

SUGGESTIONS ON BRETTON WOODS ENABLING LEGISLATION

1. The International Financial Council

The United States, if it becomes a member of the International Monetary Fund and of the International Bank for Reconstruction and Development, will have certain powers and will assume certain responsibilities with respect to these institutions. The greater part of the Bank's loans can be made only with the approval of the United States and United States approval will also be required for any borrowings of the Fund in this market. In addition, the United States will appoint governors and executive directors who will participate in important decisions of the Fund and of the Bank. It is essential that all decisions of the United States and of its governors and executive directors be in harmony with the domestic and foreign financial policy of this country.

Obviously neither the President nor the Congress can devote sufficient time to achieve such harmony directly; the responsibility must be delegated. The body to whom it should be delegated should be established by law, should be small enough to be effective, flexible enough to meet changing conditions, and should include representatives of the permanent agencies directly and continuously concerned in their operations with the domestic and foreign financial policy of this country. The Congress should be kept fully informed of the activities of this body and of the governors and directors.

It is suggested that this body be called the International Financial Council and that it consist of the Secretary of the Treasury as Chairman, the Secretary of State, the Chairman of the Board of Governors of the Federal Reserve System, and the heads of two additional agencies designated

by the President. The Council would interpret general policies to the governors and executive directors; but it would not, of course, give detailed voting instructions. It should have the right to recommend the removal of a governor or executive director if he is not acting in substantial accordance with its interpretations.

The Council should interpret the financial policy of the United States Government in relation to the Fund and Bank. It should be the agency to approve or disapprove the actions of these institutions when the consent of the United States as a country is called for before any action may be taken by the Fund or the Bank. Its decisions should be transmitted through the United States governor or director, who in these special cases will not be free to exercise independent judgment.

The sort of case in which approval of the United States as a country is required is well illustrated by the Bank Agreement. The Bank cannot use the United States subscription, or try to borrow funds in this country, or guarantee dollar loans if the United States objects. Suppose now that the Council informs the U.S. director that it is in accordance with the policy of the United States at this time for dollar loans to be made for productive purposes abroad, and suppose that the director relying on this information votes for a dollar loan. It would be an anomalous situation if at that point some U.S. agency other than the Council could deny the Bank the right to try its luck in our investment markets because the other agency considered that such borrowing would be contrary to the policy of the United States. The Council should be the interpreter of all United States policy vis-a-vis the Fund and Bank. The Council would, of course, consult the interested agencies and on certain matters the President before making its decisions. Furthermore, the Council would not

bind any agency in this country to take positive action by approving of the Bank's attempt to raise funds here. It would merely indicate that the United States has no objection to the Bank or the Fund attempting to raise funds here.

The governors and directors, acting in a manner generally consistent with the views of the Council as to the financial and monetary policies of the United States, or in certain matters on specific instructions, should be the channel through which all negotiations, agreements, reports, representations, and other non-financial dealings between the United States and the Fund or Bank are carried out. And since important policy actions and decisions by particular agencies may be required to fulfill the obligations of the United States under the Fund and Bank Agreements these actions and decisions should be made after consultation with the Council. The Council should be able to obtain such data as in its judgment is necessary for the guidance of the United States in its relations with the Fund and Bank, and should have the responsibility of seeing that the Fund gets such information as it may request.

Draft of Provision

"SEC. ____ . International Financial Council. (a) There is hereby established the International Financial Council (hereinafter referred to as the Council), consisting of five members who shall be the Secretary of the Treasury as Chairman of the Council, the Secretary of State, the Chairman of the Board of Governors of the Federal Reserve System, and the heads of two additional agencies of the Government to be appointed by the President. Each member of the Council may designate from his department or agency an officer who may act for him in all matters relating to the Council.

"(b) The governors and executive directors of the Fund and the Bank and their alternates, appointed by or on behalf of the United States, shall keep the Council fully informed of their activities and shall act in a manner generally consistent with the views of the Council as to the financial and monetary policies of the United States. The governors and executive directors shall meet with the Council at frequent intervals, and whenever requested by the Council, a governor, or an executive director.

Such meetings may, in the discretion of the Council, be held by the Council with the governors and executive directors of both the Fund and the Bank, or with the governor and executive director of either the Fund or the Bank.

"(c) The Council may at any time recommend to the President removal of a governor or executive director if in its judgment he is not acting or has not acted in a manner generally consistent with the views of the Council as to the financial and monetary policies of the United States.

"(d) The governors and executive directors of the Fund and the Bank shall make reports to the Council with respect to the operations of the Fund and the Bank, respectively, at such times and covering such matters as the Council may require. The Council shall annually make a full report of its activities to the Senate and House of Representatives and such report shall include reports by the governors of the Fund and the Bank with respect to the operations of the Fund and the Bank, respectively, and with respect to their participation therein.

"(e) Except as otherwise provided in Section * of this Joint Resolution, the Council is hereby authorized, through the governors and executive directors of the Fund and the Bank, as the case may be, to give or refuse the approval, consent, or agreement of the United States whenever, under the Articles of Agreement of the Fund or the Articles of Agreement of the Bank, such approval, consent, or agreement is required before any act may be done by the Fund or the Bank, respectively.

"(f) All communications or negotiations with the Fund or the Bank on behalf of the United States shall be made or conducted through the governor or executive director of the Fund and the governor or executive director of the Bank, respectively. Any action which may be taken by any agency of the United States Government pursuant to or in order to carry out any provisions or purposes of the Articles of Agreement of the Fund or of the Bank shall be taken after consultation with the Council.

"(g) The Council is hereby authorized, through any agency which it may designate, and under such rules and regulations as it may prescribe, to obtain from any person such data as in its judgment is necessary and essential for the guidance of the United States in its participation in the Fund and the Bank or as may be requested by the Fund under Article VIII, Section 5, of the Articles of Agreement of the Fund. Whoever wilfully violates any of the provisions of any rule or regulation issued under authority of this subsection shall, upon conviction, be fined not more than \$10,000, or, if a natural person, may be imprisoned for not more than ten years, or both; and any officer, director, or agent of any corporation who knowingly participates in such violation may be punished by a like fine, imprisonment, or both. As used in this subsection the term 'person' means an individual, partnership, association, or corporation."

* The section here referred to is the section stating that certain actions may be taken only with the approval of Congress.

2. Designation of Depositories

The Bretton Woods Agreements require a member to name its central bank as depository for the International Fund and Bank. Congress should direct as well as authorize any Federal Reserve Bank to act as depository or agent of the Fund and Bank when requested by the Fund or Bank. It should also be made clear that in discharging its responsibility the Federal Reserve Bank would be subject to supervision and regulation by the Board of Governors. No Federal Reserve Bank could refuse to act as depository or agent and there would be no need of specifying that they could be required to do so in their capacity as fiscal agent of the United States.

Draft of Provision

direction "SEC. ____ . Designation of Depositories. Any Federal Reserve Bank which is requested to do so by the Fund or the Bank shall act as depository and as fiscal agent of the Fund or of the Bank, subject to the ~~supervision~~ and regulations of the Board of Governors of the Federal Reserve System."

3. Issuance of Notes

The non-interest bearing Treasury note is a suitable method of postponing payment on the United States subscription until the money is really needed. The Treasury should be able to issue non-negotiable, non-interest bearing notes and pay them over to the Fund or Bank in place of currency for the purpose of paying the United States subscription to the Fund or Bank. The total amount of such notes issued to either the Fund or the Bank should be limited, however, to the total United States subscription to the Fund or the Bank.

Issuance of notes to the Fund above the amount of the subscription would constitute an undesirable type of Treasury financing. While the possibility of their use by the United States may be relatively

harmless, since the Fund is unlikely to accumulate much in the way of excess dollars, the existence of the power would set a bad example to other countries where similar powers could be used to nullify one of the most important controls of the Fund -- the deterrent charges levied on large and continuous use of the Fund.

To clarify the mechanics of the matter: the Treasury of a country which had large imports from England and needed sterling to pay for them would in effect obtain sterling from the Fund by giving its non-interest bearing demand note in payment. It could then sell the sterling to its domestic importers and receive local funds in exchange. It could then spend the local funds for its own needs. In this way it would acquire local funds at no cost other than the Fund's charges which would be lower than the rates at which Treasuries in many countries could borrow. Instead of being under pressure to repay the Fund, Finance Ministers would be under temptation to let their indebtedness grow.

We should do what we can to eliminate this potential defect in the Fund arrangement at the start. If the United States sets a good example to foreign countries in its own legislation, it may make its influence felt.

Draft of Provision

"SEC. __. Issuance of Notes. The Secretary of the Treasury is authorized and directed to issue notes of the United States from time to time at par and to deliver such notes to the Fund and the Bank for the purposes of Article III, section 5, of the Articles of Agreement of the Fund and Article V, section 12, of the Articles of Agreement of the Bank. The notes provided for in this section 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 notes are authorized and directed to be issued under this section; Provided, That 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 notes issued to the

Fund under the authority of this section shall not exceed in the aggregate \$2,750,000,000 outstanding at any one time and the face amount of such notes issued to the Bank shall not exceed in the aggregate \$3,175,000,000 outstanding at any one time."

4. Subscriptions

The inactive portion of the United States Stabilization Fund, amounting to \$1.8 billion, should be used to make the United States subscription to the International Fund. There is no need of continuing a large United States Fund once the International Fund is established. If the original subscription is in fact made in notes, this \$1.8 billion should be used first before drawing on any other funds to redeem these notes. As long as this \$1.8 billion is available it would seem unnecessary to use appropriated revenues raised by taxation or borrowing. It is not clear, but it appears that under the latest Treasury draft the United States Fund might continue to hold all or part of this \$1.8 billion as long as the International Fund held notes issued to it by the United States.

Furthermore, according to the latest Treasury draft if the United States withdrew from the International Fund or if the International Fund were liquidated, the United States Fund would hold \$1.8 billion because that amount would only have been advanced by the United States Fund. It seems better not to legislate now for such contingencies but to leave it to Congress to consider, when and if such a situation arises, how large a United States Fund is required.

Although many of the financial dealings with the International Fund will be more or less routine in character, there are occasions, under the Agreements, for transactions of a more discretionary character involving policy. For this reason the Council should be fully informed of all dealings with the International Fund.

The United States Fund (with the money which will be left at its disposal after removing \$1.8 billion as indicated below) is not only a convenient and suitable agency through which to carry on dealings with the International Fund but should also continue to function as it has in the past. In addition to a number of technical operations which it performs, it can be used to advantage to continue or extend special stabilization agreements with non-member countries or with other countries which are of special interest to us and which are not able to obtain adequate assistance from the International Fund.

Draft of Provision

make it permanent. no return to Stab Fund.

"SEC. __. Subscriptions by United States. (a) For the purpose of paying the subscription of the United States to the Fund in the amount of \$2,750,000,000:

"(1) The Secretary of the Treasury shall withdraw from the stabilization fund established by Section 10 of the Gold Reserve Act of 1934 the sum of \$1,800,000,000 and place it in a special account on the books of the Treasury. The sum in this special account shall be used by the Secretary of the Treasury, to the extent necessary, in paying the subscription of the United States to the Fund and shall not be used for any purpose except for subscribing to the Fund or for redeeming notes issued under authority of Section ___ of this Joint Resolution; provided that such sum shall be available until December 31, 1945, to meet payments for administrative expenses required by Article XX, Section 2(d) of the Articles of Agreement of the Fund.

"(2) The sum of \$950,000,000 for paying the remainder of the subscription of the United States to the Fund is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated, but shall not be used except when no part of the sum made available under paragraph (1) above is available for the purpose.

"(3) Any amount which may be returned to the United States by the Fund by reason of the issuance of notes pursuant to Section ___ of this Joint Resolution, not exceeding such amount as may have been appropriated and used for the purpose specified in paragraph (2) of this subsection, shall be paid into the Treasury of the United States as miscellaneous receipts; and any amount so returned to the United States by the Fund in excess of the amount appropriated and used under paragraph (2) hereof shall be placed in and become a part of the special account provided for in paragraph (1) of this subsection and shall again be available for the purpose stated in that paragraph.

"(b) The Secretary of the Treasury, with the approval of the President, is authorized to employ the resources of the fund established by Section 10 of the Gold Reserve Act of 1934, not utilized under subsection (a) hereof, for the purpose of dealing with the Fund to the extent necessary to carry out the purposes of the Articles of Agreement of the Fund. The Secretary of the Treasury shall keep the Council fully informed with respect to all such dealings. Subsection (c) of Section 10 of the Gold Reserve Act of 1934, prescribing a time limitation upon the exercise of the powers conferred by that section, is hereby repealed.

"(c) For the purpose of paying the subscription of the United States to 31,750 shares of stock in the Bank, there is hereby authorized to be appropriated out of any money in the Treasury not otherwise appropriated the sum of \$3,175,000,000, of which \$3,111,500,000 shall remain available until called by the Bank; provided that any amount so appropriated shall be available until December 31, 1945, to meet payments for administrative expenses required by Article XI, Section 2(d) of the Articles of Agreement of the Bank. Any amount which may be returned to the United States by the Bank by reason of the issuance of notes pursuant to Section ___ of this Joint Resolution shall be paid into the Treasury of the United States as miscellaneous receipts."