

Date March 3, 1961

To Chairman Martin

From Ralph A. Young

A briefing note on proposals for the modification of the IMF. If questioned, you could even read this into the record.

Attachment

Proposals for Modification of the  
International Monetary Fund in Relation  
to International Capital Movements

To the extent that it is found impossible or inconvenient to avoid excessive international capital movements, thought must be given to methods for preventing such capital movements from disturbing the international payments system and thus the United States domestic economy. In particular, thought has been given to the possible improvement of the procedures of the International Monetary Fund in this respect. For this purpose, two types of proposals are apparently under consideration.

The first (typified by the so-called "Bernstein proposals") would have the Fund use its existing power to borrow currencies of its member countries and to lend such currencies to other members over and above their quota. For instance, if the United States wanted to offset a movement of capital to Germany, the Fund would borrow the corresponding amount of German currency and lend it to the United States; the United States could use that currency to redeem the dollar funds that had been transferred to the German central bank.

Such an operation might be more acceptable to Germany than a direct loan of German marks to the United States, because under the Articles of Agreement of the International Monetary Fund all sums made available to the Fund, as well as all sums owed to the Fund, are guaranteed against changes in their gold value. Sums loaned to the Fund would therefore be as free from the risk of depreciation as would physical holdings of gold, and they would have the advantage of yielding a return.

While the United States could borrow from the Fund without the need for special legislation, it is prevented from making loans to the Fund without Congressional action (Bretton Woods Agreement Act, Section 5). Obviously, foreign countries would be reluctant to make loans to the Fund for relending to the United States unless they could be assured that if they needed dollars in the future, the United States would be prepared to make similar loans available to the Fund. For this reason, this proposal is likely to remain impractical unless the Congress authorizes U. S. loans to the Fund.

The second proposal (exemplified by the Triffin plan) envisages the deposit with the Fund of foreign currencies which a country acquires over and above the amounts it wishes to hold itself. For instance, if there were a flow of capital from the United States to Germany and Germany did not want to keep the funds invested in

dollars, it could deposit them with the International Monetary Fund. Again, the benefit for Germany would lie in the automatic guarantee of these deposits against any risk of depreciation in terms of gold.

In comparison with the first proposal, the second would have the disadvantage that the amount of funds involved would not be under the control of the United States. Under the first proposal, it would always be up to the United States to decide whether or not to borrow foreign currencies from the Fund, and thus how far to permit funds to be subjected to the automatic gold value guarantee. Under the second proposal, the decision on the amount involved would be entirely up to the creditor countries and to the management of the Fund.

At present most experts within the United States Government agencies and most executive directors of the Fund favor the first plan--that is, borrowing from the Fund--over the plan of permitting foreigners to deposit dollars.

Federal Reserve Position on Proposals with  
Respect to the Modification of the International Monetary Fund

The Staff Committee of the National Advisory Council on International Monetary and Financial Problems extensively discussed the attitude to be taken by the U. S. Executive Director of the International Monetary Fund in the preliminary exchanges of views among the Executive Directors on proposals to increase the effectiveness of the Fund. Staff members of the Board of Governors took part in these discussions. Studies are continuing and when conclusions are reached they will be made available through appropriate channels.

## SELECTED FINANCIAL FACTS

Series	Unit	Date	Latest period	Preceding period	Year ago	Per cent change from	
						Preceding period	Year ago
<b>MONEY AND CREDIT</b>							
Consumer, total	Billions	Jan. '61	\$55.0	\$56.0	\$51.5	- 1.8	6.8
Consumer, instalment	"	"	42.8	43.3	39.7	- 1.2	7.8
Mortgage debt outstanding, total	"	Q.3-'60	202.8	198.5	186.7	2.2	8.6
Mortgage debt, 1-4 family houses	"	"	139.1	136.1	128.0	2.2	8.7
Corporate securities issues, new capital	Millions	Q.1-'61	<u>1</u> /1,650	2,709	2,151	-39.1	-23.3
State and local gov't. issues, new capital	"	"	<u>1</u> /1,975	1,322	1,943	49.4	1.6
Total bank credit <sup>2/</sup>	Billions	1-25-61	195.8	197.9	185.6	- 1.1	5.5
Total loans <sup>2/</sup>	"	" " "	112.7	115.8	107.4	- 2.7	4.9
Investments	"	" " "	83.1	82.1	78.3	1.2	6.1
Business loans at city banks	"	" " "	31.2	31.9	29.8	- 2.2	4.7
Money supply <sup>3/</sup>	* "	Feb. '61	141.3	140.2	141.1	0.8	0.1
Time deposits at commercial banks	* "	1-25-61	72.3	71.6	65.7	1.0	10.0
Liquid assets <sup>4/</sup>	* "	Jan. '61	397.6	395.4	389.2	0.6	2.2
Turnover rates, 337 reporting centers	* Annual rate	Jan. '61	25.8	25.1	25.1	2.8	2.8

For footnotes, please see page 2.

## S E L E C T E D F I N A N C I A L F A C T S

Series	Unit	Date	Latest period	Preceding period	Year ago	Per cent change from:	
						Preceding period	Year ago
<b>STOCK PRICES</b>							
Common stock prices, Standard & Poor's	1941-3 = 10	<u>Feb. '61</u>	62.17	59.73	55.78	4.1	11.5
<b>INTEREST RATES</b>							
			Monthly average of daily figures			Change in basis points <sup>5/</sup>	
91-day Treasury bills	Per cent	<u>Feb. '61</u>	2.42	2.24	3.96	18	-154
6-month " "	" "	"	2.60	2.47	4.30	13	-170
Intermediate term (3- to 5-year) issues	" "	"	3.54	3.53	4.66	1	-112
Long-term U. S. Gov't bonds	" "	"	3.81	3.89	4.22	- 8	- 41
Corporate AAA bonds (seasoned)	" "	<u>Feb. '61</u>	4.27	4.32	4.56	- 5	- 29
State and local AAA bonds	" "	"	3.14	3.15	3.40	- 1	- 26
Common stock yields, Standard and Poor's	" "	<u>Feb. '61</u>	3.13	3.28	3.40	- 15	- 27

\* Seasonally adjusted.

1/ Estimated.

2/ Excluding interbank loans.

3/ Average of daily figures, semi-monthly, first half data.

4/ Includes money supply, time deposits at commercial and mutual savings banks, savings and loan shares, U. S. Government savings bonds and U. S. Government securities maturing within one year.

5/ One basis point equals 1/100 of one per cent.

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SELECTED ECONOMIC FACTS

Series	Unit	Date	Latest period	Preceding period	Year ago	Per cent change f	
						Preceding period	Year ago
<b>GROSS NATIONAL PRODUCT</b>							
Total	* Annual rate, billions	Q.4-'60	\$503.5	\$503.5	\$486.4	0.0	3.5
Final purchases	" " " "	"	506.5	503.0	481.7	0.7	5.1
Inventory change	" " " "	"	- 3.0	.6	4.7	--	--
Consumer expenditures	" " " "	"	330.8	328.3	319.6	0.8	3.5
Business fixed investment	" " " "	"	66.0	70.8	70.8	-6.8	-6.8
Net exports	" " " "	"	4.6	3.7	- .4	--	--
Federal government	" " " "	"	53.3	52.7	52.5	1.1	1.5
State and local government	" " " "	"	48.8	48.0	43.9	1.7	11.2
Gross national product in constant (1959) dollars:	" " " "	"	491.9	492.7	483.3	-0.2	1.8
<b>INCOME</b>							
Total personal income	" " " "	Jan. '61	406.3	406.9	395.7	-0.1	2.7
Wages and salaries	" " " "	"	271.0	271.4	268.2	-0.1	1.0
Farm income	" " " "	"	12.9	12.9	11.3	0.0	14.2
Transfer payments	" " " "	"	31.0	30.9	27.7	0.3	11.9
Total disposable income	" " " "	"	356.2	356.7	346.5	-0.1	2.8
Total personal income, in constant (1959) dollars:	" " " "	"	397.6	397.8	393.3	-0.1	1.1

\* Seasonally adjusted.

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SELECTED ECONOMIC FACTS

Series	Unit	Date	Latest period	Preceding period	Year ago	Per cent change fr	
						Preceding period	Year ago
<b>BUSINESS OUTLAYS, PROFITS, ETC.</b>							
Plant and equipment outlays	* Annual rate, billions	<u>Q.2-'61</u>	<u>1/</u> \$33.8	<u>1/</u> \$34.4	\$35.9	-1.7	-5.9
Corporate profits before tax	" " " "	<u>Q.4-'60</u>	<u>2/</u> 41.5	41.5	44.8	0.0	-7.4
Manufacturers' inventories	* Billions	<u>Jan. '61</u>	53.5	53.6	53.3	-0.2	0.4
New orders for durable goods	" "	"	13.0	13.2	14.2	-1.5	-8.5
<b>DISTRIBUTION</b>							
Retail sales, total	" "	"	17.7	18.0	18.1	-1.7	-2.2
Department store sales	* 1947-49 = 100	<u>Feb. '61</u>	<u>2/</u> 147	<u>2/</u> 142	142	3.5	3.5
Department store stocks	" " "	<u>Jan. '61</u>	<u>2/</u> 165	167	161	-1.2	2.5
Auto sales, domestic	* Annual rate, millions of cars	"	4.8	5.9	6.0	-18.6	-20.0
Auto dealer stocks	Millions of cars	<u>2-10-61</u>	1.0	1.1	0.9	- 0.1	11.1
<b>PRODUCTION</b>							
Industrial production, total	* 1957 = 100	<u>Jan. '61</u>	102	103	111	- 1.0	- 8.1
Consumer goods	" " "	"	111	112	116	- 0.9	- 4.3
Equipment, including defense	" " "	"	100	101	103	- 1.0	- 2.9
Materials	" " "	"	98	99	110	- 1.0	-10.9
Steel production	1957-59 = 100	"	<u>2/</u> 77.9	70.8	146.1	10.0	-46.7
" "	Per cent of capacity	"	50.0	46.3	95.5	--	--
Auto production	* Annual rate, millions of cars	"	4.5	5.6	7.7	-19.9	-42.0

\* Seasonally adjusted.

1/ Anticipated.

2/ Estimated.

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SELECTED ECONOMIC FACTS

Series	Unit	Date	Latest period	Preceding period	Year ago	Per cent change f	
						Preceding period	Year ago
<b>CONSTRUCTION</b>							
Total	* Annual rate, billions	Feb. '61	\$54.4	\$54.8	\$54.9	- 0.7	- 0.
Private, total	" " " "	"	37.3	37.9	39.7	- 1.6	- 6.
Residential, nonfarm	" " " "	"	19.8	20.4	22.5	- 2.9	-12.
Nonresidential	" " " "	"	10.7	10.7	10.2	0.0	4.
Public	" " " "	"	17.1	17.0	15.2	0.6	12.
Housing starts, total private	* Annual rate, thousands of units	Jan. '61	1,098	984	1,366	11.6	-19.
<b>LABOR MARKET</b>							
Total employment <sup>1/</sup>	* Millions of persons	Jan. '61	66.6	66.4	66.1	0.3	0.
Nonagricultural payroll employment	" " " "	"	52.3	52.2	52.9	0.2	- 1.
Manufacturing employment	" " " "	"	15.7	15.8	16.6	- 0.6	- 5.
Nonmanufacturing employment	* " " " "	"	36.7	36.4	36.3	0.8	1.
Average weekly hours at factories	* Hours	"	38.7	38.3	40.4	1.0	- 4.
Average hourly earnings at factories	" "	"	\$ 2.32	\$ 2.31	\$ 2.29	0.4	1
Average weekly earnings at factories	" "	"	\$89.64	\$88.23	\$92.38	1.6	- 3
Civilian labor force <sup>1/</sup>	* Millions of persons	"	71.5	71.1	69.8	0.6	2
Unemployment <sup>1/</sup>	" " " "	"	4.7	4.8	3.7	- 2.1	27
Unemployment rate	* Per cent of civilian labor force	"	6.6	6.8	5.3	- 2.9	24

\* Seasonally adjusted.

<sup>1/</sup> Data include Alaska and Hawaii.

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SELECTED ECONOMIC FACTS

Series	Unit	Date	Latest period	Preceding period	Year ago	Per cent change from:	
						Preceding period	Year ago
<b>PRICES</b>							
Wholesale, total	1947-49 = 100	Jan. '60	119.8	119.5	119.3	0.3	0.4
Farm and food	"	"	100.0	99.2	96.3	0.8	3.8
Industrial	"	"	128.1	127.9	128.8	0.2	- 0.5
Sensitive materials	"	"	102.6	103.1	110.4	- 0.5	- 7.1
Consumer, total	"	"	127.4	127.5	125.4	- 0.1	1.6
Goods	"	"	118.0	118.4	116.7	- 0.3	1.1
Services	"	"	151.7	151.4	148.2	0.2	2.4