

Toward international monetary stabilization.

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and

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By

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TOWARD INTERNATIONAL MONETARY STABILIZATION

International Monetary Fund
and
International Bank for Reconstruction and Development

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INTRODUCTION

Forty-four nations participated in the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, July 1 to 22, 1944. This Conference produced Articles of Agreement for a proposed International Monetary Fund and a proposed International Bank for Reconstruction and Development. These articles of agreement have been submitted by the Conference to the participating governments for their consideration. They are not binding upon any government until its legislature has approved them and until they have been officially signed on its behalf.

The Bretton Woods Conference was preceded by much preliminary work and study on the part of qualified and interested technical staffs, in all the countries of the United and Associated Nations. The first preliminary drafts looking toward the present proposals were published by Great Britain and the United States in April 1943. These were followed by the publication of similar proposals by Canada in July 1943 and by representatives of France in May 1943. All of these proposals were given wide publicity and circulation. This procedure afforded ample opportunity for the press, the financial world, political leaders, students, and the general public to inform themselves as to the character and purpose of the proposals while they were in process of formation. The fact that the proposals in their present form are not binding upon any country until accepted by its legislature and properly signed on its behalf gives every interested citizen both the opportunity and the responsibility for study and appraisal in order to arrive intelligently at conclusions and to make them known to his legislative representatives.

Fundamental Objectives

The International Monetary Fund and the International Bank for Reconstruction and Development are designed to facilitate the revival and expansion of world trade after this war has ended. This objective is essential to the building and securing of international peace. Its accomplishment is sought, first, through early stabilization of international exchange relations and the creation of conditions that will encourage the removal and discourage the reintroduction of trade restrictions which interfered with the normal development of international trade before the war; and second through the availability of necessary long-term credit at reasonable rates and on a sound basis for the reconstruction of war-devastated areas and for the development of countries whose economic potentialities have not yet been developed. Both the devastated areas and those regions not yet fully developed must be enabled to purchase and to consume.

The purposes of the Fund and the Bank are interdependent to a considerable degree. Neither the Fund or the Bank, nor both together can, of themselves, provide the entire setting for the correction of the underlying conditions which gave rise to trade restrictions in the past. The proposed institutions aim at making it less difficult to remove the impediments to world trade and less necessary to re-establish them once they have been removed. An appraisal of the likelihood of accomplishing these purposes by means of the Fund and the Bank can best be approached through an examination

of foreign trade policy during the 'twenties and 'thirties to indicate the nature of the restrictions of that period and of the situations they were designed to meet.(1)

I INTERNATIONAL TRADE IN THE INTER-WAR PERIOD

Attempts by most countries to return to the pre-war gold standard following the last war were met with difficulties associated with the inadequacy of total gold stocks available for the settling of international balances. Many of the factors which had contributed to the smooth functioning of the gold standard system prior to 1914 no longer existed. The large volume of international payments required by reconstruction needs and by reparations and Allied war debts created an initially large demand for the means of meeting international obligations. Demand was further increased by the discrepancies in the balance of payments of various countries arising out of their attempts to return to pre-war exchange rates or to maintain rates which were out of line with their fundamental economic positions. The smooth and ready flow of short-term capital in response to small changes in discount or exchange rates, which prior to 1914 had considerably lessened the necessity for the use of gold in settling international balances, was not maintained or at least could not be relied upon under the conditions prevailing after the war. Movements of this kind had reflected confidence in the essential stability of long-term exchange rates--confidence which was not fully regained after the monetary disturbances following the war. As a result, private short-term funds for meeting temporary adverse balances came forth less readily, and there was a greater need for international cash reserves to meet a temporary excess of demands for payment over the supply of available exchange.

Extension of the Gold Exchange Standard

The gold exchange standard secured widespread adherence in this period and served temporarily to increase the international supply of means of payment and thus to avert world-wide deflation which was threatened by the scarcity of gold. Its collapse, however, with the breakdown of exchange stability signaled by the British suspension of the gold standard in September 1931, led to the severe intensification of deflationary pressures already in operation, as countries simultaneously strove to exchange their holdings of foreign exchange for gold and as short-term credits which had constituted an important source of the foreign exchange reserves upon which the system depended, were withdrawn. Great Britain chose to abandon the gold standard at that time in preference to submitting to the pressures on her economy - pressures imposed, in part, by her attempts to maintain a currency overvalued in terms of her internal price structure and international trade position. Her difficulties had been further increased by the

(1) In the interests of brevity, this examination will necessarily be somewhat sweeping in character and will omit discussion of many features which would merit extended treatment in other circumstances. Provisions such as those relating to organization and management, legal status, inauguration and liquidation of the Fund and the Bank have not been covered.

French policy of returning to a full gold standard in 1928, at a time when large balances were accruing to that country as a result of the undervaluation of the franc and of the return flow of capital which had been held abroad during the monetary disturbances of the early 'twenties.

The Sterling Bloc

The breakdown of the gold standard was succeeded by a period of violently fluctuating exchanges. Later, the formation of the "sterling bloc" provided some measure of stability. This was attained through the adoption by many countries, particularly those in close political or commercial connection with the United Kingdom, of exchange rates fixed in terms of sterling. This policy was attractive to those countries adopting it because of the desirability of maintaining stable exchange relations with a principal trading partner. Also of importance was the relative stability of the British economy which was less affected than most others by the great depression of the 'thirties and which consequently maintained a more even flow of imports and exports. At the same time, by tying their exchanges to sterling, members of the sterling bloc were enabled to maintain their competitive position with Great Britain.

Capital Flights

The development of large-scale speculative capital movements was a major disruptive influence in the currency experience of the 'thirties. These were typically "flight" movements, in contrast with the short-term capital transfers before World War I which took place in response to interest and bank rate differentials, and whose equilibrating effects contributed to the smooth operation of the system. The "cycle of devaluation" in the early 'thirties was considerably accelerated by erratic shifts of these huge, highly volatile bodies of short-term funds, which often made unavailable for normal trade purposes seriously disproportionate amounts of a country's liquid means of international payments. During this period the extent of devaluation and sometimes the necessity for devaluation itself were in some part determined by capital flights from the currency affected.

Growth of Restrictive Exchange Controls

A variety of exchange controls, in part to prevent these disrupting outflows of "hot money," came into operation in this period. Resistance to devaluation on the part of most of the Central and Southeastern European countries, which had come to identify exchange depreciation with internal inflation, necessitated controls in order to maintain their currencies which had become overvalued in terms of currencies in the rest of the world. The currencies of the "gold bloc" countries, likewise overvalued prior to 1936, were maintained largely through import quotas. Exchange controls, clearing agreements, and multiple currency practices, by means of which a country could discriminate between different countries and different commodities to further its own national interests, were highly developed as weapons of economic warfare, by Germany in particular. In addition, the excess of Germany's imports over her exports, as the result of the overvaluation of her currency, was accompanied by the accumulation of blocked balances in favor of the countries supplying the imports and therefore amounted to forced loans by these countries.

Internal Economic Policies and International Trade

Exchange control is one of several devices designed to insulate the domestic economy from external forces acting through the balance of payments and, as such, illustrates a major development in monetary theory and practice during the last two decades. This development reflects the increasing sensitivity of the economics of major industrial nations to factors generating cyclical movements in business activity, incomes and employment. In particular, deflationary pressures are apt to act with increased force, and the resulting decline in economic activity tends to be especially severe and longer protracted, in "mature" economies, characterized by a declining rate of capital investment. The control of cyclical elements has as a result become the overwhelming concern of national economic policy.

Because of this, there has been increasing reluctance on the part of national economic units to suffer the effects of deflationary tendencies "imported" from abroad. The ability of an individual country to pursue an internal expansionist program to combat depression, if expansion is not likewise occurring abroad, depends on some degree of control over the trade position of that country. Otherwise the rise in price levels relative to the outside world will affect the balance of payments adversely, a tendency which must be offset if the domestic expansion is to take full effect. Exchange controls enable a country to maintain its currency at a level which is too high in terms of the relation between the domestic price level and external prices. An alternative policy is depreciation of the country's currency, which not only enables it to adopt monetary and other economic measures that will be expansionary in effect but, insofar as it contributes to recovery in the export industries, may provide an upward impetus to economic activity as a whole. While depreciation has been generally regarded as a discriminatory practice, it has been recognized that in certain situations, the most notable of which is the attempt of the French, from 1931 to 1936, to maintain their currency value in the face of widespread depreciation elsewhere, the alternative to depreciation is depression and a low level of economic activity in the country concerned which has a consequently depressing effect on world economic conditions generally. A case has been made in these terms for the United States depreciation in 1933, which was obviously not dictated by the necessity for preserving this country's supply of international cash reserves.

It is the cumulative character of factors operating in the business cycle that had led many observers to question the efficacy of "automatic" adjustments upon which the gold standard system is predicated. In practice this has resulted in the imposition of restrictions and controls, as mentioned above, and - perhaps even more significantly - in the development of a central banking policy consciously directed toward offsetting the effects of discrepancies in the balance of payments. The gold standard mechanism calls for the adjustment of such discrepancies through the interaction of international demand and supply and internal price and cost levels. Deflationary or inflationary movements thus brought about, however, frequently prove difficult to control; the cumulative effects of the initial adjustments may be far greater than those required by the original situation.

The "Deflationary Bias"

Deflationary effects, in particular, may be difficult to arrest, in part because governmental activity to offset them has less scope and is less effective in the case of deflationary than in that of inflationary developments. Thus, as long as countries maintain the convertibility of their currency into gold and place no restriction on its use for the settlement of international obligations, a continued outflow of gold will sooner or later require contraction and declining prices in the country affected. On the other hand, the country receiving gold may, through appropriate monetary policies, offset the effects of the receipt of gold indefinitely in order to avoid an inflation of its price structure which it considers undesirable. In this way, the gold standard tended to force the burden of adjustment onto the countries losing gold; this lack of reciprocal adjustment resulted in a "deflationary bias" in its operation.

The non-reciprocal nature of the process of adjustments under the gold standard is enhanced by the unequal importance of foreign trade in different countries and by the unequal size of countries. For example, a given adjustment may have severe consequences for the economy of a small nation largely dependent on international trade. Obviously, neither a deflationary nor an inflationary bias can be deduced from these factors in themselves. A generally deflationary effect does follow, however, from the circumstance that the largest "surplus" country before this war - and prospectively to an even greater extent after it - the United States, is also the largest and most powerful economic unit and one in which foreign trade plays a relatively minor role.

II

INTERNATIONAL ECONOMIC PROBLEMS IN THE POST-WAR PERIOD

A brief indication of the major problems of international economic policy with which the world will be confronted at the end of this war will provide the setting within which the Fund and the Bank are designed to operate, and a basis for the evaluation of the specific proposals. Of immediate importance will be the hoard of difficulties associated with the tasks of rebuilding the economies of the vast devastated areas of Europe and Asia and of fitting them into a functioning world economic system. Of scarcely less immediacy and importance will be the re-establishment on a peace-time basis of economies a large part of whose resources and energies have been devoted to producing for war. More general and continuing significance attaches to a second group of problems, which, although affected in form and magnitude by the war, are for the most part questions which arose and for which we failed to find workable solutions in the pre-war period. Some of the causes of the present war may be found in this failure, and avoidance of conflict in the future may in part depend on a better handling of similar conditions as they appear in the post-war world.

Transition From War-time Controls

The machinery of international trade under peace-time conditions must be rather completely rebuilt after this war. Trade in war time, when not carried on by governments themselves, must be conducted under a more or less complete system of governmental controls. The forms which these controls assume vary in different countries, of course. Relaxation of government controls will be a slow and difficult process, enormously complicated by the entire disorganization of economic life in many countries. Even apart from the chaos which will attend trade relations in the immediate post-war period, long-range patterns of trade between nations will undoubtedly be drastically altered. The system of exchange

rates which in the past was, or should have been, the expression of these fundamental relationships will therefore require extensive re-adjustments. It is the essential nature of these adjustments that they involve relations between many countries, and it is therefore of the utmost importance that they not be undertaken unilaterally. The experience with haphazard and disjointed national policies with respect to exchange rates after the last war indicates the dangers in such a procedure.

International Lending for Rehabilitation

Provisions for the rehabilitation of war-devastated regions, aside from those made to meet immediate relief needs, will have important repercussions with respect to world monetary arrangements. Several questions need to be considered here. To what extent is it possible, and to what extent is it desirable, to finance reconstruction through the extension of loans by countries less affected by the physical destruction of the war; and to what extent are outright gifts the more appropriate method of approach? As in the question of the settlement of inter-Allied debts, a most important consideration from the point of view of the nations extending credit no less than those receiving it, is whether the disadvantages of adding the burden of the costs of reconstruction to the already overwhelming re-adjustments required by reconstruction itself, may not exercise a depressing effect on world economic activity, an effect that will result in a net economic loss to the creditor nations. It is generally admitted that the large volume of Allied debts required to be repaid after the last war contributed significantly to the stresses to which the mechanism of international trade was subject in that period. From this point of view, national self-interest alone may dictate that some part at least of reconstruction costs be written off as one of the unrecoverable costs of war.

With respect to the administration of reconstruction and development loans, experience after the last war indicates that some degree of co-ordination of credit arrangements is necessary, with a view both to limiting the total volume of loans to an amount which can reasonably be repaid, and to providing terms which will not bear too heavily on the economic resources available at any one time, particularly at the outset. Regulation of the uses for which the proceeds are spent is a further important necessity. Obviously, this should not involve restriction of loans to those which, in the strict business sense, are for "self-liquidating" projects; projects that can be justified from the point of view of the economy as a whole should be included on the eligible list.

Domestic Aspects of International Trade Policy: Great Britain and the United States

The vast re-organization of national economies which will be necessary at the conclusion of this war involves many difficult aspects: technical and economic problems associated with the change over from producing materials of war to fulfilling peace-time needs, the disorganization of markets, the relaxation of government controls, demobilization, etc. It should be recognized that, although primary consideration is given to factors relating directly to international economic relations, the national setting should not be disregarded, and the ramifications of policy are great in either direction.

World economic problems will obviously parallel, in part, those more nearly national in scope: these include such things as the disruption of markets, the immediate scarcity of most consumer and capital goods in relation to the demand which will exist, problems of financing, etc. Financial problems involve a special difficulty, because of the lack of confidence that will

inevitably be felt regarding international investment. Problems affecting the United States and Great Britain will be particularly significant in relation to world trade and monetary arrangements. Great Britain faces problems of peculiar difficulty in the post-war period; and this fact, together with her importance in international trade, especially in relation to the rest of the British Empire, suggests that her position should be a major consideration in any discussion of international economic relations. The United States, likewise, occupies a pivotal position by virtue of being by far the most powerful national economic unit in the world today and, in her relations with other nations, the major "surplus" and "creditor" country. For these reasons, United States policy will be a decisive factor in the rehabilitation of world economic relations following the war. In addition, problems affecting these two nations illustrate some of the most pressing difficulties that will be encountered generally in attempting to restore substantial freedom in international economic intercourse. These difficulties revolve around the widespread discrepancies in national balances of payments which can be expected to prevail for extended periods in the future.

Great Britain faces a serious balance of payments problem for an indefinite period after the war. Before the war, the large discrepancy in her balance of payments on trade account was made up for the most part of income from shipping and other services, and from return on foreign investments. Both of these sources will be sharply curtailed after the war. British foreign assets have been liquidated on a large scale, and new external short-term indebtedness has been incurred, in the form of large aggregates of blocked sterling balances held by foreigners in payment for war goods supplied Great Britain. To meet this situation it has been estimated that a 50 per cent expansion in British export industries will be required. Many of these industries will have to be rebuilt or reconverted and will probably require considerable government support if this is to be accomplished with any facility. Demand for goods for domestic consumption will be at a high level and will result in keen competition for the materials of production. British trade connections abroad have been disrupted, and the development of new foreign industries under pressure of war conditions will probably permanently reduce the demand for British exports, at least in some directions. Arrangements which will be worked out in respect to Britain's enormous obligations under lend-lease are of importance in this connection. The importance of restoring more nearly normal trade relations between Britain and the rest of the world, quite aside from any considerations of equality of sacrifice, seems to point to the undesirability of increasing her economic burden in the post-war period by demands for repayment of these amounts.

As a result of these prospective difficulties there exists in Great Britain considerable support for a policy of bilateralism. This might involve either a balancing of payments with individual countries or the formation of a "sterling bloc." Payments within the "sterling bloc," which would consist of countries economically or politically close to Great Britain, would be relatively free, since its composition would be such as to permit total payments to be approximately balanced. Trade of a bloc member with nations outside the bloc would be controlled in terms of the availability of the outside currency. The possibility of return to a full-scale multilateral system in international trade, therefore, depends in part upon the extent to which Britain's balance of payments difficulties can be eased without imposing severe internal deflation and economic stagnation.

The position of the United States as the largest industrial nation relatively untouched by the physical destruction of war poses certain problems with respect to the relations of this country to others. The immediate post-war situation will obviously require large-scale extensions of credit by the United States. These loans will, to a very considerable extent, be spent in this country for materials and capital equipment needed for reconstruction and development. In addition, United States dollar balances have been accumulated abroad, notably in South America, as the result of our expenditures for war materials, and these funds will be available for purchases in this country after the war. The heavy demand for United States products from these sources will coincide with released domestic demand, and serious consideration must be given by United States monetary authorities to measures designed to prevent a runaway inflation in this period. Such measures may include, in the domestic field, retention of wage and price controls and priorities in the allocation of materials among others. For the same reasons, reluctance to relax controls over foreign trade may be expected in this country. None of these considerations apply peculiarly to the United States, of course; however, the significance of American policies with respect to the direction which international economic policies will take is overwhelmingly great.

Effect of Post-war National Policies on International Trade

Regardless of other factors, the overruling consideration in post-war national policies with respect to international trade is likely to be the expected effect of that trade upon the prosperity of the respective national economies. It can be assumed that maintenance of a high level of employment will be the paramount national goal after this war. The question then becomes: will the leading nations regard exchange stability and (relatively) unrestricted international trade as incompatible with this objective?

The gold standard was essentially a device which, so long as it was adhered to, stabilized the value of each nation's currency in terms of those of all others. It was condemned in the inter-war period as excessively deflationary, for the reasons examined above; and this gave rise to the belief in many quarters that stability of internal conditions was necessarily antithetical to stable exchange rates. In this view, advantages to be derived from the international division of labor had to be weighed against losses suffered from less than full utilization of domestic resources. The years since the depression have seen the development, in a more or less haphazard and piecemeal fashion, of a substantial body of doctrine and practice directed toward the control of cyclical fluctuations. Of primary importance has been the growing determination to avoid the obvious wastes of men and resources involved in periodic depression and the assumption by governments of the responsibility for directing economic forces so that widespread unemployment will not occur.

This development is of the greatest significance to any consideration of the economic relations between countries. It is agreed that the free and full flow of international trade depends on the relative ease and convenience of exchanging national currencies and on confidence in the stability of exchange rates. But in a world of which economies are to be linked by free convertibility of currencies, policies of individual states with respect to the trade cycle are of vital importance to all nations. While this interdependence is widely recognized, nations in the past have tended to defend themselves against its effects by retiring behind national economic barriers, despite the knowledge that such barriers would eventually stifle trade. The development of international co-operation in this field is therefore a prerequisite to the long-run possibility of promoting full freedom of trade between nations.

United States policies, again, are of crucial importance. Doubts have been widely expressed abroad, especially in England, as to whether governmental economic policies and practices for dealing with mass unemployment are sufficiently well developed in this country, and whether the United States has shown sufficient understanding of and willingness to accept her responsibility as the world's largest creditor nation. The raising of tariff barriers by the United States at a time when its exports already exceeded its imports, and at a time when it was demanding payment of debts owed it by foreign countries, is cited as prime evidence of this lack of a sense of international economic responsibility. The question is asked whether other countries can afford to subject themselves, through unrestricted trade with the United States, to the influence of economic dislocations arising in this country.

Another problem of particular importance in this regard is that of certain staple agricultural commodities which are subject to extreme fluctuations in price. Not only have these commodities suffered severe price declines during depression, but for some of them the long-term price trend has been unfavorable. Raw-material producers and countries dependent on the export of raw materials are therefore in a peculiarly vulnerable position. The problem with respect to international economic relations is twofold: first, to find a means by which these countries can maintain reasonable stability of their internal economic structures without unduly restricting trade with other nations; and, second, to prevent deflationary tendencies in the markets for these commodities from infecting the entire world economy.

Long-Term Foreign Lending: The Position of the United States

Still another major economic problem, that has a direct bearing on international economic relations, is that of the industrial development of "backward areas." In addition to its primary objective of raising the standard of living in these areas, a greater diversification of economic activity will lessen their dependence on foreign trade income and on the commodities which are subject to especially disturbing fluctuations in price.

Active governmental policies for the facilitation and regulation of foreign long-term lending will be required after this war, as has been mentioned in connection with reconstruction loans in the immediate post-war period. International capital markets and the free flow of capital between countries have been disrupted not only by the war but also by the series of defaults on international debts, exchange disturbances, and restrictions on capital transfers preceding the war.

The making of long-term capital loans by the United States offers an immediate opportunity for reversing, in some part, the persistent flow of funds to that country as the result of its favorable balance of payments.⁽²⁾ The course of international lending between the wars has, however, left a legacy of suspicion on both sides: the memory of defaulted debts will tend to make private

(2) To the extent that the proceeds of such loans are spent on American capital goods, machinery, etc., they will, of course, result merely in a corresponding increase in exports from the United States.

capital in the United States wary of foreign investments, while, on the other hand, the United States policy of raising tariff barriers against imports and thus effectually preventing its debtors from making payment produced dislocations in the borrowing countries which they will not be eager to repeat. The United States cannot continue to offset an excess of exports by foreign lending without at some time being willing to reverse the process and accept an excess of imports. While this development is not to be expected for some time, its consideration now is essential if loans are to be made - and accepted - with any confidence that they will be repaid. The desirability of early consideration of these problems is accentuated because the necessity of steadily narrowing the gap between exports and imports will arise in the not so distant future. This necessity will present problems to the American economy which will be different only in degree from those of bringing about an actual excess of imports.

III ORGANIZATION AND OPERATION OF THE INTERNATIONAL MONETARY FUND

The Bretton Woods Agreement for an International Monetary Fund and a Bank for Reconstruction and Development represents an attempt to provide a satisfactory alternative to the kind of international monetary arrangements that have in the past contributed to economic imbalance between nations. It represents an attempt to enable members of the Fund and Bank to absorb over a period of time the impact of necessary adjustments to international economic changes and thus to reduce the incentive for direct and indirect deterrents to international trade.

Basic Purposes and Objectives

The International Monetary Fund, if adopted, would provide a system of multilateral clearings among members, through the use of resources subscribed by the members for the settlement of current accounts.⁽³⁾ In exchange for access to the resources of the Fund, members would undertake certain obligations. Exchange rates would be established only by agreement with the Fund prior to admission. They could not be changed by more than 10 per cent without concurrence of the Fund.⁽⁴⁾ Members could propose, and the Fund concur in, only such changes in the par value of a currency as are deemed necessary to correct a fundamental disequilibrium. The special necessity for flexibility during the transitional period from war to peace is recognized in the proposed Agreement, and the Fund is directed to give the member the benefit of any reasonable doubt in acting on requests for adjustment.

- (3) If adopted, the Fund Agreement would not enter into force until it had been signed on behalf of governments having 65 per cent of the total quotas and the properly authenticated instruments had been deposited with the Government of the United States. In no event would the Agreement enter into force prior to May 1, 1945.
- (4) A member could request action by the Fund within a 72-hour period on any further changes not exceeding 10 per cent. The Fund could either concur in or object to additional changes, but would be entitled to a longer period before declaring its attitude.

Members further agree not to impose restrictions on the making of payments and transfers for current international transactions, without approval of the Fund. During the post-war transitional period, however, they may maintain and adapt to changing circumstances such restrictions as are in existence on acceptance to membership. They must agree to withdraw these restrictions as soon as conditions permit. After the Fund has been established five years, a member having restrictions still in force is required to consult with the Fund regarding their further retention. Should a member continue restrictions after having been requested by the Fund to abolish them, the Fund may declare such a member ineligible to use its facilities.

Limitations on members' recourse to the Fund are designed to insure that its usefulness as a fund of liquid reserves available to finance temporarily adverse trade balances will not be impaired. A member's net purchases of foreign exchange from the Fund may not exceed one fourth its quota in any twelve-month period and in total may not exceed the amount of its quota plus its gold contribution. The Fund would be empowered, however, to waive this formal limitation at its own discretion, having regard for exceptional requirements of the member requesting the waiver. On the other hand, even before the formal limit is reached, the Fund may restrict or prohibit the use of its resources to any member which, in the opinion of the Fund, is using its privileges in a manner contrary to the purposes of the Fund. In particular, the Fund is not to be called upon to meet large or sustained outflows of capital, nor to provide facilities for relief or reconstruction, nor to deal with international indebtedness arising out of the war. The schedule of charges to be made against members using the Fund's resources is designed progressively to penalize those members drawing heavily on the Fund for extended periods.

Correction of Disequilibrium

If the Fund finds that its holdings of a particular nation's currency are being depleted, it may recommend actions designed to correct the situation. This would occur, for example, if a country were persistently selling more than it was buying in its trade with others. To meet this type of situation, the Fund would be permitted to replenish its supply of the scarce currency in exchange for gold; or, with the member's consent, it could attempt to borrow that currency from any source available to it. If continued heavy demands for a country's currency made it appear unlikely that the Fund could continue to supply such currency, that currency could be formally declared "scarce." Other members would then be permitted to impose exchange limitations designed to curtail demand for the currency in question. If a fundamental disequilibrium were involved, it would be assumed that the country in question would take steps to correct it, either on its own initiative or at the suggestion of the Fund.

The Fund may, under certain circumstances, require a member to re-purchase part of the Fund's holdings of the member's currency. These provisions are designed to protect the liquidity of the Fund, and particularly to permit recapture of currencies which may have become scarce in the Fund but are not generally scarce. This latter situation is one which could occur if dollars, for example, were accumulated and held as reserves outside the Fund, while at the

same time they were being borrowed from the Fund for the settlement of current balances.⁽⁵⁾ It could also occur if dollars were being used outside the Fund to finance a deficit in the balance of payments between two other countries.

In order to enforce the prohibition on use of the Fund's resources to meet prolonged and large-scale capital transfers, the Fund would be permitted to require a member to adopt restrictions on such movements. In general, members would be permitted without objection to control international capital transactions, providing such controls do not restrict payments for current transactions or unduly delay transfers of funds in the settlement of commitments.

The Fund would deal only with central banks or comparable agents authorized by governments of member countries. Ordinary exporters and importers would not deal directly with the Fund in their exchange transactions. It is only when a country's total external trade operations result in a temporary need for international currency beyond its own immediate holdings of that currency that the Fund's resources would be called upon.

Withdrawal from the Fund

A member may withdraw upon its own motion at any time. The Fund may require the withdrawal of a member in cases of persistent failure of the member to fulfill its obligations under the Agreement. Such action may be taken only by a majority of the governors representing a majority of the total voting power and must be preceded by proper notification and opportunity for the member to be heard.

Temporary Imbalance and Long-Term Equilibrium

By providing a pool of internationally liquid resources, the International Monetary Fund would enable members to meet temporary demands growing out of unfavorable developments of a fortuitous or reversible nature, in their balances of payments. It would do this without imposing the necessity for deflationary internal adjustments or, alternatively, the adoption of restrictive measures to prevent loss of monetary reserves. This is the essential purpose of the Fund. It would possess a pool of international funds equivalent to \$8,800,000,000. These pooled funds will consist of gold and currencies plus, in certain cases, non-interest-bearing securities of various member countries, contributed by members according to established quotas which are largely based upon

(5) These provisions are somewhat complicated, but important. At the end of each year a member is required to repurchase its own currency from the Fund in an amount equal to one-half of any increase that has occurred during the year in the Fund's holdings of its currency, plus one-half of any increase in the member's monetary reserves (consisting of gold and the currency of other Fund members) that may have taken place during the year. In making these two calculations, a decrease in a member's monetary reserves may be offset against an increase in the Fund's holdings of its currency. In addition to purchases made on these two counts, a member must use for the purchase of its own currency from the Fund any increase in its holdings of another member's currency acquired through transactions with a third country. The repurchase requirements do not apply to a country if its monetary reserves are below its quota, or if the Fund's holdings of its currency are below 75 per cent of its quota - that is, if it has not been making net use of the resources of the Fund. Nor need repurchases be made if the result of such transactions would be to increase the Fund's holdings of any currency used above 75 percent of the quota of the member concerned.

the relative normal volume of international payments.⁽⁶⁾ These funds will not be a part of any country's domestic monetary reserves. They will be available under certain conditions to members for the purpose of meeting temporary and short-term deficits in their balances of payments. The International Monetary Fund thus would possess a working fund that could be used by members as a source of exchange should trade temporarily flow against them. Often in the past what should have been temporarily adverse balances have drained domestic monetary reserves and induced cumulative deterioration of an internal economy.

Through the provision of a cushion of internationally available means of payment it is hoped that certain other objectives may be realized. The temporary and strictly limited nature of the aid provided to members should be stressed. Prolonged or heavy use of the Fund's resources by a member as a result of a fundamental disequilibrium in its international position, or as a result of major world-wide depression, is not contemplated. If, under these circumstances, the underlying conditions were not corrected there could only be a breakdown of the Fund. Under similar conditions there would be a breakdown of any international monetary arrangements. The proposed agreement would, however, open up certain avenues of attack upon those fundamental conditions.

In the first place, existence of the Fund would tend to prevent purely temporary circumstances from setting into operation forces which might result in more deep-seated difficulties. The fact that its resources would be available under proper conditions and that their use would not deplete internal reserves would help to remove one of the causes of international distress. In providing an orderly procedure by which changes in exchange rates may be agreed upon between nations, for the correction of fundamental disequilibrium, the Fund would enable a member to take active steps to repair its situation without incurring charges of willful and gratuitous discrimination against other countries. Instead of competitive depreciation with all its evils, necessary exchange rate adjustments could be brought about in an orderly manner. This would encourage stability rather than promote instability.

The question has been raised whether the specific undertaking by each member of the Fund not to make unapproved changes in the par value of its currency (beyond the allowed 10 per cent) does not introduce an element of rigidity not present even under the gold standard. The question is raised because depreciation by one country always involves some worsening in the competitive positions of other nations in relation to that country, and it might therefore be difficult or impossible to obtain international agreement to the depreciation of any single currency. The force of this objection obviously depends on the degree to which the interests of all nations are recognized to be served by the

(6) The minimum gold contribution of each member country prescribed by the Fund is 25 per cent of its quota or 10 per cent of its net official holdings of gold and United States dollars, whichever is smaller. The balance of the quota is payable in the currency of the member, or in securities if the Fund so agrees. These amounts are to be paid in full before the member becomes eligible to borrow from the Fund. The gold contribution required is relatively small; and it is expected that most countries would have no difficulty in making these payments, nor should any significant internal effects result. It was felt at the time, however, that some provision for lowering the required gold contribution for enemy occupied countries might be desirable. For the quotas of individual countries see the Appendix.

maintenance of healthful and expanding conditions in each of them. In a larger sense, of course, this recognition of mutuality of interest is a prerequisite to the success of international cooperation in all of the purposes of the Fund.

Control of Capital Movements

In encouraging, or requiring as a condition of use of its resources, the control of capital transaction by member countries, the Fund deals with one of the most potent disturbing elements in the inter-war period. Large-scale flights of capital, arising out of post-war monetary disturbances and uncertainties, became a leading factor in the generation of further disturbances in the 'twenties and 'thirties. To the extent that operation of the Fund would contribute to the expectation of stability in international economic relations, these short-term capital movements should be greatly lessened in magnitude and importance. International co-operation is essential to the effective control of such movements when they occur. An important problem in this connection is the extent to which effective control over capital movements would involve an elaborate and inclusive system of controls over all exchange transactions, and whether such a system would not greatly interfere with the Fund's announced objective of promoting full freedom in exchange relations with respect to current transactions. It is likely, however, that no nation can in the future permit unrestricted flights from its currency. Should that be the case, such controls would probably have to be imposed with or without the Fund. Furthermore, exchange restrictions now in force are expected to be relaxed only gradually, even though the Fund were adopted, and if in the meantime a substantial degree of stability had been introduced in exchange relations, the necessity for the exercise of controls over capital movements would be greatly reduced.

Effects upon Trade Policies

In the proposed International Monetary Fund we have a potentially valuable instrument for developing and maintaining some degree of co-ordinated timing in the unfolding of international economic affairs. The Fund could assist members in temporary difficulty, so that cumulative deflationary pressure need not develop. It would have discretionary powers to go beyond the formal limitations in these advances. It could also restrict the use of its resources before the formal limits were reached if it believed the borrowing member was using the Fund resources improperly. These discretionary powers would give the management of the Fund considerable influence over the internal policies of nations desiring to borrow from it. In acting to preserve the liquidity of the Fund, its management would necessarily consider whether conditions in the country applying for a loan were such as to indicate that the country's use of the Fund's resources would be temporary and non-recurring. (7)

(7) Even assuming a high degree of co-ordination of national policies designed to promote expanding business activity, the effects of such policies are likely to vary considerably between nations; therefore some of them may find themselves with balance of payments difficulties if expansion at home is not in step with that abroad. The Fund would be able to assist these nations, through temporary credits, to maintain their internal programs rather than being forced to retrench under penalty of losing international reserves.

It is true that the Fund is enabled to exercise no similar control over the policies of nations with international balances in their favor. For this reason it has been said to share the disadvantages of the gold standard in the period between the wars, in throwing on the "deficit" nations an inordinate part of the burden of adjustments to international disequilibrium. However, persistent credit balances in favor of any nation would sooner or later result in a scarcity of that country's currency in the Fund. Were the Fund then unable to replenish its holdings through purchases or borrowing, it would be required to ration the available supply and authorize members to control exchange operations in that currency. It should be emphasized that the scarcity of a currency in the Fund in those circumstances is one which would have arisen under the operation of any system. It is also true that such corrective actions by the exporting nation as the reduction of tariffs, stimulation of business activity at home, appreciation of the domestic currency, and others are possible with the Fund or without it. Without the Fund and in the absence of corrective action by the "surplus" country, the situation would have to be met by the countries affected unfavorably - either by permitting prices and business activity to decline, or if, as we assume, they were to act promptly to prevent deflationary pressures from taking effect, by the imposition of trade and exchange restrictions in various forms. There begins the old familiar course of events that leads to disorder and possible conflict.

The potential value of the Fund in this situation is great and many-sided. In the event that any currency threatens to become scarce, it is directed to issue a report setting forth the causes of the scarcity and containing recommendations designed to bring it to an end. With respect to the countries drawing upon the resources of the Fund, it would exercise continuing control through its powers to determine whether funds so obtained were being used in accordance with the purposes of the Fund, i.e., for the financing of temporary trade deficits. Its influence over the policies of surplus countries would be less direct and continuing, in that it would take effect only after the scarcity had been officially declared. This would be its power to ration the currency affected and to authorize the imposition of restrictions by other members in their transactions with the country whose currency is scarce, thus tending directly to cut down exports from that country. However, the power of the Fund to make recommendations to surplus countries as to policies in the absence of which it believes the threatened scarcity would in fact materialize, would be a persuasive influence in national policies, for two reasons. Such countries would desire to avoid the consequences to their export industries of having their currency rationed. Perhaps as important, the factors in the situation would have been clearly and authoritatively set forth, thus providing support to those groups within the country desiring to take corrective action.

Other Functions of the Fund

In general, the International Monetary Fund would be of great value as an international institution providing for the centralization of information and exchange of experience with respect to monetary and fiscal policies, and as an established agency for discussion leading to co-ordination of economic policy. Once the Fund were accepted as an informed, impartial agency, its recommendations would have considerable influence on the internal policies of member nations. In any case it could act to focus attention on what it believed to be the significant factors in any given situation. As in any international agency composed of national units, each retaining a high degree of control over internal policies, the successful operation of the Fund could, however, be expected only on the assumption that the enlightened exercise of national sovereignty

in this field would result in substantial co-operation between nations, in recognition of their essential mutuality of interests.

The Fund in the Post-war Transition Period

The major criticisms of the Fund have centered around its introduction during the transition period after the war. While some of these objections extend also to the operation of the Fund under more settled conditions, they apply with greatest force, for the most part, to the immediate post-war period. They will therefore be considered in connection with the functions of the Fund in leading to the re-establishment of a healthy economic environment for the development of stable international relations.

The need for international co-operation in economic matters will be particularly great after the war. Many countries face difficulties in re-establishing their domestic economies, with which it would be almost impossible to deal on a purely national basis. The entire pattern of world economic relations has been shattered, and the necessary re-adjustments must be made as far as possible through a process of international agreement if frictions and discords which will obstruct international co-operation in all fields are to be avoided. There has been a steady growth of governmental controls over economic processes attending the realization that the "automatic" adjustments of a "free" economy may in many situations be away from equilibrium rather than toward it, and it is of the utmost importance that these controls be developed harmoniously as regards the relations between national units.

Two of the most important matters requiring international co-operation will be the establishment of exchange rates between national currencies and the taking of steps looking toward ultimate removal of restrictions on international trade, exchange controls, and others, which were imposed before and during the war.

The Fund provides, first, established facilities and procedure for continuing discussion among national representatives of economic problems in general, and these questions in particular. It will gather and have available information on national and international economic conditions and may consult with members, make recommendations and advise them on matters of economic policy. At the same time, it will be able to provide assistance, on a temporary basis, to nations which need it in order to put into effect the desirable policies.

Reconstruction and Rehabilitation

A major question as to the usefulness of the Fund arises in this connection. It has been suggested that the most pressing need for most nations after the war will be for some sort of long-term assistance, for reconstruction, liquidation of foreign debts, etc., which of course is not contemplated under the Fund. Relief, reconstruction or international indebtedness arising out of the war are specifically excluded from the situations with which the Fund is designed to deal. The Bank for Reconstruction and Development, which will be discussed in the following section, is intended as a supplementary institution to provide such long-term assistance. In addition, arrangements between countries for the gradual liquidation of war indebtedness will have to be made.

While it is true that the largest and most urgent need immediately after the war will be for the extension, on generous terms, of financial assistance to the nations most affected by the war, this in no way supplants or precludes the necessity for short-term loans to meet adverse foreign balances

arising out of purely temporary circumstances which will be expected to reverse themselves and thus permit repayment. Any of the countries receiving long-term loans which may meet satisfactorily their fundamental requirements may nevertheless find themselves temporarily in need of funds to meet international payments. The provision by the Fund of resources to meet these needs is clearly and directly to the interests of the creditor nations, as well as in the general interest of maintaining healthful and stable conditions in all countries of the world. In addition, many countries will not require assistance through capital loans - or at least will be able, for the most part, to attract them through the ordinary private investment channels, assuming reasonable stability of world economic conditions is attained. These countries, likewise, may be subject to temporary exchange deficits for which insufficient reserves are available. Thus, a pool of liquid international resources would serve the same purposes in the immediate post-war period as it would in the longer run. In fact, it would have a very important additional function in this period: that of providing an immediately available working fund, which would stimulate the early revival of world trade.

Another question, however, is whether the Fund could be managed in this period in such a way as to prevent the essentially long-term needs of countries from being met through the Fund. Should this occur on any large scale, the Fund would find itself in possession of large amounts of currencies for which there would be no demand. Such a situation would mean that the debtor countries would emerge from the transition period with large debts to the Fund which would bear no relation to their current trade position and which would, in fact, restrict their use of the Fund for the purposes for which it was created. Operation of the Fund under these conditions would be difficult if not impossible. It is pointed out in this connection that a country's borrowing from the Fund would not be to cover any particular transaction or set of transactions, but rather to finance a net deficit in the country's balance of payments over a period, and therefore that it would be difficult to recognize and prevent use of the Fund's resources for unauthorized purposes. While it is true that some unauthorized use of the resources provided for member nations could occur, the source of any demands on the Fund sufficiently large and prolonged to represent a threat to its effective functioning should be clearly recognizable by the Fund's management. The Fund would be empowered to require of its members any information it deems necessary for its operations. In addition, any country desiring to borrow from the Fund could be required to show that the expected use is consistent with the purposes of the Fund and that suitable policies were being adopted to insure that repayment could be made.

Another line of reasoning proceeds on the assumption that provisions for relief and reconstruction will be inadequate to the needs which will exist after the war, and therefore, that the Fund will be unable or unwilling to resist pressures to fill this gap. The establishment of the Fund will in no way affect the adequacy or inadequacy of provisions for relief and reconstruction, except in so far as it contributes to greater stability of economic relations in general. If such needs are not met adequately, the basis will be laid for continuing disturbances in international relations and a low level of world economic activity. The management of the Fund, however, would be acting with great impropriety in attempting to meet such needs through the Fund. What it can do, in a situation in which any country or group of countries is faced with a continuing deficit in its balance of payments which cannot be appropriately met through the Fund, is to call attention to the difficulty and take the initiative in promoting measures to correct it.

Implementation of General Aims of the Fund

A more fundamental and difficult question remains. In the above situations, and others, the purposes of the Fund are clearly outlined and would probably provoke little fundamental disagreement. The specific criteria which would be followed by the Fund, however, in judging whether or not its purposes were being attained, are not treated in any detail in the proposed Agreement. For example, changes in exchange rates would be authorized by the Fund only when necessary to correct a "fundamental disequilibrium." The proposed Articles of Agreement provide no criteria by which such a fundamental disequilibrium is to be recognized or for the determination of the extent of the change in exchange rates which is necessary. The Fund could limit or forbid the use of its resources to members whom it believed to be using them contrary to the purposes of the Fund, and this power presumably would include that of specifying conditions to be fulfilled if borrowing were permitted. Again, the actual situations in which this power could be invoked are not defined.

In part, the generality of these provisions of the Fund is inevitable. It would be most unwise to bind the management of the Fund in advance to any detailed course of action, in the absence of knowledge of the particular circumstances in each case. It has been argued that any more specific provisions would impede the acceptance of the plan by public opinion in many countries. On the other hand, the lack of specific criteria for the guidance of the Fund leaves the way open to critics of the proposals to assume, with no explicit contradiction in the plan itself, that it will act in various undesirable ways. Thus, the proposed Fund Agreement has been condemned in the United States as being too flexible and as favoring debtor nations; in Great Britain, as too rigid and as favoring the creditor nations. If the intent of the proposals is disregarded, each of these positions is tenable merely by assuming different courses of action by the management of the Fund.

The "Key Country" Proposal

One alternative which merits consideration is the so-called "key country" approach to the problem.⁽⁸⁾ It is argued that, because of both the political and economic complexities which would confront the Fund, exchange agreement should first be sought among key countries, in particular between Great Britain and the United States. If exchange stability can be maintained between these nations, other countries could be tied in as conditions warrant.

It is possible that there would be no substantial difference in the results of the two approaches, through the Fund and through key countries. There is no doubt of the dominant importance of conditions within, and actions of, the larger countries--there would be key countries within the Fund itself.⁽⁹⁾ But in the Fund their influence would be exercised within a cooperative framework which provides smaller countries with at least an

(8) For a more extended discussion see two articles by John H. Williams, in Foreign Affairs, July, 1943 and January, 1944.

(9) The United States and the British Empire would have 53 per cent of total votes, and for most decisions a simple majority would be sufficient. See Appendix for the number of votes controlled by each country.

opportunity to be heard. Without the Fund, virtually the same problems as would confront the Fund would have to be met if international exchange stability is to be achieved. Some problems might not be faced immediately with a piecemeal approach, but inattention would not be likely to solve them. Most important, the greater danger of disagreement, without the opportunity provided by a formal organization for joint discussion and action, might well lead to the formation of currency blocs of various countries whose rivalry would endanger if not prevent international stability.

If the Fund fails of adoption, the key country approach is probably the only alternative, but the wisdom of condemning the Fund in advance because it is too ambitious is questionable. Admittedly, to obtain political acceptance of the plans for an international monetary fund is an exceptionally difficult problem. This has been suggested as a reason for postponing action of the Fund until economic conditions are more stable, and a higher degree of international agreement on economic policies can be attained. On the other hand, it is argued that there is a greater chance of acceptability now, when habits of international co-operation in a common cause are still strong. If the minimum conditions as stated in the Fund Agreement can be accepted, it will be expected to become more powerful and influential as it proves itself in actual operation. The imperative need for some such organization as the Fund suggests the desirability of setting it up under such conditions as can be agreed upon. The great danger here, of course, is that the organization may fail through lack of power to act effectively and thus risk discrediting the scheme itself.

IV

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

Long-term international investment will be required on an unprecedented scale at the end of this war. Productive capacity has been destroyed, and the entire economic structure of many countries will have to be rebuilt. A great many industries, and even the economies of entire areas, have been built around the needs of war or adjusted to them. If wastes and maladjustments which will burden economic activity for extended periods to come are to be avoided, every effort must be made to facilitate the reconversion of these industries or areas to peace-time production. In addition to these needs growing out of the war, the accelerated industrialization of such countries as China will make for heavy capital demands.

Insofar as the Fund would contribute to confidence in the stability of world economic conditions, particularly with respect to exchange rates and freedom from restrictions on the convertibility of currencies, it would promote an economic atmosphere in which private investment funds would be more readily forthcoming. There will be a period, however, regardless of the eventual success of stabilization schemes, when private capital may regard international investment in general as unduly risky, in view of unsettled political conditions abroad and of the economic weakness of many countries. Moreover, a large part of the needs to be met will be for capital at very low rates of interest and on terms which will not be too burdensome. While such loans may be pre-eminently justifiable in terms of world economic conditions, they may nevertheless not appeal to private investors.

Structure of the Bank

The International Bank for Reconstruction and Development is proposed to help countries meet their needs for long-term capital. In general it would supply funds only to meet foreign exchange requirements growing out of projects for reconstruction and development, and only such requirements as cannot be met on reasonable terms through regular investment channels. It would act, in the first instance, to promote and facilitate the flow of private capital. It could do this in two ways: by guaranteeing privately made loans or by borrowing on its own account and relending the proceeds to other countries. Of the Bank's authorized capital of ten billion dollars, 80 per cent is to be subject to call only to meet losses on its guarantees or on loans made from funds borrowed by it. If funds are not available from these sources, however, the Bank may use the remaining 20 per cent of its capital, which is to be paid in or subject to call, as described below, directly for making or participating in loans, as well as for meeting losses incurred in its other operations.

Under the proposed Agreement, the total amount of loans and guarantees made by the Bank could not exceed 100 per cent of its unimpaired capital, reserves and surplus. The Bank could make or guarantee loans only upon the written recommendation of a committee of experts, including a member from the country requesting the loan, appointed by the Bank. It could do so only if satisfied that the borrower would otherwise be unable to obtain the loan under reasonable conditions. The rate of interest and other charges, as well as the schedule of payments, would have to be reasonable and appropriate to the project. Each loan, when not made directly to a member government, must be guaranteed by the government in whose territory the project is located, and the Bank is directed to consider the prospect of the inability of the borrower or guarantor to meet its obligations and also to act prudently in the interests of the member concerned, as well as of the members as a whole.

Two per cent of the subscriptions of member countries would be paid in gold or United States dollars sixty days after the Bank begins operations, and 8 per cent in the currency of the member within one year thereafter. Any further calls would be made as needed, not to exceed 5 per cent during any three-month period. Gold paid into the Bank would be available for any purpose desired; the portion paid in the currencies of the members, however, could not be loaned, or exchanged for the currency of another member, without the subscribing country's approval. Payments of interest and principal must be made in terms of the currency lent, unless the country whose currency is involved agrees otherwise; and funds paid on account of principal are subject to the same control by that member. This privilege could be used by a member to restrict the use of its currency in the Bank for purchases in that country only. The Bank would be limited in the amount of any particular currency which it could supply by the following: its holdings of gold, the amount the country concerned would be willing to approve for the use desired, the willingness of other countries to allow their currency to be exchanged for the currency needed, and the amount of currencies the Bank had for its own use. The Bank would have a growing fund of currencies available for its use, consisting of receipts of interest and other charges on direct loans from its own funds, and funds borrowed by it. The approval of the country in whose markets the funds are raised and in whose currency the loan is denominated must be obtained. Upon such approval, however, the Bank would have full control over the use of the money so obtained, except that the total amount of loans outstanding and payable to the Bank, made from funds borrowed by it, cannot exceed the total

amount of the outstanding borrowings of the Bank payable in the currency in which they were advanced. Loans guaranteed by the Bank also require approval by the country in whose markets the funds are raised and in whose currency the loan is denominated; but, once raised, currencies could be used or exchanged by the borrower for other currencies without restriction.

Interest charges and repayment provisions for loans made directly by the Bank are to be determined by it. During the first ten years of the Bank's operation a rate of commission of not less than 1 per cent nor greater than $1\frac{1}{2}$ per cent would be charged on loans guaranteed by the Bank or made from funds borrowed by it. The proposed Agreement would require these commissions to be set aside as a special reserve, to be available for meeting liabilities of the Bank in cases of default. If these reserves are considered sufficient at the end of the ten-year period the Bank could reduce the original rate.

A direct loan by the Bank would be made through the establishment of a credit with the Bank. The borrower could draw on this credit to meet requirements for foreign exchange arising out of the project for which the loan was made. Under exceptional circumstances, the Bank could provide foreign exchange, the need for which rises indirectly from the project, and also may supply local currency (currency of the country in which the project is located) required for the purposes of the loan which cannot otherwise be raised by the borrower on reasonable terms.

Purposes of the Bank

The Bank for Reconstruction and Development would be a necessary corollary of the Fund, both in helping to restore more nearly world economic relations and in maintaining stable conditions. The functions of the Bank in the immediate post-war period would be twofold: first, to contribute to the restoration of normal channels of foreign long-term investment and thus to promote the flow of private capital for needs appropriately met through private lending; second, to make possible the financing of reconstruction and reconversion on terms that would be least burdensome to the country concerned and thus to world economic activity in general. It would act, in conjunction with the Fund, with which the closest co-operation would be required, to advise and assist nations in devising credit arrangements most suited to their needs in relation to the world economic picture as a whole and to their own fundamental position. It would collect, and act as a clearing house for, information regarding the long-term credit needs of member countries, and thus it could channel private funds in the most desirable directions.

With respect to the maintenance of stable and expanding world economic conditions, the developmental functions of the Bank would be of great importance. It would provide member nations with a source of long-term capital, at low rates of interest and on favorable terms. Insofar as it would enable members to undertake basic developmental projects which otherwise might not have been feasible, it would contribute to the productivity of labor in the borrowing country and thus to a higher standard of living. In so doing, it would lead directly to increased imports by that country and an expansion of world trade as a whole. It would provide an impetus to the industrialization of countries previously depending for the most part on the export of raw materials and relying for manufactured products on imports from the industrial nations. Such a development would lessen the force of one important factor making for worldwide economic disequilibrium. The particular vulnerability of nations relying mainly upon exports of raw materials has been stressed. Any deflationary movement is likely to be exaggerated in these countries and in turn to affect other countries. Insofar as greater industrialization would result in greater

internal stability, in these countries, the Bank would be contributing in a significant degree to the stability of world trade as a whole.

The timing of governmental investment is an important weapon against large-scale declines in business activity. By supplying long-term credits to meet foreign exchange requirements growing out of government investment policies, the Bank may encourage such investment when it is needed and may therefore contribute to the co-ordination of national policies directed to combat deflation.

* * * * *

It should be stated again that the two proposed institutions, the International Monetary Fund and the International Bank for Reconstruction and Development, are supplementary. The Fund, by providing orderly means of establishing exchange rates and promoting stable exchange relations, would reduce exchange risks involved in long-term international investment. The Bank would provide assistance to countries which need it in developing their economies so as to keep their international payments in balance. The two institutions, if they become realities, could become most important parts of the necessary framework for a better economic world. They do not aspire to provide all the elements necessary for the re-establishment of sustained international trade and prosperity. In particular, they cannot take the place of the development of sound domestic policies nor of the adoption of rational commercial policies shaped in accordance with the position of various countries as creditors or debtors in their international relations. They would, however, afford a common meeting place for informed discussion and agreement concerning matters within their purview. The substitution of joint for unilateral or bilateral action in these fields, whether or not by means of these institutions exactly as proposed, should improve international economic relations and promote world peace.

APPENDIX

Table I

Quotas and Voting Power in the International Monetary
Fund of Members Represented at the United Nations
Monetary and Financial Conference

<u>Country</u>	<u>Quotas</u> (1)	<u>Number of Votes</u> (2)
	In millions of U.S. dollars	
Australia	200	2,250
Belgium	225	2,500
Bolivia	10	350
Brazil	150	1,750
Canada	300	3,250
Chile	50	750
China	550	5,750
Colombia	50	750
Costa Rica	5	300
Cuba	50	750
Czechoslovakia	125	1,500
Denmark	(3)	(3)
Dominican Republic	5	300
Ecuador	5	300
Egypt	45	700
El Salvador	2.5	275
Ethiopia	6	310
France	450	4,750
Greece	40	650
Guatemala	5	300
Haiti	5	300
Honduras	2.5	275
Iceland	1	260
India	400	4,250
Iran	25	500
Iraq	8	330
Liberia	.5	255
Luxembourg	10	350
Mexico	90	1,150
Netherlands	275	3,000
New Zealand	50	750
Nicaragua	2	270
Norway	50	750
Panama	.5	255
Paraguay	2	270
Peru	25	500
Philippine Commonwealth	15	400
Poland	125	1,500
Union of South Africa	100	1,250
Union of Soviet Socialist Republics	1,200	12,250
United Kingdom	1,300	13,250
United States	2,750	27,750
Uruguay	15	400
Venezuela	15	400
Yugoslavia	60	850
Total	8,800	99,000

(1) Articles of Agreement, Schedule A.

(2) Federal Reserve Bulletin, September, 1944 "Bretton Woods Agreements," p.862.

(3) To be determined when the Danish Government has declared its readiness to sign the Agreement.

Table II

Required Subscriptions to and Voting Power in the International Bank For
Reconstruction and Development of Countries Represented
at the United Nations Monetary and Financial Conference

<u>Country</u>	<u>Subscription</u> ⁽¹⁾ In millions of U.S. dollars	<u>Number of Votes</u> ⁽²⁾
Australia	200	2,250
Belgium	225	2,500
Bolivia	7	320
Brazil	105	1,300
Canada	325	3,500
Chile	35	600
China	600	6,250
Colombia	35	600
Costa Rica	2	270
Cuba	35	600
Czechoslovakia	125	1,500
Denmark	(3)	(3)
Dominican Republic	2	270
Ecuador	3.2	282
Egypt	40	650
El Salvador	1	260
Ethiopia	3	280
France	450	4,750
Greece	25	500
Guatemala	2	270
Haiti	2	270
Honduras	1	260
Iceland	1	260
India	400	4,250
Iran	24	490
Iraq	6	310
Liberia	.5	255
Luxembourg	10	350
Mexico	65	900
Netherlands	275	3,000
New Zealand	50	750
Nicaragua	.8	258
Norway	50	750
Panama	.2	252
Paraguay	.8	258
Peru	17.5	425
Philippine Commonwealth	15	400
Poland	125	1,500
Union of South Africa	100	1,250
Union of Soviet Socialist Republics	1,200	12,250
United Kingdom	1,300	13,250
United States	3,175	32,000
Uruguay	10.5	355
Venezuela	10.5	355
Yugoslavia	40	650
Total	9,100	102,000

(1) Articles of Agreement, Schedule A.

(2) Federal Reserve Bulletin, September, 1944, "Bretton Woods Agreements," p. 86

(3) To be determined when the Danish Government accepts membership.