

November 30, 1944.

INTERNATIONAL FUND AND BANK

(Statement by Board of Governors of the Federal Reserve System)

Currencies throughout the world have been disrupted during the war and the flow of international investment has stopped. Restoration of a functioning world economy after the war will necessitate the rehabilitation of currencies and the resumption of international lending for constructive purposes. In rebuilding the machinery of international finance after the war it will be vital to avoid the recurrence of unsound and disruptive monetary practices which developed from unilateral action by individual countries after the first World War, as well as the abuses which were prevalent in international lending. Effective action in these two related fields will be a complement to essential programs of domestic reconstruction with a view to the maintenance of full employment and rising national prosperity. The greatest contribution to international prosperity that the United States can make is to maintain full employment and a rising standard of living at home, and in turn the restoration of international trade on a sound and lasting basis will contribute a powerful steadying influence to our domestic economy.

The International Monetary and Financial Conference of representatives of forty-four nations held last summer in Bretton Woods resulted in agreements for the creation of new international financial machinery. These agreements will be submitted for ratification to the Congress of the United States and to the legislative bodies of the other countries. One of the proposals deals with the establishment of an International Monetary Fund and the other with the creation of an International Bank for Reconstruction and Development.^{1/} These proposals form a part of a series of plans for cooperative action by the United Nations,

^{1/} The text of the agreements is available on request and an article describing their provisions was published in the Bulletin for September.

some of which, such as the plan for an international relief agency, have already been adopted and are in process of development.

The main purpose of the International Monetary Fund is to promote a lasting expansion of world trade. It would exert an influence toward exchange stability and thus reduce the exchange risks for exporters and importers. At the same time it would provide machinery for such changes in exchange rates as may become necessary. The Fund would work toward the elimination of the destructive monetary practices which interfered with the flow of world trade before the war, such as indiscriminate exchange restrictions, multiple currency arrangements, and bilateral clearing agreements. It would aim to give member countries the assurance that, under ordinary circumstances, the proceeds of sales to any country can be used for the purchase of goods in any other country.

For the purpose of assisting member countries in maintaining their exchange rates, once they have been established, without resorting to harmful restrictions on trade, the Fund would have resources in gold and various currencies which would be available for temporary use by members. It would afford member countries faced with an international drain a breathing spell during which to make necessary adjustments in their economies with a view to restoring equilibrium in their trade with the world. While temporary shortages of foreign exchange could be met by drawing on the Fund, members would be under pressure to restore the exchange to the Fund as soon as possible in order to maintain its ability to serve other members.

As a companion institution to the Fund, the Bank for Reconstruction and Development would operate to promote the international flow of long-term capital. It would make loans for productive and developmental purposes out of its own capital or out of funds borrowed in the market and would guarantee such

loans offered to private investors. It is intended to make or guarantee only such loans as would in the long run increase the borrower's ability to balance its international accounts. It would help to restore economies destroyed or disrupted by war, to reconvert their productive facilities to peacetime needs, and to develop the resources of less developed countries.

The Bank would have a stabilizing influence on interest rates and other conditions for international loans and would tend to eliminate practices in international investment that have in the past resulted in excessive costs to borrowers and in losses to lenders.

In view of its responsibilities for domestic credit conditions and its concern with the maintenance of a stable economy and a rising level of national prosperity, the Board of Governors of the Federal Reserve System views the ratification of the Bretton Woods agreements by the Congress as a matter of vital importance. Without these agreements prewar and wartime exchange restrictions and devices are certain to be maintained and even strengthened year after year, exchange rates might fluctuate widely, foreign trade would suffer, and international lending would not revive. All this would delay and jeopardize the restoration of the economies of the United States and the world.

The monetary and credit structure of this country is continually and seriously affected by international transactions. In the past this country's monetary authorities have had to meet difficult situations when our banking system was flooded with foreign money arising out of surplus commodity exports and capital movements from foreign countries. Restoration of balance in international trade, which the Bretton Woods agreements are intended to promote, would strengthen the Federal Reserve System's power to regulate the flow of credit in the service of trade, industry, and agriculture.

Unbalanced world conditions are inevitably reflected in disturbances in the domestic economies of all countries. Experience in the period between the two World Wars has demonstrated this anew. Adoption by our Congress and by the legislatures of all United Nations of the agreements reached in Bretton Woods would not only help to bring about international financial equilibrium with its steadying influence on domestic economies, but would also demonstrate effectively the ability of peace-loving nations to act jointly for the advancement of prosperity throughout the world.