

Treasury Department
Division of Monetary Research

Date Feb. 24, 1945

To: ~~Mr. Bernstein~~

Brenner

From: Mr. Horne

I have gone over this draft of an annotated edition of S. 540. It appears to be well done, and perhaps as lucid as it can be made.

I have suggested a few piddling editorial changes.

TO:

Mr. Horne

Mr. Bernstein
wants you to go over this
& get it back to him
the first thing Tuesday
morning. ✓
RB

Mr. Brenner

February 22, 1945

Mr. White

Mr. Luxford

E. M. Bernstein suggested the other day that it might be very helpful to the public if we were to publish an annotated discussion of the Bretton Woods bill, section by section.

Dick Brenner has prepared an annotation of this character which I think serves the purpose if we are interested in taking this action. It may be, however, that we should consider having one of Feltus' men go over the matter from the standpoint of simplification.

I suggest that we discuss this at our next meeting.

(i) a72

CC: Mr. O'Connell
Mr. E.M. Bernstein ✓
Mr. Feltus
Mr. Brenner

Attach.

RFL:nrd - 2/22/45

THE BRETTON WOODS AGREEMENTS BILL

INTRODUCTION

For several years, the problem of creating machinery for effective international cooperation in the monetary and financial fields has been studied by the State and Treasury Departments, the Board of Governors of the Federal Reserve System, and other interested agencies of the Government. Numerous discussions have been held with groups of bankers, business men, labor leaders, farm organizations, and other public-spirited groups. Similar studies and discussions have taken place in other countries.

Last July, at President Roosevelt's invitation, representatives of 44 nations met at Bretton Woods, New Hampshire, to formulate concrete plans for international monetary and financial cooperation. The Conference drafted blueprints for two international organizations -- The International Monetary Fund and the International Bank for Reconstruction and Development -- and submitted them, in the form of Articles of Agreement, for the consideration of the governments and people of the countries represented.

President Roosevelt, in a message to Congress of February 12, 1945, recommended the acceptance of the plans and the enactment of legislation necessary for full participation by the United States in the Fund and the Bank. Pursuant to this recommendation, legislation has been introduced in both the Senate and House of Representatives. Senator Robert F. Wagner and Senator Charles W. Tobey introduced S. 540 in the Senate, and Congressman Brent Spence introduced H.R. 2211 in the House. The two bills are identical. This is the first step taken in any country looking toward legislative approval of the Articles of Agreement.

In view of the importance of the International Fund and the International Bank to the structure of economic cooperation in the post-war years, and in order to assist the public in examining the legislation, the Treasury Department is publishing this annotated version of the Bill.

has published

[*Inside cover*]

The text of each section of the Bill is printed below and each section is followed by a brief annotation.

SHORT TITLE

Section 1. This Act may be cited as the "Bretton Woods Agreements Act".

Note: The short title identifies the legislation with the agreements drafted at Bretton Woods last July.

ACCEPTANCE OF MEMBERSHIP

Sec. 2. The President is hereby authorized to accept membership for the United States in the International Monetary Fund (hereinafter referred to as the "Fund"), and in the International Bank for Reconstruction and Development (hereinafter referred to as the "Bank"), provided for by the Articles of Agreement of the Fund and the Articles of Agreement of the Bank as set forth in the Final Act of the United Nations Monetary and Financial Conference dated July 22, 1944, and deposited in the archives of the Department of State.

Note: The President is ^{to be} authorized to accept membership for the United States in the Fund and the Bank.

APPOINTMENT OF GOVERNORS AND EXECUTIVE DIRECTORS

Sec. 3. The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund and an alternate, and a governor of the Bank and an alternate. The term of office of each shall be five years. The President, by and with the advice and consent of the Senate, shall appoint an executive director of the Fund and an executive director of the Bank, who shall also serve as provisional executive directors for the purposes of the respective Articles of Agreement. The term of office of each shall be two years, but they shall continue in office until their successors are appointed. Each executive director shall, with the approval of the President, appoint an alternate. Governors and their alternates shall be eligible to appointment either as executive directors or as their alternates. No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.

Note: The President, with the consent of the Senate, is to appoint governors and executive directors of the Fund and the Bank who will represent the United States. He is also empowered, with the consent of the Senate, to appoint alternates for the governors. Alternates of the executive directors, however, will be appointed by each executive director, with the approval of the President. This distinction carries out the intention of the Articles of Agreement which visualize the executive director and his alternate as a closely cooperating team. In the selection of an alternate for an executive director, the executive director himself must be given wide freedom of choice.

Each governor will serve for five years and each executive director will serve for two years. In view of the fact that the Executive Directors must be able to function at all times, executive directors appointed by the United States will hold office until their successors are appointed, even though this may, in unusual circumstances, involve a longer term of office.

The first executive directors appointed by the President, with the consent of the Senate, will serve as provisional executive directors during the period when the Fund and the Bank are being organized. The word "provisional" has no real significance so far as the United States is concerned. It is used in the agreement to preserve a voice in the management for countries other than the five largest which accept membership before January 1, 1946, but after the Fund and Bank have been organized.

REPORTS

Sec. 4. The President from time to time, but not less frequently than every six months, shall transmit to the Congress a report with respect to the participation of the United States in the Fund and the Bank.

Note: Congress will be kept fully informed of the activities of the United States in relation to the Fund and the Bank, and also of the work of the governors and executive directors who represent the United States.

CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

Sec. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or consent to any change in the quota of the United States under article III, section 2, of the Articles of Agreement of the Fund; (b) propose or agree to any change in the par value of the United States dollar under article IV, section 5, or article IX, section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under article IV, section 7; (c) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (d) accept any amendment under article XVII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (e) make any loan to the Fund or the Bank. Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank.

Note: This section ^{will} ^{prohibit} the making of fundamental changes in the Fund and the Bank or in the participation of the United States in these institutions unless Congress approves such changes. Specifically, it ^{will} ^{prohibit} the following things:

1. Any change in the quota of the United States in the Fund;
2. Any change in the par value of the United States dollar;

3. Any increase in the capital stock of the Bank;
4. Any increase in the subscription of the United States to the Bank;
5. The making of any loans to the Fund or the Bank by any agency of the United States Government;
6. The adoption of any amendments to either the Fund or the Bank agreements.

PAR VALUE OF UNITED STATES DOLLAR

Sec. 6. When the United States is requested by the Fund to communicate the par value of the United States dollar, such par value shall not be communicated as other than 15-5/21 grains of gold nine-tenths fine.

Note: When the Fund is created, it will be necessary to determine the initial par values of the currencies of all member countries. Article ~~XX~~, Section ~~4~~ of the Articles of Agreement of the Fund provides the procedure to be followed in determining initial par values. The first step in the procedure is the communication by each member country of the par value of its currency. This section requires the President to communicate the present weight of the gold dollar as the par value of the United States dollar. ~~Thus, when the Fund has been set up, the par value of the dollar will be the same as it is today.~~

after remain
No change in the gold value of the dollar can be met without authorization of Congress.

DEPOSITORIES

Sec. 7. Any Federal Reserve bank which is requested to do so by the Fund or the Bank shall act as its depository or as its fiscal agent, and the Board of Governors of the Federal Reserve System shall supervise and direct the carrying out of these functions by the Federal Reserve banks.

Note: The Fund and the Bank may request any Federal Reserve bank to act as its depository or fiscal agent. Federal Reserve banks which act in this capacity will be supervised and directed by the Board of Governors of the Federal Reserve System.

PAYMENT OF SUBSCRIPTIONS

Sec. 8. (a) Subsection (c) of section 10 of the Gold Reserve Act of 1934, as amended (U.S.C., title 31, sec. 822a), is amended to read as follows:

"(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."

(b) The Secretary of the Treasury is authorized to pay the balance of \$950,000,000 of the subscription of the United States to the Fund not provided for in subsection (a) and to pay the subscription of the United States to the Bank from time to time when payments are required to be made to the Bank. For the purpose of making these payments, the Secretary of the Treasury is authorized to use as a public-debt transaction not to exceed \$4,125,000,000 of the proceeds of any securities hereafter issued under the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include such purpose. Payment under this subsection of the subscription of the United States to the Fund or the Bank and repayments thereof shall be treated as public-debt transactions of the United States.

(c) For the purpose of keeping to a minimum the cost to the United States of participation in the Fund and the Bank, the Secretary of the Treasury, after paying the subscription of the United States to the Fund, and any part of the subscription of the United States to the Bank required to be made under Article II, Section 7(1), of the Articles of Agreement of the Bank, is authorized and directed to issue special notes of the United States from time to time at par and to deliver such notes to the Fund and the Bank in exchange for dollars to the extent permitted by the respective Articles of Agreement. The special notes provided for in this subsection shall be issued under the authority and subject to the provisions of the Second Liberty Bond Act, as amended, and the purposes for which securities may be issued under that Act are extended to include the purposes for which special notes are authorized and directed to be issued under this subsection, but such notes shall bear no interest, shall be nonnegotiable, and shall be payable on demand of the Fund or the Bank, as the case may be. The face amount of special notes issued to the Fund under the authority of this subsection and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Fund, and the face amount of such notes issued to the Bank and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Bank under article II, section 7(1) of the Articles of Agreement of the Bank.

(d) Any payment made to the United States by the Fund or the Bank as a distribution of net income shall be covered into the Treasury as a miscellaneous receipt.

Note: This section provides for the payment of the United States subscriptions to the Fund and the Bank. The subscription of the United States to the Fund is \$2,750 million. The maximum liability of the United States on its shares of stock in the Bank is \$3,175 million. The total subscription to the two institutions is \$5,925 million.

The entire subscription to the Fund must be paid when the Fund has announced its intention of beginning exchange transactions. The subscription to the Bank may be called by the Bank from time to time. Only twenty percent of it, or \$635 million, can be called for the purpose of making loans. The remaining \$2,540 million can only be called for the purpose of meeting losses which the Bank may suffer in the course of its operations. It is necessary, however, that the entire amount be readily available before the United States can accept membership in the Bank, since the United States must certify when it signs the agreement that it is prepared to carry out all of its obligations.

Part of the money required will be transferred from the stabilization fund set up by Congress in 1934 for the purpose of stabilizing the exchange value of the dollar. The balance will be raised by issuing United States Government bonds and using the proceeds to pay the subscriptions.

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Subsection (a) directs the Secretary of the Treasury to use \$1,800 million of the present stabilization fund to pay part of the subscription of the United States to the Fund. If the United States withdraws or the Fund is liquidated and this money is returned to the United States, it will not go back into the stabilization fund, but will be part of the Government's general receipts and will be available for use only in accordance with subsequent appropriations by Congress.

requests renewal of
The stabilization fund was created by Section 10 of the Gold Reserve Act of 1934. Subsection (c) of that section contains a time limitation which causes the stabilization fund to expire every two years. In view of the fact that subscription to the International Monetary Fund will reduce the stabilization fund to \$280 million, this time limitation is omitted and the stabilization fund becomes permanent. The smaller stabilization fund will continue to be extremely useful in connection with stabilization operations with countries which are of particular interest to the United States, *with some of whom we now have bilateral agreements.*

Subsection (b) authorizes the Secretary of the Treasury to issue United States Government bonds exactly like those currently being issued and to use the proceeds to pay the part of the United States subscription to the Fund which is not covered by the transfer of money from the existing stabilization fund. He is also authorized to use the proceeds of the issue of United States Government bonds to pay the subscription of the United States to the Bank. Payments to the Bank will be made from time to time as calls are made by the Bank in accordance with the Articles of Agreement.

This method of financing has been used a number of times in the past. It is an appropriate method for raising money with which to make investments rather than expenditures. Other examples of the use of this method are 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.

Subsection (c) is designed to minimize the cost to the United States of participation in the Fund and the Bank. Both the Fund and the Bank will have large dollar balances which they will hold in their accounts with the Federal Reserve banks. These balances will be considerably greater than needed for immediate operating purposes. Accordingly, the Articles of Agreement provide that the United States can substitute for the dollar balances not needed for operating purposes nonnegotiable, non-interest bearing notes, payable on demand. These notes will place the Fund and the Bank in a position to obtain the dollars when they need them, but will relieve the United States of the interest cost involved in borrowing the money with which to pay the subscription to the Fund and the Bank.

The issue of non-interest bearing notes to the Fund is limited to the amount of the subscription of the United States, or \$2,750 million. The limit on the issue of such notes to the Bank is twenty percent of the United States' subscription, or \$635 million.

Subsection (d) provides that any money received by the United States as a distribution of net income of the Fund or the Bank will be paid into the general funds of the Treasury so that it can be used only in accordance with appropriations made by Congress.

OBTAINING AND FURNISHING INFORMATION

Sec. 9. So long as the United States is a member of the Fund or of the Bank, the President may require at any time, in the manner and under the penalties provided in section 5(b) of the Trading With the Enemy Act, as amended (U.S.C., title 50 App., sec. 5), the furnishing of—

- (a) any data that may be requested by the Fund under article VIII, section 5, of the Articles of Agreement of the Fund; and
- (b) any data of the type which may be required under section 5(b) of the Trading With the Enemy Act, as amended, and which in his judgment is essential for the guidance of the United States in its participation in the Fund or the Bank.

dollar holdings of foreign governments and their citizens in the United States

Note: Under the Fund Agreement, the United States must furnish to the Fund information necessary for the successful performance of the Fund's operations. The Fund can require information concerning, for example, the foreign holdings of the United States and its citizens, the production of gold in the United States, the volume of exports from the United States and imports into the United States. This act authorizes the President to obtain the necessary information in the manner and under the penalties provided in Section 5(b) of the Trading with the enemy Act. It also authorizes him in the same manner to obtain other types of information which may be required under the Trading with the Enemy Act and which are essential for the guidance of the United States in its participation in the Fund and the Bank.

Much of this information has been collected for a number of years, some of it under the Trading with the Enemy Act.

FINANCIAL TRANSACTIONS WITH FOREIGN GOVERNMENTS IN DEFAULT

Sec. 10. The Act entitled "An Act to prohibit financial transactions with any foreign government in default on its obligations to the United States", approved April 13, 1934 (U.S.C., title 31, sec. 804a), is amended by adding at the end thereof a new section to read as follows:

"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."

Note: This section amends the "Johnson Act" which was enacted in 1934. That Act prohibits any person from purchasing the securities of, or lending money to, governments which are in default on their obligations to the Government of the United States. When the United States becomes a member of the Fund and the Bank, some modifications of the "Johnson Act" will be essential.

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This amendment of the "Johnson Act" offers *two* advantages. In the first place, it will be an additional incentive for those foreign countries which are in default on their obligations to the United States to join and remain in the Fund and the Bank. They will be subject to the "Johnson Act" restrictions if they fail to join, or withdraw. Secondly, membership in the Fund and Bank will contribute to the financial stability of member countries. Private investors should have the benefit of this protection in extending credit. *Thirdly,*

since the Fund and the Bank are supplemental to private agencies, it is necessary to enable countries to use the commercial and investment banks as far as possible.

JURISDICTION AND VENUE OF ACTIONS

Sec. 11. For the purpose of any action which may be brought within the United States or its Territories or possessions by or against the Fund or the Bank in accordance with the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, the Fund or the Bank, as the case may be, shall be deemed to be an inhabitant of the Federal judicial district in which its principal office in the United States is located, and any such action at law or in equity to which either the Fund or the Bank shall be a party shall be deemed to arise under the laws of the United States, and the district courts of the United States shall have original jurisdiction of any such action. When either the Fund or the Bank is a defendant in any such action, it may, at any time before the trial thereof, remove such action from a State court into the district court of the United States for the proper district by following the procedure for removal of causes otherwise provided by law.

Note: This provision confers upon the district courts of the United States jurisdiction to try any case to which the Fund or the Bank is a party. It also contains a procedure for the removal of such cases from State courts to the district courts of the United States.

STATUS, IMMUNITIES AND PRIVILEGES

Sec. 12. The provisions of Article IX, sections 2 to 9, both inclusive, and the first sentence of article VIII, section 2(b) of the Articles of Agreement of the Fund and the provisions of article VI, section 5(i) and article VII, sections 2 to 9, both inclusive, of the Articles of Agreement of the Bank shall have full force and effect in the United States and its Territories and possessions upon acceptance of membership by the United States in, and the establishment of, the Fund and the Bank, respectively.

Note: When the United States has accepted membership in the Fund and the Bank and the two institutions have been established, they will immediately acquire in the United States a legal status, and certain immunities and privileges which are called for by the Articles of Agreement. Briefly, the status, immunities and privileges are:

- (1) The Fund and the Bank will have legal personality and the ability to contract, to acquire and dispose of property, and to bring suit in our courts;
- (2) The Fund will be immune from suit unless it consents to be sued, and the Bank can be sued but can not have its property attached for litigation purposes;
- (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 the Bank will be treated with the same respect as those of foreign governments;

*Other countries but will remain subject to taxation
by the country*

- 9 -

(5) The officials and employees of the Fund and the Bank will be given the same treatment as diplomats;

(6) The Fund and the Bank will be immune from taxation, and each official and employee will be immune from taxation on his income by any country ~~except~~ that of which he is a citizen.

If the Bank should ever decide to wind up its affairs it would distribute all of its assets to the member countries. Each country receiving assets from the Bank ~~will~~ be entitled to the same privileges and immunities with respect to these assets which the Bank had prior to distribution.

would
This section also gives effect to the provision in the Fund Agreement that when other members have exchange controls which are consistent with the Agreement, our courts will not enforce exchange contracts that violate such controls.