fully convertible into gold. This is not true of the other currencies. They vary in quality from being as good or nearly as good as the dollar to being practically worthless.

It is probable that if we had a true picture of the situation we might find that much of the gold other countries would pay into the fund was somehow obtained by them through lend-lease or credits in some form. For example, China's gold contribution could all be raised by the purchase of gold with the credits voted her by Congress.

The United States would have 28 percent of the voting power when the fund started operating and considerably less when other members not presently included in the proposed set-up are admitted to membership. The borrowing countries would be in overwhelming control of the fund's resources and lending policies.

An outstanding feature of the quota arrangement is that it would establish a right for each one of the 43 other nations to draw upon the resources of the United States. It could foreshadow rationing of world trade.

It has been called a plan for sharing our wealth with the rest of the world but principally with Great Britain.

VESTING IN FOREIGN POWERS CONTROL OVER UNITED STATES FOREIGN TRADE AND TARIFF POLICIES, ARTICLE VII

This is one of the most basic provisions in the whole scheme. It deals with "scarce" currencies. If dollars became scarce in the fund any member government could step in and block exchange operations in dollars. The fund would then ration dollars; that is, American exports.

Assume we put $2,750,000,000 into the scheme and that this caused our exports to rise so as to provide the millions of jobs claimed by its proponents. Sooner or later the dollars in the fund would become exhausted. Insofar as our export trade was dependent upon the available supply of dollars in the fund, there would then be a slump in all industries producing export goods. Then the fund would come to Congress for more dollars. Could Congress refuse such a request?

Manufacturers, wage earners, farmers, and others would be desperate. Under those circumstances, replenishing dollars in the fund could become mandatory again and again.

But article VII has other implications. Like all the other basic provisions in the scheme this one was derived from Lord Keynes' International Clearing Union plan. Mr. Harry D. White, Assistant Secretary and chief monetary expert of the Treasury, admitted before the committee that article VII "contains provisions which in effect * * * specifically * * *" provide a penalty which the fund can invoke against the United States and force her "to release other countries from any obligation to take its (United States') exports, or, if taken, to pay for them."

In case dollars had been declared scarce in the fund, foreign countries might say to the United States, and they would have the power to do so, "We will permit you to put more dollars into the fund on condition that we need not repay you in dollars, goods, or services."

Or, they might say to the United States, "We prefer replenishing the fund's holding of dollars by increasing our exports to the United States. Therefore, remove your tariff barriers and permit free entry into your country of our goods."

To both of these propositions the United States could demur. But he foreign countries in control of the fund could then elect to temporarily or permanently ration our export trade.

Here is the crux and modus operandi of Lord Keynes' "pressure mechanism," the "far-reaching formula" contained in article VII of the Bretton Woods proposal for an International Monetary Fund, by which Great Britain and other countries could force the United States to maintain equilibrium in her balance of payments with the rest of the world, or, failing in this, penalize her by compelling her to give her goods away, or peradventure compel her to lower or abrogate her tariffs.

In this connection it may be well to quote from Ragnar Nurkse, Economic, Financial, and Transit Department, League of Nations, Princeton, N. J., who, it should be mentioned, apparently favors the scheme. He says:

> Besides, the Bretton Woods scheme is not strictly confined to monetary policy. That part of it which provides for the apportionment of any currency declared by the fund to be "scarce" represents essentially a measure of commercial policy. A hypothetical example will make this clear. If the dollar were to become a scarce currency under the fund arrangement, the rationing of dollars which would then come into operation would discriminate against the exports of the United States. Such rationing would, for example, divert Britain's demand for cotton from the United States to, say, Brazil, even if cotton were cheaper in the United States; and it would similarly divert Brazil's purchases of automobiles from the United States to England, even if automobiles were cheaper in the United States. In sum, it would divert the effective demand of the outside world away from United States products in order to make it equal to the United States demand for the products of the outside world. In monetary terms, this would mean cutting down the international demand for dollars so as to make it fit the available supply. The same result of equating demand and supply could be achieved if, in the circumstances considered, the United States were to lower its tariff. The only difference would be that in this case demand and supply would be equated by increasing the supply of dollars rather than by cutting down the demand for them.

Mr. Harry White, Assistant Secretary and chief monetary expert of the Treasury, is quoted as having said:

> The fund might find that the causes of the scarcity were high trade barriers in the country whose currency was scarce, or a failure to undertake adequate international investment, and it [the fund] would propose appropriate remedies.

This whole arrangement is an integral part of the terms of the contract to which the proponents of this scheme are asking the United States to permanently bind herself.

Should the Congress surrender to foreign powers so important a part of the control of its internal affairs?

Much has been said about the need of our surrendering some of our sovereignty to foreign powers. But who else besides the United States would be surrendering any sovereignty? We largely finance the scheme and put our resources back of it. This alone makes possible such a program as is here proposed.

On the other hand, Great Britain or Russia, or both, and most of the other governments could drop out without losing anything or stopping the operation of the fund.

Lord Keynes made this point clear in a speech before the House of Lords May 18, 1943. In that address he delineated the many advantages that would accrue to Great Britain through the establishment of this scheme, one of which was that it would help restore London as the world's financial ruler. The whole tenor of that address was what Great Britain could get out of the program, not what she could put into it. He said nothing about his country surrendering any sovereignty or running any risks. He said:

> But if, in the event, our trust should prove to be misplaced and our hopes mistaken, we can, nevertheless, escape from all obligations and recover our full freedom with a year's notice. I do not think that we can reasonably ask any completer safeguards than that.

CONTROL OF THE FUND

The United States would have one executive director in the fund who would have 28 percent of the votes. Britain would have two and probably three with 25 percent, and Russia one with 12 percent, unless she should ask admission to the fund of her 15 vassal states as she has to the Assembly of the proposed League of Nations, in which case she might ask for additional representation on the board of directors.

The proportionate voting power between the United States and Great Britain should not be taken as representing the same relative influence each would exercise in the fund's operation. Debtor countries would be in control of the resources of the fund and since Great Britain would be the principal debtor country she could be expected to largely dominate the policies having to do with their disposition.

Furthermore, the very close tie-in which Great Britain has with many other countries through the sterling bloc and her many bilateral trade agreements, and, because of the common interest in foreign trade such arrangements engender, would place her in an advantageous position to influence the conduct as well as votes of those countries.

Britain's blocked sterling balances would give her considerable bargaining power in alining her debtors on her side.

AUTHORITARIAN CONTROL OF CAPITAL TRANSFERS AND CURRENCY TRANSACTIONS

Authoritarian restrictionism of capital movements and currency transactions is of the essence of the scheme.

To make effective control of capital movements would require "the machinery of exchange control for all transactions, even though

a general permission is given to all remittances in respect to current trade." Not only is this machinery necessary in the country desiring it but in those not desiring it as well. Unilateral action would be inadequate. Only by the control of capital movements "at both ends." Lord Keynes suggests that the United States should set up exchange control machinery similar to that of the British exchange control, which "has now gone a long way toward perfection."

Capital transfers may be effected by exporting gold, currency, commodities, or services. To effectively prevent outward movement of capital requires total control of all international transactions whatsoever, censorship of mails, telegrams, telephone calls, cablegrams. Foreign travel must be restricted. Persons wishing to travel abroad must be searched. Restrictions on exports through licensing must be required.

Would the United States provide the bureaucratic machinery that would be necessary "at both ends" to successfully prevent the importation of capital from Britain and other countries which might be able to evade their authoritarian guards? Would not the United States be morally obliged to provide the army of supervisors, inspectors, and policemen to accommodate those countries, and Great Britain in particular? And if she failed to do this, what would become of the much-vaunted international cooperation of which we hear so much from the proponents of the scheme?

The statute would legalize for an indefinite period control by governments of foreign exchange transactions, blocking and rationing of currencies (art. VII, secs. 3, 4); discriminatory currency arrangements or multiple currency practices (art. VIII, sec. 3); restrictions on payments and transfers for current transactions (art. XIV, sec. 2); and control of foreign exchange rates (art. IV, sec. 3).

Mr. Leon Fraser, former president of the Bank for International Settlements, in referring to the machinery that would be required to enforce all these restrictions said:

> Then, of course, you come to the primordial problem of all these questions. Who are the managers? Who are these great fellows who know so much better how to run the world than anybody else? That is where the thing breaks down, and that is why you have to have a Gestapo to protect the managers.

It is made to appear in the text of the statute (art. XIV) that these restrictions would be retained only for a short time, the so-called transition period. But that is not defined, and it is specifically provided that it can be extended without any limit. Prof. O. M. W. Sprague, when asked to give his opinion on how long the transition period might last, replied:

> Well, it may last a long time. * * * maybe we may live in a permanent condition of transition; who knows?

Did we ever get out of the transition period following the other war?

Under article VIII, section 4 (a), it is provided that the blocked sterling balances held in London and representing debts Great Britain owes to other countries amounting to $12,000,000,000 need not be paid at all. Even debts recently incurred need not, under certain conditions, be paid.

Under article VII, section 1, 3 (b), borrowing countries are automatically given the right after they had exhausted their quotas and could no longer borrow from the fund to default on their debts! Who ever heard of a creditor legalizing in advance the defaulting of his

creditor? Who, knowing the facts, is going to invest his money in any foreign securities with such an arrangement as this?

Article IV, section 2, in effect repeals sections 8 and 9 of the Gold Reserve Act of 1934. This takes from the President the power to buy and sell gold at any price and vests in foreign countries the power to manipulate the price of gold. The Congress cannot under the Constitution delegate this power to foreign nations. This seems to be a clear violation of the Constitution.

THE AMENDMENTS AND THE SO-CALLED AMENDMENTS

The New York Times of May 25, 1945, quotes Mr. Spence, chairman of the House Committee on Banking and Currency, as having said that H. R. 3314 as voted out by the committee "does not change a word or alter a punctuation in the basic agreements."

Mr. Brown, of Georgia, ranking member on the Democratic side, is also reported as saying in respect of the amendments that they were "just window dressing."

With regard to section 14, the much advertised Wolcott amendment, we submit the following independent appraisal by Melchoir Palyi:

> As to the Wolcott amendment, you point out yourself that it merely restates what is already in the statutes. Such restatement may be useful for the benefit of emphasis, but that's all it is.
>
> As a matter of fact, it leaves the function of the fund just as unclear as it was before. The idea is that only temporary disturbances of the debtor's balance of payment should be financed by the fund. But suppose Russia borrows from us to buy hydroelectric power equipment. When it comes to servicing or repaying the debt, her balance of payment may be distressed to that extent. That would fall under an "emergency fluctuation in the balance of payments," wouldn't it? But in reality, the alleged emergency arises out of a previous reconstruction credit and if the fund comes to Russia's rescue, as it would have to, then in effect it will finance Russian reconstruction.
>
> In other words, the distinction between reconstruction or relief credits, on the one hand, and short-term loans to overcome temporary fluctuations, on the other, is purely fictitious.

In passing we should point out that the use of the word "cyclical" in this amendment refers to an economic period which authorities interpret as ranging from 40 months to 8 years, which is obviously beyond the realm of current transactions.

The strenuous efforts of the Committee for Economic Development to help the Treasury present some patched-up evidence of industry approval for this scheme resulted in the much-touted amendment for stabilizing loans in the bank. The only thing one can be sure of in respect of this amendment is that it would weaken the bank.

GOVERNMENTAL BRETTON WOODS PROPAGANDA DRIVE BLACKS OUT DEMOCRATIC PROCESSES

Regardless of the merits or demerits of the Bretton Woods proposal, the propaganda drive accompanying it demonstrates the fearful power of government to influence, through control of modern publicity facilities, the actions of a legislative group. The ultimate consequences of such power, ruthlessly used in this instance, are terrifying to us, who have watched it operate at close range. Those interested in the future of liberty in America should understand this state use of the instruments of public information.

Your attention is directed to an editorial prophecy of the New York Herald Tribune, March 4, 1945. We can testify that the forecasts in that editorial have been borne out by events:

There is a disturbing accumulation of evidence that the administration is determined to employ the most ruthless strong-arm tactics to drive through Congress without alteration the so-called Bretton Woods program, on which hearings are scheduled to begin this week before the Banking and Currency Committee.

For some time past there have been reports that sponsors of this legislation have boasted that they had "greased the wheels" to slide the measure through. Events have shown that such reports were not without foundation.

But a more insidious weapon than any of these is the studied effort on the part of the administration to tie the issue of all-or-none acceptance of the Treasury program with the issue of isolation * * *.

* * * the issue of isolationism here is a synthetic one, created for purely political purposes * * *.

Except for the substitution of a silk-glove technique, the fears of the Herald Tribune were well-founded. Departments of the Government have shrewdly used every possible method of propaganda, most of which today are controlled by the Government. Cunningly using the prestige of public office, sales meetings were reported held with radio commentators, news reporters, columnists, religious leaders, and others who play a decisive part in influencing public opinion in America.

With a technique and effectiveness resembling a totalitarian ministry of propaganda, through these influential avenues, the Nation has been drenched with publicity for Bretton Woods.

Officials of organizations of imposing voter membership filed into the hearings, demanding that the committee pass this confusing and intricate proposal without change. To our knowledge, not a single one of these organizational witnesses had secured first-hand testimony giving an opposition appraisal of this plan. Upon questioning, these witnesses usually declined to pretend to be able to discuss the proposals themselves.

This political pressure, plus other less-obvious tactics, were carried on behind the protection of lengthy and carefully staged hearings.

We could write a lengthy report detailing the propaganda methods used to promote this plan. Instead, we summarize with this conclusion:

This experience constitutes sobering evidence to us that the propaganda weapons in the hands of Government can eliminate the processes of orderly legislation, based upon a fair presentation of both sides. Unless opposition to the regime in power secures equal publicity facilities to present its views to the people, bad government or bad proposals cannot be effectively exposed. Until those on both sides of a public question have equal opportunity to present their case to the people, representative government is not functioning.

Frederick C. Smith.
Howard H. Buffett.

MINORITY VIEWS OF HON. JESSIE SUMNER

I deeply regret having to disagree with the majority of the committee respecting the bill under consideration, H. R. 3314, the Bretton Woods bill. I agree with the minority in opposing the bill and submit the following additional reasons:

The bill seems quite unconstitutional. The world monetary government into which this bill would incorporate the United States was created by the Bretton Woods agreement. Advocates insist that it is only an agreement, but they also insist that the document greatly resembles our Federal Constitution. It was signed by delegates of 44 nations. The powers that might be implied from the elastic phrases used in some provisions are important ingredients of national sovereignty. In a speech, copies of which were sent to Members of Congress, the president of the American Bankers Association warned that the proposed organizations would have power enough to generate "world booms and world depressions." Can such vast powers be surrendered by any means short of a constitutional convention or at least an amendment to our United States Constitution? If so, the document is not less than a treaty. It contains all the elements of a treaty. No government is as yet bound by it. At best, the bill under consideration is an attempt to implement and ratify a treaty through usage, though a treaty cannot constitutionally be ratified except by a two-thirds vote of the Senate.

The Bretton Woods proposal creates two world organizations, a world bank as well as a world monetary government called the fund. Together they would hold enough power to force the world into a complete managed economy. But the fund scheme is more expansible and, most opponents feel, so much more dangerous than the bank that opposition concentrates upon the fund.

The monetary scheme was dreamed up before there was reason to know that Russia had any other war aims except the Atlantic Charter. It is now obvious that for us to continue our present policy of contributing American aid we know in advance will be used for aggressive revolutionary activity through the world, is to make ourselves guilty of helping build up another and worse world war in which the United States is certain to be fighting. The Bretton Woods proposal requires that the United States contribute 6 billion dollars. Russia is to have the right to take more than a billion dollars of it with no real strings attached. Together with the Polish and Yugoslavian Governments, Russia is sure of getting a total of a billion and a half dollars with no real strings attached. A billion dollars may seem trifling to Americans in these days of war spending. But used in impoverished European countries now, by the effective Russian world political machine, a billion and a half dollars could be as effective as any army. What excuse could justify voting for this deadly boomerang?

Still, it is no wonder that all the Allied countries were induced to sign the Bretton Woods agreement. People everywhere today are

seeking ravenously things only American dollars can buy. The fund scheme offers governments a chance to secure large shares of dollars in return for their own domestic currencies at any value they may choose to set on their own currencies, many of which are at present of little or no value. A further inducement to join is the provision in the bill under consideration which repeals the Johnson Act as to governments joining the fund. Repeal of the Johnson Act in effect says to foreign governments, "Regardless of the reasons why you default your debts, your credit is now good. Come into the United States. Persuade Americans to cash in their Government bonds and invest in anything and everything abroad, from a munition factory to a hole in the ground." This Bretton Woods bill is, in effect, a continuation of lend-lease without lend-lease restrictions and limitations. It is a levy upon the American people.

The scheme, of course, looks like a bonanza, not only to foreign peoples, but also to Americans who either want to export or speculate abroad. The assumption seems to be that if enough American money is flushed around the world enough of it will trickle back to the United States to create prosperity here. But the excellent testimony of the ablest bankers and economists in the United States showed why this theory under present conditions abroad, is only another New Deal will-o'-the-wisp.

They emphasized that what the authors of the Bretton Woods scheme have failed to recognize is that the problem of currency stabilization is primarily one of creating credit worthiness. Since 1932 every one of the Allied Governments, including our own, has copied some of the dishonest practices of totalitarianism. These practices include currency depreciation, uninhibited spending, multiple currencies, and foreign exchange controls. Such practices warn the would-be investor in advance that he would be wise to try to find somewhere else to put his money because he may not be able to get back the money he puts in. Voluntary capital shrinks from going into any country indulging in any of these discreditable practices. Bretton Woods offers the only kind of dollars which would go into many of the foreign countries today—money of uninformed lenders and money forced out of the American people.

Bankers reminded the committee that in 1919 and 1920 the United States lent $3,000,000,000 to European countries with no real strings attached. Out of it the United States got only an inflationary price boom, followed by a sharp depression in 1921. Presumably, this time it would mean price controls, rationing, and shortages of food and other comforts which are at present plentiful in the United States. The experiences with France during the period immediately after World War I is a perfect example showing the foolishness of the Bretton Woods type of lending.

French politicians, being under no pressure, spent the American loans to a great extent for things that were not necessities, much as DeGaulle is doing now. The Government policy made investors hesitate, caused inflation, and eventually a panic. But after the United States had stopped lending, the French Government was forced to reform its policies. The reformed policy encouraged business to pick up. Money began flowing in from abroad. French money ceased to depreciate. The same thing happened in Poland and other countries.

Still, Dr. Anderson, the noted bank economist, has warned that we should remember the English experience during that period. Immediately after the war England adopted the traditional, sound, economical government policies. But England made the mistake of throwing her strength behind the currencies of European countries which had not adopted credit-worthy policies, in much the same way as the United States will be doing under the Bretton Woods proposal. The European currencies, as they grew weaker, dragged the British currency down with them. We are warned that this is what may happen to the American dollar under the Bretton Woods plan. A weakened dollar would be a misfortune not only for American bondholders, but also for the whole world.

Competent witnesses who opposed the fund seemed to agree that Bretton Woods is more likely to multiply than prevent the troubles it is intended to prevent. The logical conclusion from the testimony is that American dollars should be lent to England and other countries on condition, and only on condition that the borrowing government discard inflationary and other discreditable practices and operate in a credit-worthy manner. That is not too much to ask. Bretton Woods would give foreign governments more right to American dollars than Americans have. Our policy to our own people refuses to let any American borrow from the United States Government unless he is going to conduct himself in a credit-worthy manner. Why should Americans pay to buy privileges for foreigners they cannot afford themselves?

The best qualified testimony in the United States showed that the fund agreement would operate to encourage rather than discourage practices destroying a nation's credit rating. Read particularly the testimony of Leon Frazier, Melchio Palyi, and Professor Kemmerer. The fund has the right to prolong indefinitely the privilege of using foreign-exchange controls. The fund may decide that there is a "fundamental disequilibrium." This is an undefined but pivotal phrase. Presumably it is intended to refer to the way the United States habitually exports more than it imports. If the fund decides that there is a "fundamental disequilibrium" it issues a report stating the cause and cure and demanding that it be cured. This report might contain the demand that the United States contribute more money to the fund or buy more goods or accept more gold in exchange for dollars or lower tariffs. Lord Keynes, in explaining the original British draft for the Bretton Woods scheme, boldly admitted that one purpose of the scheme was to pressure the United States into either lending more money or buying more goods or excusing payment for goods already purchased. If this "diplomatic" pressure fails to budge the United States, the fund has a more potent weapon handy. The fund has power to "ration dollars." It is authorized, if and when it decides dollars are likely to become scarce—and dollars in foreign countries are already scarce and likely to become more so—to proclaim it. Thereupon every foreign government in this world organization is expressly authorized by the fund to raise an embargo preventing dollars leaving the country. In other words, the United States, if it joins this monetary superstate, is always in peril of either being looted or boycotted. Dr. Watts' very logical testimony demonstrated that the process of rationing dollars would probably not stop short of world price control and regimentation.

Who is to rule this world monetary superstate called the fund? A handful of men, all but one of whom would owe no loyalty whatever to the United States, and that man would be immune from punishment in the courts of the United States. All the more important decisions, with the exception of the matter of altering our quota and of depreciating our currency, would be made by a mere majority vote with the American representative holding only one-fourth of the votes. If the fund, constituted as it is, decides to let foreign nations change the values of their currencies, all of them perhaps joining hands in currency depreciation, the United States would be forced either to refuse to depreciate, thereby letting the United States be cheated by the debtor governments, or join in the general depreciation and thereby cheat our own Government bond holders. In the Bretton Woods game all the cards are stacked against the creditor nation. The principal creditor nation is the United States.

It is not surprising that the administration's systematic attempt to line up pressure groups and national organizations in a campaign to pressure the Bretton Woods bill through Congress was effective. Nowadays most everybody seems willing to grasp at any straw labeled "world peace and prosperity." With few exceptions, witnesses favoring the Bretton Woods bill had made little or no real study of the agreements. They relied heavily upon the assurance of administration officials that Bretton Woods is the way out of the world's money troubles. Therefore it seems important to point out frankly that the inventors of the Bretton Woods scheme are disciples of the inflationary, unorthodox Keynesian "keep spending, lending, and printing money" philosophy of economics which has guided both British and American government since 1933. Under it both British and American business enterprise have survived only because it was hoped and believed that New Dealism would not last long.

Now leading bankers, economists, and industrialists here and in England are crying out in print for the traditional thoroughly moral "gold standard" government fiscal policies which in the past have been the basis of both British and American economic development. They say they do not want Bretton Woods monetary government or any "funny money" schemes. They are only saying today what multitudes will be saying when the inevitable crack-up comes. Those who insist that backing this Bretton Woods scheme is "smart politics" would do well to remember what happened to the Republican Party after a similar money management policy used by our Federal Reserve bank generated the 1927 boom, then precipitated the 1929 crash.

The so-called compromise which withered some of the opposition does little but show a lack of confidence in the House and Senate. But surely this "gold brick" scheme, bristling with scrap iron likely to come back at us in bullets, will never go all the way through Congress. A minority of the House and a majority of the Senate successfully resisted the seemingly irresistible administration pressure to pass the "slave labor" manpower bill. This bill is far more dangerous to the American people than the "slave labor" bill. It is probably the most dangerous bill ever presented to Congress. It is time for the United States to stop buying trouble.

JESSIE SUMNER.