Bretton Woods Agreements

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BRETTON WOODS AGREEMENTS

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In July of this year there was held in Bretton Woods, New Hampshire, a United Nations Monetary and Financial Conference. At this meeting there were representatives of forty-four United and Associated Nations. In addition the Danish Minister to the United States was present in his personal capacity. Agreement was reached on the establishment of an International Monetary Fund and of an International Bank for Reconstruction and Development. There were also agreements on certain other matters. All the agreements are in draft form to be submitted to the various governments, none of which is bound to accept them.

The International Monetary Fund aims at the restoration of conditions under which transactions arising out of foreign trade could be settled smoothly with the elimination of unnecessary risks and harmful pressures on the economies of participating countries. The Fund is not intended to correct economic maladjustments in the different countries, but to exert an influence on members to undertake corrective action and to afford them time to make such action effective. It proposes to promote exchange stability and to offer facilities for orderly adjustment of exchanges when necessary to the correction of basic maladjustments.

The proposed International Bank for Reconstruction and Development is designed for the purpose of making long-term productive foreign loans to member countries out of its own funds or out of funds borrowed from private investors, and of guaranteeing such loans made through the investment market. All members would share the risks in proportion to their participation. It is intended to assure funds for the reconstruction of devastated countries and for the development of resources in all member countries.

The two institutions would be mutually supplementary. The operations of the Fund would reduce the exchange risks involved in international investment, and the Bank would provide help to countries in developing their economies in such a way as to be able to keep their international payments in balance. They would not and do not aspire to provide all the elements necessary for the re-establishment of sustained international trade and prosperity. In particular, they could not 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 relationships.

In addition to what was accomplished at Bretton Woods, much more will have to be done to rehabilitate the countries devastated by the war and to eliminate disruptive tendencies that were operative before the war.

INTERNATIONAL MONETARY FUND

Revival and expansion of international trade is the central objective of the International Monetary Fund. The Agreement aims to eliminate unnecessary exchange risks by promoting exchange stability and establishes a procedure for the orderly adoption of such changes in exchange rates as may be agreed to be necessary. The Fund also aims to eliminate the destructive practices which interfered with the flow of world trade before the war, such as indiscriminate exchange restrictions, multiple currency practices, and bilateral clearing agreements, and to assure member countries that the proceeds of sales to any one member can be used for the purchase of goods from any other member.

In order to assist member countries to maintain stable exchange rates and avoid harmful restrictions on trade, a pool of resources

NOTE.—Additional reprints of this article may be obtained upon request.

contributed by all member countries would be established. The Fund's resources would be used to give member countries faced with an international drain a breathing spell during which they could make necessary adjustments. The Fund is intended to be a revolving fund from which members could meet temporary shortages. After a reasonable time a member country would be expected to cease to be dependent on the Fund in order to enable it to continue to serve others.

By providing for alterations in exchange rates when necessary and by giving member countries time in which to take corrective action the Fund would aim to eliminate the harmful pressures on the economies of individual countries which otherwise might have adverse effects not only on the country concerned but on other countries as well.

Each country's original contribution would be definite and its commitment to the Fund would be limited to that amount. If the Fund wished to obtain more of a member's currency it could do so only by buying it with gold or by borrowing it with the member's consent. Since the Fund would deal only with central authorities and would handle only net balances not cleared in the market, the Fund's operations would in no way interfere with the regular exchange market.

A question arises about the similarities and the differences between the functioning of the proposed International Monetary Fund and the functioning of the gold standard. The fundamental forces at work would be the same under both systems. Under the gold standard, as under the Fund, each country ultimately must find means of paying for its foreign purchases by the sale of its goods and services. Under both arrangements temporary deficits can be met by gold shipments and by credit, and under neither of the arrangements can these methods offer permanent solutions.

The Fund proposes to re-establish international currencies on a gold basis, but to eliminate or moderate the disturbing rigidities which characterized the gold standard. One important difference between the gold standard world and the one visualized under the International Monetary Fund is that such adjustments as might have to be made in exchange rates are intended to be orderly, systematic, noncompetitive, and to be taken in the light of full information and consultation with an impartial body. They should not involve a breakdown of established machinery, as they did under the gold standard. Another important difference is that such borrowing of short-term funds as was done under the gold standard was entirely uncontrolled and consequently subject to uncertain conditions prevailing in the short-term money market, while under the Fund there would be facilities available for obtaining temporarily the use of foreign currencies on reasonable and equal terms for all countries, regardless of pressures that might exist in money markets. The result of these differences is that under the International Monetary Fund the violent domestic adjustments at times required by the gold standard would be avoided both because the Fund would enable a country to tide over a bad situation and would exert its influence to cause proper adjustments to be made and because a change of exchange rates would be permitted when it became necessary.

In the following pages there is presented a description of the proposed Fund's mechanism. Full details are given in the published text of the Agreement.

I. Exchange Rates

Exchange rates and members' obligations in respect to them are a central feature of the Fund agreement. After the par value of a member's currency has been established, in accordance with an agreed procedure, the Fund will prescribe a margin above and below par value for transactions in gold by that member and the member is not allowed to buy gold at a price above par value by more than that margin or sell it at a price below par value by more than that margin. Members undertake to permit exchange transactions between their currencies and other member currencies only at rates within a prescribed range. This range in the case of spot exchange transactions is one per cent above and below par. A member whose monetary authorities freely buy and sell gold for the settlement of international transactions within the prescribed margin of parity for such transactions is considered to be fulfilling the undertaking not to permit exchange transactions outside the prescribed range. In substance, then, a member undertakes to maintain, if necessary by freely buying or selling gold, the established rate of exchange between its currency and foreign currencies, except as methods for orderly and necessary changes are provided by the Agreement.

The Fund's purpose is to promote exchange stability as an important means for the restoration of world trade, but it recognizes that certain changes in rates may become necessary. No change in a member's rate can be made except on its own proposal and members agree not to propose a change except to correct a fundamental disequilibrium. Member countries are given the right, after consultation with the Fund but without obtaining its concurrence, to alter the par value of their currencies by 10 per cent from that initially established. For any proposed changes beyond 10 per cent the Fund has a right to concur or object, but on changes which do not exceed a further 10 per cent the Fund must either concur or object within 72 hours if the member so requests. There is a special proviso that a member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund. It is difficult to conceive of such a situation.

In order to protect member countries from deflationary pressures resulting from inability to adjust exchange rates to world conditions, it is provided that the Fund must concur in a proposed change if it is satisfied that the change is necessary to correct a fundamental disequilibrium. Also it must not reject such a change on account of the domestic social or political policies of the proposing member. It is for the Fund to determine whether or not a change is necessary to correct a fundamental disequilibrium. This places on the Fund the responsibility for acting impartially and rationally on such proposed changes as may come before it.

It is recognized that the postwar transition period will be one of change and adjustment and that during this period the Fund must give members the benefit of any reasonable doubt in deciding on their requests. It is certain that during the immediate postwar period more than ordinary flexibility in exchange rates will be required. It would be impossible for the Fund to act immediately after the war with such wisdom as to provide rates of exchange that would in all cases continue to be appropriate as the process of reconstruction proceeds.

The question may be raised whether these provisions would go a long way toward diminishing the hoped-for stability of exchange rates. Their purpose is to accomplish the opposite. Stability does not mean rigidity and rigidity in the past has resulted in extreme instability. A country which finds that its domestic economy is suffering greatly from inability to balance its international transactions at its existing exchange rate and which finds it impossible to correct the situation by other adjustments without seriously harmful consequences, has no alternative but to change its rate. Persistence in attempts to maintain the existing rate is likely to have important disturbing effects both at home and abroad and to result in the necessity of larger and more frequent changes in rates when the changes are eventually made than would have been necessary had the country acted promptly. The provision for orderly changes in rates at such times, in consultation with the Fund and with its concurrence, is, therefore, expected to result in the long run in more rather than less stability of exchange rates. Stability, however, is viewed not as an end in itself but as a means of promoting trade, and, through trade, a high level of employment and income. Insistence on stable rates, irrespective of the effects of those rates on employment and income, might have meant losing sight of this objective.

If a country changes its rate by more than 10 per cent from the initial rate without the Fund's concurrence, the Fund has authority to declare the country ineligible to use the Fund's resources. In such cases, if the Fund and the member do not come to an agreement on the rate within a reasonable period, the Fund can require the country to withdraw from membership in the Fund.

There is a special arrangement whereby the Fund may decide to make a uniform proportionate change in the par values of all member currencies. The decision to make such a uniform change requires the approval of a majority of the total votes plus the approval of each country having 10 per cent or more of the quotas, i.e., the United States, United Kingdom, and the Union of Soviet Socialist Republics. Any country, however, may refuse to accept such a change in respect to its own currency provided it notifies the Fund within 72 hours. Such a uniform change in par values would result in no change in the world pattern of exchange rates. Values of currencies in gold would change, but values in terms of other currencies would remain the same.

II. Exchange Restrictions

Member countries undertake the obligation not to impose restrictions on the making of payments and transfers for current international transactions without the approval of the Fund. Payments for current transactions are defined in the Agreement as including payments due in connection with trade, service, and normal short-term banking and credit activities, payments of interest on loans and of net income from other investments, payments in moderate amount for amortization of loans or for depreciation of direct investments, and moderate remittances for family living expenses. In particular, current transactions do not include payments for the purpose of transferring capital. The Fund is empowered to determine whether specific transactions are current or capital transactions. Each member has a right to control international capital movements provided it does so in a manner which does not restrict payments for current transactions or unduly delay transfers of funds in settlement of commitments.

Besides the general obligation to avoid restrictions on current transactions, members are obliged not to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund. If a member is engaged in such practices when the Fund Agreement comes into force, it must consult with the Fund as to their progressive removal.

Exception to the general rule is made in respect to scarce currencies, which are discussed later. There are also provisions by which members may avail themselves of special arrangements made for the postwar transitional period. Members intending to avail themselves of these arrangements must notify the Fund. Under these special arrangements members may maintain and adapt to changing circumstances restrictions on payments and transfers for current international transactions. However, members which maintain restrictions in accordance with this arrangement must take all possible measures to facilitate international payments and must withdraw such restrictions as soon as they believe that they will be able, without the restrictions, to settle their balances of payments without being forced to draw too heavily on the resources of the Fund. Starting three years after the Fund begins operations the Fund must issue an annual report on the restrictions still in force under these transitional arrangements. After the fifth year, any member still imposing such restrictions must consult with the Fund. The Fund may indicate to a member that it is in a favorable position to withdraw any or all of its restrictons and, after a suitable time, may require a member to withdraw from the Fund if it continues to maintain those restrictions.

The reason for these exemptions is that it would be impossible to require all member countries immediately to remove all restrictions on current transactions. If that were done, some members would be forced to rely heavily on the Fund with the consequence that the

Fund's resources would be used increasingly in financing deficits in international payments incurred by countries which are as yet in no position to take advantage of the Fund's temporary assistance to balance their trade with the rest of the world without such restrictions. On the other hand, all member countries are committed gradually to abandon restrictions, and after five years the Fund has the power to refuse the use of its resources to, or require the withdrawal of, a member which is not eliminating its restrictions as rapidly as the Fund believes this should be done.

In addition to the obligations to avoid restrictions on current transactions and discriminatory currency practices just described there is a special convertibility provision. Subject to specified exceptions this provision assures a member (i.e., a government and its agencies as distinct from the general public) that it can bring home the balances it holds in another member country (1) if the balances have been recently acquired as a result of current transactions or (2) if their conversion is needed for making payments for current transactions. The first part of this provision assures a member that the proceeds of merchandise exports and other current transactions can be brought home at the parity rate—an assurance that is implicitly given to the general public as well elsewhere in the Agreement. If, for instance, the French authorities have recently acquired sterling balances as a result of current transactions, France can require England to convert the balances into francs (or, at England's option, into gold which is readily convertible into francs).

The second part of the provision applies to balances acquired at an earlier period or from other than current account transactions. The principle adopted is that these balances, too, which are part of the monetary reserves of the countries concerned, should be convertible for making payments for current transactions. Since each member is free, however, to regulate international capital movements, it is free to restrict the use of balances of this character; and hence it can at its own discretion relieve itself at any time of this second obligation.

There are other limitations to both obligations. In the example given, England will not be obliged to purchase the sterling balances if at that time England is, for any reason, not entitled to purchase foreign currencies from the Fund. The obligations in this special form apply only when England is in a position to fulfill them through purchase of the required currency from the Fund. The obligations lapse, also, if the currency needed for making the purchase, in this case francs, has been declared scarce. If francs have been declared scarce, England may be able to obtain a certain amount of francs from the Fund but she is authorized to restrict franc transactions as she sees fit and therefore can not be forced to convert sterling balances into francs. Similarly, the obligations do not apply if England has obtained the approval of the Fund to restrict payments due on current transactions or if the balances have been acquired contrary to England's exchange regulations. Finally, the obligations do not apply to sterling balances accumulated during the transitional period if England has availed herself of the special transitional arrangements.

Although the special convertibility obligations are tied up to the Fund mechanism and lapse when a member is for any reason no longer entitled to purchase foreign currencies from the Fund, the general obligation not to impose restrictions on the making of payments and transfers for current international transactions without permission of the Fund is binding on all member countries, irrespective of whether or not they are entitled at any particular time to draw on the resources of the Fund.

III. Subscriptions to the Fund

Member countries subscribe to the Fund in gold and national currencies. Each member subscribes its assigned quota, the gold part of the subscription being a minimum of 25 per cent of its quota or 10 per cent of its net official holdings of gold and United States dollars, whichever is the smaller.[1] Table I shows the quotas of the countries represented at the United Nations Monetary and Financial Conference, totaling 8.8 billion dollars, the amount of the required United States gold contribution, and a rough estimate of the required gold contributions of the other countries.

The Fund's gold will be held in the central banks or other designated depositories of member countries. At the outset, one-half of the Fund's gold will be held in the Federal Reserve System and 40 per cent in the central banks of the United Kingdom, the Union of Soviet Socialist Republics, China, and France.

The currency subscription of a member country, and any subsequent acquisitions by the Fund of the currency of a member country, will be held by the Fund in that member country's central bank or designated depository. Presumably in most countries the Fund will have a deposit account at the Central Bank. Under the terms of the Agreement a member can substitute non-interest bearing demand obligations of the government for any part of its currency which the Fund does not consider it necessary to hold as an operating or working balance.

The gold value of the Fund's assets will be maintained irrespective of changes in the par or foreign exchange value of a member's currency. Each member is obligated to compensate the Fund for any fall in the gold value of its currency held by the Fund. The Fund, in turn, must reimburse the member for any rise in the gold value of its currency held by the Fund. The Fund may waive this obligation if a uniform proportionate change is made in the par values of all currencies.

IV. Purposes for Which Member Countries Can Use the Fund

Member countries can use the resources of the Fund, in general, only to finance current transactions with other member countries. This is brought out in the statement on the purposes of the Fund which says that the Fund is to assist in the establishment of a multilateral system of payments in respect of current transactions.

TABLE I

International Monetary Fund Quotas and Estimated Gold Subscriptions of Members Represented at the United Nations Monetary and Financial Conference

[In millions of United States dollars]

Quotas	
Australia	200
Belgium	225
Bolivia	10
Brazil	150
Canada	300
Chile	50
China	550
Colombia	50
Costa Rica	5
Cuba	50
Czechoslovakia	125
Denmark	(1)
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
Poland	125
Union of South Africa	100
Union of Soviet Socialist Republics	1,200
United Kingdom	1,300
United States	2,750
Uruguay	15
Venezuela	15
Yugoslavia	60
Total	8,800
Estimated Gold Subscriptions	
United States	687.5
Others	[2]955.5
Total	1,643

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

[2] Figure based on gross official gold and dollar holdings at the end of March 1944. In cases where gold reserves are not reported officially the figures have been estimated and are subject to revision. In general, gold confiscated in invaded countries is attributed to those countries since their claims will presumably be honored after the war. To the extent that there have been net transfers of such gold to other accounts there is double counting.

It is also brought out in the section of the Agreement which states that members may not make net use of the Fund's resources to meet large or sustained outflows of capital, and that the Fund may request a member to exercise controls to

[1] Holdings are measured as of the date on which the Fund notifies members that it will soon be able to begin exchange transactions. For this purpose net official holdings of gold and United States dollars means a member's official holdings after deducting central holdings of its currency by other countries and such holdings of its currency by banks and other institutions in other countries which carry specified rights of conversion into gold or United States dollars. The meaning of official holdings and central holdings is explained in a later section of this paper dealing with the definition of monetary reserves.

prevent such use of the resources of the Fund and declare a member ineligible to use the Fund if it does not exercise appropriate controls.

The Fund is not intended to enable member countries to meet all deficits arising from current transactions. The Agreement says that the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war and it is made clear that members are not intended to use the Fund as a source of permanent financing. The Fund is to be a revolving fund which makes its resources available to members over reasonably short periods of time to provide them with an opportunity to correct balance of payments maladjustments.

The Fund may limit a member's use of the resources of the Fund if it is of the opinion that the member is using them in a manner contrary to the Fund's purposes. When the Fund so limits a member's use of the Fund it must issue a report to the member. If the member does not make a satisfactory reply to the report, the Fund may continue to limit the member's use of the Fund or declare it ineligible to use the Fund.

V. Manner of Using the Fund

Dealings between the Fund and member countries can take place only through the treasuries, central banks, stabilization funds, or similar fiscal agencies of member countries. Ordinary transactions in exchange by nationals of member countries will continue to be effected through the usual channels. Only when a shortage of foreign currencies develops will the market come to the central authorities, which in turn will apply to the Fund.

The essential feature of the Fund arrangement is that member countries are entitled to obtain currencies of other member countries from the Fund in exchange for their own currencies. In the Fund, a country's currency is an obligation of that country, a claim on its resources. It is important to an understanding of the Fund's operations to recognize that a country's currency, as such, is good only in the issuing country, and that when it acquires foreign currencies from the Fund and pays for them in its own currency, it, in effect, borrows these foreign currencies and gives the Fund, in exchange, demand obligations which constitute a claim on its goods and services. Currencies are obtained from the Fund only for immediate use in making payments in other countries, whereas currencies paid into the Fund in exchange are claims held by the Fund for use when and if a demand for them develops. The transaction has elements of a loan by the Fund to the country which purchases exchange from it, notwithstanding the fact that the currency paid into the Fund for the foreign exchange is money in its own country. This is the explanation of the fact that throughout the Fund Agreement a country's use of the Fund's resources at a given time is measured by the amount of its currency in the Fund's possession in excess of its original contribution.

It is also essential to an understanding of the Fund's operations to realize that the Fund must maintain a balance in its holdings of various currencies. Certain currencies will be much more in demand by member countries than others and the Fund would be seriously handicapped if its holdings of such currencies became very small and its holdings of currencies which are not in demand became too large. It is for this reason, particularly, that measures are provided in the Agreement to encourage replacement in the Fund of currencies purchased from it.

Members may also buy foreign currencies from the Fund with gold. Such purchases would not constitute a drain on the Fund. Any member wishing to buy the currency of another member with gold is expected, if it can do so with equal advantage, to acquire the foreign currency through the sale of gold to the Fund. In this way the Fund's holdings of gold, with which it can buy any member's currency, will be steadily replenished. The repurchase provisions described later also tend to replenish the Fund's supply of gold or of currencies in demand.

VI. Quantitative Limits on Use of Fund

A member may not increase the Fund's holdings of its own currency by an amount larger than one-quarter of its quota in any 12-month period, except by special permission, or when the Fund's holdings of its currency had previously fallen below 75 per cent of its quota. In the aggregate, it can not purchase foreign currencies with its own currency in an amount that would bring the Fund's holdings of its currency to more than 200 per cent of its quota, except by special permission. This means that, if a country's quota is 100 million dollars, of which 25 million is contributed in gold and 75 million in currency, the country's net purchases of foreign exchange from the Fund with its own currency could total 125 million, this being the amount that would bring the Fund's holdings of the purchasing member's currency to 200 million dollars or 200 per cent of its quota. This general limit of 200 per cent of a member's quota is equivalent to saying that a member's net purchases of foreign exchange from the Fund with its own currency may not exceed the amount of its quota plus its gold contribution.

These quantitative limits on a member's use of the Fund have been carefully worked out with a view to the need of keeping the Fund in a position to meet the demands which may be made on the Fund by other member countries. The limits apply in general to all countries, but the Fund can waive them, as well as the other conditions governing a member's purchases of foreign currencies from the Fund. The Fund may decide to waive these limits in the case of member countries which have a record of avoiding large or continuous use of the Fund, or have periodic or exceptional needs for foreign currencies, or are willing to pledge acceptable collateral.

VII. Repurchases from the Fund

There are two provisions requiring a member in certain circumstances to repurchase its currency from the Fund. The broad purposes of the first of these provisions are to limit a country's use of the Fund when it has ample other means of meeting its international payments and to make it share with the Fund such additions to its monetary reserves as may occur from time to time, provided it has been using the resources of the Fund.

For these purposes a member whose reserves are in excess of its quota is required at the end of each financial year to examine changes in its reserve position in relation to its use of the Fund's resources and to make adjustment in accordance with the following rules. If the member's reserves have not changed, it must use its reserves to the extent necessary to reduce by one-half the year's increase in the Fund's holdings of its currency. If its reserves have increased, then it must use its reserves as in the previous case and, in addition, must use half of the increase in its reserves to reduce the Fund holdings of its currency whenever acquired. If the country's reserves have decreased but are still in excess of its quota, it must use enough of its reserves to make the decrease of its reserves for the year equal to the year's increase in the Fund's holdings of its currency.

The second repurchase provision is intended to limit the use of one currency, such as the dollar for example, for financing adverse balances of payments between two other countries. This provision is that if a member country, after having made the repurchases required under the first provision, still shows an increase in its holdings of another country's currency (or of gold acquired from that country) and this increase arises from transactions with a third country, then the member country must turn that increase over to the Fund in exchange for its own currency. This provision is necessary to reduce the absorption of scarce currencies into the financing of balances between other countries.

There are certain limits on the repurchases which must take place under these two provisions. First, no member is required under these repurchase provisions to reduce its monetary reserves to below the amount of its quota. Second, no member is required by these repurchases to reduce the Fund's holdings of its currency below 75 per cent of its quota. This means that a member is required to make these repurchases only if it has been making net use of the resources of the Fund or if it originally contributed less than 25 per cent of its quota in gold. Third, no repurchases shall raise the

Fund's holdings of the currency of any country above 75 per cent of that country's quota. There are also other rules concerning the currencies to be used in connection with the repurchase provision. These rules are framed with a view to protecting the Fund from acquiring currencies under these repurchase provisions of which it already has an ample supply and insuring that the Fund will acquire only such currencies as are in demand.

A member's monetary reserves include a member's net official holdings of gold and convertible currencies, convertible currencies being, in general, currencies of members of the International Monetary Fund that have not taken advantage of the special transitional arrangements and currencies of such nonmembers as the Fund may from time to time specify. There is a special exception by which occupied countries need not include in their monetary reserves gold newly mined in the first five years of the Agreement. The term currency includes coins, paper money, bank balances, bank acceptances, and government obligations issued with a maturity not exceeding 12 months. A member's official holdings means central holdings, i.e., holdings of treasuries, central banks, stabilization funds, and similar agencies and also such holdings of other official institutions or other banks as are substantially in excess of working balances and are deemed official by the Fund after consultation with the member. Net holdings are calculated by deducting from a member's official holdings its currency liabilities to official institutions or banks in the territories of other members or nonmembers the holdings of the currencies of which are included in the member's official holdings.

VIII. Charges

Members purchasing foreign exchange from the Fund with their own currencies are required to pay on each purchase a uniform service charge of three-fourths of 1 per cent. This charge may be altered by majority vote to not less than one-half or not more than 1 per cent. If a member's purchases from the Fund raise the Fund's holdings of its currency above its quota, additional charges must be levied by the Fund on its holdings in excess of the quota. These charges are levied in proportion to the Fund's holdings of the currency of a member because, as explained above, this measures the extent of a country's use of the resources of the Fund. Unless a member's monetary reserves are less than half its quota all charges are payable in gold.

The rates charged on holdings in excess of the quota are uniform for all countries and vary with the amount of the currency held and the length of time over which it is held by the Fund. Table II gives the rates charged for each step in the upward scale, both as to amount and as to time. It should be noted that these are not average charges on the entire amount or over the entire period but charges on each indicated unit of volume and of duration.

TABLE II

Minimum Percentage Charges Payable by a Country on Fund's Holdings of its Currency in Excess of its Quota

Amount of country's currency held by Fund to which rates indicated apply as percentage of country's quota	Per cent per annum payable on excess currency during									
	1st Year	2nd Year	3rd Year	4th Year	5th Year	6th Year	7th Year	8th Year	9th Year	10th Year
101–125	[1] ½	1	1½	2	2½	3	3½	[2] 4	4½	5
126–150	1	1½	2	2½	3	3½	[2] 4	4½	5	5
151–175	1½	2	2½	3	3½	[2] 4	4½	5	5	5
176–200	2	2½	3	3½	[2] 4	4½	5	5	5	5
201–225	2½	3	3½	[2] 4	4½	5	5	5	5	5
226–250	3	3½	[2] 4	4½	5	5	5	5	5	5
Additional amounts	Corresponding increases up to 5 per cent									

[1] No payment in first three months; ½ per cent in next nine.
[2] At this point the Fund and the member shall consider ways and means by which the Fund's holdings of the member's currency can be reduced.

Note.—No charge is made on use of the Fund resources in an amount equivalent to a member's gold subscription.

The Agreement provides, as indicated in the table, that special consultations between the Fund and a member must take place with a view to decreasing the Fund's holdings of that member's currency when the rate payable by that member on any amount or for any period of time has reached 4 per cent. If the rate rises to 5 per cent, as indicated in the table, and if the amount held or the period of time over which the currency is held continues to increase, the Fund may impose such charges as it deems appropriate. The scale of charges just described may be altered by a three-fourths vote.

It is clear from the more substantial nature of these charges and the fact that the rates charged become progressively higher as a member uses more of the resources of the Fund or uses them over a longer period of time that these charges, unlike the service and handling charges, are intended to act as serious deterrents to countries making large or prolonged use of the Fund's resources. This is consistent with one of the major purposes of the Fund which is to be in a position at all times to help any member to meet a temporary deficit in its balances of payments and give it time to correct maladjustments. The Fund's power to help all member countries would be seriously threatened if unduly large amounts of its total resources were used to meet the needs of any one country, or if any substantial part of its resources were in use over long periods of time. In such cases the Fund's holdings of currencies in demand by most members would shrink and might become inadequate for further operations while its holdings of currencies not in demand accumulated.

IX. Scarce Currencies

If a country sells goods or services to the rest of the world in larger amount than it buys abroad, then the rest of the world must either be borrowing the difference or drawing upon its monetary reserves or the Fund to pay for its purchases. The maladjustment in the sphere of trade, services, and capital may be of so persistent a character as to force heavy drafts upon limited national reserves or resources in the Fund. In such a case, there is danger that the increasing difficulties of obtaining the currency may start a scramble to obtain it before it is too late. Rather than let things develop to this critical point, the Fund, long before the situation has become acute, may inform members that a general scarcity of the currency is developing and may issue a report analyzing the causes of the scarcity and recommending measures designed to bring it to an end.

Should the Fund's holdings of the particular currency become scarce, the Fund may require the member concerned to sell its currency to the Fund for gold and all members undertake to buy gold offered to them by the Fund if it is in need of their currencies. Or the Fund may make an effort, with the approval of the member concerned, to borrow its currency. It will have the choice of borrowing from the member itself or from other members which happen to have a supply of the desired currency. But aside from the original subscription, no country is obliged to lend its currency to the Fund, since the total commitment of each country is limited to its original subscription to the Fund.

If the demands on the Fund are so great that the Fund's ability to supply the scarce currency is seriously threatened, the Fund must formally declare the currency to be scarce and apportion its supply among member countries. In doing this the Fund must take into consideration the relative needs of member countries, the general international economic situation, and any other pertinent factors. It must also issue a report concerning its action.

Once a currency has formally been declared scarce, any member may limit the freedom of exchange transactions in that currency to the extent necessary to reduce the demand for that currency to the level of its supply. Each member may determine for itself the way in which it limits transactions in the scarce currency provided it does not violate its obligations in regard to exchange rates. Members agree not to invoke the obligations of prior agreements in such a way as to prevent a member from limiting its transactions in the scarce currency to the extent necessary in the circumstances just described; but each member also agrees to give sympathetic consideration to the representations of other members with regard to its administration of the restrictions.

One of the Fund's endeavors will be to prevent the development of a shortage of any currency. But a persistent demand for a country's goods in excess of its purchases of other countries' goods will inevitably result, with or without the Fund, in a shortage of that country's currency. Other countries may meet the shortage temporarily by selling gold to the country whose currency is scarce, or by borrowing from it. But, in the end, such a scarcity can be eliminated only by the re-establishment of balance between the country's exports and its imports.

X. Withdrawal, Voluntary and Compulsory

If any member fails to fulfill any of its obligations under the Fund Agreement, it may first be declared ineligible to use the resources of the Fund, and if it persists in its failure, it may be required to withdraw from membership in the Fund. Neither of these steps will be taken without first informing the member of the situation and giving the member an opportunity to be heard. Compulsory withdrawal of a member requires the approval of the majority of the member countries having a majority of the voting power.

Any member has a right to withdraw from the Fund at any time by giving notice in writing. In case a member withdraws either voluntarily or otherwise, a member's accounts with the Fund are settled either by agreement with the Fund or according to a carefully worked out formula. The formula provides that all obligations to the withdrawing country shall be met in its currency unless it agrees otherwise.

XI. Setting Up the Fund

The Articles of Agreement include carefully worked out arrangements for the coming into operation of the Monetary Fund. The provisions, both as to the setting of the initial par values of member currencies and the commencement of exchange transactions by the Fund in particular currencies, insure a reasonable and gradual procedure. They should reassure those who are apprehensive about the absorption of the Fund's entire resources during the period of postwar disturbances.

No part of the Agreement will enter into force or be binding on any country until governments having 65 per cent of the total assigned quotas, that is countries having aggregate quotas of almost 6 billion dollars, have agreed to accept the obligations of membership, and in no event before May 1, 1945. The governments represented at Bretton Woods which accept membership before December 31, 1945, will constitute the original members of the Fund. After that time membership will be open to any country on such terms as may be prescribed by the Fund. There is a special provision that countries which have been under enemy occupation may sign the Agreement and become original members, but may postpone actual acceptance of the obligations of membership until six months after their territories have been liberated from the enemy.

When countries having 65 per cent of the total quotas have accepted the obligations of membership and the Agreement comes into force, the United States, having the largest quota, will call a meeting of the Directors appointed by the members. The Board of Directors will arrange for the selection of provisional executive directors to serve until a regular election of Executive Directors can be held as soon as is practicable after January 1, 1946.

The first task of the Fund will be to arrange for the fixing of the initial par values and for the commencement of exchange operations in member currencies. When the Fund decides that it will shortly be in a position to begin exchange transactions it will undertake to establish initial par values. It will ask each member country to communicate the par value of its currency based on the rates of exchange prevailing 60 days before the Agreement entered into force. The date will therefore be sometime between March 1, 1945, and October 31, 1945. If either the Fund or the member is of the opinion that this par value is unsatisfactory, it must say so within 90 days. The Fund can object to this par value if it appears that it can not be maintained without leading to undue use of the resources of the Fund either by that member or by other members. The Fund and the member must agree on an initial par value within a reasonable period, and if no agreement is reached the member will be deemed to have withdrawn.

Special provisions for countries which have been occupied by the enemy allow these countries to postpone communicating the par value of their currencies until major hostilities have ceased in their territories, or until such later time as the Fund may determine, and also allow these countries and the Fund more than 90 days in which to register objections to the communicated par value. Such countries may also use the Fund before their initial par values have finally been established, in amounts and under conditions prescribed by the Fund, and may in the meanwhile alter their communicated rates by agreement with the Fund without prejudice to their ability to alter their rates after initial par values have finally been established.

Once the initial par values of their currencies have been established, countries become eligible to use the resources of the Fund in accordance with the general provisions of the Agreement; and, as has been noted, occupied countries will become eligible to use the Fund on a limited basis whenever the Fund grants such privileges. The Fund can not begin transactions in exchange until members having 65 per cent of the total quotas have become eligible to draw upon it and until major hostilities in Europe have ceased. Even then the Fund need not start exchange operations if world conditions appear unfavorable to its proper functioning. It has full discretion to wait until the situation has cleared.

There is a provision which gives special power to the Fund to postpone exchange transactions with any particular member, even if that member has become eligible to use the Fund and the Fund has decided to begin exchange transactions. This is when the circumstances of the member are such that, in the opinion of the Fund, exchange transactions with it would lead to use of the resources of the Fund in a manner contrary to the purposes of the Agreement. Under this provision the Fund can protect itself and other members by refusing to deal with a country in an unstable economic or political condition.

XII. Management of the Fund

Provisions for the management and organization of the Fund need not be described here in detail. The Board of Governors, in which all the powers of the Fund will be vested, will consist of one Governor appointed by each member country. The Board may delegate its powers to the Executive Directors, except for the power to decide on certain issues of major economic or political significance. The Executive Directors will conduct the general operations of the Fund. There will be at least twelve Executive Directors, five appointed by the five members having the largest quotas, which at the outset will be the United States, the United Kingdom, the Union of Soviet Socialist Republics, China, and France, two elected by the American Republics other than the United States, and five elected by the other members. The procedure by which the elected Executive Directors are to be chosen is designed to see that each member will have an appropriate voice in the election of at least one of the Directors. Two additional Executive Directors may be appointed to represent the two countries the currencies of which are being used by the Fund in the largest absolute amounts, if these countries are not included in those already entitled to appoint Directors. As new countries become members of the Fund the number of Executive Directors may be increased. The Executive Directors will appoint a Managing Director who will be in charge of the operating staff of the Fund and will conduct the ordinary business of the Fund. The principal office of the Fund will be in the United States, since this country will have the largest quota.

The voting power of member countries is

determined by giving each member country 250 votes plus one additional vote for each $100,000 of its quota. The voting power of the countries represented at the United Nations Monetary and Financial Conference is indicated in Table III.

For voting on certain matters indicated below, the distribution of voting power shown in the table will be modified. When the Fund is voting on the question of whether or not to waive any of the conditions governing a member's use of the resources of the Fund, or on the question of declaring a member ineligible to use the resources of the Fund because it is using them in a manner contrary to the purposes of the Fund, the votes of member countries will be altered as follows: the voting power of a member country will be increased by one vote for each $400,000 of net sales of its currency by the Fund and decreased by one vote for each $400,000 of its net purchases of the currencies of other members, provided net purchases or net sales do not exceed the quota of the member involved. By way of example, if the Fund's net sales of dollars equal one-half the United States quota (that is, if foreign countries will have drawn on the Fund for 1,375 million dollars) the percentage of total voting power of the United States will be 31.5 per cent rather than 28 per cent. The theory of this provision is that on these problems involving the use of the Fund's resources the voting power of countries which have made substantial use of them should be decreased and that of countries of whose subscriptions other countries have made substantial use should be increased. These changes in voting power, however, are relatively small.

In voting by the Board of Governors, the Governor appointed by each member has the voting power allotted to that member. The Executive Directors cast the number of votes either of the country by which they are appointed, or, in the case of the elected Executive Directors, of the countries which have elected them. An Executive Director must cast all the votes of which he has control as a unit. He is not permitted to cast some of his votes in one way and some in another. The countries whose votes counted toward his election are precluded from urging him to cast the number of votes which they individually are entitled to in accordance with their particular wishes.

Most decisions of the Fund are by a majority of the votes cast in accordance with the distribution of voting power, but certain specified decisions require more than a simple majority of votes or the approval of a stated proportion of member countries.

TABLE III

VOTING POWER IN THE INTERNATIONAL MONETARY FUND OF MEMBERS REPRESENTED AT THE UNITED NATIONS MONETARY AND FINANCIAL CONFERENCE

Country	Number of votes	Percentage of total votes[1]
Australia	2,250	2.3
Belgium	2,500	2.5
Bolivia	350	.3
Brazil	1,750	1.8
Canada	3,250	3.3
Chile	750	.8
China	5,750	5.8
Colombia	750	.8
Costa Rica	300	.3
Cuba	750	.8
Czechoslovakia	1,500	1.5
Denmark	([2])	([2])
Dominican Republic	300	.3
Ecuador	300	.3
Egypt	700	.7
El Salvador	275	.3
Ethiopia	310	.3
France	4,750	4.8
Greece	650	.6
Guatemala	300	.3
Haiti	300	.3
Honduras	275	.3
Iceland	260	.3
India	4,250	4.3
Iran	500	.5
Iraq	330	.3
Liberia	255	.2
Luxembourg	350	.3
Mexico	1,150	1.2
Netherlands	3,000	3.0
New Zealand	750	.8
Nicaragua	270	.3
Norway	750	.8
Panama	255	.2
Paraguay	270	.3
Peru	500	.5
Philippine Commonwealth	400	.4
Poland	1,500	1.5
Union of South Africa	1,250	1.3
Union of Soviet Socialist Republics	12,250	12.4
United Kingdom	13,250	13.4
United States	27,750	28.0
Uruguay	400	.4
Venezuela	400	.4
Yugoslavia	850	.8
Total	99,000	100.0

[1] The percentage of total votes is calculated on the assumption that only those nations represented at the Conference will join the Fund. As other countries join the Fund, each individual country's share of the total votes will decline.

[2] To be determined when the Danish Government has declared its readiness to sign the Agreement.

NOTE.—Of the total number of votes, the British Empire controls 25.3 per cent, Continental Europe, excluding the U.S.S.R., 16.0 per cent, and Latin America 9.7 per cent.

Decision as to what part of the Fund's net income should be distributed to members will rest with the Board of Governors, and can not be delegated to the Executive Directors. There are certain rules, however. If income is distributed at all, 2 per cent must be paid to countries on the amount of their currency subscription that has been used by the Fund to meet the needs of other countries. This preferred 2 per cent is noncumulative. Any further amounts distributed must be paid to all members in proportion to their quotas.

The management of the Fund has the right to make recommendations to any member, whether that member is using the Fund or not. The Fund may communicate its views informally or may, by a two-thirds vote, decide to publish a report regarding a member's monetary or economic condition or developments which are directly tending to produce a serious disequilibrium in the international balance of payments of members.

The Executive Directors have power in an emergency to suspend all transactions of the Fund. The Fund may not be liquidated except by decision of the Board of Governors. If the Fund is liquidated, this must be done in accordance with a procedure specified in the Agreement which is designed to insure fair treatment of all member countries.

Questions of interpretation of the Agreement are to be submitted to the Executive Directors, and may be submitted on appeal by a member country to the Board of Governors. In special cases involving withdrawal or liquidation a special arbitration tribunal may be appointed. Most of the Articles of the Agreement may be amended if the amendment is approved first by the Board of Governors and then by three-fifths of the member countries having four-fifths of the total votes. However, three of the provisions of the Agreement can be amended only with the acceptance of all member countries. They refer to a member's right of withdrawal, a member's right to veto a change in its quota, and the prohibition against a change in the par value of a member's currency being made otherwise than in response to its own proposal.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

While the Monetary Fund aims at greater stability of conditions in world trade and is concerned with the member countries' short-term foreign exchange requirements, the Bank for Reconstruction and Development is intended to promote the international flow of long-term capital. By direct loans of its own resources and of such funds as it may itself borrow, and by guaranteeing loans made by private investors, the Bank is expected to help in the restoration of economies destroyed or disrupted by war, the reconversion of productive facilities to peacetime needs, and the development of productive facilities and resources in less developed countries.

The Bank is intended to set a pattern of interest rates and other conditions for international loans that would be reasonable, and would tend to eliminate abuses such as occurred in this field in the period after the first World War. It is also intended indirectly to exert a salutary influence on terms and conditions of all international investments. In the long run it is expected to contribute to the development of a balanced growth of world trade and the maintenance of equilibrium in the international accounts of member countries.

Total loans and guarantees by the Bank would be limited in amount to a maximum equal to the Bank's capital, surplus, and reserves. While member countries would be jointly and severally liable on the guarantees, each country's liability would be limited to its subscription, which in the case of the United States would be 3,175 million dollars, or 35 per cent of the total.

Since only 20 per cent of the Bank's capital could be called for use in making loans while 80 per cent could be called only to meet losses, and since the Bank would make or guarantee only such loans as the borrower could not obtain elsewhere on reasonable terms, the Bank is intended to promote rather than to hinder the flow of private funds into international investment channels.

I. Membership and Capital Subscriptions

All members of the Bank must also be members of the International Monetary Fund. This provision will reduce the exchange risk for funds invested by or through the instrumentality of the Bank. Withdrawal from the Fund entails withdrawal from the Bank after three months, unless the Bank by three-fourths of its total voting power rules otherwise.

Original members of the Bank will be those who accept membership in the Bank before December 31, 1945. After that date membership will be open to others on such terms and conditions as may be prescribed by the Bank.

Each member is required to subscribe to a minimum number of shares of the capital stock of the Bank. The authorized capital is 10 billion dollars of which the countries represented at the United Nations Monetary and Financial Conference are expected to subscribe 9.1 billion, 300 million more than the quotas of these same countries in the International Monetary Fund. The total authorized capital may be increased. If it is increased each country will have an opportunity, but no obligation, to subscribe in proportion to its original subscription. Minimum subscriptions for the different members are similar to their quotas in the Monetary Fund. The United States, however, will subscribe 425 million dollars more to the Bank than to the Fund and Canada and China will subscribe 25 and 50 millions more, respectively. Latin American countries combined will subscribe 154 million dollars less and six other countries a total of 46 millions less.

Required subscriptions will be divided into two parts: 20 per cent for the Bank's own loan fund and 80 per cent as a guarantee fund either to meet such losses as the Bank might incur in connection with loans made out of funds borrowed by it or to discharge its obligations in connection with loans it has guaranteed. Initially member countries will be required to pay 2 per cent of their subscription in gold or United States dollars. Within a year, the Bank will call for 8 per cent more, payable in the member's currency. No further calls on subscriptions will be made except as needed, and such further calls as are made within any three-month period on that part of the subscription for the Bank's own loan fund shall not exceed 5 per cent of the price of the shares.

TABLE IV

Required Subscriptions to the International Bank for Reconstruction and Development of Countries Represented at the United Nations Monetary and Financial Conference

[In millions of United States dollars]

Country	Total subscription	Amount of total subscription which may be used	
		For Bank's own loan fund[1]	Only to meet Bank's obligations
Australia	200	40	160
Belgium	225	45	180
Bolivia	7	1.4	5.6
Brazil	105	21	84
Canada	325	65	260
Chile	35	7	28
China	600	120	480
Colombia	35	7	28
Costa Rica	2	.4	1.6
Cuba	35	7	28
Czechoslovakia	125	25	100
Denmark	([2])	([2])	([2])
Dominican Republic	2	.4	1.6
Ecuador	3.2	.64	2.56
Egypt	40	8	32
El Salvador	1	.2	.8
Ethiopia	3	.6	2.4
France	450	90	360
Greece	25	5	20
Guatemala	2	.4	1.6
Haiti	2	.4	1.6
Honduras	1	.2	.8
Iceland	1	.2	.8
India	400	80	320
Iran	24	4.8	19.2
Iraq	6	1.2	4.8
Liberia	.5	.1	.4
Luxembourg	10	2	8
Mexico	65	13	52
Netherlands	275	55	220
New Zealand	50	10	40
Nicaragua	.8	.16	.64
Norway	50	10	40
Panama	.2	.04	.16
Paraguay	.8	.16	.64
Peru	17.5	3.5	14
Philippine Commonwealth	15	3	12
Poland	125	25	100
Union of South Africa	100	20	80
Union of Soviet Socialist Republics	1,200	240	960
United Kingdom	1,300	260	1,040
United States	3,175	635	2,540
Uruguay	10.5	2.1	8.4
Venezuela	10.5	2.1	8.4
Yugoslavia	40	8	32
Total	9,100	1,820	7,280

[1] Twenty per cent of total subscription. Of this amount 10 per cent or a total of 182 million dollars must be paid in gold or United States dollars.

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

The required minimum subscription of each country represented at the United Nations Monetary and Financial Conference is given in Table IV, as well as the amount of each member's subscription for the Bank's own loan fund and the amount which may be called only to meet losses.

When calls are made on members for the Bank's own loan fund, a member pays in its own currency. When calls are made for the purpose of meeting losses a member may pay, at its option, in gold, in United States dollars, or in the currency in which the obligation is to be met. As in the case of the Fund, the Bank will accept noninterest bearing demand notes of member governments for such funds as it does not need currently.

The arrangements concerning the depositories in which the Bank's gold and currency holdings shall be kept are identical with those in the Fund Agreement. The gold value of the Bank's funds, in so far as the 20 per cent for the Bank's own loan fund is concerned, is protected by provisions similar to those in the Monetary Fund.

II. Nature of the Bank's Activities

The Bank may make or facilitate loans in three principal ways. First, it may make direct loans out of its own funds; secondly, it may make loans out of funds borrowed from private investors in member countries; and, thirdly, it may guarantee either in whole or in part loans made by private investors through the usual investment channels.

III. Conditions on Which the Bank May Guarantee or Make Loans

Total loans and guarantees by the Bank shall not exceed the amount of the unimpaired subscribed capital, reserves, and surplus of the Bank. Thus, if the Bank's capital funds so defined equal 10 billion dollars, and 1 billion has been lent out of subscribed funds and 2 billions out of funds borrowed by the Bank in the market, then the Bank's authority to guarantee loans will be limited to 7 billions.

The Bank is to give "equitable consideration" to projects for reconstruction of devastated areas and projects for development alike. Also, in determining the conditions and terms of loans the Bank must pay special regard to lightening the financial burden and expediting the reconstruction and restoration of countries devastated by enemy action.

As in the case of the Fund, the Bank will deal with members only through their treasuries, stabilization funds, central banks, or other similar fiscal agencies. Through these agencies it may make or guarantee loans to political subdivisions, or to particular enterprises.

All the Bank's loans, participations, and guarantees must be for specific projects of reconstruction or development. Exceptions are permitted in special circumstances. The Bank must appoint a committee to study any proposed project and can go ahead on the project only if the committee so recommends in a written report. The committee must in each case include an expert representing the member in whose territory the project is located.

The Bank can finance or aid in the financing of a project only if it is satisfied that the borrower, without its help, would not be able to get the loan on reasonable terms. The Bank must be sure that only reasonable interest and other charges are levied and that the repayment schedule is appropriate to the project being financed. It must give special attention to the general financial position of the borrower and guarantor and to the prospects of the borrower or guarantor being able to meet its obligations. When a loan made or guaranteed by the Bank is not made directly to a member government, it must be fully guaranteed either by the member government or by the central bank or some comparable agency of the member which is acceptable to the Bank. The Bank can not impose the condition that loans made or guaranteed by the Bank be spent in any particular country. However, the borrowing country can use a direct loan from the Bank to make purchases in England, for example, only if the Bank is able to furnish sterling. If the Bank is not able to provide sterling, the borrower may have to decide to buy the goods elsewhere.

IV. Direct Loans Out of the Bank's Own Funds

The Bank may make direct loans out of its own funds, derived from the 20 per cent subscribed for this purpose. The 2 per cent paid in gold can be freely used by the Bank for any purpose. Amounts paid in in currency, however, can not be loaned or exchanged for other currencies without the subscribing country's approval. This means that in so far as member governments subscribe to the Bank in currency for the Bank's own loan fund, they have the right to pass upon the projects to be financed with this currency. Their permission will also be required if the currency is to be exchanged for other currency. Interest and principal payments on loans made out of these funds must be paid to the Bank in the currencies lent unless the member whose currency is lent agrees otherwise. The approval of the country continues to be required in relending or exchanging currencies received by the Bank in payments on account of principal on these direct loans. Members, therefore, can control the use of their currencies paid into the Bank for its direct operations. However, if the 80 per cent portion of the Bank's capital specially designated for meeting losses and repaying its own obligations is insufficient for that purpose, the Bank may use for that purpose any currencies that it possesses. In any case, the Bank's receipts from payments of interest and commissions on these loans can be used or exchanged for other currencies in any way the Bank sees fit.

The fact that a member's approval is required if the Bank desires to convert into another currency some of that member's currency paid in as a part of the Bank's loan fund gives the subscribing member the opportunity to prevent the use of its currency outside its borders, unless it is required to meet losses. The exercise by a country of the right to refuse permission to convert its currency paid in as part of the Bank's own loan fund into another currency may limit the borrower's use of that currency to purchases in that country.

All currency due to the Bank on direct loans made out of its own funds must be equal in value (expressed in some other currency specified by the Bank by a three-fourths vote) to the contractual payments at the time the loan was made. Say, for example, the loan is made and is repayable in francs, interest and other payments in francs must equal the dollar value of the franc payments contracted for at the time when the loan was made, provided the dollar was specified as the standard in the original contract. This may be described as a "specified currency clause." Special exception may be made in case a uniform proportionate change in the par value of all member currencies is made under the International Monetary Fund Agreement.

V. Direct Loans Out of Funds Borrowed by the Bank

The Bank, with the approval of the member in whose markets the funds are raised, may borrow funds to make direct loans. If the Bank makes the direct loan in terms of the currency of a member other than the member in which the funds were raised, the approval of that member is also required. After approval has been given, however, the Bank will have authority to convert the currencies so raised, as well as proceeds of the service of the loan, into any other currency it may require, or into gold.

Uses of the proceeds of loans out of funds borrowed by the Bank, therefore, are free from the control of member countries where they are raised or of others. The Bank itself has full authority over the use to which such funds are put.

It is specifically provided that the Bank, in making loans out of funds raised by it in member countries can not at any time have payments due it in any one currency on account of these loans in excess of the amount of its outstanding borrowings payable in that currency. This clause is designed to prevent the Bank from taking an exchange position. It also operates as a protection to a member country, for example, the United States, against the Bank requiring payments in dollars of amounts due to it on loans made from funds raised in other countries, except to the extent that dollars were borrowed by the Bank in the United States. If the Bank did require such payments to be made in dollars the result might be a strain on the dollar resources of other member countries and consequent pressure on their dollar exchange rates in no way related to the need for making payments in the United States.

VI. Provision of Currencies on Direct Loans

In general, the Bank will lend foreign currencies only to finance the borrower's needs outside its borders. The Bank will expect the borrowers to raise the domestic currency needed for meeting local expenditures without recourse to the Bank, and member countries normally will be able to do so. There is a special proviso, however, that in exceptional cases in which a borrowing country can not raise its local currency requirements on reasonable terms the Bank can provide the borrower with an appropriate amount of that currency.

In case the carrying out of a reconstruction or development project leads to an indirect need for foreign exchange, the Bank may provide such foreign exchange in an amount not to exceed the local expenditures of the borrower. The need may arise, for example, because the project is taking labor and materials which were formerly used in producing goods for export or domestic consumption. If this is the case, foreign exchange receipts from exports will diminish or foreign exchange requirements to pay for additional imports will increase.

In providing foreign exchange to a borrower, the Bank must give him the particular currencies he may require. It will not give the borrower dollars unless the borrower needs dollars to spend in the United States. The borrower is not permitted to acquire currencies from the Bank in order to sell them in the exchange markets for other currencies. If the currency of a country held by the Bank is to be used to finance purchases in other countries it must be exchanged into other currencies by the Bank. It is probable that in time the great bulk of currencies of the Bank will be available for free exchange by the Bank for any currency that may be required. This will apply to funds raised from private investors, or received in payment for loans made out of funds so raised, or from the sale of gold, or received as interest or commission charges on direct loans made out of its own funds, or as commissions on loans guaranteed by the Bank.

It is only in regard to currencies subscribed by member governments for the Bank's own loan fund that there are restrictions on the Bank's authority to exchange them for other currencies. Currencies so acquired the Bank can not lend or exchange without the approval of the subscribing countries. If a borrower wishes to borrow sterling to purchase goods in England and 20 per cent of the British subscription has been fully loaned out or England does not approve the use of its sterling subscribed to the Bank, the Bank must use other sterling in its possession, or gold, or sell for sterling currencies acquired otherwise than from subscriptions, or obtain permission from other countries to exchange some of their currency subscribed to the Bank for sterling. If the Bank can not provide sterling in any of these ways, the borrowing country may have to change its plans and decide to purchase the goods in some other country.

From the outset, however, the Bank will have some gold which will be available for the purchase of any currency, and as time goes on the Bank will acquire more and more free currency through payments of interest and charges and through borrowings from private investors. Consequently, the possibility that the Bank, because of its inability to provide particular currencies, would have to force borrowers to redirect their proposed purchases will constantly diminish.

In so far as the Bank has gold or foreign exchange which is available for its unrestricted use (or can obtain the approval of members to so use their currencies), it can help a country which, after having agreed to the use of its own currency to finance another member's purchases, finds itself short of foreign exchange. An example would be a case in which England agreed to the Bank's lending part of its sterling subscription to finance some other country's purchase of British machinery, and then found that to build this machinery it had to buy some of the needed materials abroad. The Bank, in such a case, can provide foreign exchange to England up to the amount of the resulting increased need for foreign exchange.

VII. Charges and Schedule of Repayment on Direct Loans

The Bank determines the interest rate, the amortization payments, the maturity, and the commission to be charged in connection with each direct loan. The charges and the schedule of repayment must be reasonable and appropriate to the project being financed. It is provided in the Agreement that the rate of commission charged by the Bank on direct loans made out of funds raised by the Bank in member countries, as distinct from its own funds, shall be between 1 and 1½ per cent per annum for the first 10 years of the Bank's operations. The commission does not represent the spread between the Bank's borrowing rate and its lending rate. The total cost to the borrower will be similar to what he would have to pay on a loan guaranteed by the Bank. The commission will be charged on the outstanding portion of a loan. After 10 years the Bank may reduce the commission rate if its accumulated reserves or other earnings are considered to justify the reduction, and such a reduction may apply to loans already made or to future loans. The Bank may also raise the commission rate on future loans.

If a borrower or guarantor is unable to make the payments due to the Bank on direct loans in the currencies in which the payments are due, because it is suffering from an acute exchange stringency, the Bank may relax the conditions of payment at the request of the borrower. For periods not to exceed three years, it may accept payments in the currency of the member concerned with appropriate arrangements concerning the use of that currency by the Bank, the maintenance of its foreign exchange value, and the repurchase of the currency by the member. The Bank also may modify the terms of amortization or extend the life of the loan. This provides flexibility and enables the Bank to make the repayment of its direct loans less burdensome for borrowers when circumstances make this desirable.

VIII. Guarantees

The third way in which the Bank will promote international investment is by guaranteeing loans made by private investors through the usual investment channels. Loans which are guaranteed by the Bank must meet the general conditions described in Section III above, which apply to all loans. Also, the Bank can not guarantee a loan without the approval of the member in whose markets the funds are raised and the member in whose currency the loan is denominated. Furthermore, when members give their approval it must carry with it the agreement that the funds borrowed can be exchanged by the borrowers for other member currencies without restriction.

Similar conditions must be met in the case of loans made directly by the Bank with funds borrowed in member countries. As explained in connection with such loans, this means that the member country in which such a loan is raised can not require the proceeds to be spent in purchasing its own goods and services. The member can approve or disapprove of the Bank's guaranteeing the loan but, once approval has been given, the borrower is free to use the proceeds of the loan to finance purchases in any member country.

No special procedure for making the loan available is laid down in the case of loans guaranteed by the Bank since the loans are made through the usual investment channels and not through the Bank.

The Bank must receive suitable compensation for its risks in guaranteeing loans. The Agreement specifies that for the first 10 years the commission charged by the Bank on guarantees shall be between 1 and 1½ per cent and shall be payable on amounts outstanding, as in the case of direct loans made by the Bank with funds borrowed in member countries. After the first 10 years the commission may be lowered on outstanding loans and either raised or lowered on future loans.

In the case of a default by the borrower, and by the guarantor if there is one, the Bank may terminate its liability with respect to interest on a guaranteed loan by buying the bonds or other obligations at par plus interest accrued up to a specified date.

IX. Special Reserve

All payments to the Bank of commissions either on direct loans made by the Bank or on loans guaranteed by the Bank must be kept in liquid form as a special reserve to meet the Bank's liabilities on account of its borrowings or guarantees.

X. Management

The arrangements for the organization and management of the Bank are very similar to the arrangements in the case of the International Monetary Fund. The Board of Governors is constituted in the same way and the Executive Directors, to whom the Board may delegate all except certain specified powers, are elected or appointed in much the same manner. There is no proviso, however, in the Bank proposal, as there is in the Fund, that two directors are to be elected by the American Republics or that those providing the largest part of the resources used by the Bank can appoint two of the directors. Such arrangements would not be appropriate in the case of the Bank, because each member country has authority to protect its interests by approving or disapproving of the Bank's use of funds subscribed by it.

The chief executive of the Bank is called President. The Bank also will have an Advisory Council of seven members elected by the Board of Governors, which will include representatives of banking, commercial, industrial, labor, and agricultural interests. The principal office of the Bank, as in the case of the Fund, will be located in the United States which will make the largest capital subscription.

TABLE V

Voting Power in International Bank for Reconstruction and Development of Countries Represented at the United Nations Monetary and Financial Conference

Country	Number of votes	Percentage of total votes[1]
Australia	2,250	2.2
Belgium	2,500	2.4
Bolivia	320	.3
Brazil	1,300	1.3
Canada	3,500	3.4
Chile	600	.6
China	6,250	6.1
Colombia	600	.6
Costa Rica	270	.3
Cuba	600	.6
Czechoslovakia	1,500	1.5
Denmark	[2]	[2]
Dominican Republic	270	.3
Ecuador	282	.3
Egypt	650	.6
El Salvador	260	.3
Ethiopia	280	.3
France	4,750	4.6
Greece	500	.5
Guatemala	270	.3
Haiti	270	.3
Honduras	260	.3
Iceland	260	.3
India	4,250	4.2
Iran	490	.5
Iraq	310	.3
Liberia	255	.2
Luxembourg	350	.3
Mexico	900	.9
Netherlands	3,000	2.9
New Zealand	750	.7
Nicaragua	258	.3
Norway	750	.7
Panama	252	.2
Paraguay	258	.3
Peru	425	.4
Philippine Commonwealth	400	.4
Poland	1,500	1.5
Union of South Africa	1,250	1.2
Union of Soviet Socialist Republics	12,250	12.0
United Kingdom	13,250	13.0
United States	32,000	31.4
Uruguay	355	.3
Venezuela	355	.3
Yugoslavia	650	.6
Total	102,000	100.0

[1] The percentage of total votes is calculated on assumption that only those nations represented at the Conference will join the Bank. As other countries join the Bank, each individual country's share of the total votes will decline.

[2] To be determined when Danish Government accepts membership.

Note.—Of the total number of votes, the British Empire controls 24.8 per cent, Continental Europe, excluding the U.S.S.R., 15.2, and Latin America 7.9 per cent.

Distribution of voting power in the Bank Agreement is by the same formula as that in the Fund Agreement. Each member has 250 votes plus one vote for each $100,000 subscribed to the Bank, or each share of stock held irrespective of the extent to which calls have been made for payment on subscriptions.

The voting power of countries represented at the United Nations Monetary and Financial Conference, on the assumption that each member subscribes the required minimum, is given in Table V.

The arrangement for distribution of net income is similar to that in the Fund. The Board of Governors can decide what part, if any, to distribute and when it does distribute any part it must first pay up to 2 per cent to each member in its own currency on the average amount of the loans outstanding which the Bank has made directly out of currency subscribed by that member for the Bank's own loan fund. The 2 per cent payment is noncumulative. Any remaining net income to be distributed must be distributed in proportion to subscriptions and in the currency of the subscribing member, if possible. If the income is distributed to one member in another member's currency, the receiving member can use it in any way it wishes.

The provisions concerning voluntary withdrawal, suspension of privileges or rights and compulsory withdrawal are closely parallel to those in the Fund. The only difference is that a member may be suspended by a majority vote, and a suspended member is automatically forced to withdraw after a year, unless a majority vote decides otherwise.

Many of the other technical and legal arrangements concerning settlement of accounts with withdrawing members, settlement of obligations if the Bank suspends operations, interpretation and amendment procedure, and immunities and privileges are worked out in detail as in the Fund Agreement. The arrangements for the entry into force of the Bank Agreement are similar to the Fund arrangements, but are simpler, since the Bank does not have to deal with the difficult problems of initial exchange rates.

RECOMMENDATIONS ON OTHER MATTERS

The Conference also agreed to certain recommendations on matters not directly related to the International Monetary Fund or the International Bank for Reconstruction and Development. One recommendation is that the problems resulting from wide fluctuations in the value of silver should be further studied by the interested nations. Another recommendation is that the Bank for International Settlements be liquidated as soon as possible. Steps being taken by the United Nations aimed at restoring property looted by the enemy to its lawful owners were approved and it was recommended that all countries represented at the Conference call upon the neutral countries to assist in various ways the achievement of this end. The Conference further took the position that the purposes stated in the Fund agreement can not be achieved through the instrumentality of the Fund alone and it therefore recommended that the governments represented at the Conference reach agreements on ways and means of reducing obstacles to international trade, securing orderly marketing of staple commodities, dealing with problems of international concern arising from the cessation of war production, and harmonizing national policies to promote high levels of employment and rising standards of living.