MEMORANDUM ON THE C.E.D. PROPOSAL

(1) The C.E.D. proposes that the International Bank for Reconstruction and Development be given the explicit power to make stabilization loans to member countries. This proposal is made to protect the Fund against long term drains on its resources which might immobilize its assets and decrease the Fund's ability to carry out the short-run stabilization purposes for which it has been designed.

(2) The International Bank for Reconstruction and Development already has the power to make such loans. Article III, Section 4 (VII) states that loans made or guaranteed by the Bank shall, except in special circumstances, be for specific projects of reconstruction and development. The words "in special circumstances" were included for the express purpose of enabling the Bank to make long term stabilization loans, as well as other general purpose loans in connection with a program of economic and financial reconstruction, when these are desirable.

Article 5, Section 8b also relates to this problem. This provision requires that, in making decisions on applications for loans or guarantees directly related to the responsibilities of any other international organization, composed primarily of members of the Bank, the Bank shall consider the views and recommendations of such international organizations. This provision ensures proper coordination of the policies of the Bank and Fund on long-term stabilization loans by the Bank.

(3) The Bank has been given the power to make long-term stabilization loans because it is recognized that, as the C.E.D. has emphasized, countries may require such loans for a longer period of time than would always be appropriate under the Fund proposal.

The Fund is designed to provide assistance to countries to meet seasonal and cyclical fluctuations in their balance of payments. If such pressure should be severe and prolonged, the assistance given a company may not be repaid to the Fund for five or six years, and in exceptional cases, even eight years. The Fund's assistance may be required for an equally long period of time if a member must make fundamental adjustments to correct a chronic imbalance in its international payments position. The Fund has been well designed to provide such assistance. A country may purchase the foreign currency from the Fund gradually and in carefully limited amounts. Its overall position will be scrutinized, and the progressive charges imposed will induce the member to repurchase its currency from the Fund as rapidly as possible.

The Fund is well able to perform the stabilization functions assigned to it, and it has sufficient power and flexibility to meet unusual needs as they arise.

(4) On the other hand, it is advisable to reserve the resources and operations of the Bank to the financing of specific reconstruction and development projects which will increase the productivity of the borrowing country. These loans will often be self-liquidating or directly related to an increase in the industrial or export capacity of the borrower. The credits will be needed for long periods of time, and the terms should be as reasonable as possible and closely related to the character and life of the project. The Bank has been designed to facilitate loans of this type. It is not especially adapted to the making of the usual type of stabilization loans which should be made under conditions which induce rapid repayment.

There are, nevertheless, instances in which loans may usefully be made by the Bank in connection with a long-range program for economic and financial reconstruction even though not related to specific projects of reconstruction and development. In the case of a country whose inventories of raw materials and semi-manufactured goods have been depleted during the war, rebuilding of normal inventories is an essential for reconstruction as the replacing of destroyed equipment. Such inventories are a large part of the business capital of a country, and a loan by the Bank to acquire materials abroad may be necessary to enable a country to resume production.

Similarly, a country with little or no reserves of gold or foreign exchange would find it inconvenient to be entirely dependent on the resources of the Fund to meet adverse balances in its international payments. A long-term stabilization loan, at moderate interests cost, would provide a country with sufficient reserves to enable it to maintain stable exchanges without the pressure to keep its international payments in constant balance.

(5) In view of the fact that the Bank already has the power to make stabilization loans when these are necessary, it would be undesirable to amend the Bretton Woods Agreements at this time merely to make this power explicit. Amendments by the United States must be accepted by each of the other 43 nations. Amendments by one country will also open the door to amendments by all others and may, therefore, jeopardize the ultimate adoption of the Agreements. In view of this danger, it would be preferable to adopt the proposals as they are and to make the power to grant stabilization loans more explicit by amendment at a later time, if in the opinion of Congress this should be desirable.

JRS:mjs 4/16/45