

CHANGES IN THE TREASURY'S DRAFTS ON THE
BANK FOR RECONSTRUCTION AND DEVELOPMENT.

The following memorandum deals briefly with the major changes which have been made over the past year and a half in the text of the Treasury's proposed plan for a United Nations Bank for Reconstruction and Development, as evidenced by an examination of the various drafts at our disposal, namely, those of April and December 1942, and of September 8, 13, 16, 24 and October 1, 1943.^{1/} Since a comparison of each of these various drafts would be an unnecessary complicated task, only the differences between the original plan, dated April 1942, and the latest revision, dated October 1, 1943, will be made here.

The major difference between the two drafts lies in the fact that the range of activities and operations which the Bank was originally empowered to undertake was much more ambitious in character than it is today. Not only was the Bank to make, participate in, and guarantee long-term loans, as it is now, but in addition it was empowered to supply short-term capital for the financing of foreign trade, to help strengthen the monetary and credit structures of member countries by redistributing gold, to stabilize the prices of essential raw materials and other important commodities, and to make loans for relief and rehabilitation of devastated areas. None of these latter powers are given to the Bank in the latest version of the plan. With reference to the problem of stabilizing raw material prices, the original draft had provided that the Bank could organize and finance an International Commodity Stabilization Corporation, as well as an International Essential Raw Material

^{1/} This memorandum should be considered as a supplement to my mimeographed report on The Proposed United Nations Bank for Reconstruction and Development, dated October 18.

Development Corporation for the purpose of increasing the world supply of such materials.

The original plan also differs from the present plan in that the Bank was empowered to issue its own demand currency notes, to be backed by a gold reserve equal to 50 per cent of the notes issued. These notes were to be redeemable in gold on demand by member governments, and were to supplement the original resources of the Bank. When a loan was extended to a member country, it was to be made in the form of "international units" (not specifically defined in the plan) and of local currency, depending upon the proportions of the loan to be respectively spent abroad and at home by the borrower. Under the present version of the plan, not only is the Bank not empowered to issue its own notes, but its loans are to be made almost exclusively in the form of foreign exchange, the local currency needs in connection with the loan project to be financed by the borrowing country domestically.

Originally it was planned to use the Bank as a instrument for financial sanctions against aggressors in that any member which undertook an act of aggression against any other member of the Bank would forfeit its membership, and its assets in the Bank would be blocked. Similarly, no country would be eligible for membership unless it was at peace. The original plan also put certain limitations upon the extension of credit to any country the national government of which was wholly or partially in default on a foreign loan. The present version of the plan contains no reference to action against aggressors or to limitations on loans to countries which have defaulted on their foreign obligations.

The proposed capital structure of the Bank is to be \$10 billion, both under the original and the present versions of the plan (although in the September 13, 16, and 24 versions of the plan the capital was raised to \$12 billion). Originally the shares were to have a par value of \$1 million

each; today shares are to have a par value of only \$100,000. The present version of the plan calls for a United States contribution of roughly \$3.3 billions; no specific mention of the American contribution was made in the earlier version of the plan. The earlier plan called for a higher proportion of gold payments than does the present version, in that each country was to make an initial payment of 50 per cent of the par value of its shares, of which half was to be paid in gold; the present version calls for an initial payment of 20 per cent of each country's subscription, of which not more than one-fifth is to be in gold. The proportion of gold in subsequent payments will be the same as under the initial payment. Under the original version, each member government could subscribe to as many shares of stock as it wished, but had to subscribe at least a number of shares determined by some formula, such as 2 per cent of its estimated annual national income. The latest version of the plan makes the number of shares which each member may subscribe dependent on an agreed upon formula which will take into account such factors as national income and international trade of the member; members are permitted to acquire additional shares from the Bank at any time at the book value of such shares, though not at less than par.

There are several provisions in the present version which did not appear in the original. In particular, one might refer to the following:

(1) The provision that each member agrees to repurchase each year its local currency held by the Bank amounting to not more than 2 per cent of its subscription, paying for it with gold.

(2) The provision that the Bank will make the currency of any member available to other members only with the consent of that member, and likewise the provision that at the request of the representative of the country in which the proposed loan is to be spent, action may be postponed on the loan by the Bank for a year or longer.

(3) The provision that in case of an acute exchange stringency the Bank may accept for a period up to three years the payments of interest or principal in local currency (subsequently to be repurchased by the country concerned).

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