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Memorandum

The United States Executive Director - International Bank - has inquired whether the provisions of Article IV, Section 2 (a), of the Articles of Agreement would entitle the United States to control the 2% of capital paid in United States dollars under Article II, Section 7 (i).

Article II, Section 7 (i), provides as follows:

> "Payment of subscriptions for shares shall be made in gold or United States dollars and in the currencies of the members as follows:
>
> (i) *** 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;"

Article IV, Section 2 (a), provides:

> "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."

It will be noted that Section 7 establishes two means of payment for subscriptions for shares: (1) gold or United States dollars and (2) the currencies of the members. This dichotomy is established both in the preamble of Section 7 and also in subsection (i) where it is provided that 2% of the price of each share shall be paid in "gold or United States dollars" and the remaining 18% in the "currency of the member". It is evident, therefore, that the term "United States dollars" is used as an equivalent of gold and should not be confused with "currencies of the members", the latter phrase meaning each member's local currency.

Turning now to Section 2 of Article IV, it will be seen that the phrase "currencies paid into the bank" is synonymous with the phrase "currencies of the members" as used in the preamble of Section 7 and the phrase "currency of the member" as used in subsection (i). And since the term "currencies" as used in Section 7 means each member's local currency, the provisions in Section 2 relating to approval of a loan by the "member whose currency is involved" must refer only to the 18% to be paid in the "currency of the member" and not to the 2% which must be paid in "gold" or its equivalent, "United States dollars".

That the term "United States dollars" is not to be confused with "currency" of the members is substantiated by Section 8 which makes different provision for the time of payment of the "two percent payable **** in gold or United States dollars" and the 18% payable in the "currency" of the member.

This interpretation is borne out by the history of Article II, Section 7 (i). Until the various provisions were submitted to the Drafting Committee at Bretton Woods, all of the proposals had referred to a partial payment in gold and none had mentioned U. S. dollars as a substitute. One draft was presented which spoke of a partial payment in "gold or gold-convertible currency" (Document 245, p. 6a), but this could not have caused any awkward result as the term would include currencies of non-members which obviously would have no right of approval. The first use of "United States dollars" as an alternative for gold appeared in the Report of the Drafting Committee (Document 468, p. 4). This addition was presented without any written explanation and it must be assumed, therefore, that no substantive change was intended.

Note should also be taken of the absurd situation that would result if the United States claimed control over dollars paid under Article II, Section 7 (i). The Bank could take gold paid under that section, sell it for dollars and lend the dollars without seeking United States approval. This action would be permissible under subsection (d) of Section 2 of Article IV -- part of the same section under which any United States assertion of control would have to be made.

The obvious conclusion from the foregoing argument is that the United States does not have the privilege of controlling the disposition of the 2% of capital paid in under Article II, Section 7 (i).

This conclusion is supported by a consideration of the extraordinary privilege the United States would have if Section 2 (a) of Article IV were construed to grant the United States a control over all dollars paid into the Bank as capital. For such a construction would practically eliminate the privilege which members have of paying the 2% mentioned in Article II in dollars instead of gold unless they were willing to accord to the United States an absolute veto over the disposition of such capital. Moreover, other strange results would follow such an interpretation. Under Article II, Section 9 (a), each member would be required to pay additional dollars to the Bank with respect to dollars it had paid under Article II, Section 7 (i), which the Bank held at the time of any devaluation by the United States. The United States would also have the right under Article V, Section 12, to borrow dollars paid in lieu of gold without paying any interest. Since the Articles of Agreement were obviously intended to express the understanding of equal sovereign members, it would do violence to this understanding to give the United States any of these privileges.

CONCLUSION

Article IV, Section 2 (a), does not entitle the United States to control United States dollars paid in under Article II, Section 7 (i).