World Fund and Bank—Potent Trade Instruments

Inaugural Meeting in Savannah Points to Early Opening of These Institutions

IN ADDITION to the controls and restrictions which grew up during the war, and which were essential to a successful war effort, two situations have arisen to handicap the operations of the foreign trader. The first of these was the foreign-exchange controls and restrictions which developed during the 1930's and were greatly extended during the war years. The second was the difficult economic position in which the war left many of our customers as well as countries which have been major sources of supply. Both these situations adversely affected opportunitie for export and import trade.

Aware of these handicaps, the United States took steps to improve these conditions. At the Bretton Woods conferences, in the summer of 1944, the charters of two institutions designed in part to eliminate exchange restrictions and to enlarge world trade were prepared. From March 8 to 18, 1946, delegates and observers from 45 countries met in Savannah, Ga., to set in motion these two institutions: the International Monetary Fund and the International Bank for Reconstruction and Development.

To Eliminate Difficulties

The International Monetary Fund is designed to eliminate the currency and exchange handicaps which have hampered foreign trade. In recent years the American trader has increasingly found himself shut out from foreign markets because of the inability of his customers to obtain dollar exchange. The American importer has sometimes been unable to purchase goods, badly needed in the American market, from his foreign suppliers because the official and often artificial rate of exchange made the current price prohibitive. United States traders have experienced difficulty in selling in the Sterling Area countries because the supply of dollars available to member countries was tightly rationed.

Unpredictable shifts in rates of exchange and multiple rate systems added

By MAX J. WASSERMAN, *Financial Policy Branch, Office of International Trade, Department of Commerce*

other risks to the traders' already difficult task. The wholesale abandonment of the gold standard, the sudden lowering of the gold content of the standard money, or the decrease in rates of exchange gave some countries a temporary advantage in export trade. As rates of exchange were utilized as instruments of foreign economic policy, the transaction of business became increasingly difficult, especially for the American trader accustomed to carefully planned marketing campaigns. More and more he was obliged to do business on a day-to-day basis.

The International Monetary Fund should bring many of these difficulties to an end. In the first place, it should prevent sudden and unnecessary changes in rates of exchange. Each member country has a definite par of exchange established in terms of gold or United States dollars. Changes in the par value of the currency of any member can only be made to correct relatively permanent changes in the balance of payments situation of the country and on the request of that country itself. These changes

TABLE 1.—*Subscriptions and Voting Power (Exercised by the Governors) of Member Countries*

Country	Fund		Bank		
	Quota (in millions of U. S. dollars)	Number of votes	Subscriptions (in millions of U. S. dollars)	Number of shares	Number of votes
Belgium	225	2,500	225	2,250	2,500
Bolivia	10	350	7	70	320
Brazil	150	1,750	105	1,050	1,300
Canada	300	3,250	325	3,250	3,500
Chile	50	750	35	350	600
China	550	5,750	600	6,000	6,250
Colombia	50	750	-----	-----	-----
Costa Rica	5	300	2	20	270
Cuba	50	750	35	350	600
Czechoslovakia	125	1,500	125	1,250	1,500
Denmark	68	930	68	680	930
Dominican Republic	5	300	2	20	270
Ecuador	5	300	3.2	32	282
Egypt	45	700	40	400	650
El Salvador	2.5	275	1	10	260
Ethiopia	6	310	3	30	280
France	450	4,750	450	4,500	4,750
Greece	40	650	25	250	500
Guatemala	5	300	2	20	270
Honduras	2.5	275	1	10	260
Iceland	1	260	1	10	260
India	400	4,250	400	4,000	4,250
Iran	25	500	24	240	490
Iraq	8	350	6	60	310
Luxemburg	10	350	10	100	350
Mexico	90	1,150	65	650	900
Netherlands	275	3,000	275	2,750	3,000
Nicaragua	2	270	.8	8	258
Norway	50	750	50	500	750
Panama	.5	255	.2	2	252
Paraguay	2	270	.8	8	258
Peru	25	500	17.5	175	425
Philippine Commonwealth	15	400	15	150	400
Poland	125	1,500	125	1,250	1,500
Union of South Africa	100	1,250	100	1,000	1,250
United Kingdom	1,300	13,250	1,300	13,000	13,250
United States	2,750	27,750	3,175	31,750	32,000
Uruguay	15	400	10.5	105	355
Yugoslavia	60	850	40	400	650
Total	7,397.5	83,745	7,670	76,700	86,200

TABLE 2.—*Appointed and Elected Executive Directors and Their Voting Power*

Fund: Item	Fund: Number of votes	Fund: Percent of total voting power	Bank: Item	Bank: Number of votes	Bank: Percent of total voting power
Directors appointed by:			Directors appointed by:		
1. United States	27,750	33.52	1. United States	32,000	37.53
2. United Kingdom	13,250	16.00	2. United Kingdom	13,250	15.54
3. China	5,750	6.94	3. China	6,250	7.33
4. France	4,750	5.74	4. France	4,750	5.57
5. India	4,250	5.13	5. India	4,250	4.98
Elected directors:			Elected directors:		
6. Santos-Filho (Brazil) elected by votes of Brazil, Chile, Peru, Uruguay, Bolivia, Ecuador, Paraguay, and Panama	4,575	5.53	6. Beyen (Netherlands) elected by votes of Netherlands and Union of South Africa	4,250	4.98
7. Gomez (Mexico) elected by votes of Mexico, Colombia, Cuba, Costa Rica, Dominican Republic, Guatemala, El Salvador, Honduras, and Nicaragua	4,370	5.28	7. Gutt (Belgium) elected by votes of Belgium, Norway, Luxemburg, and Iceland	3,860	4.53
8. Bruins (Netherlands) elected by votes of Netherlands and Union of South Africa	4,250	5.13	8. Moller (Chile) elected by votes of Brazil, Chile, Philippines, Bolivia, Costa Rica, Guatemala, Paraguay, and Panama	3,670	4.30
9. Rasminsky (Canada) elected by votes of Canada and Norway	4,000	4.83	9. Baranski (Poland) elected by votes of Czechoslovakia, Poland, and Yugoslavia	3,650	4.28
10. Mladek (Czechoslovakia) elected by votes of Czechoslovakia, Poland, and Yugoslavia	3,850	4.65	10. Machado (Cuba) elected by votes of Mexico, Cuba, Peru, Uruguay, Ecuador, Dominican Republic, El Salvador, Honduras, and Nicaragua	3,610	4.23
11. Gutt (Belgium) elected by votes of Belgium, Luxemburg, and Iceland	3,110	3.76	11. Bryce (Canada) elected by votes of Canada	3,500	4.11
12. Saad (Egypt) elected by votes of Egypt, Greece, Iran, Philippines, Iraq, and Ethiopia	2,890	3.49	12. Varvaressos (Greece) elected by votes of Egypt, Greece, Iran, Iraq, and Ethiopia	2,230	2.62
Total	82,795	100.00	Total	85,270	100.00

cannot exceed a total of 10 percent without the approval of the Fund. However, in case the Fund decides that all rates of exchange are out of line, it may propose a general shift in all the members' rates simultaneously.

The members of the International Monetary Fund further agree that spot exchange transactions shall not exceed or fall below parity by more than 1 percent, thus limiting the trading spread to 2 percent. All other exchange transactions may not exceed a margin above or below the spot rates by more than the management of the Fund considers reasonable.

Notable Benefits Loom

The Fund should go far toward preventing temporary shortages of dollars from hindering the purchase of goods in the United States. If a given country is short of any currency it can purchase it from the Fund against its own money or gold. The purchases of foreign currency are limited: in any one year they may not exceed an amount which brings the Fund's holdings of a member's currency to more than 25 percent of its quota, and the maximum holdings cannot exceed more than 200 percent of its quota. The resources of the Fund, further, cannot be used to make capital transfers except under special circumstances.

The Fund's provisions for the handling of scarce currencies is another feature of interest. If the Fund finds that a scarcity is developing in any particular currency it may make recommendations designed to bring it to an end. The Fund may, further, ration the supply of the scarce currency, employ the gold holdings of the Fund to purchase it or borrow the currency in question.

The use of discriminatory exchange practices may well be eliminated by the Fund. As a transition measure, countries are given a period of 5 years to liquidate existing currency and exchange controls and restrictions. This period will be reduced to 1 year for the United Kingdom and the Sterling Area countries if the proposed $3,750,000,000 financial agreement with the United Kingdom becomes law. In addition, the financial agreement should assist United States trade by freeing some of the blocked balances of the member countries for purchases in the United States.

The members of the Fund undertake to promote exchange stability, to maintain orderly exchange arrangements, and to avoid competitive exchange alterations. These provisions will prevent the use of foreign exchange as a weapon in the competitive struggle for world markets and will help restore trade to more normal conditions. Changes in the par value of a country's currency cannot be made to gain competitive advantage, and rates of exchange may not be utilized as a means of foreign-trade discrimination. Member countries may, however, impose controls on capital movements and may be required to prevent capital outflows as a condition of continued use of the resources of the Fund.

Fund's Resources

To carry out these functions, the International Monetary Fund will have resources subscribed by member countries. The total quota to be subscribed by the present members is $7,397,500,000. Each member is to pay in gold 25 percent of its quota or 10 percent of its net official gold and dollar holdings, whichever is the smaller.

The balance is to be paid in the member's own currency. Non-negotiable, non-interest-bearing demand notes will be accepted from any member in place of that member's currency which is not needed for the Fund's operations.

Table 1 shows the quotas and voting powers of members of the Fund.

Bank's Main Objectives

While the elimination of undesirable currency and exchange practices will prove of great assistance to foreign traders by restoring their business to more normal conditions, it will not greatly expand or develop desirable foreign markets. The International Bank for Reconstruction and Development, on the other hand, was planned, in part, to accomplish this end.

Some traders are inclined to believe that they can obtain a larger share of foreign markets only at the expense of others. The commerce of the world is thought of as a cake; one trader can only get a larger slice if others receive smaller pieces. The fact is, however, that larger slices can be had by *all* traders if the size of the cake is increased. The best means of increasing trade lies in the economic development of our foreign markets by making funds available for reconstruction and development.

The International Bank for Reconstruction and Development hopes to realize this ideal. This Bank has an authorized capital of $10,000,000,000—$7,670,000,000 of which has already been subscribed. The Bank's Articles of Agreement provide that 2 percent of a member's subscription is payable immediately in gold or United States dollars and 18 percent in the member's currency whenever called. The remaining 80 percent is subject to call only when it is required to meet obligations of the Bank as a sort of safety fund.

Members have already paid into the Bank, in gold or United States dollars, $153,400,000. When the Bank starts operations and calls the remaining 18 percent of the subscriptions, it will have an immediate fund of $1,534,000,000 for direct loans, although its total lending capacity, based upon present subscriptions, is $7,670,000,000. As its subscrip-

(Continued on p. 63)

World Fund and Bank—Potent Trade Instruments

(Continued from p. 5)

tions, surplus, and reserves increase, the Bank's capacity to lend will also grow. Table 1 shows the subscriptions and voting power of members of the Bank.

The Bank may guarantee, participate in, or make loans to any member or any political subdivision of a member and to any business, industrial, or agricultural enterprise in the territories of a member. In doing so it can also raise funds, through the sale of its own debentures, guaranteed bonds, and participations.

Conditions and Qualifications

The Bretton Woods Articles of Agreement placed certain conditions upon loans by the Bank. In the first place, the Bank must be satisfied that the borrower is unable to obtain funds otherwise upon as reasonable conditions. The Bank must also examine carefully all projects which are submitted as a basis for a loan, determine that the rate of interest is appropriate to the project, and that the repayment prospects are good. Should the borrower be other than the member in whose territory the project is located, the loan must be guaranteed by either the member, the central bank of the country, or some comparable agency. The Bank itself is entitled to compensation for risks incurred in all loans it makes or guarantees.

The Bank may not impose any conditions concerning the place where the proceeds of a loan are spent, but it must insure that the proceeds are used only for the purposes for which the loan was granted. However, if a loan is made in dollars, for instance, it is obvious that its proceeds are likely to be spent in the United States.

The borrowed money will not be immediately turned over to the borrower. Instead a line of credit, or an account in the name of the borrower, will be established. The amount of the loan will be credited to this account in the currencies in which the loan is made. The borrower can draw on this account to meet the expenses of the approved project as they are actually incurred. The total amount of direct loans, Bank guaranties, and participation may not exceed 100 percent of the unimpaired subscribed capital, reserves, and surplus of the Bank.

The Bank does not make loans to enable the borrower to purchase domestic goods and services. For direct loans, it furnishes the borrower foreign currencies, gold, or foreign exchange. The Bank is authorized to charge a commission for making or guaranteeing loans—which commission cannot be less than 1 percent or more than 1½ percent per year on the outstanding portion of a loan.

The Bank may buy, sell, and deal in securities which it has either issued or guaranteed and such other securities as the directors representing three-fourths of the total voting power deem proper. The Bank has also the power to deal with any person, partnership, corporation, or other legal entity in the territory of any member.

Will Be Big Borrower

If the present demands for funds for reconstruction and development are any indication, the Bank is likely to be one of the largest borrowers ever to have entered the world's capital market. Since its funds will be raised largely through the sale of bonds to private investors in the United States, legislation will be needed to make these obligations eligible for purchase by important institutional investors.

Some steps toward this end have already been taken; the banking laws of New York State already have been amended to permit such investments by savings banks and trust funds. Similar laws permitting investment by insurance companies have not as yet been voted. The New York State legislation may influence other States to support similar measures, as well as action to permit insurance-company participation.

The operations of the Bank may thus open needed channels of investment and provide opportunities for participation by private financial houses both in the investment of funds and in the marketing of securities. Since savings in this country have tended to outrun investment opportunities, thereby withdrawing purchasing power from circulation, these additional investment opportunities should aid in putting idle funds to work and promote increased economic activity.

Numerous Customers Likely

The exact amount which the Bank will lend during the next few years cannot be determined at present. It is likely to have many customers applying for loans as soon as its doors open. Its loans should result in orders for capital goods and raw materials, producing business which would not have been possible without its credit facilities, as well as investment opportunities created by the sale of its debentures and guaranteed loans.

As reconstruction and development proceed from the Bank's lending operations, not only will our export markets be expanded but importers will in all likelihood find increased supply sources for the purchase of goods.

Savannah Implemented Pact

The principles of the Bank and the Fund were outlined at Bretton Woods in the summer of 1944. At Savannah, Ga., in March 1946, the necessary steps were taken to implement this agreement. The Honorable Fred M. Vinson, Secretary of the Treasury, Governor of the Fund and the Bank for the United States, was elected chairman of the Board of Governors of both the Fund and the Bank. Representatives of other members of the "big five" subscribers, the United Kingdom, China, France, and India, were elected to vice chairmanships.

One of the first steps taken by the Governors was the appointment of a Procedures Committee consisting of 12 governors to act as a steering and study committee for the Savannah meeting of the Boards of Governors—which would also be available after the Savannah meetings. The members of the Procedures Committee are: Chairman, United States; Vice Chairman, United Kingdom; members, Belgium, Brazil, Canada, China, Egypt, France, India, Mexico, the Netherlands, and Poland. Committees were also appointed on credentials, agenda, bylaws, the site for the Bank and the Fund, the functions and remuneration of executive directors and other officers, nominations, membership, as well as two "ad hoc" committees on the election of executive directors and the representation of India.

The committee on site recommended, and the Governors approved, the Metropolitan area of Washington as the location of the Fund and the Bank.

The day-to-day operations of the Fund and the Bank as well as certain problems of policy are entrusted to the executive directors of each institution. The five countries with the largest quotas have the right to appoint executive directors for both the Fund and the Bank. The other countries may elect seven additional executive directors for the Fund; two represent the Latin-American countries and five the others. For the Bank, in addition to the five appointed executive directors, seven are elected by those member countries which do not have the right to appoint them.

The appointed executive director has the number of votes of the member country which appointed him. The elected executive director, on the other hand, casts the numbers of votes of those countries which elected him. In the Fund, the voting power of executive directors

may be modified by the financial position of a member toward the Fund. The appointed executive directors, those elected at Savannah, together with their normal voting power, are shown in table 2.

Officers' Functions, Salaries

The most spirited debates at Savannah were those concerned with the functions and remuneration of the officers of these two institutions. These officers are the Executive Directors and the administrative heads, the Managing Director of the Fund and the President of the Bank. The United States delegation took the position that the executive directors should be full-time employees and that salaries should be commensurate with those paid the higher officers of our large commercial banks. Certain other countries favored part-time executive directors and lower salaries.

After some discussion the salaries were fixed at rates closely corresponding to the desires of the United States delegation. Those of the Managing Director of the Fund and President of the Bank were fixed at $30,000 a year, those of the Executive Directors of both the Fund and the Bank, who serve for 2 years, at $17,000 a year and their alternates at $11,500 on the basis of full-time service. Following the precedent set by the United Nations, these salaries are net and free from income taxes. The Fund and the Bank will pay the income taxes, up to certain limits, imposed by the respective countries on these salaries. The Governors also determined that each executive director and his alternate would devote all the time that the work of these two institutions requires and that, between them, one is to be continuously available at the main office. This represents an application of the principle of full-time directors, since either the executive director or his alternate will be continuously in attendance.

Questions of Representation

The Board of Governors approved the recommendation of the committee on membership that those countries which participated in the Bretton Woods deliberations, but which have not signed the Agreements, should receive an extension of time until December 31, 1946, to join the Fund and the Bank with all the privileges of original membership. These countries are Australia, Haiti, Liberia, New Zealand, the U. S. S. R., and Venezuela. Colombia is a member of the Fund but not of the Bank. Denmark, which had an observer at the Bretton Woods conference, was qualified for original membership but had not signed the Articles of Agreement and did not have a quota. The quota for Denmark was fixed at $68,000,000 for both the Fund and the Bank, and that country has now signed the Articles of Agreement.

An interesting discussion was held on the problem of India's representation. The five nations having the largest quotas in the Fund and Bank have the right to appoint executive directors. One of these, the U. S. S. R., has not as yet signed the Articles of Agreement. The right to appoint an executive director consequently fell to India, the next largest subscriber. However, if the U. S. S. R. should sign the Articles of Agreement, India would lose the right of appointing an executive director, since the U. S. S. R. has one of the five largest quotas.

A special "ad hoc" committee considered the problem of India's representation. This committee, under the chairmanship of the late Lord Keynes, interpreted the Bretton Woods Agreement to mean that any member nation which had one of the five largest quotas at the date of the regular election of executive directors would be entitled to appoint an executive director. These appointed executive directors could hold office until the next regular election. Should the U. S. S. R. in the meantime sign the agreement, India would have an executive director until the next meeting of the Governors; at that time it could stand for regular election with the other nations.

The committee on bylaws held a number of meetings to consider the proposals submitted by the United States Delegation. The final bylaws which were adopted were based largely on the United States proposals. Roman L. Horne, of the Treasury Department, was appointed Temporary Secretary of the Fund and John S. Hooker, of the Department of State, Temporary Secretary of the Bank.

Cuba, El Salvador, Nicaragua, Panama, and Uruguay were participants in the Bretton Woods negotiations but had not signed the Articles of Agreement before the Savannah meetings. These countries signed during the Savannah conference and participated in the meetings. Therefore, at present, the Fund has 39 members and the Bank 38. In addition, applications for membership were received from Turkey, Italy, Syria, and the Lebanon. These applications were supported by the United States and referred to the Executive Directors for study and recommendation. Paraguay, which had a quota of $2,000,000 at the Fund, asked to have its Fund quota raised to $5,000,000. This problem was referred to the Executive Directors for study and report. The fiscal year for both the Fund and Bank was fixed as July 1 to June 30.

Debated Points Resolved

The principal points at issue at Savannah were the powers delegated to the executive directors and the continuous sessions of executive directors in the day-to-day management of the institutions. The bylaws that were adopted delegate to the executive directors those powers which are not specifically reserved by the Articles of Agreement, for the Governors. The executive directors or their alternates, unlike the Governors who meet infrequently, will be in continuous attendance at the main offices of these institutions and will, therefore, be able to decide promptly matters of administration and policy.

These bylaws, the location of the institutions at Washington, the salaries for the officers, and provisions for optional full-time executive directors represent acceptance of the American conception of these two organizations by the majority of delegates.

Will Begin Operations Soon

With the selection of a site, the election of the executive directors, and the adoption of bylaws, these two institutions will shortly be in a position to open their doors. The temporary secretaries of the Fund and the Bank are seeking quarters, and the executive directors were scheduled to meet for the Fund on May 6, for the Bank May 7, in Washington, to appoint a managing director of the Fund, a president of the Bank, and attend to other organizational details. In addition, the executive directors will examine and recommend to the Governors on the admission of the new applicants, the selection of an advisory council for the Bank, and the ability of the Bank to lend, or guarantee loans, for the purpose of monetary reconstruction and stabilization.

The problem of the marketing of the Bank's debentures and guarantied loans as well as the type of securities to be issued by the Bank are other subjects which will doubtless be considered by the executive directors at this meeting. These matters will take several months to complete. The Fund and Bank may open their doors for business early next fall.

Australia imported 16,000 hundredweight (800 long tons) of crude rubber in November 1945. During the 5 months ended November 1945, crude-rubber imports were 75,000 hundredweight (3,750 long tons), of which Ceylon supplied nearly 79 percent.