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Conference at Bretton Woods Prepares Plans For International Finance

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JOHN PARKE YOUNG[1]

THE United Nations Monetary and Financial Conference which met at Bretton Woods, New Hampshire, from July 1 to July 22, 1944 produced two major proposals: The International Monetary Fund and the International Bank for Reconstruction and Development. These two institutions are parts of the general program being planned by the United States and other peace-loving nations to improve economic conditions generally throughout the world.

At Dumbarton Oaks plans were made for general security and for an international organization with broad responsibilities. The Economic and Social Council proposed there would be a high coordinating body and would perform such functions as are assigned to it by the General Assembly. In addition, several specialized agencies whose responsibilities and authority would cover the major economic fields are planned. Plans for the Food and Agriculture organization were worked out at the conference at Hot Springs, Virginia. Measures are also being considered to bring about a general reduction of trade barriers

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and the abandonment of undesirable practices. The various measures and machinery that are being planned at this time constitute a unified program and are to be considered as parts of a whole.

In the field of finance, the agencies proposed are the International Monetary Fund and the International Bank for Reconstruction and Development. These two companion institutions are designed to provide a basis for the development of international financial transactions and thereby to facilitate expansion of trade and fuller utilization of the world's productive resources. They are pointed toward the goal of higher national incomes and general security.

The two plans represent the combined effort of 44 nations and are the culmination of study and informal discussions spread over an extended period of time, among the technical experts of these governments. The main outlines and principles of the plans were thus generally agreed upon prior to the Conference, but a great deal of work remained.

From the near-range viewpoint the Conference was marked by an unusually large amount of hard and intensive work and by a determination of the nations represented to find common ground for agreement and to produce a plan. The delegations included men of the highest level of technical competence.

From the long-range viewpoint the Conference represents a significant step in international collaboration. Technical experts from 44 nations have set forth what they consider to be rules of the game in the field of currency and exchange. With pre-war currency and trade disorders fresh in mind, the nations recognized that their economic interests were interlocked and that cooperation was essential; they recognized also that the machinery they were designing could, if properly designed, make a major contribution to the lasting health and prosperity of the world.

The agreements worked out at the Conference

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do not commit any government. They are now before the governments of the United Nations for their consideration and action. The Fund agreement shall go into effect when approved by nations having 65 percent of the quotas; the Bank agreement shall go into effect when approved by members of the Fund whose minimum subscriptions to the Bank comprise 65 percent of the total subscriptions scheduled.

Origin of Plans

When currency systems were restored after the last war there was little or no attempt at coordination of measures to provide stability; no machinery was set up to facilitate an orderly adjustment of exchange rates when fundamental conditions necessitated such a revision. The disturbances of the 1930's, involving a resort to competitive currency depreciation, imposition of exchange restrictions, import quotas, and other devices which all but stifled trade, made it clear that improved international financial arrangements were necessary. The currency and exchange difficulties of that period are generally regarded as contributing to a considerable extent to the outbreak of the present war.

As the war progressed, discussion of international financial objectives and procedures was stimulated. In the United States Dr. Harry White of the Treasury Department prepared a plan for an international stabilization fund and an investment bank which he presented confidentially early in 1942 to a small group in Washington.

Discussions had also been under way in England, and soon thereafter Lord Keynes offered a proposal for an "International Clearing Union". The British Government printed this proposal as a secret document without Lord Keynes' name. Copies were made available to United States Government officials. These two proposals became known as the White Plan and the Keynes Plan. They were actively discussed in government circles

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both in Washington and London beginning about the middle of 1942, and early in 1943 they were confidentially communicated to other United Nations.

In April 1943 the two plans were made public. The American release to the press of a "Preliminary Draft Outline of Proposal for a United and Associated Nations Stabilization Fund" and the British White Paper presenting "Proposals for an International Clearing Union" pointed out that each proposal was the work of government technical experts and that it did not involve any official commitment. Although the original White Plan provided for the creation of an investment bank as well as a stabilization fund, the material made public in April 1943 did not include the proposal for a bank. Attention was concentrated on the stabilization fund. The British proposal referred to the need for other institutions, including a Board for International Investment, and mentioned the services which the Clearing Union might perform for such a Board.

In the spring of 1943 the President created a committee known as the Cabinet Committee, consisting of the heads of the Department of State, Department of Commerce, Foreign Economic Administration, and Board of Governors of the Federal Reserve System, to work with the Secretary of the Treasury on the question. A technical commission composed of Government financial experts under the chairmanship of Dr. White was also established.

When the American proposal was made public the Secretary of the Treasury sent copies to 37 nations and invited them to send technical experts to Washington to make suggestions and to discuss the proposal. Accordingly, about the middle of 1943 discussions with experts from a large number of countries were held informally in Washington. Many valuable changes and additions developed from these discussions. Shortly afterward the Canadian experts offered a plan which

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presented their views, and a little later China and France came forward with proposals. The similarities of the various viewpoints were much more marked than were the differences. Following these discussions between American and foreign technical experts a revision of the so-called White Plan was published in July 1943.

In the fall of 1943 British economic and financial experts came to the United States to discuss various topics. The financial discussions dealt almost entirely with the currency-stabilization proposals and only to a small extent with plans for a bank. The British and American experts found themselves in substantial agreement on the major principles of stabilization, so that the prospects of designing a plan agreeable to both countries appeared bright. The discussions continued by correspondence, and there was prepared a so-called joint statement of principles on which there was agreement.

Meanwhile, in November 1943 the Treasury Department had published a draft of the bank proposal. Russian experts came to Washington early in 1944 and engaged in extended discussions with respect to both proposed institutions. These discussions were undertaken with considerable interest in view of the differences between the Russian economic system and the systems prevailing in most other countries. It soon developed that agreement with Russia on both the Fund and the Bank was possible.

Out of these various discussions there developed a document known as the Joint Statement of Experts on the International Monetary Fund. This document represented the common area of agreement among the nations that had participated in the discussions. It was published on April 22, 1944 simultaneously in Washington, London, Moscow, Chungking, Ottawa, Rio de Janeiro, Mexico City, and Habana, and in full or abbreviated form in many other countries. It represented the views of the experts of approximately 30 coun-

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tries and constituted a basis for the development of the subsequent detailed plan.

Time had not permitted preparation of a similar statement with respect to the Bank. The discussions had indicated a large measure of agreement on the Bank, but the plan was not so far advanced as was that for the Monetary Fund.

During this period the Secretary of the Treasury kept the Congress informed regarding developments and at various times made arrangements to appear before congressional committees. Prior to the publication of the Joint Statement he explained the proposals in considerable detail to congressional committees; he indicated that an international conference on the subject would probably be called. This Government's position, as explained by Secretary Morgenthau, was to the effect that the Joint Statement was a statement of the Government's financial experts and that it was not a commitment of the Government itself. Whatever plan the Conference would work out would, necessarily, be submitted to the Congress for its consideration. Other governments took a similar position.

In May 1944 the President issued invitations to the 44 United and Associated Nations to attend a conference to be held at Bretton Woods, New Hampshire, in July 1944. The Conference was to discuss the proposed Monetary Fund within the terms of the Joint Statement and was to consider if possible the bank proposal.

In order to facilitate the work of the Conference and to work out some of the many details, a preliminary meeting was held at Atlantic City. On June 15 a group of American financial experts assembled there and were joined a few days later by experts from 15 other countries. The group worked intensively, endeavoring to deal with some of the unsettled questions and to produce a more finished document. At this preliminary conference the British experts presented proposals for the Bank which involved some changes from the

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earlier plan but which met with almost immediate approval of the experts of the other nations, including the United States. It became clear that the Bank proposal was to receive major consideration at the Conference. The group at Atlantic City went directly from there to the Conference at Bretton Woods which assembled on July 1, 1944.

International Monetary Fund

Purposes

The International Monetary Fund Agreement, drawn up at the Conference, sets forth what the nations consider to be the principles and procedures or "rules of the game" in the field of currency and exchange, as well as with respect to certain phases of commercial policy. These principles and the machinery of the Fund are designed to facilitate the expansion of trade and also to prevent conditions which cause governments to impose restrictions on trade and resort to other uneconomic devices. A consultative procedure, moreover, is established whereby representatives of the member governments would regularly consider, in a dispassionate manner, their mutual problems. The Fund, as noted above, is part of the program to promote a fuller flow of trade and to improve economic conditions generally throughout the world.

The Fund provides facilities to assist countries in reducing or avoiding many of the disturbances that accompany changes in trade and other conditions. In periods of exchange stringency it would relieve the pressure for deflation and would tend to check many of the influences which depress trade, production, and employment. It would promote orderly changes in exchange rates and other economic adjustments when changes and adjustments are necessary.

The Fund is designed to provide machinery which would, so far as possible, make the currencies of its members freely convertible one for the other

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at established rates. Such convertibility would permit foreign trade and other international transactions to take place with a minimum of risk and difficulty arising out of the existence of different currency systems. These risks and difficulties in the past, especially during the 1930's, have greatly restricted international trade.

The proposed plan endeavors to provide a system wherein traders would be able to buy and sell in any market in the world, wherever such buying and selling could be done to the best advantage, and to discourage arrangements whereby trade is channeled or is confined to pairs of countries. A broad multilateral trading system is the type envisaged, in order that trade may expand and may realize its full potentialities. Traders would receive accordingly some assurance regarding the amount of their own money to be realized from the proceeds of a foreign sale and that the money could be transferred without hindrance.

The purposes of the Fund are stated in article I at the beginning of the Agreement. The Fund is to be guided in all its decisions by these purposes, which are as follows:

(i) To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.

(ii) To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.

(iii) To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.

(iv) To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimina-

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tion of foreign exchange restrictions which hamper the growth of world trade.

(v) To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

(vi) In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

General Nature of Provisions

The basic principles or means by which the above purposes are to be achieved are fairly simple. They are essentially these:

1. Member countries undertake to keep their exchange rates as stable as possible; accordingly, no changes in rates are to be made unless essential to correct a fundamental disequilibrium.

2. If basic conditions have changed so that a new rate becomes necessary, an adjustment can be made, but it must in all cases be made by consultation with the Fund and according to established procedures. Beyond certain limits rates can be changed only with the concurrence of the Fund.

3. Currency values are to be stated in terms of gold (or U. S. dollars), and the stability of a currency is to be gaged by its relation to gold (or U. S. dollars). Gold is to be accepted by members in settlement of accounts.

4. A common pool of resources, contributed by the members, is to be established and made available under safeguarding conditions to meet temporary shortages of exchange and thereby to help maintain the value of a member's currency until such member has had time to correct the maladjustment which may be causing the difficulty.

5. Member countries agree not to engage in discriminatory currency practices and similar de-

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vices or to impose restrictions on the making of payments and transfers for current international transactions. Existing restrictions are to be abandoned as soon as the post-war transitional period permits.

6. During the post-war transitional period flexibility in rates is provided, until rates can be found which give promise of permanence. The resources of the Fund are protected during this period.

7. Countries agree to maintain the gold value of their currency held by the Fund, so that the assets of the Fund will not depreciate in terms of gold. Countries thus guarantee the Fund against loss due to possible depreciation of their currency.

8. The Fund is to deal only with governments or their agencies and is to have no direct contact with the exchange market. Its facilities are to be utilized to clear only those balances not otherwise cleared by the market.

In the proposed Agreement these and other provisions are elaborated in detail. The provisions of the Fund are summarized below.

Membership and Subscription to Fund's Resources

Although original membership is confined to the United Nations that were represented at the Bretton Woods Conference, other countries may become members on such terms as the Fund may prescribe. Each member is to contribute to a common pool which will constitute the resources of the Fund. For this purpose each country is assigned a quota which is related to the size of the member's foreign trade and other international transactions and to fluctuations therein. A table of quotas for the nations at the Conference is given on page 19. The total of these is $8,800,000,000.

Subscriptions are to be paid in gold to the extent of 25 percent of the quota or 10 percent of the country's net official holdings of gold and United States dollars, whichever of these amounts is the

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smaller. In the case of the United States this would be about $688,000,000 and for all nations at the Conference about $1,800,000,000. Each country is to pay the remainder in its own currency.

A member may withdraw from the Fund at any time. If a member misuses the Fund or fails to fulfil its obligations under the Agreement it may be denied access to the Fund and may eventually be required to withdraw.[2]

Rates of Exchange

In order to provide for stability of exchange rates, each currency unit is to have a definite par value in terms of gold or in terms of the United States dollar. These pars are to be determined originally as follows. Each member will communicate to the Fund the par value which it desires for its currency, such par being based on the rates of exchange prevailing on the sixtieth day before the Agreement comes into force. Unless within 90 days the Fund notifies the member that the rate is unsatisfactory, or the member so notifies the Fund, this par value becomes effective. If the Fund and the member cannot agree on a suitable par, the member must withdraw from the Fund.

Countries that have been occupied by the enemy are allowed more time to select and adjust their pars, under conditions prescribed by the Fund. This period of adjustment provides flexibility during the transition until currencies have settled to levels that the Fund believes can be maintained. This arrangement also protects the Fund's resources because during such a period access to the Fund is limited or denied entirely.

Rates for transactions between members may not differ from parity by more than one percent in the case of spot transactions and by a percentage that the Fund considers reasonable for other transactions.

[2] This requires a majority vote of the Governors representing a majority of the total voting power.

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Members are given a certain amount of initial leeway with regard to changes in rates; but once that leeway has been used up, rates can be changed only by permission of the Fund. Changes are not to be made under any conditions except to correct a fundamental disequilibrium, and then only by consultation with the Fund.[3] The Fund is not allowed to deny a proposed change if it is satisfied that the change is necessary to correct a fundamental disequilibrium.

Special arrangements exist for the post-war transitional period. The Fund may postpone beginning exchange transactions until it is satisfied that conditions are appropriate. It may also postpone transactions with any member if it believes such transactions would be prejudicial to the Fund. Countries that have been occupied by the enemy and that are granted an extension of time to select and adjust their par values may be restricted in their access to the Fund's resources.

Use of Fund's Resources

The resources of the Fund are intended to help members meet temporary needs for foreign exchange due to fluctuations in their current foreign transactions. Members may therefore acquire from the Fund, under certain conditions, the currency of any other member by paying their own currency, or gold, in exchange. For example, a country that ordinarily exports agricultural products may as a result of a crop failure find itself short of foreign exchange with which to pay for its regular imports. If it has not previously been using the Fund to excess or is not otherwise ineligi-

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[3] The Agreement provides that if a member proposes to change the par value of its currency because of a fundamental disequilibrium, the Fund may not object if the total of all previous changes (whether increases or decreases) does not exceed 10 percent of the initial par. Any change beyond this requires approval by the Fund. If the member proposes a change which exceeds the 10 per cent but does not exceed a further 10 percent of the par the Fund must give its opinion within 72 hours.

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ble, it could acquire foreign exchange from the Fund.

The resources of the Fund are not intended to be used to provide a member with foreign capital for investment or long-term needs. The currency acquired must be needed for making payments for current transactions and not for the purpose of transferring capital from one country to another. Capital transfers of a large and sustained nature are excluded, since, if allowed, they might soon cause the Fund to be depleted of currencies which happened to be in strong demand. If the Fund were to be able to provide for flight of capital it would need to be very much larger. It is intended to provide only for fluctuations in current or noncapital items in the balance of payments. Current transactions are defined to include payments having to do with foreign trade, short-term banking, the transfer of interest and dividends, moderate amortization of the principal of loans, and remittances for family living expenses.

The needs for foreign exchange that are to be met by the Fund are the net amounts that are not cleared through ordinary market transactions. The Fund does not deal with the public but only with governments or their agencies. If a country needs foreign exchange from the Fund, its government must do the buying and can then make the exchange available to private parties.

A member may not ordinarily acquire foreign currencies in exchange for its own currency to a point where the Fund's holdings of such member's currency increase by more than 25 percent of its quota during the previous 12 months, nor exceed 200 percent of its quota. Furthermore, if the Fund believes that a member is using the resources of the Fund in a manner contrary to the purposes of the Fund, it may limit or deny such member access to its resources. If the Fund believes that a member is making improper use of the Fund's resources, it is required to make a report to such member setting forth the views of the Fund.

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Members using the Fund's resources are required to pay certain charges which increase as the member's recourse to the Fund increases, and which also increase according to the length of time that its currency in excess of its quota is held by the Fund.

Several provisions exist to build up or replenish the Fund's holdings of gold and of currencies which may be in strong demand. The purpose of these important provisions is to strengthen the Fund over the years and to keep its holdings of the different currencies in reasonable balance.

In the first place, members desiring to buy the currency of other members with gold shall do so from the Fund if this purchase can be made with equal advantage. Moreover, in certain cases members are required at the end of each financial year of the Fund to repurchase from the Fund a portion of their currency held by the Fund if such holding has increased during the year or if the member's monetary reserves have increased.[4] These provisions are designed to prevent countries from increasing their own reserves at the expense of the Fund and from using the Fund's resources when their own are available. If the Fund is short of a certain currency, it may borrow the currency, pro-

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[4] The amount to be so repurchased is to be equal to one half of any increase in the Fund's holdings of such currency, plus one half of any increase that may have occurred in the member's monetary reserves. If the member's reserves have decreased, there is to be subtracted from the amount to be repurchased one half of such decrease. If, after the above repurchase, a member's holdings of the currency of another member have increased as a result of transactions in that currency with other members, the member whose holdings of such currency have increased must use the increase to repurchase its own currency from the Fund. None of the above adjustments, however, are to be carried to a point where the member's monetary reserves fall below its quota, or where the Fund's holdings of such currency fall below 75 percent of its quota, or where the Fund's holdings of the currency to be paid to the Fund are above 75 percent of the quota of the member concerned.

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vided the member whose currency is involved approves. Members also agree to sell their currencies to the Fund for gold, so that if the Fund needs more of a certain currency, it can, if it desires, obtain this with gold.

Access to a large pool of foreign currencies, as provided to members of the Fund, would, it is believed, tend to inspire confidence in a member's currency and thereby to prevent speculative attacks on such currency and to promote stability. It would also give a country time in which to make necessary adjustments when the lack of balance in its foreign payments and receipts is not of a self-correcting but of a continuing nature.

Exchange Restrictions

Since restrictions on the purchase and sale of foreign exchange are inconsistent in general with the expansion of world trade and with the purposes of the Fund, these transactions are with a few exceptions prohibited by the Fund. This is an important aspect of the Fund Agreement and recognizes that the stability which the Fund endeavors to promote would be interfered with by measures which restrict trade. Such restrictions have been used to interfere with the flow of trade and to discriminate between countries and have been the source of serious economic difficulties. The Fund Agreement therefore provides that, apart from a few exceptions and approval of the Fund, no member may impose any restrictions on the making of payments for current international transactions. Current transactions, as noted above, include those dealing with foreign trade, short-term banking, payments of interest and dividends, reasonable amortization, and remittances for family living expenses.

Exceptions that are permitted deal with restrictions on the transfer of capital, on a currency that is scarce and cannot be supplied in adequate amounts by the Fund, and on transactions during the post-war transitional period. Restrictions are

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allowed on transactions with non-members unless the Fund disapproves.

Since members are not allowed to use the resources of the Fund to meet large or sustained outflows of capital, restrictions on capital transfers may be necessary from time to time in some countries. Large capital movements can be so unpredictable and can so upset economic and financial stability that members are permitted to exercise such controls of capital movements as they consider necessary. The Fund may require a member to restrict capital movements if it believes such movements are utilizing the Fund's resources.

If a scarcity of a particular currency develops, the Fund may formally declare such currency scarce and thereafter apportion the Fund's supply as it deems appropriate. This is a necessary safety valve since it is possible that in spite of the Fund and the corrective measures provided a situation may develop wherein there is a general shortage of a certain currency. Whenever the Fund declares a currency scarce, members may thereafter impose restrictions on exchange operations in that currency, but this must be done in consultation with the Fund. The restrictions are to be no greater than necessary to limit the demand for the scarce currency to the supply held by the member, and they must be removed whenever the Fund declares the currency no longer scarce.

If the Fund anticipates that a scarcity is developing it may issue a report setting forth the causes of the scarcity and giving the Fund's recommendations. In the event the Fund declares a currency scarce it is required to issue a report.

Members are allowed to retain or impose exchange restrictions during the post-war transitional period provided they believe that otherwise they could not settle their balance of payments without undue recourse to the Fund. During this period the Fund is to report on restrictions still in

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force, and after five years from the time when it begins operations it may make representations to a country regarding the removal of such restrictions. If the member persists in retaining them the member may be denied access to the Fund and may even be compelled to withdraw from the Fund.

An important provision of the Fund is that which prohibits members from engaging in discriminatory currency arrangements or multiple currency practices, except as may be authorized by the Fund. If any such arrangements or practices exist, members must consult with the Fund concerning their progressive removal. These devices were especially damaging to trade and to international economic conditions generally during the 1930's, so that the ban on them by the Fund is a notable accomplishment.

In order to provide for the convertibility of members' currencies each member agrees to redeem any of its currency that is held by other members, provided such currency has been acquired as a result of current transactions or its conversion is needed to make payments for current transactions. A member may redeem its currency either in gold or in the currency of the member requesting redemption.[5]

In cases where a member is authorized according to the Fund agreement to maintain or establish exchange restrictions, and at the same time has engagements with members previously entered into which conflict, the parties to such engagements are to consult regarding any adjustments necessary.

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[5] Certain exceptions are made to this requirement, such as when the convertibility of the balances for which redemption is requested has been restricted by permission of the Fund, when the balances were accumulated from transactions which took place before the restrictions had been removed, when the balances had been acquired contrary to the exchange regulations of the member asked to redeem them, when the currency of the member requesting redemption has been declared scarce, or when the member requested to make redemption is not entitled to buy currencies from the Fund for its own currency.

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Previous engagements, however, are not to be allowed to interfere with restrictions that may become necessary when a currency has been declared scarce by the Fund. This provision means that the stability of exchange rates is not to be upset when the situation is of such a nature that a temporary imposition of exchange restrictions would permit the maintenance of established rates.

Management

The Fund is to be administered by a Board of Governors consisting of one Governor appointed by each member. The Board meets annually or oftener if it desires. The immediate management of the Fund is entrusted to the Executive Directors, who function in continuous session. There must be at least twelve Executive Directors, five of whom are appointed by the five members having the largest quotas. Two are to be elected by the American republics not entitled to appoint Directors, and the remaining five are to be elected by the other members.

Each member of the Board of Governors may cast 250 votes plus a number of votes determined by the size of the member's quota. On the basis of the present quotas the United States will have 27,750 votes, or 28 percent of the total. The United Kingdom comes next with 13,250 votes, or 13.4 percent of the total. Russia is third with 12,250 votes, or 12.4 percent of the total. China has 5.8 percent of the votes, France 4.8, India 4.3, and Canada 3.3. Each Executive Director is allowed to cast the number of votes which counted toward his election.

The above voting power is to be adjusted depending upon whether, and the extent to which, a member has recourse to the resources of the Fund. A member acquires one additional vote for the equivalent of each $400,000 of net sales of its currency. Similarly, a member who is buying currencies from the Fund loses one vote for the equivalent of each $400,000 of its net purchases of currencies of other members.

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Any net income realized by the Fund is to be distributed to the members in proportion to their quotas, although before this is done a two-percent non-cumulative payment is to be made to countries whose currencies have been in special demand, on the amount by which the Fund's average holdings of such currencies fall below 75 percent of their quotas.

The Fund may at any time that it desires advise any member concerning the Fund's views on matters affecting the Fund. By a two-thirds majority of the total voting power the Fund may publish a report made to a member regarding monetary or economic conditions in such country which tend to produce disequilibrium in the balances of payments of members.

The principal office of the Fund is to be in the territory of the member having the largest quota. Depositories are to be maintained in other member countries.

QUOTAS FOR INTERNATIONAL MONETARY FUND FOR COUNTRIES REPRESENTED AT THE CONFERENCE

(In millions of United States dollars)

Country	Quota
Australia	200
Belgium	225
Bolivia	10
Brazil	150
Canada	300
Chile	50
China	550
Colombia	50
Costa Rica	5
Cuba	50
Czechoslovakia	125
Denmark	(*)
Dominican Republic	5
Ecuador	5
Egypt	45
El Salvador	2.5
Ethiopia	6
France	450
Greece	40
Guatemala	5
Haiti	5
Honduras	2.5
Iceland	1
India	400
Iran	25
Iraq	8
Liberia	.5
Luxembourg	10
Mexico	90
Netherlands	275
New Zealand	50
Nicaragua	2
Norway	50
Panama	.5
Paraguay	2
Peru	25
Philippine Commonwealth	15

*The quota of Denmark shall be determined by the Fund after the Danish Government has declared its readiness to sign the Agreement but before signature takes place.

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Poland	125	United States	2,750
Union of South Africa	100	Uruguay	15
Union of Soviet Socialist Republics	1,200	Venezuela	15
United Kingdom	1,300	Yugoslavia	60
		Total	8,800

International Bank for Reconstruction and Development

The international flow of long-term capital has been seriously disrupted for some years and has also at times been subject to excesses and other difficulties. Judging from existing facilities and conditions, including the hesitancy of private capital to seek investment abroad, it does not appear likely that very large sums of money w[illegible] be available for foreign investment unless constructive action is taken. But it is generally believed that a large volume of foreign investment, properly guided, is of special importance to the United States and to the world at large from the standpoint of economic expansion, full employment, and stable international conditions. Moreover, during the immediate post-war years the needs of capital for reconstruction are expected to be pressing.

The resources of the Monetary Fund, as noted above, are not to be used for capital investment or long-term transactions. They are therefore not available to finance reconstruction of devastated countries or for economic development. The Bank for Reconstruction and Development is designed, as a companion institution to the Fund, to help meet these needs. The Bank is intended to facilitate the flow of long-term capital on proper terms and for productive purposes.

If private foreign lending is to revive and achieve its purpose it should be on a basis which protects the interests of both investors and recipients of the capital. The proposed Bank would endeavor to promote such a condition by offering its faciliti[illegible] for loans that were properly approved and that

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came up to certain standards. The Bank is allowed to make direct loans itself, but most of its capital is available only to guarantee loans. In making or guaranteeing loans, the Bank would give careful attention to all the circumstances, including the capacity of the borrower, the nature of the project for which the loan is contracted, and the terms and conditions. The Bank presumably would not make or guarantee a loan which imposed onerous or unreasonable conditions upon the borrower. Loans would need to be scrutinized from the standpoint both of their investment soundness and of their broad economic aspects.

The Bank is not concerned with provision of funds for relief; that is the responsibility of other agencies. Loans to governments for public purposes that may be socially desirable though non-revenue-producing are permitted, provided repayment and service on the loan are amply provided for.

By eliminating certain risks, by minimizing others, and by spreading widely those risks which could not be avoided, the Bank would perform an important economic function. The risks, according to the Agreement, would be spread internationally among the members in proportion to their shares of stock.

The Bank would endeavor to use its influence and facilities to promote the development of stable and prosperous international financial conditions; thus it would supplement the work of the Fund in the field of currency and exchange. It would endeavor to stimulate trade and to increase the level of national incomes. It is part of the general economic program for the post-war world. It would tend to eliminate basic causes of disequilibrium by regularizing and reducing the wide fluctuations in the flow of investment and also by raising the levels of economic activity in the nations of the world. By making capital avail-

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able under proper conditions it would hasten economic adjustments as well as help to prevent maladjustments. The Bank would thus operate directly on the causes of disequilibrium.

The purposes of the Bank, which are stated in article I of the Agreement and which are to guide the Bank in all its decisions, are as follows:

(i) To assist in the reconstruction and development of territories of members by facilitating the investment of capital for productive purposes, including the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs and the encouragement of the development of productive facilities and resources in less developed countries.

(ii) To promote private foreign investment by means of guarantees or participations in loans and other investments made by private investors; and when private capital is not available on reasonable terms, to supplement private investment by providing, on suitable conditions, finance for productive purposes out of its own capital, funds raised by it and its other resources.

(iii) To promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging international investment for the development of the productive resources of members, thereby assisting in raising productivity, the standard of living and conditions of labor in their territories.

(iv) To arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.

(v) To conduct its operations with due regard to the effect of international investment on business conditions in the territories of members and, in the immediate post-war years, to assist in bringing about a smooth transition from a wartime to a peacetime economy.

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Membership and Subscriptions

Membership in the Bank is open only to members of the International Monetary Fund. Apart from the original members of the Fund, other countries may become members of the Bank on terms prescribed by the Bank, but they must also be members of the Fund. If a country ceases to be a member of the Fund it automatically ceases to be a member of the Bank unless retained by a three-fourths majority of the total voting power.

Since the existence of the Fund would promote stable currency and exchange conditions, which are of considerable importance to international investment, it was decided that members of the Bank should be required to participate in the Fund. The requirement also helps protect the Bank by providing safeguards for reasonable stability of a borrower's currency.

The authorized capital of the Bank is 10,000,000,000 United States dollars, of the present weight and fineness, but the total of the prescribed minimum subscriptions amounts to $9,100,000,000. Each member is required to subscribe to a minimum number of shares of the capital stock assigned to such member in the Agreement.

The capital is to be divided into two parts. The first portion, namely 20 percent, may be used to make direct loans. The remaining portion, 80 percent, is not available for lending but constitutes a reserve fund for guaranteeing loans. It may be called up only when needed to meet obligations of the Bank in connection with loans which the Bank has guaranteed or to make payments on the Bank's own borrowings.

Payments on subscriptions are to be made partly in gold or United States dollars and partly in the currencies of the members. Each share of stock must be paid for in gold or United States dollars to the extent of two percent of its price and in the currency of the member to the extent of 18 percent. This accounts for the first or 20-percent portion of the capital. As regards the other portion, namely

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80 percent, payment may be made either in gold, United States dollars, or the currency required to discharge the obligations of the Bank for which the call was made. On the basis of the quotas assigned at the Conference the gold or United States dollar subscription (apart from the 80-percent portion) would amount to $753,500,000, of which the United States subscription would account for $635,000,000. Twenty percent of the quotas would amount to $1,820,000,000.

The above two percent is to be paid within 60 days from the beginning of operations and the 18 percent when the Bank calls for it. During the first year of operations, however, the Bank must call for at least 10 percent of its subscribed capital.

If a member's currency depreciates the member must provide the Bank with enough additional currency to maintain the original gold value of its currency held by the Bank and derived from the 20-percent portion of capital.

Loans and Guaranties

The Bank would provide funds to borrowers either by making loans itself or by guaranteeing loans in order to aid borrowers to obtain them on reasonable terms from the private market. The Bank is not allowed to have outstanding at any one time loans or guaranties in excess of its unimpaired capital, surplus, and reserves.

All loans which the Bank may make or guarantee must be guaranteed by a member or its central bank or equivalent agency. The resources of the Bank are not available for the benefit of non-members. The Bank may guarantee or make a loan only when it is satisfied that the borrower would otherwise be unable to obtain the loan on reasonable terms. The Bank thus would not interfere with private lending unless exorbitant terms were being imposed.

In order to safeguard the resources of the Bank and to make sure that loans are for proper purposes, each loan or guaranty must first be recommended by a technical committee after it makes a

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careful study of the project. The Bank must also assure itself that the proceeds of a loan are used for the purposes for which the loan was granted. Loans and guaranties are ordinarily to be for specific projects of reconstruction and development.

The Bank may acquire additional funds to lend by borrowing in the market of a member, provided the member approves and agrees that the proceeds may be freely convertible into the currency of any other member. Loans out of the Bank's resources, namely out of the 20-percent portion of the capital, however, must be approved by the member whose currency is involved. The Bank is not allowed to impose any conditions that the proceeds of a loan be spent in any particular country.

When the Bank makes a loan it provides the borrower with such currencies as may be needed for expenditures within the territories of other members. Only in exceptional circumstances will the Bank provide a borrower with the borrower's own currency.

Payments of interest and principal on loans out of the Bank's own capital are to be made in the same currency as that lent, unless the member whose currency is lent agrees otherwise. These payments are to be equivalent to the value of the contractual payments at the time the loan was made, in terms of a currency specified for the purpose by the Bank. Loans out of money borrowed by the Bank may be in any currency, but the total outstanding loans in any one currency may not exceed the total of outstanding borrowings by the Bank in the same currency. This means that the Bank is protected in the event of depreciation of a currency owed to it.

If a member suffers from an exchange stringency, the Bank may accept that member's own currency temporarily or make other adjustments, provided adequate safeguards are arranged.

The commission which the Bank is to receive for loans which it may guarantee is to be between one percent and one and a half percent a year.

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After 10 years' experience the commission may be adjusted if the Bank deems advisable. In the event of default by a borrower guaranteed by the Bank, the Bank may terminate its liability by offering to purchase the obligations at par and accrued interest. All commissions received by the Bank are to be set aside as a special reserve to meet liabilities.

The Bank may buy and sell securities which it has issued or guaranteed, with the approval of the member in whose territories the securities are to be bought or sold. It may buy and sell other securities for the investment of its special reserve. Each security which the Bank guarantees or issues must carry a conspicuous statement to the effect that it is not the obligation of any government unless expressly stated on the security.

The Bank may not interfere in the political affairs of a member, nor may it be influenced in its decisions by the political character of the member concerned.

Management

The Bank is to be administered by a Board of Governors, one Governor appointed by each member. The Board of Governors is to meet at least annually. Each member of the Board is to have 250 votes plus one vote for each share of stock held. On the basis of the quotas drawn up at the Conference, the United States would have 32,000 votes or 31.4 percent of the total; the United Kingdom, 13 percent; Russia, 12 percent; China, 6.1 percent; and France, 4.6 percent.

The immediate conduct of the Bank's operations is in the hands of twelve Executive Directors. Five of the Executive Directors are to be appointed by the five members having the largest number of shares; the remaining seven are to be elected by all the Governors other than those appointing the above five members. The system of election of these seven Directors is arranged so that it gives special consideration to

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small countries whose votes might otherwise be ineffective.

In making decisions on applications for loans relating to matters within the competence of other international organizations, the Bank is to give consideration to the views of such organizations.

The principal office of the Bank is to be in the territory of the member holding the largest number of shares. The Bank may establish agencies, branches, or regional offices elsewhere.

The net income of the Bank is to be distributed to shareholders in proportion to their shares, although a two-percent non-cumulative dividend is to be paid first to each member on the basis of the average amount of loans outstanding during the year out of currency corresponding to its subscription.

A member may withdraw from the Bank at any time. If a member fails to fulfil its obligations to the Bank it may be suspended by a decision of the majority of the Governors exercising a majority of the total voting power.

Amendments to the Bank agreement require a vote of three fifths of the members having four fifths of the total voting power. The Bank is to have an Advisory Council of not less than seven persons selected by the Board of Governors, including representatives of banking, commercial, industrial, labor, and agricultural interests.

SUBSCRIPTIONS TO THE BANK FOR RECONSTRUCTION AND DEVELOPMENT ALLOCATED TO COUNTRIES REPRESENTED AT THE CONFERENCE

(In millions of United States dollars)

Country	Amount	Country	Amount
Australia	200	Costa Rica	2
Belgium	225	Cuba	35
Bolivia	7	Czechoslovakia	125
Brazil	105	Denmark	(*)
Canada	325	Dominican Republic	2
Chile	35	Ecuador	3.2
China	600	Egypt	40
Colombia	35	El Salvador	1

*The quota of Denmark shall be determined by the Bank after Denmark accepts membership in accordance with the Articles of Agreement.

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Country	Amount	Country	Amount
Ethiopia	3	Panama	.2
France	450	Paraguay	.8
Greece	25	Peru	17.5
Guatemala	2	Philippine Commonwealth	15
Haiti	2	Poland	125
Honduras	1	Union of South Africa	100
Iceland	1	Union of Soviet Socialist Republics	1,200
India	400	United Kingdom	1,300
Iran	24	United States	3,175
Iraq	6	Uruguay	10.5
Liberia	.5	Venezuela	10.5
Luxembourg	10	Yugoslavia	40
Mexico	65		
Netherlands	275		
New Zealand	50		
Nicaragua	.8		
Norway	50	Total	9,100

Other Actions of the Bretton Woods Conference

Although the Conference was devoted primarily to consideration of the Fund and the Bank, it passed several resolutions dealing with economic and financial questions. These included a resolution that the wide fluctuations in the value of silver were to receive further study by the interested nations; that the Bank for International Settlements be liquidated at the earliest possible moment; that measures be taken to see that the property looted by the enemy is restored to its rightful owners, and that all neutral countries be asked to take measures to prevent the enemy from transferring or concealing such looted property; that in order to attain the broader objectives of economic policy and the purposes of the Fund, the governments participating in the Conference seek agreement on the best means to reduce obstacles to international trade, to bring about orderly marketing of staple commodities, to deal with problems arising from the cessation of war production, and to harmonize national policies directed toward maintaining high levels of employment and rising standards of living.

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