

# BRETTON WOODS AGREEMENTS ACT AMENDMENT

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## HEARINGS BEFORE THE COMMITTEE ON BANKING AND CURRENCY HOUSE OF REPRESENTATIVES EIGHTY-SEVENTH CONGRESS

SECOND SESSION

ON

### H.R. 10162

A BILL TO AMEND THE BRETTON WOODS AGREEMENTS ACT,  
TO AUTHORIZE THE UNITED STATES TO PARTICIPATE IN  
LOANS TO THE INTERNATIONAL MONETARY FUND TO  
STRENGTHEN THE INTERNATIONAL MONETARY SYSTEM

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FEBRUARY 27 AND 28, 1962

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Printed for the use of the Committee on Banking and Currency



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WASHINGTON : 1962

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# BRETTON WOODS AGREEMENTS ACT AMENDMENT

TUESDAY, FEBRUARY 27, 1962

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
Washington, D.C.

The committee met at 10 a.m., Hon. Brent Spence (chairman of the committee) presiding.

Present: Messrs. Spence (presiding), Patman, Rains, Multer, Adonizio, Barrett, Mrs. Sullivan, Reuss, Ashley, Vanik, Moorhead of Pennsylvania, Miller, Finnegan, Stephens, St. Germain, Carey, Gonzalez, Kilburn, McDonough, Widnall, Siler, Fino, Mrs. Dwyer, Messrs. Derwinski, Halpern, Harvey, Moorehead of Ohio, Rousselot, and Scranton.

Mr. SPENCE. The committee will come to order.

We are honored this morning to have the Secretary of the Treasury to testify on H.R. 10162.

(H.R. 10162 and committee print, Special Report of the National Advisory Council, are as follows:)

[H.R. 10162, 87th Cong., 2d sess.]

A BILL To amend the Bretton Woods Agreements Act to authorize the United States to participate in loans to the International Monetary Fund to strengthen the international monetary system

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled*, That the Bretton Woods Agreements Act, as amended (22 U.S.C. 286-286k-1), is amended by adding at the end thereof the following new sections:

"SEC. 17 (a) In order to carry out the purposes of the decision of January 5, 1962, of the Executive Directors of the International Monetary Fund, the Secretary of the Treasury is authorized to make loans, not to exceed \$2,000,000,000 outstanding at any one time, to the Fund under article VII, section 2(1), of the Articles of Agreement of the Fund. Any loan under the authority granted in this subsection shall be made with due regard to the present and prospective balance of payments and reserve position of the United States.

"(b) For the purpose of making loans to the International Monetary Fund pursuant to this section, there is hereby authorized to be appropriated \$2,000,000,000, to remain available until expended to meet calls by the International Monetary Fund. Any payments made to the United States by the International Monetary Fund as a repayment on account of the principal of a loan made under this section shall continue to be available for loans to the International Monetary Fund.

"(c) Payments of interest and charges to the United States on account of any loan to the International Monetary Fund shall be covered into the Treasury as miscellaneous receipts. In addition to the amount authorized in subsection (b), there is hereby authorized to be appropriated such amounts as may be necessary for the payment of charges in connection with any purchases of currencies or gold by the United States from the International Monetary Fund.

"SEC. 18. Any purchases of currencies of gold by the United States from the International Monetary Fund may be transferred to and administered by the fund established by section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a), for use in accordance with the provisions of that section. The Secretary of the Treasury is authorized to utilize the resources of that fund for the purpose of any repayments in connection with such transactions."

SEC. 2. The last sentence of section 7(c) of the Bretton Woods Agreements Act (22 U.S.C. 286e) is amended to read as follows: "The face amount of special notes issued to the Fund under the authority of this subsection and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Fund and the dollar equivalent of currencies and gold which the United States shall have purchased from the Fund in accordance with the Articles of Agreement, and the face amount of such notes issued to the Bank and outstanding at any one time shall not exceed in the aggregate the amount of the subscription of the United States actually paid to the Bank under article II, section 7(1), of the Articles of Agreement of the Bank."

NATIONAL ADVISORY COUNCIL  
ON  
INTERNATIONAL MONETARY AND  
FINANCIAL PROBLEMS

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MESSAGE

FROM

THE PRESIDENT OF THE UNITED STATES

RELATIVE TO

SPECIAL BORROWING ARRANGEMENTS  
OF THE  
INTERNATIONAL MONETARY FUND

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COMMITTEE ON BANKING AND CURRENCY  
HOUSE OF REPRESENTATIVES  
EIGHTY-SEVENTH CONGRESS  
SECOND SESSION



JANUARY 1962

Printed for the use of the Committee on Banking and Currency

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## LETTER OF TRANSMITTAL

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THE WHITE HOUSE,  
*Washington, February 2, 1962.*

HON. JOHN W. McCORMACK,  
*Speaker of the House of Representatives,*  
*Washington, D.C.*

DEAR MR. SPEAKER: Transmitted herewith for the consideration of the Congress is legislation which would implement the recommendations of the National Advisory Council on International Monetary and Financial Problems relating to "special borrowing arrangements of the International Monetary Fund." A copy of the report of the Council is attached.

The legislation takes the form of an amendment to the Bretton Woods Agreements Act and authorizes the United States to participate in loans to the International Monetary Fund in order to strengthen the international monetary system.

The International Monetary Fund has been a vital force for economic stability in the free world ever since it was formed in 1946. Its transactions have supported the currencies of free world nations which encountered balance of payments or other monetary difficulties, and it helped maintain confidence in the currencies of its members. The leadership of the United States in the establishment and support of the Fund has been a source of pride and satisfaction.

In my message of last February 6, I discussed the imbalance in our international payments and called for a series of related measures to correct it. A number of these measures have been adopted. But the problem is stubborn and complex and will require additional action over a number of years.

Meanwhile, we can strengthen the monetary system in general and the position of the United States in that system by augmenting the resources and flexibility of the International Monetary Fund to permit the Fund to be utilized more effectively in supporting a healthy and growing world economy.

To accomplish this purpose, intensive negotiations have gone forward, with the active participation of the Fund, among the major industrial nations of the free world. These negotiations culminated in the proposals described and recommended in the National Advisory Council's report calling for the addition of \$6 billion to the resources of the Fund. This addition would strongly reinforce the international monetary system of the free world.

It would, in particular, greatly enhance the ability of the Fund to assist the United States in coping with its international payments problems. Today, the Fund has on hand only \$1.6 billion of the currencies of other major industrial countries—exclusive of the United Kingdom, which has itself made a large drawing from the Fund—to meet a possible need for a drawing by the United States. The new

arrangements would permit an additional \$3 billion increase in available resources of these other major currencies, and would thus assure the Fund the assets needed to meet a request for a drawing by the United States should such a request ever be necessary. At a time when the confidence in the dollar is of utmost importance to the free world, the \$6 billion addition to the Fund will be especially significant. It will greatly enhance our own financial resources and greatly reduce any possibility of a serious drain upon dollar balances. The very existence of the new standby credits will be an assurance of stability of major currencies.

The new borrowing arrangements would require amendment of the Bretton Woods Agreements Act by authorizing the United States to lend up to \$2 billion to the Fund. The other nine participants in the arrangement would commit themselves to provide up to \$4 billion. The commitment of nearly \$2.5 billion by members of the European Common Market—Belgium, France, Germany, Italy, and the Netherlands—would represent an amount about equal to the present aggregate of their Fund quotas. By contrast the United States and the United Kingdom would provide amounts equal to only about half their present quotas. The United States would not be expected to lend to the Fund in the absence of a substantial improvement in its balance-of-payments position.

The new proposals would strengthen the position of the dollar as the world's major reserve currency. They would also provide new armament for the defense of the currencies of the free world and for reinforcing the entire international monetary system.

I urge, therefore, that the Congress promptly consider this legislation. Participation by the United States in the proposed arrangements is in the national interest.

Sincerely,

JOHN F. KENNEDY.

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NATIONAL ADVISORY COUNCIL  
ON  
INTERNATIONAL MONETARY AND  
FINANCIAL PROBLEMS  
SPECIAL REPORT  
TO THE PRESIDENT AND TO THE CONGRESS  
ON SPECIAL BORROWING ARRANGEMENTS  
OF THE  
INTERNATIONAL MONETARY FUND

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JANUARY 1962

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## SPECIAL REPORT OF THE NATIONAL ADVISORY COUNCIL ON SPECIAL BORROWING ARRANGEMENTS OF THE INTER- NATIONAL MONETARY FUND

### I. INTRODUCTION

President Kennedy, in his message to the Congress on the balance of payments and gold (H. Doc. 84, 87th Cong., 1st sess.), pointed to the need for increased cooperation among the industrialized nations of the world and the harmonization of their policies in the interest of maintaining the growth and stability of the free world. He said, in part:

We must now, in cooperation with other lending countries, begin to consider ways in which international monetary institutions—especially the International Monetary Fund—can be strengthened and more effectively utilized, both in furnishing needed increases in reserves and in providing the flexibility required to support a healthy and growing world economy.

The problems affecting the international monetary system have been given intensive consideration both in the International Monetary Fund and in intergovernmental discussion in which the U.S. Government has actively participated. The Managing Director of the Fund, Mr. Per Jacobsson, made a proposal for a borrowing arrangement to the Executive Board early in 1961 which was intensively studied in the succeeding months. At the annual meeting of the Board of Governors of the International Monetary Fund, held at Vienna in September 1961, the U.S. Governor took the initiative in arranging a series of exploratory conversations with other Governors, and a number of Governors referred to the problem in their formal statements. It was the general consensus of the Governors that concrete steps should be taken to devise an acceptable arrangement for providing supplementary resources to the Fund. Subsequent to the Vienna meeting, the Executive Directors of the Fund gave further consideration to the matter. The interested governments consulted with each other on the terms and conditions under which they would be prepared to lend to the Fund, and reached agreement at a meeting held in Paris in December 1961.

The proposal which has emerged from these discussions in the Fund and among the governments is intended to deal with the special problems which have emerged in the last few years. Currencies other than the dollar have become stronger, particularly in the European countries, which have accumulated large reserves and improved greatly their position in the world market. Thus, these countries were able to proceed with considerable liberalization of trade and allow greater freedom for capital movements, and to make their currencies convertible. Accordingly, there is less direct control over balances of payments, and they have become subject to wider swings. An important factor has been the movement of short-term capital from

country to country in response to balance-of-payments situations, opportunity for investment, interest rate differentials, and, to some extent, speculation.

In order to assist its member countries in countering adverse movements in their balances of payments and reserves under these conditions, the Fund requires adequate resources in the currencies of the principal industrial countries. The experience of the last few years has shown that the Fund lacks these resources in adequate amount, although it has available resources which are probably sufficient to deal with the balance-of-payments problems of most of its membership.

Under the proposed arrangements, the 10 principal industrial countries will agree to lend up to stipulated amounts of their currencies to the Fund, if the Fund requires additional resources in these currencies to forestall or cope with an impairment of the international monetary system. The Fund would then borrow these currencies and use them in drawings by the participating countries under the usual terms and conditions, which require repayment to the Fund within a period of 3 to 5 years. When one of the participating countries wishes to draw from the Fund, or to enter into a standby arrangement with the Fund, the Managing Director and the country proposing the drawing will consult with the other participating countries to determine the appropriate amount of borrowing. The understandings among the participating countries will assure prompt consideration and decision on any request. When the currencies are loaned to the Fund, in accordance with these decisions, the Fund will be obligated to the particular lenders and will repay them in a period not to exceed 5 years.

The proposal is embodied in the documents reproduced in the appendixes. The first is a decision by the Executive Directors of the Fund, adopted on January 5, 1962. This decision is reproduced below as appendix A. The second group of documents is an exchange of letters between the French Minister of Finance, who presided over the Paris meeting, and the Secretary of the Treasury, dated the 15th of December, 1961 (reproduced below as app. B). Similar letters were exchanged between the French Minister of Finance and the financial officers of Belgium, Canada, Germany, Italy, Japan, Netherlands, Sweden, and the United Kingdom. As is shown in the Annex to the Fund decision, the amounts of the commitments to lend total the equivalent of \$6 billion, divided as follows:

Participant	Units of participant's currency (millions)	Equivalent in U.S. dollars (millions)
United States.....	US\$ 2,000.0	\$2,000
Deutsche Bundesbank.....	DM 4,000.0	1,000
United Kingdom.....	£ 357.1	1,000
France.....	NF 2,715.4	550
Italy.....	Lit 343,750.0	550
Japan.....	Yen 90,000.0	250
Canada.....	Can\$ 208.9	200
Netherlands.....	f. 724.0	200
Belgium.....	BF 7,500.0	150
Sweden.....	SKr 517.3	100

Throughout the negotiations culminating in these documents, the National Advisory Council has been consulted by the Treasury and by the U.S. Executive Director of the Fund, and has approved the

positions taken in the negotiations at various stages. The National Advisory Council strongly recommends the congressional action which is necessary to enable the United States to participate in these standby arrangements for strengthening the International Monetary Fund. It believes that the successful operation of the proposed arrangement will be beneficial to the economy of the free world and can prove to be of considerable importance to the United States particularly. The required legislation would authorize the Secretary of the Treasury to loan up to \$2 billion to the Fund. In considering any loan to make available dollars needed to supplement the Fund's resources, the Secretary would give due regard to the existing and prospective balance of payments and reserve position of the United States. An explanation of the legislation is given in chapter IV of this *Report*.

## II. THE NEED FOR INTERNATIONAL MONETARY FUND BORROWING ARRANGEMENTS

The International Monetary Fund was organized to promote international cooperation among its members through consultation and collaboration on foreign exchange and monetary problems. It has been provided by its 75 members with resources in gold and currencies which it uses to provide short-term assistance to deal with temporary balance-of-payments difficulties. The National Advisory Council has reported to the Congress on the activities of the Fund and the U.S. participation therein semiannually and has submitted to the Congress seven *Special Reports* on the policies and operations of the Fund. These *Reports* have all agreed that the Fund has played a most valuable role in promoting strong and well-coordinated financial relations among its member countries and that the operations and policies of the Fund have been consistent with the interests of the free world and the United States.

In February 1959, the Council submitted a "*Special Report on Increases in the Resources of the International Monetary Fund and of the International Bank for Reconstruction and Development*" (H. Doc. 77, 86th Cong., 1st sess.). In this *Report*, the Council recommended an increase in the U.S. quota in the Fund as part of a general increase in the Fund quotas. Those additional resources in gold and convertible currencies have enabled the Fund to meet recent heavy demands for assistance, including the provision, in August 1961, of \$2 billion to the United Kingdom, of which \$1.5 billion was drawn in various currencies. But the balance-of-payments developments in the last few years have shown that under some circumstances the Fund is likely to need additional resources to deal effectively with the pressures to which the international monetary system may be subject. Wide and rapid variations in the balance-of-payments position of major countries have become more evident possibilities since 1959, and have shown the need for the Fund to have access on a standby basis to additional resources, particularly in currencies other than dollars and sterling. The proposed arrangements will provide these resources in the form of Fund borrowings from countries having a strong position in their international accounts.

In the last 10 years a number of strong currencies have emerged in continental Europe, as is shown by the shift in world reserve positions. (See table 1.) The most notable increase in reserves occurred in continental Europe. Official gold and foreign exchange holdings of the continental European countries increased from \$7.4 to \$23.1 billion in the 10-year period. The most conspicuous cases have been Germany, whose reserves in this period increased from \$518 million to \$6,437 million; Italy, which moved from \$774 million to \$3,369 million; and France from \$616 million to \$2,816 million.

TABLE 1.—Official gold and foreign exchange holdings, 1951 and 1958-61

[End of period: millions of U.S. dollars]

Country	1951	1958	1959	1960	1961 <sup>1</sup>
United States.....	22,873	20,582	19,507	17,804	17,063
United Kingdom.....	2,374	3,105	2,750	3,239	3,318
Germany.....	518	5,732	4,533	6,737	6,437
France.....	616	1,050	1,720	2,070	2,816
Italy.....	774	2,082	2,953	3,080	3,369
Belgium.....	1,054	1,497	1,222	1,422	1,552
Netherlands.....	554	1,470	1,339	1,742	1,723
Canada.....	1,826	1,948	1,876	1,836	1,933
Sweden.....	484	473	434	488	662
Japan.....	979	861	1,322	1,824	1,611
Total of listed countries <sup>2</sup> .....	32,052	38,800	37,656	40,242	41,182
World total.....	49,020	57,285	57,040	59,700	61,060

<sup>1</sup> For United States and United Kingdom, data are for Dec. 31; for other countries, and the totals, data are as of Sept. 30.

<sup>2</sup> Holdings on Dec. 31, 1952.

<sup>3</sup> Participants in the special borrowing arrangements.

Source: International Monetary Fund.

These changes in reserves were related to the U.S. balance-of-payments deficit over this period, which enabled Europe and Japan to accumulate dollar reserves, either from transactions with the United States directly or with third countries which have settled their deficits by drawing down their gold and dollar reserves or transferring dollar earnings to other countries. In September 1961, foreign official holders (governments, central banks, and other official institutions) held about \$10.9 billion in short-term dollars, while private holdings of short-term liquid dollars amounted to \$7.6 billion.

The dollar and sterling are the key currencies in world trade and finance. These are the currencies in which trade and financial transactions are generally denominated, and the money markets of the United States and the United Kingdom provide the largest and best developed credit facilities for financing trade and other international transactions. Foreign countries may also readily invest their excess foreign exchange earnings in liquid obligations in the United States and British markets, chiefly in the form of Treasury securities or acceptances. While similar facilities exist in the leading countries of Western Europe, they are available to a much smaller extent.

The improvement in the balance-of-payments situation of the continental countries and of the United Kingdom and their accumulation of reserves were important factors in the moves to convertibility which culminated in the adoption of *de facto* convertibility for current

international transactions in 1958 by the United Kingdom and the principal European countries. This substantially ended the complex exchange controls in the industrial countries which had existed since the beginning of World War II, although some countries retained restrictions on capital movements.

In February 1961, the principal European countries took the additional step of accepting the obligations of article VIII of the Fund Agreement. The technical convertibility resulting from this step gave formal recognition to a situation which had been practically in effect for over a year preceding. In accepting the conditions of article VIII, the members agreed not "to impose restrictions on the making of payments and transfers for current international transactions" without the prior approval of the Fund, in contrast to the restrictions and discrimination permitted under the "transitional" provisions of article XIV under which they had previously operated. As a consequence of the reestablishment of external convertibility, transactions among currencies became easier than they had been before, and the years 1960 and 1961 began an era of relatively free exchange markets in the main industrial countries such as had not existed for decades.

As has been noted, this freedom in the exchange markets has been associated with liberalization of trade and other current payments and greater freedom of capital movements, made possible by the increasing economic strength of the European countries. The balances of payments of the industrial countries have always reflected swings in trade movements during the business cycle. In the boom stage of the business cycle, imports of raw materials and industrial goods increase, while in recession imports generally slacken. Currency convertibility has made it possible for balance-of-payments swings to become larger than they had been previously, and to occur more rapidly, especially because short-term funds can now move more easily from country to country under the impetus of such factors as interest differentials, arbitrage, and currency speculation.

The effect of short-term capital movements on the balance of payments of the United States is shown in table 2, which compares the basic and the overall balance of payments of the United States. The basic balance results from trade and service transactions, long-term investment, foreign assistance, and military expenditures. The overall balance, however, reflects the movement of recorded private short-term capital, foreign commercial credits to the United States, and changes in the item of "errors and omissions," a considerable part of which is probably unrecorded capital movements. In 1960, for example, the recorded short-term capital outflow from the United States was \$1.3 billion, while the "errors and omissions" item had shifted from a positive figure of \$528 million in 1959 to a negative figure of \$648 million. Thus, the fluctuations of the overall balance of payments may be different from the basic balance since the overall may be reduced by an inflow of short-term capital, as in 1958 and 1959, or increased by a short-term capital outflow as in 1960.

TABLE 2.—U.S. balance of payments, 1958-61. Difference between the basic and overall balances

[In millions of dollars]

	1958	1959	1960	1961 (9 months) <sup>1</sup>
<b>Basic balance</b> .....	-3,551	<sup>2</sup> -4,348	-1,872	<sup>3</sup> -542
U.S. private short-term assets abroad (increase (-)).....	-306	-77	-1,312	-903
Foreign commercial credits to U.S. (increase (+)).....	-51	+154	-97	+148
Errors and omissions.....	+380	+528	-648	-309
<b>Overall balance</b> .....	-3,528	<sup>2</sup> -3,743	-3,929	<sup>3</sup> -1,606

<sup>1</sup> Seasonally adjusted data.<sup>2</sup> Excludes U.S. subscription of \$1,400,000,000 to International Monetary Fund.<sup>3</sup> Excluding \$649,000,000 in foreign debt repayments to the U.S. Government.

Source: Based on data from the Survey of Current Business, Department of Commerce.

The situation in the United Kingdom is somewhat similar since sterling is also widely used in international transactions and the British money market provides facilities for investment in short-term obligations and deposits. In 1960 weakness in the basic balance of payments of the United Kingdom was offset by a large inflow of funds, while in the first half of 1961 a speculative outflow caused considerable difficulty.

The stability of the dollar and of the pound sterling are fundamental to an orderly and stable international financial system, since these are the key currencies, holdings of which constitute an important part of world monetary reserves. The movements in and out of these currencies emanate in large part from the other industrial countries which have an important stake in the stability of the two major reserve currencies. It is largely in recognition of this common interest in the smooth functioning of the international monetary system that the 10 main industrial countries are now willing to participate in an arrangement on a standby basis which will provide resources to the Fund which it can use to forestall or counteract adverse movements affecting major currencies.

In sum, there is a need for additional resources in the major currencies to forestall or cope with an impairment of the international monetary system affecting these currencies. This need results especially from the greater freedom of movement of funds because of the liberalization of trade, the growing freedom of capital movements, and the adoption of convertibility. More fundamentally, the relative financial strength and reserve positions of industrial countries other than the United States and the United Kingdom have markedly increased, and this has not been adequately reflected in the amounts of their currencies available in the International Monetary Fund. Consequently, in the proposed credit arrangements these countries provide a larger share of the funds to be loaned relative to their quotas than do the United States and the United Kingdom.

TABLE 3.—*Participants in the special borrowing arrangements and their position in the International Monetary Fund as of Nov. 30, 1961*

[Expressed in millions of U.S. dollars]

Participant	New credit arrangement	Fund quota	Fund holdings of currency	
			Amount	Percent of quota
Germany .....	1,000	787.5	150.2	19
France .....	550	787.5	361.1	46
Italy .....	550	270.0	27.2	10
Belgium .....	150	337.5	181.1	54
Netherlands .....	200	412.5	169.9	41
Subtotal .....	2,450	2,595.0	889.5	.....
Canada .....	200	550.0	337.9	61
Japan .....	250	500.0	320.0	64
Sweden .....	100	150.0	87.5	58
Subtotal .....	550	1,200.0	745.4	.....
United Kingdom .....	1,000	1,950.0	2,508.2	129
United States .....	2,000	4,125.0	2,445.1	58
Subtotal .....	3,000	6,075.0	4,953.3	.....
Grand total .....	6,000	9,870.0	6,588.2	.....

Source: International Monetary Fund.

## STATUS OF FUND RESOURCES

The Fund's financial operations consist of providing the currencies needed by a member in exchange for its own currency. The Fund obtains the needed currencies by cashing the non-interest-bearing notes denominated in those currencies which it holds or, more rarely, by buying them with gold. These transactions occur when the drawing country is in temporary balance-of-payments difficulties. Subsequently, the drawing country reverses the transaction, repurchasing its own currency from the Fund with other convertible currencies or gold.

Until recent years, the bulk of the Fund's transactions consisted of sales of U.S. dollars against other currencies since the dollar was the most useful currency and the only important currency which was convertible and could be used in repayment. Of the total transactions of the Fund through November 30, 1961, total currency sales amounted to the equivalent of \$6.2 billion, of which \$4.0 billion were U.S. dollar transactions. Sales of other currencies amounted to \$2.1 billion, of which \$1.8 billion were sold in the last 2 years. With the emergence of strong European currencies, there has been greater use of these currencies, which may now also be used in repurchase from the Fund. In 1961, 67 percent of total Fund sales of currencies to members drawing from the Fund were in currencies other than U.S. dollars, and included deutsche marks, French francs, Belgian francs, Italian lire, Japanese yen, Netherlands guilders, pounds sterling, Canadian dollars, and Swedish kronor.

A member drawing from the Fund generally repurchases its currency from the Fund within a period of 3 to 5 years and the rate of repurchase may be accelerated if a country's gold and foreign exchange reserves increase before that time. The Fund is a revolving pool of

currencies, and to the present time some \$3.6 billion of the original Fund sales of currency have been repurchased, either by the drawing members directly or through other countries drawing the currency of a country which had previously drawn upon the Fund. To November 30, 1961, \$2.7 billion had been repurchased in dollars, \$185 million in other currencies, and \$397 million in gold. (See table 4.) Net drawings outstanding on November 30 amounted to \$2.5 billion, including \$1.1 billion outstanding on the United Kingdom drawing of the equivalent of \$1.5 billion in 1961.

TABLE 4.—*International Monetary Fund currency sales and repayments, through Nov. 30, 1961*

[Expressed in millions of U.S. dollars]

Calendar years	Sales			Repayments <sup>1</sup>				
	Total	U.S. dollars	Other currencies	Total	In gold <sup>2</sup>	In U.S. dollars	In other currencies	By other countries' drawings
<b>Total</b> .....	<b>6,161.0</b>	<b>4,023.7</b>	<b>2,137.3</b>	<b>3,579.3</b>	<b>397.0</b>	<b>2,695.9</b>	<b>185.0</b>	<b>301.4</b>
1961 (11 months).....	2,477.5	821.0	1,656.5	762.5	31.4	530.1	185.0	16.0
1960.....	279.8	148.5	131.3	681.0	32.4	621.7	.....	26.9
1959.....	179.8	138.5	41.3	607.5	131.2	442.0	.....	34.3
1958.....	337.9	252.2	85.7	368.9	76.8	270.9	.....	21.2
1957.....	977.1	977.1	.....	63.8	61.6	12.2	.....	.....
1956.....	692.5	677.5	15.0	113.3	-4.1	117.4	.....	.....
1955.....	27.5	27.5	.....	232.5	58.5	174.0	.....	.....
1954.....	62.5	62.5	.....	209.9	-39.3	249.2	.....	.....
1953.....	229.5	67.5	162.0	320.5	-8.6	171.4	.....	157.6
1952.....	85.1	85.1	.....	101.5	48.2	53.3	.....	.....
1951.....	34.6	6.6	28.0	73.8	14.8	31.0	.....	28.0
1950.....	.....	.....	.....	23.9	3.0	20.9	.....	.....
1949.....	101.5	101.5	.....	2.6	1.0	1.6	.....	.....
1948.....	298.0	196.6	11.4	11.4	.....	.....	.....	11.4
1947.....	467.7	461.7	6.1	6.1	.....	.....	.....	6.1

<sup>1</sup> Includes approximately \$6,000,000 arising from settlement of account with respect to a drawing by Czechoslovakia, a former member, in 1948. Excludes member's repurchases on subscription account.

<sup>2</sup> Negative figures reflect adjustments to earlier repayments. Entries for 1953 and 1960 include the counterparts of those repayments by others' drawings in currencies of members whose net drawings were zero, but for whom (owing to the subscription account) Fund holdings of their currencies were in excess of 75 percent of quota.

Source: International Monetary Fund.

As noted above, the emergence of a number of strong currencies in addition to the U.S. dollar, the greater freedom in exchange and trade transactions, and the increased movement of short-term capital had made possible wider swings in the balances of payments of the industrial countries, particularly the United States and the United Kingdom, whose currencies are held by other countries as monetary reserves. This raises the possibility of relatively large drawings on the Fund by the reserve currency countries. To offset deficits in the balance of payments of these countries occasioned in part by capital movements, large amounts of foreign currencies may be needed to avoid undue declines in reserves.

While on November 30, 1961, the Fund had available to it \$2.9 billion in gold and \$11.6 billion in member currencies, a large part of these currencies consist of currencies of the less developed countries which cannot readily be used by the Fund. The Fund's holdings on that date of the currencies of the 10 main industrial countries amounted to the equivalent of about \$6.6 billion, of which holdings of dollars and sterling amounted to \$5 billion. (See table 5.)

TABLE 5.—*International Monetary Fund quotas and holdings of gold and member currencies*

[Expressed in million U.S. dollars]

Member	Quota	June 30, 1961		Aug. 31, 1961		Nov. 30, 1961	
		Currency holdings	Per-cent of quota	Currency holdings	Per-cent of quota	Currency holdings	Per-cent of quota
United States.....	4,125.0	2,606.1	63	2,119.5	51	2,445.1	58
United Kingdom.....	1,950.0	1,419.0	73	2,877.5	147	2,508.2	129
Subtotal.....	6,075.0	4,025.1	-----	4,997.0	-----	4,953.3	-----
Germany.....	787.5	344.7	44	92.7	12	150.2	19
France.....	787.5	357.6	71	350.6	45	361.1	46
Italy.....	270.0	158.5	59	43.2	16	27.2	10
Belgium.....	337.5	253.1	75	193.1	57	181.1	54
Netherlands.....	412.5	278.9	67	186.9	45	189.9	41
Subtotal.....	2,595.0	1,591.8	-----	866.5	-----	899.5	-----
Canada.....	550.0	387.9	71	362.9	66	337.9	61
Sweden.....	150.0	112.5	75	92.5	62	87.5	58
Japan.....	500.0	375.0	75	345.0	69	320.0	64
Subtotal.....	1,200.0	875.4	-----	800.4	-----	745.4	-----
Total of selected currencies.....	9,870.0	6,492.3	-----	6,663.9	-----	6,588.2	-----
Total member currency holdings.....	-----	10,961.3	-----	11,453.9	-----	11,561.2	-----
Total gold holdings <sup>1</sup> .....	-----	3,281.5	-----	2,842.1	-----	2,859.4	-----

<sup>1</sup> Includes investment of \$900,000,000 in U.S. Government securities for which the same quantity of gold can be reacquired upon termination.

Source: International Monetary Fund.

The impact of the United Kingdom drawing in August 1961 on Fund resources serves to highlight the Fund's need for additional access to the currencies of the major industrial countries. As shown in table 5 the Fund had available to it on June 30, 1961, \$2.6 billion in U.S. dollars, and \$2.5 billion in the currencies of other participants<sup>1</sup> other than sterling. At the same time there were outstanding commitments on standby arrangements aggregating \$552 million. To deal with the heavy pressures to which sterling was being subjected, the United Kingdom drew currencies totaling the equivalent of \$1.5 billion, and at the same time entered into a standby arrangement with the Fund for an additional \$500 million. This was the largest transaction in the Fund's history and slightly exceeded the entire British quota. To obtain the currencies needed for the cash transaction of \$1.5 billion, the Fund sold the United Kingdom the equivalent of \$1 billion of its holdings of the currencies of the nine other participating countries. The remainder was bought with \$500 million of the Fund's gold, each member receiving from the Fund in return for its currency an amount of gold equal to one-half the amount of currency the Fund had used from its holdings. After this large transaction, the Fund's holdings of the nine currencies were reduced from \$5.1 billion to \$3.8 billion, of which \$2.1 billion were in U.S. dollars. The Fund's holdings of deutsche marks and Italian lire were reduced to 12 and 16 percent of quota, respectively. At this date, the Fund's aggregate holdings of the principal industrial currencies, other than dollars or sterling, had been reduced to a point where large drawings were practically precluded without large sales of the Fund's gold. Against the Fund's

<sup>1</sup> The term "participants" refers to the 10 industrial countries taking part in the proposed borrowing arrangement.

total gold and currency holdings there were standby commitments of \$1.2 billion.

#### U.S. DRAWING RIGHTS ON THE FUND

The President, in his balance-of-payments message, included U.S. drawing rights on the Fund as a secondary source of monetary reserves for the United States which could, if necessary, be used to make payments abroad and to restore our reserve position and so check the drain on gold. The U.S. quota in the Fund is \$4,125 million, which the United States paid to the Fund, one-quarter in gold and three-quarters in dollars. Under normal Fund procedure, a member country is given the overwhelming benefit of the doubt in relation to requests to draw currencies equivalent to its gold payment on subscription to the Fund—the so-called “gold tranche”—and also is entitled to draw an additional amount equal to outstanding amounts of that currency reflecting past drawings. As of November 30, 1961, these drawing rights of the United States amounted to \$1.7 billion. The Fund's attitude to drawings of the next 25 percent of quota—equivalent to \$1 billion in the case of the United States—is a liberal one when a member itself is also making reasonable efforts to solve its problems. Larger drawings are permitted under Fund policy by countries which are undertaking programs for stabilization of their monetary systems and taking important measures for rectifying their balance-of-payments deficit. Successive drawings of the “credit tranches” are generally accompanied by comprehensive programs of reform.

But the figures given above show that the Fund lacks the resources in the currencies of the main industrial countries, and particularly of the European countries whose reserves have been increasing, to meet any such large drawing as the United States would be entitled to request in time of need. The standby borrowing arrangement is precisely designed to mend this weakness in the Fund's ability to cope with balance-of-payments difficulties. These standby arrangements may be particularly important for the United States since difficulties surrounding the dollar would exemplify the impairment of the international monetary system cited in the preamble to the Fund Decision. But the arrangements could be brought into operation in the case of any other serious disturbance of the world monetary system. They are intended to make available to the Fund the currencies most needed in international transactions and particularly the currencies of countries which at a given time are in balance-of-payments surplus. With this arrangement in force, the Fund, in addition to its holdings of usable currencies and gold, would be able to borrow currencies to cope with any impairment in the world payments system which caused any 1 of the 10 participating industrial countries to come to the Fund for assistance.

### III. TERMS OF THE SPECIAL BORROWING ARRANGEMENT

The special borrowing arrangement constitutes an action under the authority of article VII of the Fund's Articles of Agreement, section 2(i) of which reads as follows:

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

(i) Propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the approval of the member, the Fund borrow such currency from other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.

The present proposal to replenish the Fund's holdings of currency by means of borrowing represents an agreement (in the form of a Fund Decision reproduced as app. A) between the Fund and 10 of its members on the terms and conditions governing the lending of their currencies to the Fund. These Fund members also entered into understandings among themselves on the procedures governing their joint consideration of any proposal by the Managing Director to borrow from them. These additional understandings are embodied in the exchange of correspondence between the French Minister of Finance and the representatives of the other participating countries. Copies of the correspondence between the French Finance Minister and the Secretary of the Treasury are reproduced in appendix B.

#### PARTICIPANTS

Ten industrial countries, including the United States, have agreed to participate in the new borrowing arrangements. Five of the participating countries—the Federal Republic of Germany, France, Italy, the Netherlands, and Belgium—are members of the European Economic Community. Other participants are Canada, Japan, Sweden, the United Kingdom, and the United States. With the exception of Japan, all of the participating countries have currencies which are convertible within the meaning of article VIII of the Fund's Articles of Agreement. Japan has made its currency externally convertible, and thus any Japanese yen used under the new arrangements will also be convertible in fact.

Switzerland, although it plays a substantial role in the international monetary system, is not represented among the group of original participants because Switzerland is not a member of the Fund. Discussions are underway, however, between the Fund and the Swiss authorities with a view toward working out a means of obtaining Swiss participation in specific transactions which may arise.

The Federal Republic of Germany is participating in the borrowing arrangement through its central bank, the Deutsche Bundesbank. Specific provision for such participation through the central bank is included in the Fund Decision.

#### AMOUNTS

The potential replenishment of the Fund's resources made possible by the special borrowing arrangements is of substantial magnitude, as is shown by the tabulation on page 2. The amounts agreed upon

may be reviewed from time to time during the life of the arrangements, but may be changed only with the agreement of the Fund and of all the participants.

The \$6 billion of supplementary resources represents an increase of 42 percent in the Fund's present resources of gold and currencies of its members (as measured by quotas), and 61 percent of the currencies of the participating countries. The supplementary resources are the equivalent of 91 percent of the Fund's present holdings of the currencies of these countries.

The increase in the Fund's resources is proportionately greater in the case of the five industrial countries of the European Economic Community (EEC). The lending commitments of these countries, amounting to \$2,450 million, are in the aggregate almost as large as the sum of their present quotas in the Fund. By contrast, the commitments of the United States and the United Kingdom are approximately one-half the size of their existing Fund quotas. Moreover, the lending commitments of the five EEC members are the equivalent of about 275 percent of the Fund's present holdings of the currencies of those five countries. The relatively greater share of the European Economic Community in the provision of supplementary resources to the Fund reflects the increased strength of the balance-of-payments and reserve positions of the EEC countries, and the greater responsibility which they can now assume in defense of the stability of the international monetary system.

#### INITIAL PROCEDURES

The Fund's "Decision of Executive Directors on General Arrangements to Borrow" states that participants will stand ready to lend their currencies to the Fund when needed "to forestall or cope with an impairment of the international monetary system" in the "new conditions of widespread convertibility, including greater freedom for short-term capital movements." Participating countries experiencing balance-of-payments difficulties such as might lead to use of the supplementary resources would approach the Fund in the usual way for a drawing or purchase of needed currencies or standby arrangement entitling it to draw. The Fund's existing policies and procedures on the use of its resources would also apply.

If the Managing Director of the Fund, after consultation, considers that the situation which has given rise to the participating country's request for Fund assistance is such as to qualify for a drawing under the criteria of the special arrangements, he will consider whether the Fund's resources need to be supplemented by borrowing in order to provide the requested assistance. If he decides that borrowing is necessary, he will, after consultation with the participating countries, make a proposal for calls for an exchange transaction, indicating the amounts of specific currencies to be lent to the Fund. No such proposal of the Managing Director of the Fund will become effective unless and until it is accepted by the participants and then approved by the Fund's Executive Directors.

## CONSULTATIONS

The exchange of letters of December 15, 1961, describes the consultation procedure which the participants have agreed to. They will use the facilities of the international organizations to which they belong to keep themselves continuously informed of developments in balances of payments and in the international monetary system as a whole. This will greatly assist the participants to decide what their reaction should be to any proposal of the Managing Director to make a call for loans.

When the Managing Director of the Fund makes a proposal, the participants will consult among themselves, and for this purpose a meeting will be held among their designated representatives. Recognizing the need for prompt and decisive action, these representatives will be empowered to act on the proposal during the consultative meetings. The Managing Director would be invited to participate in these meetings.

## AGREEMENT AMONG THE PARTICIPANTS

As a result of their consultations, the participants will decide whether to accept the proposal of the Managing Director of the Fund, which must take account of the present and prospective balance-of-payments and reserve positions of each participant.

The participants have agreed to aim at reaching unanimous agreement, and in practice it should be possible to do so. Nevertheless, in order to provide assurance that a decision will be reached promptly, a voting procedure has been established. This procedure provides for decision by a two-thirds majority of the participants voting and a three-fifths majority of the votes of the participants voting, weighted on the basis of their commitments to lend supplementary resources. The prospective drawer on the Fund will not participate in the vote. Abstentions may be justified only by reason of the balance-of-payments and reserve position of an individual participating country.

A participant may give notice that, in its opinion based on its present and prospective balance-of-payments and reserve position, calls should not be made on it or that they should be for a smaller amount. In this event the Managing Director and the other participants will consult further to determine how the total agreed amount can be provided. Since the Fund Decision requires the Managing Director to take full account of the capabilities of the participants before formulating his proposal for calls, there should seldom be occasion for any participant subsequently to withdraw itself from the list of lenders. It should be noted that there is no other basis on which a participant may refuse to lend once the participants as a group have agreed to the Managing Director's proposal.

## DRAWING TRANSACTION

Upon completion of the procedures described above, and after each participant concerned has notified the Managing Director of the amount it will lend, the proposed borrowing transactions will be submitted for the approval of the Executive Directors of the Fund.

Once approved by them, the Fund will borrow the agreed amounts of the currencies of the participants and will accordingly be in a position to honor the request for a drawing of these currencies from the Fund, together with any amounts of them which the Fund may use from its regular resources. The transaction may also take the form of a standby arrangement, and the agreement to lend to the Fund may relate to this. A standby arrangement gives the Fund member the right to purchase, without further review, stated amounts of currencies within a specified time period, in accordance with the provisions of the given arrangement.

A participant drawing on the Fund must pay the regular service charge of one-half of 1 percent of the amount drawn, or a charge of one-quarter of 1 percent on the amount of a standby arrangement. In addition the Fund charges an amount on drawings which varies with the size of the drawing in relation to quota and the period during which the drawing is outstanding.

#### TERMS OF LOANS

Lenders to the Fund will acquire nonnegotiable instruments indicating the Fund's indebtedness to the participant. The Fund will pay a transfer charge of one-half of 1 percent to lenders, and will pay interest at the rate of 1½ percent per annum, subject to revision if the charges on Fund drawings are changed.

Loans to the Fund, in addition to their high quality, will be endowed with a high degree of liquidity. The maximum duration of loans is 5 years. But they will be repaid by the Fund immediately upon completion of a repurchase by the drawer for whose benefit the Fund originally borrowed the money. Moreover, any loan will be subject to repayment if the lender at any time represents that it has a balance-of-payments need for repayment of all or a part of the loan. The Fund will give the overwhelming benefit of any doubt to such representations, which in practice assures any lender of prompt repayment if it, in turn, gets into difficulty. If the United States, for example, should lend to the Fund, and subsequently experience balance-of-payments difficulties, this provision would insure that the United States could secure repayment of its loan.

#### OTHER PROVISIONS

The commitment of the participants to lend to the Fund is stated in their own currencies. The value of any loan made to the Fund will be determined in terms of gold as of the date of the transfer, and the Fund will be required to maintain this value and to repay an equivalent value to the lender. This corresponds to established procedures and requirements relating to the maintenance of the value of currencies held by the Fund.

Repayment to a lender by the Fund will be made in the currency of the lender, in gold, or, after consultation with the lender, in other currencies which are convertible in fact.

## ENTRY INTO FORCE AND DURATION

The arrangements will become effective when at least seven participants with commitments totaling \$5.5 billion, of the total \$6 billion, have adhered to the Fund Decision, and have taken all necessary steps in accordance with law to enable carrying out the terms and conditions of the Decision. The arrangements could not, therefore, become effective without the participation of the Federal Republic of Germany, France, Italy, the United Kingdom, and of the United States, since the commitment of each of these countries exceeds \$500 million.

The arrangements will remain in force for a period of 4 years from the effective date of their entry into force, but may be extended for such period or periods as may be agreed. During its life, the Fund Decision may be amended only with the unanimous consent of the participants.

## IV. PROPOSED LEGISLATION

The Council believes that legislation should be enacted in the present session of the Congress to authorize the United States to participate in the lending arrangements. While there is no immediate expectation that the United States will be called upon to make a loan to the Fund, in adhering to the Fund Decision the United States must indicate that it has taken all steps necessary to carry out the terms and conditions of that Decision, and without the adherence of the United States the arrangement will not come into operation.

Accordingly, it will be necessary to amend section 5(e) of the Bretton Woods Agreements Act (which authorized U.S. adherence to the International Monetary Fund) which provides that "unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States \* \* \* (e) make any loan to the Fund \* \* \*." The legislation to be proposed will authorize the Secretary of the Treasury to make loans to the Fund, not to exceed \$2 billion outstanding at any one time, under article VII, section 2(i) of the Articles of Agreement. In connection with any purchases of currency from the Fund that the United States may make, non-interest-bearing notes may be issued and supplied to the Fund in substitution for U.S. currency, as the Fund articles permit. It is further proposed that any purchases of currency effected by the Secretary of the Treasury from the International Monetary Fund may be transferred to and administered by the Exchange Stabilization Fund of the Treasury.

It should be noted that there will be no gold payment to the Fund by the United States as a consequence of our adherence to the proposed arrangement. Also, additional non-interest-bearing notes would not be issued to the Fund unless at some later date the United States might make a drawing from the Fund which called for such issuance.

## V. CONCLUSIONS AND RECOMMENDATION

The balances of payments of the leading industrial countries with convertible currencies are from time to time subject to particularly large fluctuations. Pressures may arise from changes in exports and imports, shifts in the movement of long-term capital, or other payments abroad. The liberalization of trade and capital move-

ments and the emergence of strong convertible currencies in the last few years have facilitated wide swings in the payments position of major countries, in response to large flows of short-term capital and other temporary factors.

As a consequence, the principal currencies in which the bulk of the world's transactions are carried out and in which monetary reserves are held have at various times come under severe, though temporary, pressures. It is in the interest of the international community to prevent these unusual pressures on the principal currencies from impairing the stability of the international monetary system. The International Monetary Fund's present holdings of the currencies of the main industrial countries are not adequate to finance the large drawings which might be needed to deal with unusual pressures on the dollar, or on sterling at a time of relative dollar weakness.

A proposal has therefore been worked out after considerable discussion and negotiation under which the 10 main industrial countries would stand ready to lend their currencies to the Fund if the Fund required additional amounts of currency for use to "forestall or cope with an impairment of the international monetary system." It is the view of the Council that this provision of supplementary resources to the Fund is desirable in the interests of the free world and particularly of the United States. Although there is little prospect that the United States will be called upon to lend to the Fund in the immediate future, U.S. participation in the proposed arrangements is essential for the plan to go into effect and for the United States to become eligible to benefit therefrom.

#### RECOMMENDATION

The National Advisory Council strongly recommends to the President and to the Congress that the United States participate in the proposed borrowing arrangements of the International Monetary Fund. The general terms of these arrangements are set forth in the decision of the Executive Directors of the Fund of January 5, 1962, and the exchange of letters between the French Minister of Finance and the Secretary of the Treasury dated December 15, 1961. The Council believes that the proposal is in the best interests of the United States and the stability of the international monetary system.

To permit U.S. participation, amendment of the Bretton Woods Agreements Act is necessary. Accordingly, legislation should be proposed authorizing the Secretary of the Treasury to make loans, not exceeding \$2 billion outstanding at any one time, to the International Monetary Fund.

This legislation will enable the United States to participate in the proposed borrowing arrangement and to bring it into operation. The proposed arrangements are, in the view of the Council, well adapted to dealing with the monetary situation that has emerged in recent years and will contribute significantly to the maintenance of sound international monetary conditions.

## APPENDIXES

### APPENDIX A

#### TEXT OF THE DECISION OF THE EXECUTIVE DIRECTORS OF THE INTERNATIONAL MONETARY FUND, JANUARY 5, 1962

##### INTERNATIONAL MONETARY FUND

Executive Board Decision No. 1289-(62/1).  
Subject: General Arrangements To Borrow.

##### *Preamble*

In order to enable the International Monetary Fund to fulfil more effectively its role in the international monetary system in the new conditions of widespread convertibility, including greater freedom for short-term capital movements, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to lend their currencies to the Fund up to specified amounts under Article VII, Section 2 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system in the aforesaid conditions. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 2 of the Articles of Agreement.

##### PARAGRAPH 1. *Definitions*

As used in this Decision the term:

- (i) "Articles" means the Articles of Agreement of the International Monetary Fund;
- (ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this Decision;
- (iii) "participant" means a participating member or a participating institution;
- (iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;
- (v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;
- (vi) "amount of a credit arrangement" means the maximum amount expressed in units of its currency that a participant undertakes to lend to the Fund under a credit arrangement;
- (vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;
- (viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;
- (ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by arrangement;
- (x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

##### PARAGRAPH 2. *Credit Arrangements*

A member or institution that adheres to this Decision undertakes to lend its currency to the Fund on the terms and conditions of this Decision up to the amount in units of its currency set forth in the Annex to this Decision or established in accordance with Paragraph 3(b).

##### PARAGRAPH 3. *Adherence*

(a) Any member or institution specified in the Annex may adhere to this Decision in accordance with Paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this Decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with Paragraph 3(c). When giving notice of its willingness to adhere under this Paragraph 3(b) a member or institution shall specify the amount, expressed in terms of its currency, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the equivalent at the date of adherence of one hundred million United States dollars of the weight and fineness in effect on July 1, 1944.

(c) A member or institution shall adhere to this Decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this Decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this decision, whichever shall be later.

**PARAGRAPH 4. *Entry into Force***

This Decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one-half billion United States dollars of the weight and fineness in effect on July 1, 1944.

**PARAGRAPH 5. *Changes in Amounts of Credit Arrangements***

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

**PARAGRAPH 6. *Initial Procedure***

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under Paragraph 7.

**PARAGRAPH 7. *Calls***

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Directors. Each participant shall notify the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve positions of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under Paragraph 7(a), purchases of borrowed currency under a stand-by arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to Paragraph 7(a) for a drawer's purchases under a stand-by arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of Paragraph 7(a). The proposal as originally approved under Paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with Paragraph 7(a).

(e) When the Fund makes a call pursuant to this Paragraph 7, the participant shall promptly make the transfer in accordance with the call.

**PARAGRAPH 8. Evidence of Indebtedness**

(a) The Fund shall issue to a participant, on its request, nonnegotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under Paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

**PARAGRAPH 9. Interest and Charges**

(a) The Fund shall pay a charge of one-half of one percent on transfers made in accordance with Paragraph 7(e).

(b) The Fund shall pay interest on its indebtedness at the rate of one and one-half percent per annum. In the event that this becomes different from a basic rate determined as follows:

the charge levied by the Fund pursuant to Article V, Section 8(a) plus the charge levied by the Fund pursuant to Article V, Section 8(c)(i), as changed from time to time under Article V, Section 8(e), during the first year after a purchase of exchange from the Fund, minus one-half of one percent, the interest payable by the Fund shall be changed by the same amount as from the date when the difference in the basic rate takes effect. Interest shall be paid as soon as possible after July 31, October 31, January 31, and April 30.

(c) Interest and charges shall be paid in gold to the extent that this can be effected in bars. Any balance not so paid shall be paid in United States dollars.

(d) Gold payable to a participant in accordance with Paragraph 9(b) or Paragraph 11 shall be delivered at any gold depository of the Fund chosen by the participant at which the Fund has sufficient gold for making the payment. Such delivery shall be free of any charges or costs for the participant.

**PARAGRAPH 10. Use of Borrowed Currency**

The Fund's policies and practices on the use of its resources and stand-by arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund.

**PARAGRAPH 11. Repayment by the Fund**

(a) Subject to the other provisions of this Paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with Paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than five years after its purchase, the Fund shall repay the participants at that date. Repayment under this Paragraph 11(a) or under Paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in gold, or, after consultation with the participant, in other currencies that are convertible in fact. Repayments to a participant under the subsequent provisions of this Paragraph 11 shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this Paragraph 11(a).

(b) Before the date prescribed in Paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant, in part or in full, with any increases in the Fund's holdings of the participant's currency that exceed the Fund's working requirements, and participants shall accept such repayment.

(c) Whenever a drawer repurchases, the Fund shall promptly repay an equivalent amount, except in any of the following cases:

(i) The repurchase is under Article V, Section 7(b) and can be identified as being in respect of a purchase of currency other than borrowed currency.

(ii) The repurchase is in discharge of a commitment entered into on a purchase of currency other than borrowed currency.

(iii) The repurchase entitles the drawer to augmented rights under a stand-by arrangement pursuant to Section II of Decision No. 876-(59/15) of the Executive Directors, provided that, to the extent that the drawer does not exercise such augmented rights, the Fund shall promptly repay an equivalent amount on the expiration of the stand-by arrangement.

(d) Whenever the Fund decides in agreement with a drawer that the problem for which the drawer made its purchases has been overcome, the drawer shall complete repurchase, and the Fund shall complete repayment and be entitled to

use its holdings of the drawer's currency below 75 percent of the drawer's quota in order to complete such repayment.

(e) Repayments under Paragraph 11 (c) and (d) shall be made in the order established under Paragraph 11(a) and in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(f) Before the date prescribed in Paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made after consultation with the participant in the currencies of other members that are convertible in fact, or made in gold, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this Paragraph 11, transfers under this Paragraph 11(f) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this Paragraph 11(f).

(g) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve positions of the members whose currencies are to be used in repayment.

(h) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(i) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this Decision shall be restored *pro tanto* but not beyond the amount of the credit arrangement.

#### PARAGRAPH 12. *Rates of Exchange*

(a) The value of any transfer shall be calculated as of the date of the transfer in terms of a stated number of fine ounces of gold or of the United States dollar of the weight and fineness in effect on July 1, 1944, and the Fund shall be obliged to repay an equivalent value.

(b) For all of the purposes of this Decision, the equivalent in currency of any number of fine ounces of gold or of the United States dollar of the weight and fineness in effect on July 1, 1944, or *vice versa*, shall be calculated at the rate of exchange at which the Fund holds such currency at the date as of which the calculation is made; provided however that the provisions of Decision No. 321-(54/32) of the Executive Directors on Transactions and Computations Involving Fluctuating Currencies, as amended by Decision No. 1245-(61/45) and Decision No. 1283-(61/56), shall determine the rate of exchange for any currency to which that decision, as amended, has been applied.

#### PARAGRAPH 13. *Transferability*

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

#### PARAGRAPH 14. *Notices*

Notice to or by a participating member under this Decision shall be in writing or by cable and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by cable and shall be given to or by the participating institution.

#### PARAGRAPH 15. *Amendment*

This Decision may be amended during the period prescribed in Paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the Decision on its renewal pursuant to Paragraph 19(b).

**PARAGRAPH 16. *Withdrawal of Adherence***

A participant may withdraw its adherence to this Decision in accordance with Paragraph 19(b) but may not withdraw within the period prescribed in Paragraph 19(a) except with the agreement of the Fund and all participants.

**PARAGRAPH 17. *Withdrawal from Membership***

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XV, Section 3, and Schedule D of the Articles.

**PARAGRAPH 18. *Suspension of Exchange Transactions and Liquidation***

(a) The right of the Fund to make calls under Paragraph 7 and the obligation to make repayments under Paragraph 11 shall be suspended during any suspension of exchange transactions under Article XVI of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule E of the Articles. For the purpose of Paragraph 1(a) of Schedule E, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participant.

**PARAGRAPH 19. *Period and Renewal***

(a) This Decision shall continue in existence for four years from its effective date.

(b) This Decision may be renewed for such period or periods and with such modifications, subject to Paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in Paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in Paragraph 19(a) that it will withdraw its adherence to the Decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the Decision as renewed. Withdrawal of adherence in accordance with this Paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with Paragraph 3(b).

(c) If this Decision is terminated or not renewed, Paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the Decision until repayment is completed. If a participant withdraws its adherence to this Decision in accordance with Paragraph 16 or Paragraph 19(b), it shall cease to be a participant under the Decision, but Paragraphs 8 through 14, 17 and 18(b) of the Decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

**PARAGRAPH 20. *Interpretation***

Any question of interpretation raised in connection with this Decision which does not fall within the purview of Article XVIII of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this Paragraph 20 participants shall be deemed to include those former participants to which Paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to Paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

## ANNEX

*Participants and Amounts of Credit Arrangements*

	Units of Participant's Currency	
1. United States of America.....	US\$	2,000,000,000
2. Deutsche Bundesbank.....	DM	4,000,000,000
3. United Kingdom.....	£	357,142,857
4. France.....	NF	2,715,381,428
5. Italy.....	Lit	343,750,000,000
6. Japan.....	Yen	90,000,000,000
7. Canada.....	Can\$	208,938,000
8. Netherlands.....	f.	724,000,000
9. Belgium.....	BF	7,500,000,000
10. Sweden.....	SKr	517,320,000

The foregoing is the text of a decision of the Executive Board taken at Meeting 62/1, January 5, 1962.

ROMAN L. HORNE, *Secretary.*

## APPENDIX B

EXCHANGE OF CORRESPONDENCE BETWEEN M. WILFRID BAUMGARTNER, MINISTER OF FINANCE AND ECONOMIC AFFAIRS OF FRANCE, AND DOUGLAS DILLON, SECRETARY OF THE TREASURY, PARIS, FRANCE, DECEMBER 15, 1961

MINISTÈRE DES FINANCES,  
*Le Ministre, Le 15 Décembre 1961.*

The Honorable DOUGLAS DILLON,  
*Secretary of the Treasury.*

DEAR MR. SECRETARY: The purpose of this letter is to set forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions (hereinafter referred to as "the participants") in connection with borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

This procedure, which would apply after the entry into force of that decision with respect to the participants which adhere to it in accordance with their laws, and which would remain in effect during the period of the decision, is as follows:

A. A Participating Country which has need to draw currencies from the International Monetary Fund or to seek a stand-by agreement with the Fund in circumstances indicating that the Supplementary Resources might be used, shall consult with the Managing Director of the Fund first and then with the other participants.

B. If the Managing Director makes a proposal for Supplementary Resources to be lent to the Fund, the participants shall consult on this proposal and inform the Managing Director of the amounts of their currencies which they consider appropriate to lend to the Fund, taking into account the recommendations of the Managing Director and their present and prospective balance of payments and reserve positions. The participants shall aim at reaching unanimous agreement.

C. If it is not possible to reach unanimous agreement, the question whether the participants are prepared to facilitate, by lending their currencies, an exchange transaction or stand-by arrangement of the kind covered by the special borrowing arrangements and requiring the Fund's resources to be supplemented in the general order of magnitude proposed by the Managing Director, will be decided by a poll of the participants.

The prospective drawer will not be entitled to vote. A favorable decision shall require the following majorities of the participants which take part in the vote, it being understood that abstentions may be justified only for balance of payments reasons as stated in paragraph D:

(1) a two-thirds majority of the number of participants voting; and

(2) a three-fifths majority of the weighted votes of the participants voting, weighted on the basis of the commitments to the Supplementary Resources.

D. If the decision in paragraph C is favorable, there shall be further consultations among the participants, and with the Managing Director, concerning the amounts of the currencies of the respective participants which will be loaned to

the Fund in order to attain a total in the general order of magnitude agreed under paragraph C. If during the consultations a participant gives notice that in its opinion, based on its present and prospective balance of payments and reserve position, calls should not be made on it, or that calls should be for a smaller amount than that proposed, the participants shall consult among themselves and with the Managing Director as to the additional amounts of their currencies which they could provide so as to reach the general order of magnitude agreed under paragraph C.

E. When agreement is reached under paragraph D, each participant shall inform the Managing Director of the calls which it is prepared to meet under its credit arrangement with the Fund.

F. If a participant which has loaned its currency to the Fund under its credit arrangement with the Fund subsequently requests a reversal of its loan which leads to further loans to the Fund by other participants, the participant seeking such reversal shall consult with the Managing Director and with the other participants.

For the purpose of the consultative procedures described above, participants will designate representatives who shall be empowered to act with respect to proposals for use of the Supplementary Resources.

It is understood that in the event of any proposals for calls under the credit arrangements or if other matters should arise under the Fund decision requiring consultations among the participants, a consultative meeting will be held among all the participants. The representative of France shall be responsible for calling the first meeting, and at that time the participants will determine who shall be the Chairman. The Managing Director of the Fund or his representative shall be invited to participate in these consultative meetings.

It is understood that in order to further the consultations envisaged, participants should, to the fullest extent practicable, use the facilities of the international organizations to which they belong in keeping each other informed of developments in their balances of payments that could give rise to the use of the Supplementary Resources.

These consultative arrangements, undertaken in a spirit of international cooperation, are designed to insure the stability of the international payments system.

I shall appreciate a reply confirming that the foregoing represents the understandings which have been reached with respect to the procedure to be followed in connection with borrowings by the International Monetary Fund under the credit arrangements to which I have referred.

I am sending identical letters to the other participants—that is, Belgium, Canada, Germany, Italy, Japan, The Netherlands, Sweden, the United Kingdom. Attached is a verbatim text of this letter in English. The French and English texts and the replies of the participants in both languages shall be equally authentic. I shall notify all of the participants of the confirmations received in response to this letter.

W. BAUMGARTNER.

PARIS, December 15, 1961.

Monsieur WILFRID BAUMGARTNER,  
*Ministre des Finances et des Affaires Economiques,*  
*93, rue de Rivoli, Paris (1<sup>er</sup>).*

DEAR MR. MINISTER: This is in reply to your letter of December 15, 1961, setting forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions in connection with the borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

On behalf of the United States of America, I am pleased to confirm that we are in agreement with the statement of understandings as set forth in your letter of December 15, 1961. I am attaching, in accordance with your suggestion, the French text of this letter of confirmation.

Sincerely yours,

(Signed) Douglas Dillon  
DOUGLAS DILLON.

## APPENDIX C

LETTER FROM M. WILFRID BAUMGARTNER, FRENCH MINISTER OF FINANCE, TO  
DOUGLAS DILLON, SECRETARY OF THE TREASURY, JANUARY 9, 1962

MINISTÈRE DES FINANCES,  
*Le Ministre, January 9, 1962.*

The Honorable DOUGLAS DILLON,  
*Secretary of the Treasury,*  
*Washington, D.C.*

DEAR MR. SECRETARY: You have been kind enough to confirm to me your agreement regarding the procedure to be followed in connection with borrowing by the International Monetary Fund of Supplementary Resources from the Participating Countries and Institutions.

I have the honour to inform you that I have received similar confirmations from the Minister of Finance of Belgium, the Minister of Finance of Canada, the President of the German Federal Bank, the Minister of the Treasury of Italy, the Minister of Finance of Japan, the Minister of Finance of the Netherlands, the Governor of the National Bank of Sweden and the Chancellor of the Exchequer of the United Kingdom.

I should also like to confirm to you the agreement of the French Government regarding the terms of my letter of December 15, 1961.

I am notifying the other participants, as well as the International Monetary Fund, of the general agreement thus realized with respect to the understandings reached during the recent discussions in Paris.

W. BAUMGARTNER.

Mr. SPENCE. Mr. Secretary, we are very happy to have you here this morning to give us the benefit of your views on the very important national and international legislation.

Mr. Widnall, I will ask you, as Mr. Dillon's Congressman, to introduce the Secretary.

Mr. WIDNALL. Mr. Secretary, Mrs. Dwyer and I would certainly like to welcome you here before the committee. It is a real pleasure not only to have you here, as a fellow Jerseyan but also because for many, many years you have contributed so much in the way of public service, and community service, as an outstanding ambassador and in two important administration posts in Washington, under Presidents Eisenhower and Kennedy, and we know how valuable your work has been.

We are very fortunate to have you as Secretary of the Treasury, and we certainly will be pleased to hear your testimony before the committee.

Mr. SPENCE. We are meeting this morning to hear testimony on H.R. 10162, "A bill to amend the Bretton Woods Agreements Act to authorize the United States to participate in loans to the International Monetary Fund to strengthen the international monetary system."

You may proceed, Mr. Secretary, with your statement, and you will not be interrupted until you have completed it and will be subjected to interrogation at the conclusion.

Secretary DILLON. Thank you, Mr. Chairman.

Before my opening statement I would like to express my deep appreciation and humility at the very fine unexpected introduction which I have received from my two friends in New Jersey, Mr. Widnall, and Mrs. Dwyer. It is a great pleasure to be here in Washington as a representative of my State, working for the country with such fine members of Congress as those two are.

#### STATEMENT OF HON. DOUGLAS DILLON, SECRETARY OF THE TREASURY

Secretary DILLON. Mister Chairman and Committee members:

I am glad to appear before the committee this morning in support of H.R. 10162. This legislation will enable the United States, in cooperation with nine other industrial countries of the free world, to take a major step in support of a strong international monetary system. An amendment to the Bretton Woods Agreements Act authorizing the United States to lend up to \$2 billion to the International Monetary Fund is a prerequisite for United States participation in proposed arrangements which will make \$6 billion of additional resources available to the Fund.

Five members of the European Common Market are participating in the special arrangements with an aggregate lending commitment of \$2.45 billion. Germany's commitment is \$1 billion; France and Italy have agreed to lend up to \$550 million each; while the Netherlands is participating with \$200 million, and Belgium with \$150 million. The United Kingdom is to lend up to \$1 billion. Other participants are Japan, which is to lend up to \$250 million, Canada, participating with \$200 million, and Sweden, with \$100 million. In all, the nine participating countries other than the United States will

stand ready to lend their currencies to the Fund up to a total of \$4 billion.

These additional resources have potentially great importance for the United States. The Fund has on hand today only a limited supply of currencies that could be used if the need for a drawing by the United States should ever arise. The lending commitments of the major countries other than the United States and the United Kingdom—which amount to \$3 billion—are approximately twice as large as the Fund's current holdings of their currencies. These supplementary resources would greatly enhance the Fund's ability to assist us should it ever become necessary.

As you know, the International Monetary Fund was established in 1945, at the same time as the World Bank. U.S. membership in the Fund was authorized by the Bretton Woods Agreements Act. The Fund's purpose is to promote exchange and monetary stability among its 75 member nations. It does so principally by providing short-term assistance to deal with temporary balance-of-payments difficulties, pending the results of longer range corrective measures.

With the growth of world trade and the increase in the size of monetary reserves, the resources of the Fund have been called upon to a greater and greater extent. To keep pace with these requirements, the quotas of the Fund's members, including the United States, were increased in 1959.

Since that time new problems have arisen, largely as a result of the recent heavy strains placed upon the two principal world reserve currencies—the dollar and the pound sterling.

The proposed legislation, which would authorize U.S. participation in the new Fund borrowing arrangements, is designed to help deal with these problems, which arose partly as a result of the restoration of currency convertibility among the industrialized countries. With the advent of full economic recovery in Europe, these countries have improved their trade and payments positions and have accumulated large monetary reserves.

In the 4-year period from the end of 1957 through the end of 1961, the reserves in gold and foreign exchange—mostly dollars—of the major industrial countries other than the United States and the United Kingdom increased from \$12.1 billion to about \$20.1 billion.

As a result of the improvements in the payments positions of other industrial countries, chiefly in Western Europe, they were able to make their currencies freely convertible, with the consequence that movements of short-term capital from country to country were greatly increased. Wider investment opportunities, the attraction of interest rate differentials and, to some extent, speculation, all contributed to these movements of capital.

Increases in foreign monetary reserves were largely the counterpart of overall deficits in the balance of payments of the United States. Our deficits totalled approximately \$13.5 billion during the 4-year period 1958-61 and were financed by a gold outflow of \$5.5 billion and an increase in U.S. dollar liabilities of \$8 billion.

The basic part of our deficit has been made up of trade transactions, long-term investment and expenditure for military and economy aid programs. But since the middle of 1960 a large part has also resulted from movements of short-term capital.

In 1958, 1959, 1960, and 1961, our basic deficit—which is the net of all of our international transactions except short-term capital movements and unrecorded transactions—was \$3.6, \$4.3, \$1.9, and \$0.6 billion, respectively, while we incurred total deficits, including short-term capital movements and unrecorded transactions, of \$3.5, \$3.7, \$3.9, and about \$2.4 billion, respectively.

The stability of the dollar is essential not only to the economy of the United States but to that of the entire free world. The dollar is the major reserve currency of the free world. Much of world trade and other transactions is carried out in dollars, and settlements of payments, surpluses, or deficits between foreign countries to a large extent are made in dollars. It is for these reasons that other nations have a vital interest in these new Fund arrangements which will be so important as an added resource to deal with stresses in the international payments system.

In his message of February 6, 1961, President Kennedy referred to the drawing rights of the United States on the International Monetary Fund as a secondary line of reserves which we could call upon to maintain the strength of the dollar, in addition to our own holdings of gold and foreign currencies.

The U.S. quota in the Fund is \$4,125 million, one-quarter of which the United States has paid to the Fund in gold and three-quarters in dollars. A member country is normally entitled to draw currencies freely from the Fund up to the amount of its gold payment, plus an amount equal to the outstanding amounts of the member's currency which have been drawn by other countries.

As of December 31, 1961, these virtually automatic drawing rights of the United States amounted to \$1.7 billion. In addition, the Fund treats liberally requests for additional drawings up to 25 percent of a member's quota, if the member itself is making reasonable efforts to solve its balance-of-payments problems. In the case of the United States, this would be the equivalent of another \$1 billion. Larger drawings are permitted by the Fund if a member is undertaking programs of monetary stabilization and measures for rectifying balance-of-payments deficits.

The total amount, therefore, that the United States would have the right to draw from the Fund almost automatically would be \$1.7 billion; another \$1 billion could be drawn with relative ease; and additional amounts could be drawn depending upon the seriousness of the situation and the measures which the United States was taking to cope with it.

However, the resources of the Fund to meet a U.S. request for a large drawing are not at present adequate.

On December 31, 1961, the Fund had available to it \$2.1 billion in gold and \$11.5 billion in member currencies. But a large part of these currencies consisted of currencies of the less developed countries which for the time being are not suitable for use by the Fund. The Fund's holdings of the currencies of the major industrial countries amounted on that date to the equivalent of about \$6.6 billion; however, of this amount \$4.9 billion was in dollars and sterling and only \$1.6 billion was in currencies of the other industrial countries. The currencies of the member countries of the European Economic Community accounted for only \$890 million of this \$1.6 billion. On

the same date, the Fund's outstanding commitments under existing stand-by arrangements, with the United Kingdom and other members, amounted to the equivalent of \$1.4 billion.

It is clear, therefore, that the Fund now lacks the resources in gold and the currencies of industrial countries other than dollars and sterling which would be needed to meet a large drawing such as the United States would be entitled to request.

At their Vienna meeting last September, there was general agreement among Fund Governors that ways should be found to increase the resources available to the Fund. The arrangements finally worked out are embodied in the Fund decision of January 5, 1962, and in the exchange of letters initiated in Paris, in December 1961, at the conclusion of discussions among the 10 governments concerned. The Fund decision and the related Paris arrangements are reproduced in the "Report of the National Advisory Council" which is now before you. (See p. 3.)

The proposed new arrangements can be described very simply. The 10 participating countries would lend stated amounts of their currencies to the Fund if required to permit drawings from the Fund by any one of the participant countries in order to "forestall or cope with an impairment of the international monetary system." These commitments to lend would be invoked only if and when the Fund needs the additional resources.

The proposed arrangement is intended to remedy the shortage of the Fund's current holdings of currencies of industrial countries, especially those of countries having surpluses in their balance-of-payments and increasing reserves. The participating European Common Market countries—Belgium, France, Germany, Italy, and the Netherlands—would commit an amount of their currencies almost equal to their present quotas in the Fund, while the commitments of the United States and the United Kingdom would be only about half of their present quotas. The effect of the new arrangement would be to increase by about 275 percent the present availability to the Fund of the currencies of the surplus countries of the European Economic Community.

The proposed agreement is designed so that countries which are in a surplus position and which are gaining reserves may lend their own currencies to the Fund, which in turn can supply them to other participating countries which might need additional resources. Thus, if the United States were to draw on the Fund, the Fund would be able to obtain the currencies which we could use. On the other hand, a country which itself faces serious balance-of-payments problems, and whose reserves are declining, would not be expected to lend to the Fund. This would mean that the United States, for example, would not be expected to lend dollars to the Fund under present circumstances. In any event, since the Fund still has available in dollars almost \$2½ billion from the regular United States quota, it is highly unlikely that a need for borrowing from the United States will arise.

The agreement set forth in the Paris letters establishes the international machinery necessary for the 10 participating countries to meet and act upon requests for loans to the Fund.

If 1 of the 10 participating countries wishes to draw from the Fund, or to enter into a standby arrangement with it, in order to forestall or cope with a situation that might lead to impairment of the international monetary system, that country would consult with the Managing Director and with the other participants.

The Managing Director would then propose to the participants the total amount which he believes the Fund should borrow, and the amounts which should be supplied by each participant in its own currency. The participants would try to reach unanimous agreement on their response to the Managing Director's proposal. If they could not reach unanimous agreement, the question of lending to the Fund would be decided by a vote of the participants. The country proposing to draw would not vote. A decision would require a two-thirds majority of the other voting participants and a three-fifths majority of their weighted votes.

Since the countries concerned are in constant close communication regarding their balance-of-payments position, not only in the Fund but also through the Organization for Economic Cooperation and Development, and bilaterally, a decision can be reached very rapidly. The procedure established balances the right of each country to safeguard its own interests with the collective judgment of the group as to the needs of the international monetary system. Such safeguards are appropriate and necessary since it is impossible to foresee what the situation of any particular country may be at an unspecified date in the future when a borrowing may be needed.

Loans to the Fund by participating countries would carry a transfer charge of  $\frac{1}{2}$  of 1 percent, plus annual interest of  $1\frac{1}{2}$  percent. Loans to the Fund would mature in 5 years, but would be repaid sooner if the drawing country repaid the Fund sooner. Also, if a lending country should itself encounter balance-of-payments difficulties, it may obtain prompt repayment from the Fund.

Drawings of the additional resources from the Fund would conform to the Fund's normal procedures: that is to say, the drawing member would purchase from the Fund currencies of other participating countries with its own currency, and would pay a service charge of  $\frac{1}{2}$  of 1 percent on the amount of the drawing, plus interest. The rate of interest would vary with the size of the drawing and the period for which it would be outstanding. The drawing member would usually have to repay the Fund by repurchasing its currency within 3 to 5 years, but would be expected to repay earlier if its payments situation improved.

The whole arrangement would be effective for an initial period of 4 years, subject to renewal by the Fund, but it could not be modified within that period except with the consent of all the participants.

I wish to emphasize the great advantage to the United States of these borrowing arrangements. It may be that the Fund will never need to borrow. We hope this will be the case. But the commitments will stand as a reserve to be used if and when necessary, and they will provide the Fund with the currencies which would be needed by the United States if it were ever to draw on the Fund. Thus the very existence of this large supplementary pool of usable resources should act as a strong deterrent to speculation against the dollar or other currencies, since it will be well known that there are ample resources

available to counteract serious disturbances of the international monetary system. The arrangements will benefit not only the participating countries but all countries of the free world. The stability of the dollar and of the other major currencies are of vital importance to the smooth functioning of the international trade and payments system.

The legislation which is before you would amend the Bretton Woods Agreements Act, which now prohibits any loan by the United States to the Fund without the specific approval of Congress, and grant the authority to lend up to \$2 billion. The legislation would also authorize an appropriation of \$2 billion, to remain available until expended, for the purpose of making loans to the International Monetary Fund. As I have pointed out, we will not be called upon to make a loan to the Fund under present conditions and, in any event, the question of a loan would not arise until the Fund's resources in dollars—currently about \$2½ billion—had been exhausted. This is to be a standby commitment to the Fund. There will not be an expenditure of the funds authorized until such time as we might actually make a loan to the Fund. In considering any request to lend under the commitment, we would of course take into consideration our balance-of-payments position at the time and the level of our reserves, as well as the special circumstances which led to the request to lend.

I should like to emphasize that the amount of the appropriation must be in the full amount of \$2 billion, in order to bring into effect our agreement with the other nine participants. The entire arrangement is contingent upon the participating countries having authority to take action promptly. The amount of each country's commitment is part of the arrangement, and any change in this amount would require a renegotiation. It is thus necessary to have the full authority to provide the necessary financing if we should be called upon, even though in practice we do not expect to have to use this authority in the foreseeable future.

A section of the legislation before you includes a technical amendment designed to clarify existing legislative authority, so as to permit the use of non-interest-bearing notes—and thus save us interest costs—in an amount of any U.S. drawings on the Fund. If the United States were to draw on the Fund, it would have to do so by purchasing foreign currencies from the Fund with dollars. The Fund's Articles of Agreement, however, permit these dollars to be paid to the Fund in the form of non-interest-bearing notes, without any use of cash from current receipts or any debt operations which would involve the United States in an interest cost. The Bretton Woods Agreements Act authorized the issuance of such non-interest-bearing notes to the Fund up to the amount of our quota subscription, which is \$4.1 billion. As of December 31, 1961, notes outstanding under this authority amounted to \$2.4 billion. If the United States were now to make a drawing from the Fund in excess of the \$1.7 billion balance of this authority, it is not clear, under existing legislation, that we could issue non-interest-bearing notes in the amount of this excess. The proposed legislation would make entirely clear the Treasury's authority on this matter.

In conclusion, Mr. Chairman, I should like to say that the present proposal before the committee is one which is in the best interests

of the United States and of the free world as a whole. It is essential to us and to other countries that the dollar be maintained as a sound and reliable currency at its present parity. If necessary to defend the dollar, as President Kennedy said in his balance-of-payments message, we will use our drawing rights in the International Monetary Fund as a supplementary form of reserves. The bill before you will enable the United States to participate in arrangements which will provide the International Monetary Fund with an adequate supply of the currencies which we ourselves might some day need. It will provide significant assistance to the United States in dealing with the balance-of-payments problem.

The arrangement can be used by the Fund to assist any other participating countries as well. The other nine countries also have a stake in the maintenance of a stable international monetary structure in the free world, and this is why they are all now cooperating in this new arrangement. We should join with them in strengthening the International Monetary Fund by giving it authority to borrow, if needed, the currencies which are most essential to cope with an impairment of the monetary system of the free world.

Thank you, Mr. Chairman.

Mr. SPENCE. Thank you, Mr. Secretary, for an excellent statement.

Mr. Kilburn, do you have any questions?

Mr. KILBURN. Mr. Chairman; Mr. Secretary, has the United States ever borrowed from this Fund?

Secretary DILLON. The United States has never made a borrowing on the Fund; no.

Mr. KILBURN. We have never used it?

Secretary DILLON. We have never used it; no.

Mr. KILBURN. Has there ever been a loss? Has the Fund ever sustained a loss?

Secretary DILLON. No; the Fund has never sustained a loss.

Mr. KILBURN. I thought the United States did borrow from the Fund.

Secretary DILLON. No; the United States has not borrowed from the Fund.

Mr. KILBURN. That is all, Mr. Chairman.

Mr. SPENCE. Mr. Patman.

Mr. PATMAN. Mr. Chairman, I ask unanimous consent to insert in the record, at this point, a statement about the bill and about Mr. Dillon's testimony, and I will also ask some questions.

Mr. SPENCE. Without objection, that may be done.

**STATEMENT OF HON. WRIGHT PATMAN, A REPRESENTATIVE IN  
THE CONGRESS OF THE UNITED STATES FROM THE STATE OF  
TEXAS**

Mr. PATMAN. This bill would authorize the Secretary of the Treasury to make loans, not to exceed \$2 billion outstanding at any one time, to the International Monetary Fund, such loans to be made "with due regard to the present and prospective balance of payments and reserve position of the United States."

Stated objectives of H.R. 10162:

The apparent objective of this legislation is to make it possible for the International Monetary Fund to minimize pressures on the balance of payments of leading industrial countries arising from short-term fluctuations in the balance of payments. The "Special Report of the National Advisory Council" accompanying H.R. 10162 indicates the objectives of the bill in the following words:

It is in the interest of the international community to prevent these unusual pressures on the principal currencies from impairing the stability of the international monetary system. The International Monetary Fund's present holdings of the currencies of the main industrial countries are not adequate to finance the large drawings which might be needed to deal with unusual pressures on the dollar, or on sterling at a time of relative dollar weakness.

A proposal has therefore been worked out after considerable discussion and negotiation under which the 10 main industrial countries would stand ready to lend their currencies to the Fund if the Fund required additional amounts of currency for use to "forestall or cope with an impairment of the international monetary system."

Thus, the primary purpose of the bill is to prevent an impairment of the stability of the international monetary system. This is, undoubtedly, a very laudable objective.

However, in my view, neither the bill nor the report accompanying it sufficiently spell out the necessity for operating the International Monetary Fund in such a way as to make possible the insulation of the American economy, as well as other participating countries, from short-term balance-of-payments problems, and to make it possible to promote our domestic recovery and growth program without impairment from a tight money—high-interest policy.

The balance-of-payments problem is undoubtedly a serious one. It should not, however, be permitted to interfere with the economic growth of the United States. After all, the United States balance-of-payments deficit, in the magnitude of \$2 to \$4 billion in various periods in recent years, compares with an anticipated U.S. gross national product in a magnitude of \$570 billion.

It is obvious that the balance-of-payments "tail" cannot be permitted to wag the huge U.S. GNP "dog." More concretely, if we fall into the error of permitting the emergence of a new upward cycle of interest rates, we may well run into the same difficulties we faced in 1957-58 when the recovery was cut short and converted into a recession.

Two recent developments point up the way in which the use of "blunt instruments" for the avowed purpose of assisting our balance-of-payments situation, carry the seeds of damage to our domestic recovery and growth program.

(1) Increased interest on savings and time deposits: Effective January 1, 1962, the Federal Reserve amended regulation Q so as to permit member banks to increase interest rates on savings and time deposits. One of the justifications given by the Federal Reserve was to moderate pressures on the balance of payments. This is the way the Fed explained it:

Another effect of immediate significance will be to enable member banks<sup>50</sup> desiring to compete more vigorously to retain foreign deposits that might otherwise move abroad in search of higher returns and thereby intensify an outflow of capital or gold to other countries. Thus, today's action is in line with previous steps taken to moderate pressures on this country's international balance of payments.

In my view this was a poor device—indeed a blunt device utilized by the Fed—one of limited value in the context of our balance-of-payments program.

First of all, increasing interest on commercial bank savings and time deposits, standing alone, will have little favorable effect on the balance of payments. So-called “hot money” will not stand still long enough in American banks to earn the higher interest rates of member banks.

Second, it is in the New York City banks that most of the foreign deposits are concentrated. To increase interest payments across the board, throughout the country, merely to make more favorable interest rates for foreign deposits in the New York financial center, seems to be a blunt action.

Let me quote from the London Economist concerning this (“Bait for Hot Money,” Dec. 9, 1961, p. 1026) :

The Government's decision to raise the ceiling and permit a special premium for long-term deposits was prompted primarily by a desire to discourage an outflow of “hot money” and to avoid the damage that this would inflict on the balance of international payments. At the same time the Government hopes, by keeping credit readily available, to avoid any check to economic growth at home. The New York banks—the ones most likely to hold foreign deposits—welcome the move.

The London Economist then makes the following pertinent observation :

The banks which are not enthusiastic about the new higher rates of interest that they may pay are those with heavy savings deposits, such as the Bank of America. The squeeze on their profits will be particularly painful.

This latter observation turned out quite prophetic, for shortly after the Fed lifted the ceiling on rates commercial banks could pay on savings and time deposits, the president of the Bank of America proclaimed the need for commercial banks to raise the prime loan rate.

(2) Threatened increase in prime loan rate: Thus we find that the blunt instrument the Federal Reserve employed for the purpose of moderating pressure on balance of payments threatens to set into motion a chain reaction. If the prime loan rate—the fee charged the biggest borrowers with the best credit ratings—is raised, bank lending charges on loans to businesses, large and small, throughout the country may be expected to increase.

Purpose should be to protect dollar without impairing growth: Without dwelling further on this situation, I would urge that H.R. 10162 should carry a preamble to the effect that the International Monetary Fund would utilize the \$2 billion authorized by the bill for the purpose of mitigating balance-of-payments problems so as to enable the United States and other countries to pursue economic growth without increases in interest rates.

In short, it should be firmly written into the legislative history of this bill that the primary objective is to make it possible to ease balance-of-payments problems without impairing domestic growth by resort to a high interest, tight-money policy.

Mr. PATMAN. Mr. Dillon, we have invested now how much in the International Monetary Fund?

Secretary DILLON. \$4,125 million.

Mr. PATMAN. That is in addition to this \$2 billion.

Secretary DILLON. That is what we have presently invested.

Mr. PATMAN. And that would make 6 billion and a quarter?

Secretary DILLON. \$6,125 million.

Mr. PATMAN. Yes, sir. How much do the other countries have invested? Approximately, that is.

Secretary DILLON. I think it is approximately \$15 billion. Total quotas are \$15,043 million.

Mr. PATMAN. And we have about 40 percent of it?

Secretary DILLON. No; we have something under 30 percent of it.

Mr. PATMAN. 30 percent now?

Secretary DILLON. Yes, sir.

Mr. PATMAN. And with this \$2 billion, the other countries will put in how much?

Secretary DILLON. Four more.

Mr. PATMAN. So it will be \$6 billion?

Secretary DILLON. Yes, sir.

Mr. PATMAN. So we will still have about a third of the entire amount?

Secretary DILLON. We'd have about 30 percent; yes, sir.

Mr. PATMAN. About 30 percent. Now suppose we should have a problem with our balances with other countries, and we needed to actually get some money from the International Monetary Fund to prevent an embarrassing situation. Can we just make application and get the money, or would some board have to pass on it?

Secretary DILLON. Under the rules of the Monetary Fund, Mr. Patman, we have what amounts to an automatic right to draw as much as \$1,700 million. In addition, there is another billion dollars which the Fund almost automatically grants to any country which shows that it has need and which states that it is undertaking a stabilization effort. The Fund does this without inquiring into the detail of that stabilization effort.

That would make a total of about \$2,700 million. Beyond that, the Fund requires the presentation of a program to be sure that the stabilization effort has a good chance of success, so that the Monetary Fund can look forward to being repaid within the 3 to 5 years which the loans are for.

Mr. PATMAN. What is the approximate total amount of our gold now, Mr. Dillon? About \$17 billion?

Secretary DILLON. The Treasury gold stock is \$16,790 million.

Mr. PATMAN. Suppose we should have a run in the next few months which would aggregate about the amount that we are allowed to borrow from the International Monetary Fund, and then we should need some more quickly. We would have to leave it up to the board, would we not?

Secretary DILLON. Over and above this figure of about \$2.7 billion, that is right.

Mr. PATMAN. In other words, if our gold reserves were reduced to about \$13 billion, and we needed more money to take care of that situation, the Board of the International Monetary Fund would have to pass on it, and that Board is composed of—what is our ratio on the Board? How much voting strength do we have?

Secretary DILLON. We have under 30 percent, approximately the same as our percentage of money in the Fund.

Mr. PATMAN. Can you conceive of a situation where it would possibly be of interest to certain countries that are pretty powerful, to block our efforts to protect our gold, and not be willing to go along with us on an additional loan?

Secretary DILLON. I can't foresee that now, because it is in the interest of practically the entire world community to have a stable monetary system, and their monetary systems are tied to the dollar.

There is no alternative system available, and any disruption of the dollar would mean disruption for their own trade and commerce. So I think their interest is to do everything possible to cooperate and work with us to preserve a stable dollar.

Mr. PATMAN. Would you say that the principal reason for our further participation in this Fund is to protect our balance-of-payments position?

Secretary DILLON. I think that that is correct. That is the end result. The problem with the Fund now is that it does not have adequate funds readily available to meet the demands which we have the right to make on it. By this borrowing arrangement they will obtain the use of these funds, so that we could exercise our rights, which at the moment are somewhat theoretical, because the Fund does not have adequate resources to meet them in full.

Mr. PATMAN. During World War II, Mr. Dillon, this committee handled all bills relating to the Office of Price Administration which involved 8 million different commodities and prices, and also had an open rule before the House of Representatives. We never had a closed rule involving these 8 million prices and commodities.

And at one time we wanted more copper produced, and it was insisted that we should raise the price to about 24 or 30 cents per pound. The going price was 12 cents per pound. We agreed that we would give a subsidy to the marginal producers, above 12 cents a pound and that way we increased the production of copper enormously, at the same time saving the taxpayers millions of dollars by not having to pay a subsidy to large producers who did not need it and who could profit on the 12 cents.

Now I could say that is a comparable situation to what I understand you recommended recently, that our balance-of-trade position is what is worrying us. And it is my understanding that the Treasury recommended that you be allowed to pay more interest than the going rate on foreign balances, for the purpose of preventing people all over the Nation from increasing their interest rates just to take care of a situation in a few banks in New York, carrying foreign accounts. Am I correct in that statement, or not?

Secretary DILLON. Yes, sir, Mr. Patman, that was a recommendation made by the President in his balance-of-payments message of February 1961.

Mr. PATMAN. Why won't that be preferable? Don't you consider it unfair to the people of the United States to have to raise their interest rates all over the Nation in order to keep a rate sufficiently high in New York to take care of an increased rate on a foreign balances?

Secretary DILLON. That was our original idea. We agreed with you, Mr. Patman. But Congress apparently was not receptive to this.

Mr. PATMAN. Why do you say Congress was not receptive? I was not consulted about it. If the chairman of the committee or other members were consulted, I have no knowledge of it. All I know is, it was presented, and I don't know anybody who was asked to introduce a bill. I wasn't. I would have been glad to introduce a bill.

It should be brought out in the open here, because it involves millions of dollars a year increased interest rates on the people, that could be saved. Why do you say that Congress turned it down?

Secretary DILLON. The President made the request and in neither the Senate nor the House were hearings scheduled.

Mr. PATMAN. When was the request made?

Secretary DILLON. In the President's balance-of-payments message of February 6, 1961.

Mr. PATMAN. 1961?

Secretary DILLON. Yes, sir.

Mr. PATMAN. Over a year ago?

Secretary DILLON. Yes, sir.

Mr. PATMAN. Were bills prepared and sent up to be introduced?

Secretary DILLON. Yes.

Mr. PATMAN. Well, I think you ought to renew that, Mr. Dillon, and I think our committee should take it up immediately. Now, I understood that there was some talk that you were afraid to take it up for the fear that the question of gold would come up, and that it is a very delicate subject and you didn't want to discuss it. But I think we ought to have it right out in the open, just like the astronauts. We ought to tell the world, and we can defend our position.

Secretary DILLON. I did not understand that that was the reason. I understood the reason for the objection was a feeling among some Members, at least, that this would be some sort of a measure of favoritism toward foreign depositors, who would be allowed to receive a higher interest rate than the American depositor, and therefore that it would be something that they wouldn't care to do.

Now, we didn't feel that that was a very good argument. But I understood that was the argument. It wasn't the question of gold.

Mr. PATMAN. I am sorry that you didn't urge it, Mr. Dillon. I think you ought to renew it. It would at least favor the foreign balances in New York, just like the copper subsidy favored the marginal producers during the war, but it would save the taxpayers several times that much in money.

And where we would be paying an increased rate in New York on these foreign balances, it would save the borrowers all over the Nation, on all loans of all kinds, millions of dollars a year. So are you willing to renew that request, Mr. Dillon?

Secretary DILLON. Well, I think the request still stands, because it is in the President's balance-of-payments message, and certainly if the Congress were willing to give the authority for this, that would be something that we would be glad to see done.

Mr. PATMAN. Well, I want to request that you send it up again, and if you have a bill, I wish you would send one to the chairman of this committee, and also furnish each member of the committee a copy of it, and I am sure the bill will be introduced and hearings insisted upon.

I consider that preferable to this particular position, although not antagonistic to it, and not as an alternative, but I consider it something

that we should consider at once, because the interest rate burden of this country is tremendous. And it goes into the price of all goods and commodities and services.

Take, for instance, interest burden on our national debt. It is \$9 billion a year. That is an enormous amount, and it is certainly unfair to make the people of America pay an increased interest rate just for the purpose of protecting a few foreign balances in the New York banks. I am not saying because it is New York, but any banks.

So I am glad that you still believe that to be a good thing. If you had that, you wouldn't need this so much, would you?

Secretary DILLON. Well, I think this would be helpful. I think we would still need this, because I think it is important that the world know that the Monetary Fund has the necessary resources to meet a drawing from the United States if it ever should be necessary.

Mr. PATMAN. I would like to ask the chairman of the committee if Mr. Dillon will send up a bill on that subject, would the chairman be willing to call the committee together and have a hearing on it?

Mr. SPENCE. I would be willing to consider the bill. I don't know when I should call the committee in meeting.

Mr. PATMAN. I said, would you give it consideration?

Mr. SPENCE. I said I would. You know I would.

Mr. PATMAN. That is enough. I will stop right now.

Secretary DILLON. Mr. Patman, for the record, last March we did formally send to the Congress the draft of a bill on this subject.

Mr. PATMAN. Will you send us another one, Mr. Dillon? If the others don't want it, send me one.

Secretary DILLON. All right, Mr. Patman.

Mr. PATMAN. That is all.

Mr. SPENCE. Needless to say, the chairman would consider any bill that came up from any department of the Government with the approval of the administration.<sup>1</sup>

Mr. McDONOUGH. Mr. Secretary, I appreciate your statement. It is a complex problem for the average layman to know the procedures that may be necessary in qualifying one country with its currencies, to borrow a loan from the Fund, in order to stabilize the monetary system on an international basis.

I would like to refer to the letter of transmittal. Do you have a copy of the Monetary Advisory Council report before you?

Secretary DILLON. Yes, sir.

Mr. McDONOUGH. In the President's letter of transmittal to the Speaker of the House, in the last paragraph on the first page, the President says, "Today the Fund has on hand only \$1.6 billion of the currencies of other major industrial countries, exclusive of the United Kingdom, which has itself made a large drawing from the Fund," and so forth.

I don't understand that language. Would you explain it?

Secretary DILLON. I think I can, Mr. McDonough.

If the United States required assistance from the Fund, what it would want or need would be convertible foreign currency that was strong currency, which it could have in substantial amounts, and

<sup>1</sup> At the conclusion of the hearings it was found the draft of the bill referred to was included in legislation introduced by Mr. Multer of New York, May 9, 1961, as secs. 11 and 12 of H.R. 6900, 87th Cong., and the bill was referred to Mr. Multer's subcommittee.

which it could use to offset and to buy up extra dollars held by others who now have claims on us, which they would otherwise want to turn into gold.

In effect what this would be doing would be consolidating a portion of our dollar liabilities in the International Monetary Fund, sterilizing it from the market so it would no longer be held by private individuals or foreign official holders.

Now, of these types of currencies, the International Monetary Fund has presently available in its coffers, \$1,600 million worth. We do not count sterling in that total, because the British are at present substantially in debt to the Fund. They had a very big drawing from the Fund last summer and they are in the process of trying to pay this off.

So, sterling at the moment would not be a currency that other people would like to have in preference to dollars. They would accept any of these others.

Now, once the British have paid off their loan to the Monetary Fund and they are in good shape, then sterling would become a currency that would be helpful to draw.

So, what we are trying to do here—and the main objective of this whole operation—is that these other countries, which presently only have \$1,600 million of their funds available in the Fund, would agree to put up another \$3 billion of their funds, making a total of \$4.6 billion, almost three times the present availability, which would be substantially enough to meet any drawing the United States would want to make.

Mr. McDONOUGH. As I understand your answer, the drawing made by the United Kingdom, if that is repaid, then the possibility of the United States, or the necessity of the United States drawing from the Fund will be made more possible if that money is repaid?

Secretary DILLON. No; I don't think so. All I said is that if that is repaid, that would mean that sterling, which is the United Kingdom money, would again be a currency that might be available or could be used if the United States needed to draw on the Fund. Therefore, to the extent that the British are successful in repaying this, there would be less need for this sort of a borrowing arrangement, because sterling, whatever the holdings of the Fund would be in it, which would probably be the equivalent of something over a billion dollars, maybe a billion and a quarter, could then be added to this billion six and there would then be \$2.8 billion of good currencies available for the United States to draw on.

Mr. McDONOUGH. What would be the circumstances, in your opinion, that would make the necessity for the United States to draw from the Fund? And if that necessity was immediately present today, is there enough money in the Fund for the United States to draw, without making this additional \$2 billion authorization?

Secretary DILLON. To answer the second part first, no. That is the reason for this operation.

The circumstances that would require a drawing are hard to specify in detail, but they would be something akin to, maybe greater than, what happened in the fall of 1960, when, as you recall, tremendous amounts of gold left this country and there was a general fear for the stability of the dollar.

What happened to the United Kingdom last year may be an example. In the period between, I would say, about the middle of

March and the middle of July, they lost about a billion and a half dollars. Foreigners tried to convert a billion and a half dollars of their sterling into other currencies and to buy gold with it. That created a very serious situation, that much loss in that short time, for England, and that was the reason they had to have a drawing of a billion and a half dollars from the Monetary Fund.

It would be a similar thing, possibly on a larger scale, with the United States.

Mr. McDONOUGH. Do you think we have recovered our balance of payments and our gold reserve to a point where it is not now as precarious as it was in 1960?

Secretary DILLON. Well, the speculative fever against the dollar that was present at the end of 1960 and the first month, January, of 1961, has certainly passed. We have not by a long shot solved our balance-of-payments problems. Those we are continuously working on, and it has to be done by such things as promoting exports, reducing the cost of our troops abroad, and getting foreign countries where our troops are stationed to make larger purchases from the United States of military equipment, which would offset the balance-of-payments cost of our troops abroad. We have done that already in the case of Germany and are trying to do it with other countries. We are tying our aid expenditures to U.S. goods, so that they will not affect our balance of payments. We have to keep on working at measures of that nature. We are on the way. We are better off than a year ago, but we still have a good way to go.

Mr. McDONOUGH. Just one more question, Mr. Chairman.

Mr. Secretary, what is your opinion of the relationship of the International Monetary Fund and the stabilization of world currencies, which is its function, what is the relationship of that to the presently operating various international banks and other funds, including the Export-Import Bank of the United States?

I am trying to reconcile the relationship of the two. Here we have, as you know, a number of funds, many of which I think are, in some instances, duplicating the facilities of one or another. There are so many of them that I think there is a little competition as to who is going to get a loan in a certain country and under what circumstances.

Now, of course, this all has to do with our balance of payments, it has to do with the stabilization of our monetary funds, and so forth.

Now, with the question before us in this legislation today, and the authorization of an additional \$2 billion, what relationship does that have to those other funds?

Secretary DILLON. I would be glad to answer that. I don't think in the case of the International Monetary Fund that there is any overlapping at all, because it is quite different from all the others.

Mr. McDONOUGH. Yes, sir, I agree with you.

Secretary DILLON. Its job is to provide funds over a temporary period—3 to 5 years is the usual period—to countries that have gotten into balance-of-payments difficulties, so as to give them time to right their balance-of-payments difficulties by one means or another and get themselves back into shape where they can deal and trade freely with the world community.

So, the funds provided are temporary; it has nothing to do with development loans or anything of that nature; it just gives backing

to currency for a relatively brief period to give the country concerned time to put its own house in order.

Now, these other organizations are generally, in one way or another, connected with the business of providing development loans to build projects, and that is quite different.

Mr. McDONOUGH. Except that it does have an effect on our balance of payments and our increase in exports?

Secretary DILLON. That is right.

Mr. McDONOUGH. And the recovery of our gold balance.

Secretary DILLON. That is right.

Mr. McDONOUGH. Thank you, Mr. Chairman.

Mr. SPENCE. Mr. Barrett.

Mr. BARRETT. No questions.

Mr. SPENCE. Mr. Widnall.

Mr. WIDNALL. Thank you, Mr. Chairman.

Mr. Secretary, on page 11 of your testimony you speak about weighted votes.

What is our weighted vote in the International Monetary Fund?

Secretary DILLON. Yes, sir, our weighted vote, in the International Monetary Fund now is 24.53 percent.

Mr. WIDNALL. What are the weighted votes of the five European Common Market countries?

I have in mind what is needed to obtain that three-fifths majority.

Secretary DILLON. Oh, that is different. For the three-fifths majority in the supplementary resources it is not their weighted vote in the Fund that counts. It is their weighted vote in this group of participants, which would be different from the figures I have just given you.

The figure of 24.53 percent is our weighted vote in the Fund itself, for actions that are taking place in the Fund Board.

Mr. WIDNALL. What I am primarily interested in is, what would be the weighted votes of these two groups, as a result of the new participation? Do you have that?

Secretary DILLON. Yes, sir, I have found those figures. The voting power in the Fund of most of these other countries is relatively minor.

In this new arrangement, we would have put up one-third of the funds, and the voting power would be different, depending on the participant that wished to make a drawing. It is provided that a country that is making a drawing, asking for funds, will not vote on whether it should get funds itself, which seems to be an elementary and proper conclusion.

Therefore, if we have a total of \$2 billion here, if one of the larger countries, such as England or Germany, each of which has a billion dollars in this total, should decide to make a drawing, it would not vote. So there would be \$5 billion in total lending commitments. It would require a \$3 billion total for a favorable vote, and the United States would have \$2 billion of that.

Contrariwise, of the \$5 billion total, if the United States voted against, it would require the unanimous vote of all the other countries to make a loan to either the United Kingdom or Germany.

Now, if a very small participant, such as Belgium or Sweden was the country that wished to make a drawing, then the amount that would not vote would only be \$100 million. So, the U.S. proportion of the vote there would be somewhat less.

Mr. WIDNALL. I think I understand the system better now. Let's not go into that any further.

Just recently it was reported in the paper that the total debt of the United States exceeded \$298 billion, and that was higher than the debt limit then in effect. Now, in all fairness the article pointed out that debt figure included some figures that were not subject to the debt limit.

My question is this: If the United States participates in this borrowing to the extent of \$2 billion, wouldn't that \$2 billion be charged against the debt limit?

Secretary DILLON. Most certainly, if we ever actually had to borrow the money, but not just by joining the agreement. We have a great many such contingent commitments—in fact, we have one to the World Bank for something like \$5 billion, which is our guarantee commitment in case the World Bank is unable to repay its loans. We have one for the Federal Deposit Insurance Company, for something like \$3 billion. Those are not part of our overall debt until such time as we may have to draw on them, when they do become part of it.

So, the Treasury, in making its recommendations for a debt ceiling, would have to take into account, and always does take into account, these possibilities.

That, I think, is one of the reasons why the Congress, in figuring out a debt ceiling, has always, so far, arrived at a figure that provides about \$3 billion for contingencies and flexibility over and above what the Treasury thinks the debt will actually be.

Mr. WIDNALL. There is a potential of \$2 billion?

Secretary DILLON. Yes, sir.

Mr. WIDNALL. Early this year, AID, and the Export-Import Bank loaned \$45 million to Brazil, and I think also last year there was a stabilization loan agreement for the benefit of the Brazilian currency granted by the Exchange Stabilization Fund of the Treasury.

On February 17 of this year, I read on the front page of the Washington Post that I.T. & T. Phone Co. had been seized by the Government of Brazil, and expropriated. They were going to give \$400,000 for what was valued at \$8 million.

Is our lending of dollars down there going to promote the takeover of services that are being provided by one section of the country?

Secretary DILLON. Certainly it should not. The facts in this, just to make them clear, are that all our dealings have been with the Central Government of Brazil, and this action was an action taken by one of their state governments, the State of Rio Grande do Sul, which is a state in the far south of Brazil. In Brazil, under their constitution, I understand their individual states have a great deal of authority independent from the Central Government.

So, this was not an action of the Central Government, and I don't think was in any way condoned by the Central Government. But certainly I quite agree that it does not help matters when there is such an action, even of a subordinate body like a state, particularly when the price offered, as I understand, is so far below the real value of the property.

Mr. WIDNALL. Mr. Secretary, in the alliance for progress, the effort was to provide, or to rely on, private investment. If this con-

tinues, how can you get private investment in these countries, if they are able to expropriate at will?

Secretary DILLON. I don't think that you can. All I would say is that I would hope and expect that this action is not typical either of feelings throughout Brazil or elsewhere in South America.

I might mention one aspect to illustrate that, which you might find interesting.

At the time I was down at the Conference of Punta del Este, after Mr. Che Guevara made his speech, which was violently opposed to the United States, there was no applause from anywhere in the room except from the Cuban clique, and from one other individual. That one other individual was the Governor of the State of Rio Grande do Sul.

So I think he is not typical, and that shows his leanings.

Mr. WIDNALL. I think that the American people, as you well know, are getting a little tired of shoving out money in some directions and not getting cooperation. If we see any more instances like that, it is going to be tough going in the Congress for some of these programs in the future.

Secretary DILLON. I agree with that.

Mr. WIDNALL. I would like to insert in the record the article from the Washington Post of February 17, 1962, Mr. Chairman.

Mr. SPENCE. Without objection, that may be done.

(The Washington Post article, dated February 17, 1962, is as follows:)

#### I.T. & T. PHONE COMPANY SEIZED BY BRAZILIAN STATE

POETO ALEGRE, BRAZIL, February 16 (AP).—Leonel Brizola, brother-in-law of President Joao Goulart and Governor of Rio Grande do Sul state, today expropriated the U.S.-owned National Telephone Co. here. Brizola, an outspoken leftist, said the takeover was carried out in the public interest and that the owners—International Telephone and Telegraph—would be paid Cr\$149 million (about \$400,000 at the open market rate) in compensation.

I.T. & T. has operated the company in this southernmost Brazilian state and in nearby Parana state since 1927. The two divisions have about 70,000 phones. (In New York I.T. & T. President Harold S. Geneen called Brizola's action unjustified and said expropriation "is repugnant to the ideals and aims of the alliance for progress." He added in a statement that I.T. & T. has asked the State Department "to take immediate steps with the Government of Brazil for a rescinding of the order of expropriation." A company spokesman said the expropriated subsidiary is valued at \$8 million.)

The expropriation decree, signed by Brizola and his cabinet, was published in the official state newspaper.

The paper quoted Brizola as saying the expropriation "is the result of more than 3 years of studies and of the best intentions of the state government, which tried to conciliate and at the same time seek a solution in the public interest."

Brizola spokesmen charged among other things that National Telephone failed to provide sufficient service.

Two years ago Brizola took over the Rio Grande do Sul subsidiary of the American Foreign Power Co.

The Brazilian constitution permits expropriation of private firms and property when the action is "brought about by public need or use, or is in the interest of the community." Just compensation is required.

Brizola said National Telephone had been operating in the state as a monopoly for more than 30 years, possessing only "the simple permission of state authorities."

Mr. SPENCE. Mrs. Sullivan.

Mrs. SULLIVAN. I have no questions, Mr. Chairman.

I think the Secretary answered my questions when he answered Congressman McDonough.

Mr. SPENCE. Mr. Fino.

Mr. FINO. Mr. Secretary, mention was made earlier this morning that, if it were necessary for the U.S. Government to borrow from the Fund, that the amount of \$1,700 million would be available to us on a borrowing basis.

Is that \$1,700 million from the present \$4 billion, or is it from the proposed \$6 billion?

Secretary DILLON. Our borrowing rights as such are not affected by the proposed increase. The amount that would be available to us automatically at present is \$1,700 million; \$1 billion—or a little over that—represents the 25 percent portion of the \$4 billion presently subscribed; and the other \$650 million represents the amount of our currency that the Fund has presently loaned to other countries and has outstanding, and we have the automatic right, as does any country in similar circumstances, to draw down that much. That would not be considered a borrowing at all. It would just be getting us back to where we started.

In other words, the Fund has used \$650 million, or is currently using \$650 million, of our funds in their operations around the world, so a drawing of that amount by the United States would not be considered something that had to be repaid. But a billion dollars, or a billion and one million, which would be the equivalent of what we paid in gold as part of our \$4 billion subscription, would be a borrowing and would have to be repaid.

Mr. FINO. This would be based on the present \$4 billion?

Secretary DILLON. Yes, sir.

Mr. FINO. So that we would be putting in another \$2 billion and not getting any additional borrowing power?

Secretary DILLON. Oh, no; we don't get any additional borrowing power. Our borrowing power now is a total of something over \$5 billion. You can borrow a hundred percent of what your quota is, which would be the \$4.125 billion in our case plus the amount you paid in gold, which would bring us up to the five billion, one hundred and some million dollars, and we can get back this extra \$650 million that the Fund has used, so the maximum we could expect from the Fund, under present circumstances, is something around \$5,300 million.

Mr. FINO. Just to refresh my recollection, we have not borrowed from the Fund.

Secretary DILLON. No; we have not.

Mr. FINO. Thank you.

Mr. SPENCE. Mr. Reuss.

Mr. REUSS. Mr. Secretary, I want to congratulate you and your associates for the leadership you have shown in bringing this proposed agreement to fruition. While it may not be everything that some of us would want, it represents, I think, a very adroit feat of negotiation and is quite clearly in the national interest, and I want to say at the outset that I hope Congress will speedily ratify it.

I now have some questions that go mainly to the limitations on the agreement rather than to the great good of the agreement itself.

Let me ask this: you testified that we have approximately \$2.7 billion of almost automatic borrowing power under the present fund, derived in part from the so-called Gold Slice and in part from our first round, semiautomatic 25-percent draw.

In the event that this 10-nation payments agreement is ratified, am I right in the assumption that we would, in the event we needed it to protect the dollar, first pursue our drawing rights as to the \$2.7 billion, before we availed ourselves of such additional rights as might be made available by this new payments agreement?

Secretary DILLON. I think the answer to that, Mr. Reuss, is that we would have the right to do that. Whether it would actually work that way or not would be something for the Managing Director of the Monetary Fund and the other participating countries to consider.

We would make application to the Managing Director, and under the agreement there is no suggestion that a participant should make any loans to the Fund until such time as he feels he needs extra resources to meet a legitimate demand.

Now, he might feel that rather than pretty well exhaust all the funds that he has that are usable now, and sell a substantial part of the gold which the Fund owns, it would be a better procedure all the way around to try to activate this fund for some portion of that—not for the whole amount, but for some portion of the \$2.7 billion you were talking about.

If there was any problem, however, I think our rights are clear. There is a clear understanding that we would be able to get the gold and currencies available, up to the extent that the Fund has them. We could get them without starting this borrowing arrangement.

But, I think it probably would be more practical, under the present circumstances, if tomorrow we were asking for \$2.7 billion—if it could be arranged rapidly and I think it could—to use this new arrangement for some of these funds.

Mr. REUSS. Let me say that I have the highest admiration for the Managing Director of the International Monetary Fund, Per Jacobsson, whom I consider a great international public servant.

However, is it not true that to the extent that we depart from the practically automatic drawing rights we have, in the amount of \$2.7 billion, and instead rely wholly or partially on the new arrangements envisaged by the measure now before us, we would be declining to avail ourselves of an automatic procedure under which we were sure of support, and relying instead on a much less than automatic procedure, in which there is many a slip 'twixt the cup and the lip.

Secretary DILLON. Well, it is very clear that we don't give up any of our rights by entering into this type of arrangement. And I certainly think that if there were any slips, or if this worked slowly, that then we would have the right to avail ourselves automatically of what is presently in the Fund, which would scrape the bottom of the barrel.

Since we have an interest in the overall international monetary system too, and in keeping the Fund reasonably well stocked with currencies so that it is in good operating condition, I think it would be in our interest, too, from that point of view, to see that some of these funds came from this other arrangement providing there was no delay and it did not hurt our immediate problem.

Mr. REUSS. I am reassured by your answer on that.

Let me ask you a question having to do with the adequacy of the amounts provided.

In the world we now live in, I suggest to you that the principal balance-of-payments problem is that we seem to be running deficits on the order of \$3 billion a year, and Western Europe seems to be running surpluses on roughly that order.

Having in mind the fact that we now have short-term capital obligations of around \$10 billion to foreign Central Banks, and to foreign private persons of around \$7 billion; having further in mind the fact that our gold supply is around \$16¾ billion and that the statutory gold cover now requires that we sterilize close to \$13 billion of that gold—

Secretary DILLON. About \$11¾ billion.

Mr. REUSS. Having in mind all that arithmetic, and I know you have it very much in your mind all the time, and further looking at the fact that under this agreement there is made available, outside of dollars and sterling, only \$3 billion of additional currencies, do you think that the amounts thus made available, of nonsterling and nondollar currencies, are likely to prove ample for the protection of the free world monetary system, for the next 3 or 4 years, which is the initial life of this agreement, and which is as far in the future as I would ask anyone to gaze?

Secretary DILLON. Well, I might answer that slightly differently.

I do think that the amount of funds made available here, the \$3 billion which are made available from nonsterling countries, plus the present holdings of these currencies, which bring you to over \$4 billion, plus the Fund's free gold reserves, which bring you to the sum of \$6,100 million, are ample enough to cover the largest kind of a U.S. drawing that one could imagine and that is allowed under the present Fund's procedures, which would be, as I say, about \$5.8 billion. And that is assuming that no use whatsoever of the any of the sterling resources of the Fund were made.

So, I think this Fund is adequate to meet any of the commitments which the Fund has, or any activities which the Fund itself, as presently constituted, could enter into.

Now, the only way the Fund could use any more funds would be to change the basic rules of the Fund, either by an increase in quotas or some other change in the basic mechanism of the Fund, which I don't think under present circumstances anyone would feel was either desirable or feasible, because the Fund so far has worked well.

Now, we all know, the Fund, and recourse to the Fund, are not the answers to an overall and continuing balance-of-payments problem. We have to put our own house in order, and we can not continue to indefinitely run \$3 billion deficits in our balance-of-payments year in and year out and expect this sort of arrangement with the Fund or any other arrangement to take care of the situation.

This does give adequate funds to give us the time, if we come under sudden and extreme pressure, to give us the 2 or 3 or 4 years that are needed to put our house in order, and that is what we are trying to do now.

So, I think the present arrangement is reasonably adequate for anything that one can foresee under the present Fund setup.

Mr. REUSS. Another question: From the standpoint of the domestic goals of the Employment Act of 1946—namely, maximum employment and maximum economic growth without inflation—let us assume that a given set of monetary and fiscal policies are desirable. In the event that Congress passes the legislation now before us, and which you have just described as being adequate to the purpose of safeguarding against international monetary crises, do you believe that it will not be necessary to depart from sound policies of bringing about maximum employment and economic growth without inflation, because of so-called balance-of-payments difficulties?

To rephrase the question, it is sometimes said, today, that there are balance-of-payments constraints upon us which cause us to tolerate more unemployment and a slower rate of growth than we would like to have. Am I right in assuming that if Congress enacts the legislation here requested, those assumed balance-of-payments constraints, whether they are valid or not, would disappear and we would be able to pursue whatever policies seemed sound to bring about maximum employment and growth without inflation?

Secretary DILLON. Well, I certainly feel there should not be any conflict between the policy you have described to bring about maximum employment and growth without inflation and a policy that would aim at improving our balance of payments.

We are taking many actions in this field. The tax bill presently before the Ways and Means Committee has a number of different items in it that are directly connected with this, such as the investment credit and the increased taxation on foreign investment abroad in American subsidiaries, so as to equalize it with that of American companies at home.

There is a situation that is different now from that which we had prior to convertibility. There is a trend, I would say, for interest rates, worldwide, in the convertible countries, to gradually come together and be more stable rather than to be all over the place and apart, because these funds can flow rapidly back and forth.

This particularly applies to the shorter-term rates, and I think that that has happened during the past year in a way which we would have liked to have seen, because, generally speaking, interest rates in all the European countries have fallen, with the exception of the United Kingdom, which got into a very serious temporary difficulty of its own. But I think even the long-term trend there is probably toward lower rates.

I have recently had the opportunity to talk with some visiting British bankers, and they say that for the first time since the war, really, their big insurance companies are beginning to think that long-term interest rates are going permanently to move lower there, and they are interested in beginning to buy these British consols, which they have never touched for a long time.

Mr. REUSS. This is good news.

Let me ask this additional question: Let us suppose—and God forbid—that your budgetary projections for the upcoming fiscal year prove erroneous to the extent of, let us say, our revenues being \$2 billion less than anticipated.

If this is so, and everything else runs true to form, we would then have a budgetary deficit for fiscal 1963 of around \$2 billion.

Ironically, this would happen to be the same amount that is put into the budget to permit this agreement.

Let us suppose, then, that the president of some European central bank, or a European finance minister, makes a speech expressing grave concern and worries about the American budget, which turns out not to have been technically in balance, though he probably neglects to say that it is technically out of balance because of the \$2 billion we have put in there to help him. I gather then, from what you say about the insulation against the constraints of the balance-of-payments discipline that we would get from this payments agreement now before us, that we could pretty well afford, if this bill is passed, to disregard the outcries of the European official, because we would know that we have this arrangement in being whereby we could secure backing for the dollar if such unjustified criticism of our domestic economy caused speculation against the dollar?

Secretary DILLON. I would think so.

In any event, I think that at least the great majority of European officials and central bankers are primarily concerned not with whether we have a budget, a small budget deficit of the size that you have mentioned, but whether or not we have inflation, price inflation, with our prices going so high that we cannot maintain our competitive position in world markets, either with exports or imports.

As a matter of fact, as I think you know, I understand there was introduced in the record of the hearings of the Joint Economic Committee by Senator Douglas a very interesting tabulation showing that if European budgets are compared on a strictly comparable basis to the way we keep our budgetary accounts, that the U.S. record over the last 10 years has been far more conservative than that of any of the European countries.

France, for instance, had a deficit every year for the last 10. And yet France is the epitome of fiscal soundness at the moment, gaining gold, and everybody looks to France as the ideal of a country that has put its affairs in order.

Germany, which is similar, has had a budget deficit in each of those years except, I think, two.

Similar things are true for the United Kingdom.

So, I think it is a question, to some extent, of how you keep your accounts. I think that meetings we have been having in the OECD, and the much greater exchange of information going back and forth, has led to a much clearer understanding of this situation.

And what Europeans are concerned with is price inflation. They are concerned with budgets in the sense of whether they think they are out of control, and we don't know what is going to happen—that there might be a big deficit one year and a bigger one the next, and so forth. Then they are very, very deeply concerned. If they think it is a moderate amount that is going to be corrected or held in check thereafter, the same way they have done with their own, I don't think they are particularly concerned.

Mr. REUSS. I have already taken up too much time. I do have one more question, and I would like to ask it, but I would ask you, Mr. Secretary, to perhaps answer it for the transcript of this testimony later on.

The final question I have, for which I won't ask an immediate answer, is the following:

The IMF now has, as I understand, around \$2½ billion of U.S. dollars in its resources. If this agreement is passed, it will have a potential availability of another \$2 billion of U.S. resources.

Will not the existence of this additional availability of \$2 billion likely make the International Monetary Fund more ready to disburse the \$2½ billion it already has, not to the 10 industrial countries, which are in on this agreement, but to underdeveloped countries, which would then use these dollars to finance their deficits, vis-a-vis Western Europe? And would this not tend to worsen our balance-of-payments problem?

I would appreciate your and your associates' answer to that for the record. I think the answer probably will take considerable time, and I don't need it now.

Secretary DILLON. The answer is that it won't have that effect, but I will give you a detailed answer as to the reasons why.

(The data referred to is as follows:)

There is nothing in the new arrangements which would directly or indirectly increase the resources available to the Fund for lending to the underdeveloped areas or alter in any way the lending rules or procedures of the Fund, which constitute the significant limiting factor on the extent to which the underdeveloped countries may borrow from the Fund.

The permissible limits of drawings by the less developed countries are established not only by the size of their quotas, which are not altered in any way by the new standby, but also by the criteria established by the Fund Board under its weighted voting procedures, which also are not altered by the new standby. In short, the new \$6 billion standby would neither increase the regular resources of the Fund for lending to the less developed countries nor widen the access of these countries to these regular resources.

Mr. PATMAN. I ask unanimous consent to file a question of Mr. Dillon for him to answer when he looks at the transcript.

Mr. DERWINSKI. Reserving the right to object, I don't think we should adopt a policy of asking questions and inserting answers which are not developed in full hearing. I am not making a point of this, but I do not believe it would serve the purposes of an open hearing.

Mr. PATMAN. It is only because I don't have the time to ask it.

(Mr. Patman's letter to Secretary Dillon and reply, referred to above are as follows:)

CONGRESS OF THE UNITED STATES,  
HOUSE OF REPRESENTATIVES,  
Washington, D.C., February 28, 1962.

HON. C. DOUGLAS DILLON,  
Secretary of the Treasury,  
Washington, D.C.

DEAR MR. DILLON: Pursuant to the hearings before the Banking and Currency Committee on H.R. 10162, could you prepare an estimate of (a) the total amount of additional interest, in dollars, which member banks will pay in 1962 as a result of the raise in the ceiling on savings and time deposits, and (b) the dollar amount of this additional interest that will be paid on foreign deposits?

I understand that the record will be held open until Monday, March 5, so I would appreciate receiving this information by that time, if possible.

Sincerely yours,

WRIGHT PATMAN.

THE SECRETARY OF THE TREASURY,  
Washington, March 5, 1962.

HON. WRIGHT PATMAN,  
House of Representatives,  
Washington, D.C.

DEAR MR. PATMAN: I regret that we are unable to furnish you, as requested in your letter to me of February 28, an estimate of (a) the total amount of additional interest, in dollars, which member banks will pay in 1962 as a result of the raise in the ceiling on savings and time deposits, and (b) the dollar amount of this additional interest that will be paid on foreign deposits.

No such information is in existence at the present time, nor is there any basis upon which reliable estimates could be made. The only information available at this time is the results of the sample survey conducted by the Federal Reserve Board relative to rate changes as of mid-January 1962 which were published in a special article on the subject in the February issue of the FRB Bulletin (pp. 147-151), a copy of which I am enclosing. Further rate changes on time and savings accounts will be occurring throughout the year. However, the extent of such changes is not foreseeable at this time.

Sincerely yours,

(S) Douglas Dillon,  
DOUGLAS DILLON,  
Secretary.

Mr. SPENCE. We have Mr. Martin scheduled for tomorrow, and I would like to get through with the Secretary today. I don't want to prevent anyone from asking their question, but I do think we should proceed expeditiously to get the bill considered by the House.

Mr. DERWINSKI. Mr. Secretary, I would like to return for a moment to the question that Mr. Widnall asked in regard to the problem in Brazil.

You did express your disagreement with the action taken and you did express the fact that the Governor of the State in question has a past record which did not make his action surprising. You did not say, however, what action was being taken by the administration to try to see that a fair payment is made for the expropriated property, or that the action might be rescinded by the Brazilian Federal Government.

Secretary DILLON. I don't know that the Brazilian Federal Government has the authority to rescind the action. I think they do not. But I do know that our Department of State has expressed its feelings in this matter to the Brazilian Federal Government, and indicated that they didn't think that this sort of action was helpful to the Alliance for Progress.

I think there was a public statement that was made by the press officer of the State Department.

Mr. DERWINSKI. It is then a proper assumption that should this action go through without any corrective steps on the part of the Brazilian Government, it would be a severe blow to the hopes for private investment that is needed in Latin America.

Secretary DILLON. Certainly in Brazil, and to a certain extent that would be felt in other countries, I would imagine.

Mr. DERWINSKI. Mr. Secretary, referring to your statement, may I presume that the other nine nations involved in this special borrowing arrangement have committed their funds, or will commit their funds?

Secretary DILLON. No, the operation does not enter into effect until \$5½ billion of these funds out of the \$6 billion have been committed. So that means that all the large countries and a majority of the smaller ones would have to subscribe.

Mr. DERWINSKI. And to your knowledge, the other nations have indicated they will participate?

Secretary DILLON. They have every intention, as far as I know, yes, sir.

Mr. DERWINSKI. Now this special fund is being developed in the event that the United States has a need to draw from it. You have also indicated that you don't really anticipate this, but the very fact that we are preparing for the contingency would lead us to believe that it is more than just a remote possibility.

Secretary DILLON. I think it more than a remote possibility; yes, sir. And I think the main thing is that being prepared for the contingency, in itself, makes the contingency less likely to happen, because the short-term pressures have behind them much that is speculative. And if the speculative community knows that there are funds in the Monetary Fund to meet a drawing, they are less likely to speculate against the dollar because they know they wouldn't be successful.

Mr. DERWINSKI. You indicated that a large part of the currencies held by the International Monetary Fund are the unstable currencies of less developed countries. Do you have any statistics that would indicate, in terms of dollars, the amount of currency of that type?

Secretary DILLON. Yes, sir; about \$5 billion, and that represents the portion of the quotas of the underdeveloped countries in the Fund that were not paid in gold.

Mr. DERWINSKI. That is what we generally call soft currency?

Secretary DILLON. Yes, sir.

Mr. DERWINSKI. Now, Mr. Secretary, in effect, the British sterling and the American dollar are under pressure at this time. You have indicated repeatedly the problem that the British sterling is having. Is there any indication that there will be substantial international faith in the dollar or the sterling, unless conditions in both the United States and Britain change, with regard to the imbalance of payments?

Secretary DILLON. Well, I think there still is full confidence in the dollar and full confidence that we are now embarked on a course that will lead to a rectification of the large payments imbalances that characterized the years 1958, 1959, and 1960. It was improved in 1961, and we hope to improve the picture still more this year and move toward a rough balance maybe by the end of 1963.

That is our objective. You can't do these things too rapidly. That is what we are working toward, and I think the rest of the world knows that. I think they have confidence in our ability to succeed.

But certainly, if we continue to have \$3 billion deficits every year, they won't have confidence in the dollar.

Mr. DERWINSKI. Mr. Secretary, at the Conference in Vienna last September, which was the Conference which resulted in the development of this plan, was it not a fact that some pointed suggestions were made by European monetary authorities to the effect that we

should put our own house in order and balance our Federal budget and correct our imbalance of payments?

Secretary DILLON. No; I don't think so. I was there and we were talking with all these people. We knew about what they were going to say ahead of time. There were some reports that that was the case, but I don't think so. I think what these people were saying was something slightly different.

There had been several different types of projects mentioned as possible ways of changing the international monetary system, and some of them were rather automatic, and would involve also lending to underdeveloped countries, and these people did not feel that this should be done. They felt that this should just be more resources utilizing the regular procedures of the International Monetary Fund, with which we agreed.

I think they were addressing themselves primarily to this effect in all these statements, that they were under the regular Monetary Fund, that a Monetary Fund loan couldn't take care of a continuing balance-of-payments deficit, that the individual country had to fix it, and to show that this was not meant to be a sort of investment fund for underdeveloped countries.

I don't think any of them realized at the time they made these statements that they were going to be construed as lecturing the United States. Indeed, a number of them expressed considerable anguish to me afterward that that interpretation was put on their remarks.

Mr. DERWINSKI. The budget submitted by the President has a paper surplus of a half billion dollars. However, it is an accepted fact that the budget will wind up with a deficit in the vicinity of \$4 to \$5 billion. What effect would that substantial deficit have on the condition of the dollar in world markets?

Secretary DILLON. I don't think that is an established fact, and I don't think it will happen. But a deficit as large as \$4 or \$5 billion, I think, following a deficit of about \$7 billion this past fiscal year, and in a year which looks as prosperous as 1962 looks to be, I think would be a cause for concern.

Mr. DERWINSKI. Thank you, Mr. Secretary.

Mr. SPENCE. I think it would be essential to adopt the 5-minute rule, if the committee doesn't object, in order to keep on our schedule.

Mr. ROUSSELOT. Mr. Chairman, I have no objection.

I think we should apply this equal-time rule in the future for all members of the committee, instead of waiting until now to do it. You put the people at the end of the line at a disadvantage.

Mr. SPENCE. Maybe so. If you object, we will go on. But we have a schedule which provides that Mr. Martin will be here tomorrow, and we would like to get through with the Secretary today.

Mr. ROUSSELOT. I am not objecting. I am suggesting that, in the future, it would be fair for all members of the committee to have an equal opportunity to question those testifying as a few of the members of the committee have today. I just do not believe in filibuster questioning by a few.

Mr. SPENCE. I agree with that, I am merely expressing the exigency of the case, and that is why I suggest it now. Is there objection to that? I hear none. So proceed. Mr. Ashley?

Mr. ASHLEY. Mr. Secretary, in your statement you said that the need for this legislation arises as a result of growth in world trade, increase of monetary reserves, and strains made upon the two principal world currencies, dollar and pound sterling; also, as a result of restoration of currency convertibility in the industrialized countries.

If this legislation is adopted, would you consider this to be in the nature of a reasonably permanent solution to the problems of the Fund? Or can we expect this to be only in the nature of a stopgap remedy?

Secretary DILLON. Well, this action will make the Fund whole on any demands that may be made on it under its present operations. It is very hard to look more than a few years ahead in the world payments situation at any one time.

There has been a good deal of economic writing and thought given to the possibility that as trade expands in the world, that the amount of gold available is not enough to provide a basis of liquidity for all the transactions that will be needed, and that some new and different way of creating and using reserves might be needed.

That was the type of thing that some people were discussing and some members of the Fund were opposing when they made those statements in Vienna. I can't say though, and I don't think any of them would say, that at some time in the future, 5 or 10 or 15 years, something rather radical further may not have to be done.

But short of something like that, this action, which is all that is needed now, will put the Fund in a position to meet all its obligations, and the Fund, as it is functioning now, is perfectly adequate, I think, for any immediately foreseeable future that we can see.

Mr. ASHLEY. That is very helpful. I notice in the report that we have that last year 67 percent of the total currencies of the Fund were in currencies other than the dollar, and I am wondering: Is this essentially the basis of the proposal for the \$2,600 million proposed?

Secretary DILLON. No; I think this is one of the reasons, though, why this whole agreement is necessary. In the early days of the Fund, all the drawings were in dollars because dollars were the only convertible currency. In the last few years, when other currencies have become convertible and useful in international trade, this coincided with a period of pressure on the U.S. balance of payments. Therefore, the Fund adopted the policy of making their advances in currencies other than dollars wherever possible, so as to put no additional strain on the United States. That is the reason they used up the bulk of these other currencies, and that is the basic reason why there is only \$900 million of currencies of the Common Market countries still left in the Fund, and why it was so necessary to substantially increase the availability of their currencies in particular. That is what this agreement does, because it adds almost \$2½ billion more of those currencies.

Mr. ASHLEY. What percent are they going to contribute?

Secretary DILLON. The five Common Market countries are putting up \$2,450 million of it.

Mr. ASHLEY. Roughly half?

Secretary DILLON. Yes, sir; \$3 billion is the total contribution of all the countries other than the United States and the United Kingdom.

Mr. ASHLEY. I should know this. There are 10 participating countries in this special program. Are these the 10 major countries whose currency is convertible?

Secretary DILLON. I think that is true in the free world with one exception, which is Switzerland. Switzerland has never been a member of the International Monetary Fund and, therefore, it was not possible to include them in this arrangement, though they were helpful at the time of the British difficulties and made parallel loans to the United Kingdom, and I think in case we had any problems that something similar would happen.

Mr. ASHLEY. That is all, Mr. Chairman.

Mr. SPENCE. Mr. Halpern.

Mr. HALPERN. I want to commend the Secretary for his excellent testimony this morning: I had several questions I intended to ask. Like all the members of this committee, I am concerned with our balance of payments and America's role in international finance institutions. But the Secretary, through his testimony, and through the answers to questions asked by members of this committee, clarified what I had in mind. I feel much more reassured and enlightened considerably on our responsibilities in this Fund.

For that I thank you and I wish to compliment you, Mr. Secretary, for your fine presentation this morning.

Mr. SPENCE. Mr. Vanik.

Mr. VANIK. Mr. Secretary, I would like to get right to some questions.

What is the extent of foreign deposits, both individual and corporate, in the United States, and as a corollary to that, what is the extent of deposits in foreign countries by American nations, both individual and corporate?

In order to conserve my time, the answer could be included in the record.

Secretary DILLON. I will be glad to.

(The information requested is as follows:)

#### FOREIGN DEPOSITS IN THE UNITED STATES AND U.S. DEPOSITS IN FOREIGN COUNTRIES

Attached are certain tables regularly presented in the Treasury Bulletin showing short-term banking liabilities to and claims on foreigners, as well as short-term liabilities to and claims on foreigners reported by nonfinancial concerns. In section III, table 1, the column marked "Deposits" under the heading "To all other foreigners" represents deposits held with banks in the United States by foreign individuals and corporations, other than banks. Deposits held with banks in the United States by foreign banks are included in the figures in the column marked "Deposits" under the heading "To foreign banks and official institutions." Deposits in foreign countries by banks in the United States and their domestic customers, individual and corporate, are included in two places in table 2, section III: Those deposits payable in dollars are included in the figures in the column marked "Other" under "Short-term claims payable in dollars"; those deposits payable in foreign currencies are shown separately in the next to last column.

The data in section IV, table 1, relating to short-term claims on foreigners reported by nonfinancial concerns, include deposits held directly with banks abroad, but these data are not collected on a basis which permits isolating such deposits.

## SECTION III—PRELIMINARY DETAILS BY COUNTRIES

TABLE 1.—Short-term banking liabilities to foreigners as of Dec. 31, 1961

[Position in thousands of dollars]

Country	Total short-term liabilities	Short-term liabilities payable in dollars							Short-term liabilities payable in foreign currencies	
		To foreign banks and official institutions				To all other foreigners				
		Total	Deposits	U.S. Treasury bills and certificates	Other	Total	Deposits	U.S. Treasury bills and certificates		Other
<b>Europe:</b>										
Austria.....	255,084	250,720	246,014		4,706	4,352	4,239		13	
Belgium.....	328,788	288,010	241,704	12,695	33,011	39,637	36,536	43	3,058	
Czechoslovakia.....	851	500	450		131	261	261			
Denmark.....	51,565	44,457	19,635	23,200	1,622	7,055	6,724	314	17	
Finland.....	90,819	80,518	51,448	37,300	770	1,301	1,301			
France.....	988,694	937,302	264,843	631,589	40,870	48,925	43,802	3,059	2,064	
Germany, Federal Republic of.....	2,841,431	2,790,366	237,340	2,072,000	480,126	49,034	42,047	2,093	3,994	
Greece.....	67,200	53,201	30,153	23,000	48	13,999	13,999			
Italy.....	1,234,123	1,205,961	174,148	855,063	176,750	26,300	22,705	2,940	745	
Netherlands.....	216,900	192,233	125,616	56,300	10,317	24,524	21,031	785	2,708	
Norway.....	105,153	72,959	60,994	5,500	6,465	32,082	31,507	169	406	
Poland.....	7,205	6,765	6,335		430	440				
Portugal.....	99,283	64,061	61,402		3,559	34,316	32,220	216	1,880	
Rumania.....	1,507	1,284	1,206		58	243	243			
Spain.....	152,356	130,208	123,121		7,087	21,998	20,264	32	1,702	
Sweden.....	406,435	397,316	114,227	253,000	30,089	8,939	8,491	395	53	
Switzerland.....	873,625	711,173	410,737	119,068	181,368	107,363	71,040	13,898	22,365	
Turkey.....	25,936	24,406	24,397		9	1,530	1,510		20	
U. S. S. R.....	4,831	4,639	4,551		88	192	192			
United Kingdom.....	2,225,097	1,850,256	936,161	856,993	57,102	320,035	117,234	85,520	126,281	
Yugoslavia.....	11,591	10,796	9,661		1,135	795	795			
Other Europe.....	327,398	297,253	67,080	75,847	154,326	10,520	10,158		362	
<b>Total Europe.....</b>	<b>10,315,872</b>	<b>9,424,354</b>	<b>3,211,232</b>	<b>5,022,455</b>	<b>1,190,667</b>	<b>762,871</b>	<b>487,739</b>	<b>109,464</b>	<b>165,668</b>	<b>128,647</b>
<b>Canada.....</b>	<b>2,753,857</b>	<b>2,465,520</b>	<b>1,759,800</b>	<b>696,151</b>	<b>9,476</b>	<b>279,206</b>	<b>217,967</b>	<b>29,121</b>	<b>32,118</b>	<b>9,125</b>

<b>Latin America:</b>											
Argentina.....	234,061	165,254	147,193	17,000	1,061	69,352	67,015	34	2,303	55	
Bolivia.....	26,168	9,347	0,346		1	16,818	16,768	13	37	3	
Brazil.....	228,154	96,102	85,000	90	10,112	131,943	125,153	235	6,555	109	
Chile.....	105,294	54,366	54,080		286	50,886	50,404	114	368	42	
Colombia.....	146,804	75,974	74,444	200	1,330	70,819	70,117	3	699	11	
Cuba.....	42,433	2,070	2,070			40,463	40,298	95	70		
Dominican Republic.....	22,835	6,384	6,338		46	16,451	16,205	57	189		
Guatemala.....	45,773	28,232	19,261	2,300	6,671	17,541	17,307	65	169		
Mexico.....	506,498	331,936	255,078	42,000	34,858	174,152	170,228	513	3,411	410	
Netherlands Antilles and Surinam.....	88,827	54,060	37,458	6,572	10,030	34,739	29,417	1,046	4,276	28	
Panama, Republic of.....	86,063	12,751	11,347		1,404	73,911	69,356	1,970	3,585	1	
Peru.....	83,953	34,261	34,078		813	49,614	47,368		2,246	78	
El Salvador.....	21,936	5,684	4,143	500	1,041	16,252	16,252				
Uruguay.....	56,952	27,726	25,243		2,483	29,198	25,892	250	3,056	28	
Venezuela.....	416,529	182,383	182,116		267	233,841	230,870	866	2,105	305	
Other Latin America.....	291,611	179,256	121,377	30,951	26,928	108,972	96,708	5,226	7,038	3,383	
<b>Total Latin America.....</b>	<b>2,405,191</b>	<b>1,265,786</b>	<b>1,069,472</b>	<b>99,613</b>	<b>96,701</b>	<b>1,134,952</b>	<b>1,089,358</b>	<b>9,487</b>	<b>36,107</b>	<b>4,453</b>	
<b>Asia:</b>											
China mainland.....	34,645	28,903	28,820	83		5,742	5,736	6			
Hong Kong.....	55,394	29,594	24,915		4,679	25,651	24,725		925	149	
India.....	77,710	71,261	28,948	37,800	4,513	5,816	5,489	300	27	633	
Indonesia.....	75,632	72,892	61,880	10,830	176	2,740	2,740				
Iran.....	31,342	24,998	22,920		2,078	6,340	6,340			4	
Israel.....	63,015	53,276	34,724	3,150	20,492	4,739	4,716		23		
Japan.....	1,590,440	1,571,719	1,148,923	324,710	98,086	18,706	18,241	192	273	15	
Korea, Republic of.....	159,462	189,346	195,691	150	2,505	1,116	1,116				
Philippines.....	184,086	164,805	161,309		13,496	29,062	19,475	348	239	119	
Taiwan.....	91,963	84,894	84,248	10	636	7,069	7,069				
Thailand.....	264,442	261,720	181,811	181,811	7,401	2,702	2,693		9	20	
Other Asia.....	222,905	186,396	121,751	44,224	20,421	35,336	34,480	76	780	1,173	
<b>Total Asia.....</b>	<b>2,891,936</b>	<b>2,753,604</b>	<b>1,976,553</b>	<b>602,768</b>	<b>174,483</b>	<b>136,019</b>	<b>132,821</b>	<b>922</b>	<b>2,276</b>	<b>2,113</b>	
<b>Other countries:</b>											
Australia.....	97,843	92,134	50,591	38,600	2,943	3,485	3,474	11		2,224	
Congo, Republic of the.....	33,860	32,624	25,033		7,591	1,236	1,027		209		
South Africa.....	31,726	28,027	27,655		372	2,978	2,877	100	1	721	
United Arab Republic (Egypt).....	14,523	13,764	11,976	485	1,293	567	567			202	
All other.....	209,202	171,037	141,275	25,658	4,104	36,466	34,958	10	1,498	1,699	
<b>Total other countries.....</b>	<b>387,154</b>	<b>337,576</b>	<b>256,530</b>	<b>64,743</b>	<b>16,303</b>	<b>44,732</b>	<b>42,903</b>	<b>121</b>	<b>1,708</b>	<b>4,846</b>	
<b>International.....</b>	<b>3,803,775</b>	<b>3,803,730</b>	<b>390,601</b>	<b>3,405,401</b>	<b>7,728</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	<b>45</b>	
<b>Grand total.....</b>	<b>22,557,785</b>	<b>20,050,776</b>	<b>8,664,287</b>	<b>9,891,131</b>	<b>1,495,358</b>	<b>2,357,825</b>	<b>1,970,788</b>	<b>149,160</b>	<b>237,877</b>	<b>149,184</b>	

TABLE 2.—Short-term banking claims of foreigners as of December 31, 1961<sup>1</sup>

[Position in thousands of dollars]

Country	Total short-term claims	Short-term claims payable in dollars					Short-term claims payable in foreign currencies		
		Total	Loans to		Collections outstanding for own account and domestic customers	Other	Total	Deposits of reporting banks and domestic customers with foreigners	Other
			Foreign banks and official institutions	Other					
<b>Europe:</b>									
Austria.....	5,015	4,860	1,490	499	1,652	1,210	155	155	-----
Belgium.....	19,964	17,206	3,872	3,210	7,228	2,896	2,729	2,729	29
Czechoslovakia.....	1,205	1,205	1,142	2	61	-----	-----	-----	-----
Denmark.....	10,824	9,844	269	2,409	2,814	4,352	980	980	-----
Finland.....	24,046	24,588	621	56	1,892	22,019	58	58	-----
France.....	40,211	37,018	3,263	5,903	12,121	15,731	3,103	3,126	67
Germany, Federal Republic of.....	165,493	140,436	38,242	50,205	25,784	26,205	25,057	24,397	660
Greece.....	5,835	5,835	370	1,650	3,773	42	-----	-----	-----
Italy.....	35,014	30,125	6,512	5,773	13,290	4,550	4,899	4,576	313
Netherlands.....	54,354	46,536	6,023	28,536	10,518	1,459	7,818	7,797	21
Norway.....	26,295	25,213	2,044	911	2,475	19,783	1,082	555	527
Poland.....	7,627	7,627	-----	691	1,059	5,877	-----	-----	-----
Portugal.....	4,540	4,484	2,267	2	1,727	488	56	56	-----
Rumania.....	4	4	4	-----	-----	-----	-----	-----	-----
Spain.....	11,113	10,587	3,196	1,598	1,991	3,802	526	525	1
Sweden.....	34,975	17,723	2,112	460	6,333	8,818	17,252	17,230	22
Switzerland.....	105,076	40,615	9,824	18,768	6,911	5,112	64,461	48,326	16,135
Turkey.....	16,104	16,099	13,253	25	2,821	-----	5	5	-----
U.S.S.R.....	141	141	1	-----	139	1	-----	-----	-----
United Kingdom.....	180,814	65,202	20,555	3,102	14,847	26,698	115,612	82,505	33,107
Yugoslavia.....	8,553	8,553	4,870	703	2,108	872	-----	-----	-----
Other, Europe.....	8,997	8,460	833	4,052	2,963	612	537	533	4
<b>Total Europe.....</b>	<b>766,800</b>	<b>522,361</b>	<b>120,772</b>	<b>128,555</b>	<b>122,507</b>	<b>150,527</b>	<b>244,439</b>	<b>193,553</b>	<b>50,886</b>
<b>Canada.....</b>	<b>541,544</b>	<b>292,264</b>	<b>9,095</b>	<b>205,655</b>	<b>12,418</b>	<b>65,096</b>	<b>249,280</b>	<b>109,276</b>	<b>143,004</b>

<b>Latin America:</b>									
Argentina.....	191,553	181,524	29,041	23,756	45,188	83,539	10,029	9,371	658
Bolivia.....	5,907	5,904	108	207	5,043	541	3	3	
Brazil.....	186,269	151,036	37,480	29,505	26,761	57,290	35,233	35,018	215
Chile.....	126,934	126,794	47,831	26,963	16,031	35,969	140	21	119
Colombia.....	125,252	125,236	28,002	11,077	26,081	58,576	10	15	1
Cuba.....	19,181	19,149		1,614	17,532	3	32	19	13
Dominican Republic.....	12,721	12,721	4,700	1,185	5,524	1,312			
Guatemala.....	19,726	19,715	3,148	1,155	7,753	7,659	11		11
Mexico.....	423,224	418,286	178,200	76,664	36,244	127,178	4,938	3,572	1,366
Netherlands Antilles and Surinam.....	13,449	13,437	5,334	5,761	2,334	8	12		12
Panama, Republic of.....	31,853	31,805	764	5,999	20,841	4,201	48	22	26
Peru.....	73,496	73,400	4,117	11,180	25,147	32,956	96	29	67
El Salvador.....	17,084	17,079	328	913	5,592	10,256	5		5
Uruguay.....	54,711	54,705	6,822	4,191	5,659	38,033	6	6	
Venezuela.....	129,342	127,455	14,091	23,842	71,897	17,625	1,887	600	1,287
Other Latin America.....	80,508	80,145	4,108	23,283	30,277	22,477	363	335	28
<b>Total Latin America.....</b>	<b>1,511,210</b>	<b>1,458,391</b>	<b>364,974</b>	<b>262,137</b>	<b>333,657</b>	<b>497,623</b>	<b>52,819</b>	<b>49,011</b>	<b>3,808</b>
<b>Asia:</b>									
China mainland.....	1,674	1,669	1,668		1		5	5	
Hong Kong.....	9,203	9,193	2,964	2,523	2,021	1,085	10	10	
India.....	8,202	7,654	1,419	364	5,141	730	548	237	311
Indonesia.....	262	262			262				
Iran.....	31,223	30,456	2,347	12	26,813	1,294	767	764	3
Israel.....	35,742	35,742	3,495	4,197	3,632	24,418			
Japan.....	1,444,722	1,413,065	289,531	6,714	117,701	999,069	31,657	31,641	16
Korea, Republic of.....	3,891	3,891	9		3,882				
Philippines.....	114,407	114,404	105,872	1,208	642	6,682	3	3	
Taiwan.....	9,720	9,720	2	2	1,079	6,281			
Thailand.....	34,140	34,140	13,434	1,805	2,960	15,941			
Other Asia.....	113,512	113,302	80,250	8,597	21,012	3,437	210	118	92
<b>Total Asia.....</b>	<b>1,806,698</b>	<b>1,773,498</b>	<b>503,403</b>	<b>25,422</b>	<b>185,746</b>	<b>1,058,927</b>	<b>33,200</b>	<b>32,778</b>	<b>422</b>
<b>Other countries:</b>									
Australia.....	28,790	25,167	841	2,438	12,989	8,899	3,623	1,711	1,912
Congo, Republic of the.....	6,029	6,029	4,428	6	1,595				
South Africa.....	10,290	8,684	76	112	8,364	132	1,606	1,527	79
United Arab Republic (Egypt).....	13,184	13,025	6,028	4	806	6,187	159	159	
All other.....	26,636	26,129	4,181	4,203	15,862	1,883	507	183	324
<b>Total other countries.....</b>	<b>84,929</b>	<b>79,034</b>	<b>15,554</b>	<b>6,763</b>	<b>39,616</b>	<b>17,101</b>	<b>5,895</b>	<b>3,580</b>	<b>2,315</b>
<b>International.....</b>	<b>4</b>	<b>4</b>	<b>4</b>						
<b>Grand total.....</b>	<b>4,711,185</b>	<b>4,125,552</b>	<b>1,013,802</b>	<b>628,532</b>	<b>693,944</b>	<b>1,789,274</b>	<b>685,633</b>	<b>385,198</b>	<b>200,435</b>

<sup>1</sup> Excludes convertible currencies held by U.S. monetary authorities.

SECTION IV—SUPPLEMENTARY DATA BY COUNTRIES  
 TABLE 1.—Short-term liabilities to and claims on foreigners reported by nonfinancial concerns<sup>1</sup>  
 LIABILITIES TO FOREIGNERS:  
 [Position at end of period in thousands of dollars]

Country	1960				First revised series <sup>2</sup>		Second revised series <sup>3</sup>	
	June	September	December	December 1960	March 1961	March 1961	June 1961 <sup>4</sup>	
	Europe:							
Austria.....	1,710	1,746	1,358	1,560	2,123	2,121	2,075	
Belgium.....	15,735	18,126	17,770	17,845	28,534	28,534	28,127	
Czechoslovakia.....	211	201	200	200	203	203	204	
Denmark.....	1,848	1,848	1,892	1,288	1,850	1,850	2,487	
Finland.....	506	745	550	554	578	594	596	
France.....	36,961	19,507	28,750	28,750	32,701	34,199	36,620	
Germany, Federal Republic of.....	48,183	46,296	40,929	40,970	48,319	48,321	40,185	
Greece.....	1,130	1,359	1,418	1,425	1,416	1,441	1,600	
Italy.....	12,525	14,488	15,495	16,495	19,071	19,548	24,774	
Netherlands.....	44,266	55,884	47,917	48,044	62,300	62,338	67,827	
Norway.....	6,685	6,565	5,065	5,076	5,687	5,863	6,066	
Poland.....	10	10	79	79	11	11	12	
Portugal.....	372	629	705	707	955	900	1,141	
Rumania.....	152	163	119	131	131	131	129	
Spain.....	8,706	8,414	8,882	8,934	7,881	7,901	6,495	
Sweden.....	14,375	8,122	5,542	5,506	5,419	5,444	8,044	
Switzerland.....	28,612	26,205	26,205	26,652	25,337	25,809	46,688	
Turkey.....	1,381	3,037	3,082	3,176	3,499	3,499	3,873	
U.S.S.R.....	851	565	154	154	187	192	130	
United Kingdom.....	86,219	78,742	61,309	65,401	78,733	79,094	106,915	
Yugoslavia.....	1,017	1,033	1,085	1,083	636	654	1,266	
Other Europe.....	4,387	4,153	3,021	3,026	1,753	1,756	1,734	
Total Europe.....	315,962	301,956	270,917	276,692	327,325	331,193	385,045	
Canada.....	58,077	58,394	53,498	56,872	36,528	39,401	42,929	
Latin America:								
Argentina.....	9,345	6,738	6,632	6,665	7,223	7,904	9,572	
Bolivia.....	1,596	1,722	1,347	1,352	1,440	1,454	1,130	
Brazil.....	16,713	15,122	16,476	16,556	19,345	19,664	19,971	
Chile.....	4,715	4,747	3,322	3,354	3,649	3,712	4,718	
Colombia.....	3,102	3,432	4,106	4,301	5,145	5,154	7,085	
Cuba.....	3,839	2,922	2,363	2,363	2,484	2,484	2,684	
Dominican Republic.....	388	472	1,180	1,181	628	637	1,026	

Guatemala.....	184	150	252	322	207	258	191
Mexico.....	4,928	6,847	5,590	6,553	5,995	6,087	6,068
Netherlands Antilles and Surinam.....	4,847	4,810	6,653	6,654	4,101	4,213	6,130
Panama, Republic of.....	2,397	5,753	2,322	2,327	2,756	2,775	6,310
Peru.....	2,604	4,313	4,227	4,262	5,350	6,212	2,198
El Salvador.....	88	162	163	176	222	222	184
Uruguay.....	2,651	3,976	946	959	1,617	1,756	2,471
Venezuela.....	* 12,986	* 13,036	* 13,024	* 14,380	* 16,248	22,776	22,941
Other Latin America.....	3,627	* 3,400	4,091	4,170	* 7,268	7,293	9,568
<b>Total Latin America.....</b>	<b>* 74,240</b>	<b>* 78,611</b>	<b>* 72,774</b>	<b>* 75,568</b>	<b>* 83,459</b>	<b>92,391</b>	<b>101,553</b>
<b>Asia:</b>							
China mainland.....	924	958	959	959	967	986	1,450
Hong Kong.....	2,243	2,731	2,607	2,608	2,530	2,557	2,575
India.....	4,008	4,400	6,024	6,668	6,169	6,180	5,369
Indonesia.....	3,655	3,822	3,009	3,149	10,881	10,892	9,660
Iran.....	* 3,091	* 3,630	* 4,053	* 5,833	* 5,044	5,341	5,209
Israel.....	1,089	3,226	4,742	4,771	4,375	4,376	2,175
Japan.....	* 18,551	* 17,495	* 26,763	* 28,985	* 57,392	57,880	67,465
Korea, Republic of.....	209	242	254	261	218	219	265
Philippines.....	6,747	7,534	5,400	5,427	6,824	6,829	7,313
Taiwan.....	* 1,717	* 2,018	3,092	3,109	1,849	1,865	307
Thailand.....	2,547	2,723	3,106	3,141	3,031	3,031	2,905
Other Asia.....	* 4,192	4,283	5,373	8,041	7,449	7,936	9,078
<b>Total Asia.....</b>	<b>* 48,973</b>	<b>* 53,062</b>	<b>* 65,382</b>	<b>* 72,952</b>	<b>* 106,729</b>	<b>108,092</b>	<b>113,771</b>
<b>Other countries:</b>							
Australia.....	7,925	11,637	13,633	13,636	14,726	14,730	14,509
Congo, Republic of the.....	984	1,137	1,444	1,543	1,338	1,356	334
South Africa.....	6,178	970	963	983	2,251	2,263	3,210
United Arab Republic (Egypt).....	1,384	1,453	1,536	1,559	1,546	1,547	1,369
All other.....	5,423	* 5,372	5,190	6,815	9,963	10,049	11,199
<b>Total other countries.....</b>	<b>21,894</b>	<b>* 20,569</b>	<b>22,766</b>	<b>24,536</b>	<b>29,824</b>	<b>29,945</b>	<b>30,621</b>
<b>International.....</b>	<b>45</b>	<b>33</b>	<b>25</b>	<b>25</b>	<b>31</b>	<b>31</b>	<b>56</b>
<b>Grand total.....</b>	<b>* 519,191</b>	<b>* 512,635</b>	<b>* 485,362</b>	<b>* 506,645</b>	<b>* 583,896</b>	<b>601,153</b>	<b>674,975</b>

See footnotes at end of table, p. 69.

TABLE 1.—Short-term liabilities to and claims on foreigners reported by nonfinancial concerns 1—Continued

 CLAIMS ON FOREIGNERS 2  
 [Position at end of period in thousands of dollars]

Country	1960			First revised series 3		Second revised series 3	
	June	September	December	December 1960	March 1961	March 1961	June 1961 4
<b>Europe:</b>							
Austria.....	4,877	6,173	6,562	7,556	4,787	4,866	4,491
Belgium.....	* 11,145	9,542	11,990	12,382	10,836	11,136	34,631
Czechoslovakia.....	853	786	787	807	965	1,001	937
Denmark.....	* 5,497	8,384	11,761	11,830	11,773	11,984	4,984
Finland.....	1,314	1,668	1,502	1,576	1,653	1,777	2,053
France.....	* 32,703	* 35,767	* 37,300	* 38,747	* 44,891	45,334	39,796
Germany, Federal Republic of.....	* 27,858	25,544	* 33,835	* 38,593	* 37,711	40,629	67,505
Greece.....	2,392	2,649	2,001	2,042	2,328	2,427	2,510
Italy.....	* 19,007	* 20,963	* 21,997	* 29,744	* 32,837	34,314	35,019
Netherlands.....	* 14,918	* 11,412	* 15,807	* 17,153	* 16,451	16,787	21,515
Norway.....	6,212	6,290	6,342	6,395	6,523	6,652	7,131
Poland.....	202	313	255	277	129	130	274
Portugal.....	3,939	2,989	3,227	3,278	3,738	3,798	3,378
Rumania.....	6	6	6	6	23	23	28
Spain.....	* 10,786	* 9,678	10,518	10,724	7,151	7,216	9,754
Sweden.....	26,521	26,909	26,244	26,396	25,680	26,361	18,918
Switzerland.....	20,491	19,495	17,310	17,800	22,586	24,385	19,125
Turkey.....	* 9,117	7,285	6,044	7,076	4,878	4,966	4,916
U. S. S. R.....	177	832	392	392	992	1,164	272
United Kingdom.....	* 147,413	* 162,076	* 639,064	* 642,395	* 278,360	279,376	225,339
Yugoslavia.....	1,357	1,225	1,310	1,343	2,165	2,180	1,566
Other Europe.....	1,971	2,103	2,894	3,216	3,004	3,065	1,912
<b>Total Europe.....</b>	<b>* 348,786</b>	<b>* 362,085</b>	<b>* 862,037</b>	<b>* 879,728</b>	<b>* 519,461</b>	<b>530,151</b>	<b>506,054</b>
<b>Canada.....</b>	<b>* 124,204</b>	<b>* 165,141</b>	<b>* 160,302</b>	<b>* 187,456</b>	<b>* 206,052</b>	<b>328,150</b>	<b>421,559</b>
<b>Latin America:</b>							
Argentina.....	11,956	18,805	19,543	20,342	24,951	25,818	29,195
Bolivia.....	* 2,869	* 1,824	* 3,086	* 3,173	2,833	2,640	2,476
Brazil.....	64,888	69,241	76,309	77,822	69,443	69,862	73,376
Chile.....	8,823	9,188	11,310	11,562	13,911	14,512	18,121
Colombia.....	10,644	11,270	11,373	11,577	12,873	13,530	12,698
Cuba.....	20,168	17,871	7,765	7,889	6,220	6,379	5,485
Dominican Republic.....	2,456	2,016	2,512	2,863	2,868	2,911	2,493
Guatemala.....	3,874	3,956	3,869	3,998	3,814	4,069	4,652
Mexico.....	30,349	30,731	35,661	38,923	46,205	47,462	42,370

Netherlands Antilles and Surinam.....	1,596	1,334	1,603	1,607	2,013	2,664	1,721
Panama, Republic of.....	12,061	4,394	7,262	7,305	8,556	8,830	7,102
Peru.....	r 8,025	r 13,166	r 8,397	r 8,552	8,595	10,193	10,901
El Salvador.....	1,982	2,145	2,039	2,073	2,156	2,184	3,056
Uruguay.....	r 3,378	r 2,882	r 3,283	r 3,356	r 3,873	4,029	4,097
Venezuela.....	r 30,114	r 28,642	r 32,668	r 33,555	r 35,831	38,229	35,174
Other Latin America.....	r 18,310	r 18,118	r 18,672	r 19,125	r 20,930	21,663	25,061
<b>Total Latin America.....</b>	<b>r 231,493</b>	<b>r 235,581</b>	<b>r 245,352</b>	<b>r 253,722</b>	<b>r 254,872</b>	<b>265,365</b>	<b>277,978</b>
<b>Asia:</b>							
China Mainland.....	108	88	65	65	74	74	19
Hong Kong.....	1,502	1,420	2,256	2,310	2,725	3,020	2,621
India.....	7,071	10,555	12,355	15,417	10,401	10,649	11,088
Indonesia.....	1,314	1,285	1,383	1,423	4,127	4,128	2,902
Iran.....	r 7,526	7,480	r 8,369	r 8,480	9,050	9,193	7,232
Israel.....	9,501	8,742	11,285	11,347	7,475	7,570	7,741
Japan.....	r 31,867	r 31,850	r 45,291	r 53,934	r 51,458	52,312	55,453
Korea, Republic of.....	1,288	1,140	989	997	592	597	640
Philippines.....	7,219	8,558	7,235	8,502	8,373	8,524	7,171
Taiwan.....	r 1,426	r 1,465	r 1,370	r 1,455	r 2,912	3,281	1,606
Thailand.....	4,289	3,833	3,543	3,550	3,125	3,293	2,525
Other Asia.....	18,286	17,122	16,725	20,209	17,144	17,785	17,719
<b>Total Asia.....</b>	<b>r 91,397</b>	<b>r 93,538</b>	<b>r 110,896</b>	<b>r 127,689</b>	<b>r 117,456</b>	<b>120,336</b>	<b>116,717</b>
<b>Other countries:</b>							
Australia.....	15,830	19,434	20,890	21,614	19,407	20,101	19,416
Congo, Republic of the <sup>1</sup> .....	1,055	1,189	2,647	2,650	1,903	1,921	2,329
South Africa.....	8,342	8,104	6,370	6,618	8,890	9,191	11,066
United Arab Republic (Egypt) <sup>2</sup> .....	5,572	5,183	6,375	6,666	7,133	7,192	7,196
All other.....	r 10,453	r 10,398	r 12,524	r 14,639	13,492	14,088	15,589
<b>Total other countries.....</b>	<b>r 41,252</b>	<b>r 44,308</b>	<b>r 48,806</b>	<b>r 52,187</b>	<b>50,825</b>	<b>52,493</b>	<b>55,596</b>
<b>International.....</b>	<b>288</b>	<b>240</b>	<b>372</b>	<b>372</b>	<b>626</b>	<b>626</b>	<b>187</b>
<b>Grand total.....</b>	<b>r 837,420</b>	<b>r 900,893</b>	<b>r 1,427,765</b>	<b>r 1,501,154</b>	<b>r 1,240,192</b>	<b>1,297,121</b>	<b>1,378,091</b>

<sup>1</sup> As reported by exporters, importers, industrial and commercial firms, and other non-financial concerns in the United States. Data exclude claims held through U.S. banks and intercompany accounts between U.S. companies and their foreign affiliates.

<sup>2</sup> Data for the period covered by this table reflect substantial revisions received from reporting firms; data for earlier periods published in previous issues do not include comparable revisions.

<sup>3</sup> Under a continuing program instituted at the end of 1960 to enlarge coverage and to improve reporting by nonfinancial concerns, data are included from a number of firms reporting for the first time as of Dec. 31, 1960 (first revised series) and also those firms

reporting for the first time as of Mar. 31, 1961 (second revised series). Data shown under the first revised series (for December 1960 and March 1961) include those from the additional firms reporting initially as of Dec. 31, 1960, as well as those from firms reporting previously. In the second revised series, data (for March and June 1961) include those from the additional firms first reporting as of Mar. 31, 1961. Changes in liabilities and claims between quarter-ends can thus be computed based on comparable coverage.

<sup>4</sup> Preliminary.

<sup>5</sup> Revised.

Mr. VANIK. What are the advantages to the depositor of such international deposit over and beyond the attraction of interest rate differentials? Are there tax advantages to the depositor?

Secretary DILLON. Not particularly as opposed to having his deposit in any other country that I know of. Certainly, a deposit by a central bank here is tax free.

Mr. VANIK. And will the tax bill that is currently being considered by the Ways and Means Committee tend to increase or reduce the incentive for foreign deposits in this country?

Secretary DILLON. I don't think it will have any effect on it. The only thing that it has to do with is to try to reduce the tax incentives to U.S. capital to move abroad.

Mr. VANIK. There is another question which I would like to have you answer for the record.

What proportion of the demand of foreign creditors or depositors for repayment in other currencies is being made by foreign corporate nationals substantially owned by Americans?

In other words, how many of our own citizens are involved in this flow of gold out of the country?

Secretary DILLON. We will try to give you an answer on that.  
(The information requested is as follows:)

It should be noted that only a part of our balance-of-payments deficit results in an outflow of gold from the United States (the balance being financed almost entirely by increased dollar holdings by foreigners). One factor affecting our overall deficit is the outflow of private capital from the United States for direct investment abroad. About \$1½ billion went abroad during 1961 in the form of direct investments, and an important portion of these investments was made in foreign subsidiaries of U.S. corporations. In this connection, it should be noted that to the extent capital funds move abroad as a result of the special incentives offered by so-called tax-haven countries, there is an unnecessary and undesirable adverse impact on our balance of payments. It is for this reason that the Treasury has been seeking legislation to eliminate, through changes in tax laws and regulations, the special incentives which distort the capital flow that would normally be expected. The House Ways and Means Committee is now considering legislation designed to block the tax-haven gap in our present laws.

In addition to this outflow of U.S. capital in the form of U.S. direct investment, it is estimated that the outward movement of U.S. capital included substantial amounts of purchases of long-term foreign securities and about \$1.4 billion of short-term capital, making a total recorded outflow of U.S. capital of about \$3.8 billion. Unrecorded transactions, amounting to another \$600 million, would add further to this figure.

The dollar holdings of foreign countries on private rather than official account include an indeterminate amount that may be owned by foreign subsidiaries of U.S. corporations. Like other private dollar claims on the United States, such holdings represent a potential claim on our gold reserves, but only because of the possibility that they can be converted into official holdings of foreign monetary authorities. The U.S. Treasury converts dollar balances into gold only for official monetary authorities.

Mr. VANIK. The next question: One of the purposes of this additional authority is to buy currencies of other countries, apparently to pay off the demands as you indicated, of foreign currencies with credits in this country.

As we use our taxpayers' funds to make response to these demands, is there any danger that our public funds may be used to pay off the private debt of debtors and deposit institutions in this country?

Secretary DILLON. No, because I think the only difference is these people have the right to transfer their deposits to a foreign government

account and that foreign government has the right to buy gold from us. And this arrangement would work to prevent that.

Mr. VANIK. Aren't we in effect using our resources to pay off this demand, which is really a demand—

Secretary DILLON. It is a demand against our gold stock.

Mr. VANIK. Yes, sir.

Secretary DILLON. We are using our resources to defend our gold stock.

Mr. VANIK. In view of this gold problem, which I consider very serious, and I am deeply in sympathy with this legislation, how can we justify a billion and a half dollars that we spend in offshore procurement in our foreign aid program?

Secretary DILLON. Personally I think we should make every effort to reduce the amount. The total figure that shows up in our balance-of-payments for 1961 so far, and it is a preliminary figure, indicates a total of a billion, \$400 million. This includes contributions to international organizations, such as the Inter-American Bank and International Development Association; undoubtedly part of which comes back to the United States of America.

But a policy that we have been following very closely is to try to reduce these amounts and I think we will have some good results. The new loans that are being made, with, for instance, AID funds, are tied very closely. During the last 6 months, I think I saw a figure that of the development loans that were made, something like 98 percent were tied to procurement in the United States.

The actual figures of expenditures are something quite different because we are still paying out funds on loans that were made 2, 3, and 4 years ago. I think the payout of those loans that were made before the change of policy, which took place in the fall of 1959, will be pretty well completed during the course of this calendar year. And then we ought to see a real improvement in that figure.

Mr. VANIK. Unless we approach this problem with the deeper approach of restricting offshore procurement both under the foreign aid program and under the military program, this proposal would be more in the nature of a sedative rather than a cure.

Secretary DILLON. That is right. This proposal is not a cure. The proposal we are talking about here is just something that gives us time to put our house in order fundamentally, and we have to do the things you are talking about to achieve that.

Mr. SPENCE. The gentleman's time has expired.

Mr. VANIK. Mr. Chairman, again, may I have the responses to my questions in some other form later?

Secretary DILLON. I will be glad to.

Mr. SPENCE. Mr. Rousselot.

Mr. ROUSSELOT. Mr. Secretary, as I understand this bill, if we pass it, H.R. 10162 is basically in authorization by this committee for \$2 billion.

Is it the definite intent of the administration, upon finding that the International Monetary Fund needs the \$2 billion, to go through the Appropriations Committee and not take them out of contingency funds?

Secretary DILLON. Yes, sir; we are asking, under this bill, the authority to ask for an appropriation. It is not an appropriation itself. So we do intend, and will have to ask for an appropriation from the Appropriations Committee.

Mr. ROUSSELOT. In other words, there will be no intention on the part of the administration, as there sometimes has been in the past, to go around the Appropriations Committee by taking it out of some contingency fund?

Secretary DILLON. Oh, no.

Mr. ROUSSELOT. Following up Mr. Patman's questioning about the Board and its ability to refuse our rights under this Monetary Fund, did I understand you to say that the United States or any nation which wishes to make a withdrawal from this Fund is not able to vote on its own withdrawal?

Secretary DILLON. That is not true with respect to the regular resources of the International Monetary Fund, but it is for this extra loan fund that we are talking about here today, this extra \$6 billion. And the principle of that simply was that if you were asking someone to lend you some money, it didn't seem quite proper for the fellow who is asking to borrow the money to tell the other people they had to lend it to him.

So, we thought it perfectly proper, and it has always been our view, that the borrower should not vote in determining whether a loan is proper.

Mr. ROUSSELOT. Mr. Chairman, I have three additional questions, but I think they can be answered in writing. I will submit these to the Secretary and ask that they be included in the record.

Mr. SPENCE. Without objection, it will be done.

(The data referred to above is as follows:)

FEBRUARY 28, 1962.

HON. DOUGLAS DILLON,  
*Secretary of the Treasury, Washington, D.C.*

DEAR MR. SECRETARY: May I take this opportunity to thank you for your willingness to answer additional questions for the official record concerning H.R. 10162, to amend the Bretton Woods Agreements Act, presently pending before the Banking and Currency Committee. Your agreement to the idea of answering additional questions by mail helped in keeping your participation as a witness going beyond the 1 day of testimony.

I wish to submit the following questions, the answers of which will be submitted in the regular testimony:

1. On page 10 of your written statement before the committee you made the following statement: "In any event, since the Fund still has available in dollars almost \$2½ billion from the regular U.S. quota, it is highly unlikely that a need for borrowing from the United States will arise." If this is true, why is it necessary to authorize an additional \$2 billion when the need for our country to utilize this is very unlikely? If we are going to authorize an additional \$2 billion to be granted to this Fund at some future date, wouldn't it be wise also to ask for our fair share of potential borrowing authority from the Fund whether we need it or not, simply as a matter of emergency protection?

2. I know that the subject was covered very thoroughly by you that you personally were convinced this additional authority granted to the Congress to the International Monetary Fund would be very unlikely to jeopardize our gold reserve position. Can you further substantiate your reasons, other than that which was included in your testimony?

3. On page 11 of your statement you commented: "Since the countries concerned are in constant close communication regarding their balance-of-payments position, not only in the Fund but also through the Organization for Economic Cooperation and Development, and bilaterally, a decision can be reached very rapidly." There are two parts of my question as it relates to this statement:

(a) What is the present relationship between the International Monetary Fund and the Organization for Economic Cooperation and Development?

(b) Are the agreements with the United States as they relate to each of these organizations constructed in such a way that our gold reserve situation in this

country will not be jeopardized by conflicting actions of each group? In addition, are our commitments to each of these organizations such that it makes it extremely difficult to maintain a strong gold reserve in this country?

I am looking forward to hearing from you; thank you sincerely for your cooperation.

Kind regards.

JOHN H. ROUSSELOT.

RESPONSES TO QUESTIONS SUBMITTED BY MR. ROUSSELOT

(1) It is unlikely that the Fund would need to borrow from the United States to have dollars available for drawings by other participating countries. On the other hand, if the United States should ever need to draw a large amount, it is almost certain that the Fund would need to borrow from the other participating countries to obtain the currencies the United States desires. Since this is a cooperative and reciprocal arrangement, it would have been unreasonable to expect the other participating countries to undertake to lend their currencies to the Fund in the event of our need without ourselves undertaking to lend our currency to the Fund in the event of their need, even though the Fund is now already adequately supplied with dollars. In any event, unless we accept the terms of the agreement as drawn, we will not be able to benefit from the substantial contributions other countries are prepared to make.

Our commitment to lend to the Fund does not diminish in any way our already ample borrowing rights. In fact, the new arrangements provide that, should we ever lend to the Fund, we would, upon encountering balance-of-payments difficulties, be entitled, without question, to obtain prompt repayment of the loan.

(2) The major point should be reemphasized that the IMF borrowing arrangements are expressly designed to strengthen the international payments system and to buttress the international resources at the disposal of the major currency countries for coping with severe balance-of-payments difficulties, particularly those relating to large short-term movements of funds. The very existence of these new facilities should add substantially to the confidence in the financial communities of the world. In a healthy atmosphere of confidence in the smooth functioning of the payments system, the likelihood of speculative pressures on the dollar, and consequently the likelihood of sudden threats to our gold reserve position, is diminished.

(3) The IMF and the OECD are independent entities and are not formally linked, except to the extent that the countries may have common membership. The 20 members of the OECD, other than Switzerland, are members of the IMF; the Fund's total membership is 75 nations, including many of the less-developed nations, whereas the OECD consists of the countries of Western Europe, the United States and Canada.

We have every reason to expect continued harmonious relationships between these two organizations. Far from affecting the international monetary system adversely, this cooperation has been of very positive help. The marked enhancement of financial cooperation and mutual understanding that has characterized our participation in the OECD has eased, rather than made more difficult, the maintenance of a strong gold reserve in this country.

MR. SPENCE. Mr. Moorhead.

MR. MOORHEAD of Pennsylvania. Mr. Secretary, I would like to ask you a question which may be asked on the floor of the House.

The question is: Isn't this just another \$2 billion U.S. foreign give-away program?

Secretary DILLON. The answer is "No," because, in the first place, this is just a standby authority that we do not see any real possibility of using.

In the second place, if it ever is used, it is a hard loan that is paid back in a maximum of 3 to 5 years.

In the third place, if we make such a loan, and then get into balance-of-payments difficulties thereafter, it is immediately repayable on demand, if we are in trouble.

So, I don't think this is the case at all.

And, in addition to this, we have \$2 billion that we are committing, and other countries are committing \$4 billion, which is quite different from most of our foreign aid programs, where the proportions are quite different.

Mr. MOORHEAD of Pennsylvania. Mr. Secretary, would you say that this proposal is unique in that the United States is one of the prime beneficiaries of the agreement, rather than one of the prime contributors to it, in the light of economic facts of today?

Secretary DILLON. I would say you are exactly a hundred percent correct in that statement.

Mr. MOORHEAD of Pennsylvania. Mr. Secretary, as I understand it, this \$2 billion of our contributions will be by way of an appropriation, and is in the budget this year, is that correct?

Secretary DILLON. Well, it is by way of an appropriation, but it is not an expenditure, so there is nothing in the budget as an expenditure. It would go in as an authorized expenditure which would be the same thing as our guarantee authority for the World Bank, our guarantee authority for the Federal Deposit Insurance Company, and others of that nature.

What this would actually be when we go to the Appropriations Committee, since the request is for appropriation to remain available until expended, we would in effect be going for borrowing authority which would be approved by the Appropriations Committee. So it would be what you would call front-door borrowing authority, rather than what has been called back-door borrowing authority.

It is similar to what was done recently by the Congress in the case of our guarantee authority for the Inter-American Development Bank.

Mr. MOORHEAD of Pennsylvania. There would be no fund of \$2 billion. It would merely be an authorization?

Secretary DILLON. That is right.

Mr. MOORHEAD of Pennsylvania. Mr. Secretary, what do you think the likelihood is of any call on the United States for any of this \$2 billion within the next 2 to 4 years?

Secretary DILLON. I can't see any likelihood. The only possibility that would be needed that one could foresee would be if all of the countries of Europe simultaneously got into extreme balance-of-payments difficulties, and since they are all in just the opposite condition now, that seems highly unlikely, unless there was some political development in the world to completely upset the world as we know it today.

Mr. MOORHEAD of Pennsylvania. Mr. Secretary, would you be willing to make any estimate or guess, for 1962, as to our basic deficit in balance of payments, or our overall deficit in balance of payments, or both?

Secretary DILLON. I think it is a little early to do that. Certainly our hope is that our overall balance will be as good or better than last year, largely because we hope there will be smaller movements of short-term capital.

For our basic deficit, which was only \$600 million last year, whether we can do that well or not, I don't know, because last year that was reduced by \$700 million of special advance repayments of debts to us, which we are unlikely to get in any such quantity this year. So

it may well be that the basic deficit would be somewhat larger than that \$600 million figure.

Mr. MOORHEAD of Pennsylvania. Thank you, Mr. Secretary.

Mr. SPENCE. Mr. Scranton.

Mr. SCRANTON. Mr. Secretary, I congratulate you on the clarity and thoroughness of your testimony. I have a couple of questions.

In the first place, there are 10 nations involved in this agreement. There are 75 in the Fund. As I understand it, the plan is that these 10 nations would be allowed to borrow from the Fund if they needed to. Is there any tying down in the agreement that the other 65 cannot so borrow?

Secretary DILLON. Yes, sir, this \$6 billion is only available to participating countries in this arrangement, and there is a further provision that should the United States, for instance, make a drawing—and the way that is done, the United States gives dollars to the Fund which holds them, in return for the foreign currency we get—there is a further provision that those dollars which are given to the Fund must, in effect, be sterilized, and they can't be loaned to any other country.

Mr. SCRANTON. Both in your testimony and in the comments of the National Advisory Council there are a lot of assurances that it is remote, if possible at all, that we would have to lend this money. I understand completely what the present situation is in view of our balance-of-payments problems and the fact that there are two and a half billion dollars in the Fund at the moment.

But would you comment on this new factor that has come up in the last couple of years in our balance-of-payments problem; namely, these short-term capital movements, which frankly concern me and have been of very sizable proportions? Can we expect them in the future? This is a 4-year agreement, as I understand it.

Secretary DILLON. That arrangement is for 4 years from the day in which it enters into effect, and then it can be automatically extended thereafter at the Fund's initiative, provided there is no objection from any member. Any member could withdraw at the end of 4 years. But, my idea is, it would continue to be extended.

Mr. SCRANTON. You do not expect a tremendous mass of short-term capital movement as we have been experiencing in the last couple of years, in the next few years?

Secretary DILLON. I would hope that our trade would be more in balance, and that these large movements of short-term capital, some of them speculative in nature, would subside.

Mr. SCRANTON. Secondly, with the United Kingdom having taken \$2 billion out of the Fund as of last summer, have you every reason to expect that this will not reoccur in the near future?

Secretary DILLON. The United Kingdom drew a billion and a half dollars last summer, which is pretty much all they were entitled to, and they did then take certain actions. And their situation has improved and as of now they have repaid \$420 million of that to the Fund. And I assume that they will very soon continue to make further additional repayments.

The United Kingdom has a situation just sort of the contrary to ours last year, where their basic balance of payments has not been in good condition, and where they have attracted by very high interest

rates a lot of short-term capital to offset that situation. That is all right for a time. But they are working very hard, and that is why they always talk so much about their balance of payments because they can't feel safe until they have rectified their basic position, which means their exports have to be larger.

Mr. SCRANTON. No chance of getting Switzerland into the Fund?

Secretary DILLON. Apparently that is not in the cards, because while they have joined the OECD, and we do work with them there, and we do work with them in this cooperation of central banks, they have, right from the beginning, felt for some reason, that they would like to stay apart from both the Fund and the World Bank, although they cooperate with them.

Mr. SCRANTON. They have been in back of much of this short-term capital movement?

Secretary DILLON. I think a lot of the short-term capital movement has gone to Switzerland.

Mr. SCRANTON. I have one technical question that perhaps you could answer in the record later.

It is my understanding that under the administration of the Exchange Stabilization Fund that we have been purchasing some Latin American currencies and I am interested to know under what power we are able to do this in view of the fact that section 10 of the act says that the purpose of it is to stabilize the exchange value of the dollar only.

Secretary DILLON. Yes, sir. I think it is rather easy to explain these transactions, because the stability of the dollar depends also on the stability of other currencies, and many of them are those of these Latin American countries.

The Stabilization Fund, under this authority, has made these stabilization loans for many years.

I think the first one was about 1936, and, at the time the Stabilization Fund was made permanent by the Bretton Woods Agreements Act of 1945. This committee of the House in its report stated "The smaller Stabilization Fund will continue to be extremely useful in supplementing the work of the IMF with respect to those countries that have close economic ties with the United States and particularly those with which we now have bilateral stabilization agreements." And over the years before it became permanent, the authority of this Fund was continued a number of times by the Congress. Each time all these stabilization loans were fully explained. And so, Congress has in effect said that this is proper:

Mr. SCRANTON. Mr. Chairman, may I ask unanimous permission to enter in the record at this stage, the Annual Gold Review by the First National City Bank of New York, and some comments by Mr. Hayes, of the Federal Reserve Board?

Mr. SPENCE. Without objection they may be entered.

(The information referred to is as follows:)

#### ANNUAL GOLD REVIEW

Following the widely publicized gold rush on the London market in October 1960, interest in the metal has revived to an extent not seen for a quarter of a century. The U.S. stock is now at its lowest level since 1939. Continuing purchases by foreign central banks and governments attest to the prestige gold

commands in the minds of those responsible for national monetary reserves. In the world around us, gold retains its traditional attribute as a highly desirable store of wealth.

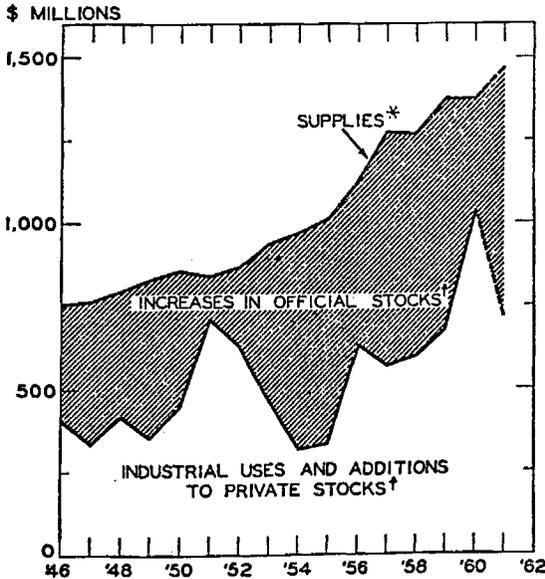
While gold figures prominently in the news, it is sometimes difficult to fit isolated facts into a coherent and intelligible pattern. The U.S. gold position can be appraised sensibly and realistically only within the framework of international gold flows and policies. At the turn of the year, it is therefore helpful to review once again the world gold picture.

In 1961, world gold output (excluding Russia, Mainland China, etc.) reached a new postwar peak—for the eighth consecutive year. Worth somewhat over \$1,200 million, last year's output was 3 percent above 1960. It was some 43 percent higher than in 1953, before the postwar rise in output began, and only 3 percent short of 1940, the alltime high.

*Estimated gold production in 1961*

	In millions of dollars	Increase from—	
		1960	1953
South Africa.....	\$802	Percent 7	Percent 92
Canada.....	155	-4	9
United States.....	53	-9	-23
Australia.....	38		
Ghana.....	31		20
Southern Rhodesia.....	21	7	20
Philippines.....	15	4	-10
All others <sup>1</sup> .....	100	-4	-19
<b>Total<sup>1</sup>.....</b>	<b>1,215</b>	<b>3</b>	<b>43</b>

<sup>1</sup> Excluding Russia, Mainland China, and countries in their spheres, for which figures are not reported.



**Estimated Gold Supplies and Uses**

\* Excluding Russian output but including reported Russian gold sales. † Excluding Russia, etc.

Note: Plottings for 1961 are annual rates based on the first nine months.

As in earlier years, the rise in world gold output was attributable basically to the increase in South Africa, which now accounts for two-thirds of world production outside of Russia. Rich new discoveries, improved techniques, and production in association with uranium explain the expansion. Elsewhere, production tended to fall. In Canada, the drop was small. Output in the United States slipped off 9 percent, mainly in Alaska and California, to \$53 million, lowest since 1946.

Russia's output is variously estimated by Western observers at \$350-600 million annually. We are better informed about the gold Russia sells in Western Europe to balance its international accounts. Import statistics of the United Kingdom show gold imports from Russia of \$194 million during the first 11 months of 1961, compared with \$105 million in the entire year 1960; during 1957-59, the figures had been averaging \$250 million annually. While London is the principal gold market of the world, larger and more frequent Russian gold shipments were also reported on the Continent. Guesses on Russian gold reserves run from \$4 to \$9 billion.

For the first time in many years, Mainland China reportedly sold gold in Western Europe, covering a balance-of-payments deficit.

#### AN INDEX OF INFLATION FEARS

A comparison of new gold supplies—from free world output and estimated purchases from Communist countries—with year-to-year increases in the total of official gold stocks makes it possible to get an approximate idea of the varying amounts absorbed by the arts, industry, and private holders.

In the United States, uses in the arts and industry have been expanding in recent years. Net consumption in 1960 amounted to \$105 million, compared with \$50 million as recently as 1957; since 1958, such uses have exceeded our current output. As is well known, there is no gold coinage in this country and residents are not allowed to hold gold in monetary form except for coins of recognized numismatic value minted before April 5, 1933.

Abroad, there are free markets for gold coins and bars. Even though not "money," gold is desired by people as a store of value. Since the demand rises and falls with increases or decreases in fears of inflation, the figures on the amount of new gold production going into industrial uses and additions to private stocks provide a kind of index of inflationary fears. For the world as a whole, as the chart shows, less gold moved into private uses or holdings last year than in 1960. The figure for the first 9 months of 1961 works out to an annual rate of \$700 million, or approximately half of current supplies; the figure for 1960—the greatest ever recorded—was over \$1 billion, three-fourths of total new supplies. The reduction in 1961 coincided with an improvement in the U.S. balance of payments and firm assurances of the new administration that the dollar would not be devalued; market observers abroad attributed it also to gold sales by U.S. holders in compliance with the Executive order issued last January under which gold held abroad was to be disposed of by June 1.

More recently, demand for gold from private quarters, especially in Europe, apparently strengthened, partly because of the Berlin crisis and partly because of the renewed weakening in the U.S. balance of payments. In the London market, the price had retreated from \$35.78 per fine ounce on January 12, 1961, to as low as \$35.06 in May. Firming tendencies became apparent during the autumn but, helped by offerings of the Bank of England, the price at no time exceeded \$35.20. The authorities' grip on the price has been strengthened by arrangements enabling the Bank to replenish in the United States metal it sells on the London market.

In the broad perspective shown in the chart, the two waves of greatly enlarged private demand correspond to two periods of renewed inflationary pressures and uncertainties about currencies—1951-52 and 1959-60. In earlier postwar years, attempts were made by the International Monetary Fund to protect official stocks by asking member nations to refrain from selling in free markets, but this proved unenforceable. Private gold trading persisted. France and some other member nations found it necessary to legitimize and deal in free markets to stabilize the price of gold and encourage confidence in paper currencies.

## SUSTAINED OFFICIAL BUYING

New production has quite regularly exceeded absorption of the metal into industrial usage and additions to private stocks. The excess of supply is dependent for a market on purchases by governments and their central banks for monetary reserve purposes. Since the United States buys and sells gold at \$35 per ounce minus or plus a ¼-percent commission, this price sets the general level for the world price. The United States in recent years has been getting little of the new production; the main official buyers have been Continental European countries using surplus dollars acquired as a consequence of the deficit in the U.S. balance of payments. Other surplus dollars have been used to buy gold from the U.S. Treasury.

The following table traces the magnitude and the origin of changes in official gold stocks during October 1960–September 1961; a similar table for January 1958–September 1960 was published in this letter a year ago.

*Changes in official gold stocks, October 1960–September 1961*

[In millions of dollars]

	Through transactions with—			Gold stock, Sept. 30, 1961
	United States	IMF	Other <sup>1</sup>	
Continental Europe.....	\$952	<sup>2</sup> \$300	\$1,033	\$14,870
Common Market.....	350	290	957	10,739
Germany.....	57	90	608	3,644
Italy.....	-100	40	99	2,225
France.....	117	90	290	2,124
Netherlands.....	130	40	65	1,581
Belgium.....	146	30	-105	1,165
Switzerland.....	285	-----	207	2,472
Spain.....	197	-----	-18	277
Other.....	120	10	-114	1,382
United Kingdom.....	<sup>3</sup> 275	-----	<sup>4</sup> -550	<sup>5</sup> 2,400
All foreign countries <sup>4</sup> .....	1,687	<sup>5</sup> 68	440	21,596
International Monetary Fund.....	-450	-----	<sup>5</sup> -68	2,048
United States.....	-----	450	-1,717	17,458

<sup>1</sup> Residual figures; including gold from new production, Russian sales, etc.

<sup>2</sup> Gold purchases made in August 1961 in connection with the British drawing.

<sup>3</sup> Through June 1961. Additional \$55,000,000 of gold was purchased from the United States in the 3d quarter of 1961.

<sup>4</sup> Excluding Russia, etc.

<sup>5</sup> Total change in IMF stock less sales to the United States.

Source: Derived from data in Federal Reserve Bulletin and International Financial Statistics.

During the 12 months ended September 1961, governments and central banks of continental Europe converted \$2.3 billion and other currencies into gold. The largest additions to gold stocks were made by Germany, France, and Switzerland. Germany, the largest holder of the metal outside the United States and Russia, raised the percentage of its reserves in gold from 44 percent at the beginning of 1961 to 59 percent at the end of October. The proportion of gold, nevertheless, remains below those of the Netherlands and Switzerland (above 90 percent), the United Kingdom (87 percent as of June), and Belgium and France (75 percent).

About three-fifths of the \$2.3 billion added to continental European gold stocks in the 12 months ended in September came from sources other than the U.S. Treasury. Decisions by individual countries as to where to buy—whether in New York, London, Switzerland, or South Africa—depend partly on the price and partly on other considerations, including the location of the gold and costs of shipping.

In addition to normal offerings by producers on the London market, large amounts of gold were sold out of Britain's official reserves to support sterling during March–July 1961. Beginning with early August, however, after the bank rate rose to 7 percent and massive assistance by the International Monetary Fund, short-term capital flows were dramatically reversed. Britain's reserves recovered rapidly, permitting sizable repayments to the Fund and also conversions of surplus dollars into gold. In late November, when the U.S. stock fell by \$300 million in a single week—the largest weekly reduction on record—

the U.S. Treasury took the unusual action of issuing an explanatory statement attributing the fall mainly to a purchase by the United Kingdom "in accordance with its policy that sterling \* \* \* be supported by reserves predominantly held in gold."

The midyear weakness of sterling affected international gold flows in yet another way. To acquire additional amounts of currencies to meet Britain's \$1.5 billion multicurrency drawing last August, the International Monetary Fund sold \$500 million of gold, of which \$300 million went to Europe, \$150 million to the United States, and the remainder to Canada and Japan.

THE U.S. GOLD POSITION

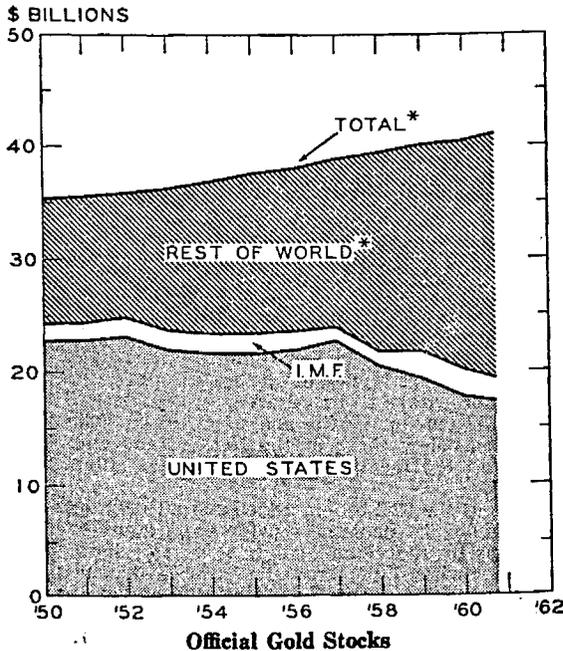
During 1961 (through December 20) the U.S. Treasury's gold stock declined \$877 million or, if the transaction with the IMF is omitted, \$1,027 million. This approximates the loss in 1959, but is decisively smaller than those in 1958 and 1960, as the table shows.

1958-61 decline in U.S. gold stock

[In millions of dollars]

	Unadjusted decline	Adjusted to exclude transactions with IMF
1958-----	\$2,247	\$2,247
1959-----	1,078	1,034
1960-----	1,689	1,989
1961 <sup>1</sup> -----	877	1,027
<b>Total</b> -----	<b>5,891</b>	<b>6,297</b>

<sup>1</sup> Through Dec. 20.



\* Excluding Russia, etc.

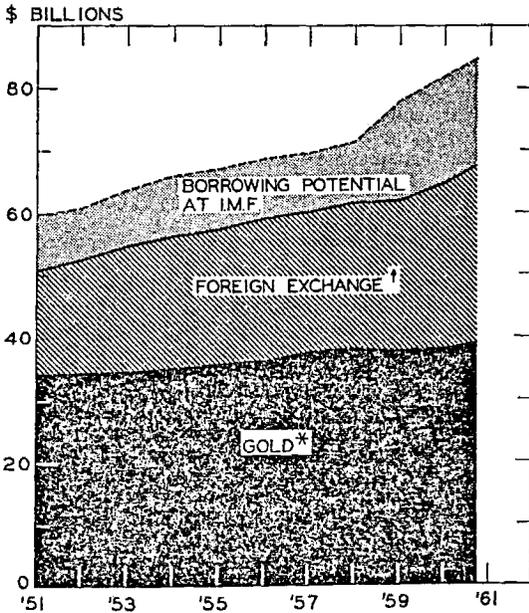
Note: Latest plotting September 1961.

The U.S. gold stock on December 20 amounted to \$16,890 million, lowest since 1939, but still 41 percent of the free world's monetary gold stock. The gold stock remains adequate by any reasonable standard; it is the rate of loss, and rate of accumulation of short-term debts to other nations, that is disturbing. This is just another way of saying that we have a balance-of-payments problem.

As President Kennedy noted last month in his address in New York before the National Association of Manufacturers, our present gold stock still represents a "far larger" proportion in the world total than our share of international trade. We have sufficient reserves "to tide us over a temporary deficit period—and I emphasize the word 'temporray' deficit period—while we mount an offensive to reverse these trends."

The President, having outlined the ways in which the administration plans to deal with the payments deficit, emphatically rejected "negative short-term remedies" and stated unequivocally that the administration has "no intention of imposing exchange controls, devaluing the dollar, raising trade barriers or choking off our economic recovery."

Calling on businessmen to be "competitive" and "export-minded," he promised fiscal restraint: "The Government must not be demanding more from the savings of the country, nor draining more from the available supplies of credit, when the national interest demands a priority for productive, creative investment—not only to spur our growth at home, but to make sure that we can sell, and sell effectively, in markets abroad."



International Liquidity

\* Excluding International Monetary Fund (and also Russia, etc.). † Holdings of official institutions (except IMF) and commercial banks.

Note: Latest plotting September 1961.

INTERNATIONAL LIQUIDITY TODAY

The world's official gold stocks were increased last year by less than 2 percent out of new production—a rate that has prevailed, on the average, over the past decade. International trade, even at constant prices, has been expanding at a rate two or three times as high. It is this discrepancy that gives rise to fears that there may not be enough gold to go around.

Looking at international liquidity in this way, however, belittles the contribution made by reserves held in the form of foreign exchange and the elasticity provided to the world payments system by the IMF.

The dimensions of liquidity in the world today emerge from the chart. Central banks and governments (excluding the IMF and, of course, Russia, etc.) held at the end of last year \$39 billion in gold. Holdings of convertible foreign exchange (mostly dollars and sterling) amounted to \$21 billion for central banks and governments and a further \$7 billion for commercial banks. In the aggregate, gold and convertible foreign exchange thus amounted to some \$67 billion.

Then there are the resources of the IMF, of unique value because they can be directed to support the international monetary structure at its weakest point at any particular time. Drawing rights on the Fund thus represent a secondary line of reserve for each member. The IMF calculates the value of the "borrowing potential" of its members at the equivalent of \$17 billion. Less than 3 years ago the Fund's resources were greatly enlarged on an across-the-board basis and currently consideration is being given to increases through borrowing from Fund members having payments surpluses.

Beyond this, it should not be forgotten that a creditworthy country can arrange borrowings outside the IMF, either from governmental or private sources.

The world's governments and central banks have never been better equipped to economize on gold than they are today. The United States is the only country that operates a gold standard, and even this is of a qualified nature. Other nations, while holding gold as well as dollars in official reserves, have free gold markets in which demand and supply record the trusts and distrusts of people in paper money. There is no question but that the metal, as a commodity, retains its age-old prestige as the ultimate standard of value. Nor is there any question but that the United States, with its far-flung international commitments and the key position of the dollar as the leading equivalent for gold, needs an abundant stock in reserve.

In a series of lectures before the American Philosophical Society, delivered last spring and recently published in book form, the Managing Director of the International Monetary Fund, Dr. Per Jacobsson, weighed the importance of gold in "this complex and suspicious world":

"In the first place, the alignment of currencies to gold gives a certain stability to the world's monetary system which cannot be ignored. \* \* \* Gold cannot be arbitrarily created as credit can, and, from the point of view of stability, the guarantee given by gold is therefore felt to be superior to that of credit as a means of payment.

"Secondly, when international liabilities are settled in gold, this is a definite and final settlement, leaving no credit nexus as is the case when settlement is made in other ways. Gold payments are less complicated, and this is an advantage.

"Thirdly, in the world in which we live with so many beliefs and, I must admit, prejudices inherited from past generations, the possession of gold inspires confidence in a way that the possession of no other monetary asset can. Given human beings as they are, they need props for their confidence to be sustained, and gold still proves useful in this respect.

"Fourthly, the use of gold as the well-nigh universal basis of money may not by itself give cohesion to the world's monetary system but it greatly facilitates the task and it would not be easy to establish the same degree of cohesion in any other way.

"And fifthly, the current gold output, insofar as it becomes available for monetary purposes, gives a certain impetus to financial expansion and an increase in international liquidity, which is helpful as far as it goes."

These are "real advantages" for which gold should be retained—"not as a master but as an auxiliary in the world's monetary system."

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#### MONETARY POLICY IN A COMPETITIVE WORLD

(Excerpt from remarks of Alfred Hayes, president, Federal Reserve Bank of New York, before the 34th annual midwinter meeting of the New York State Bankers Association, Waldorf-Astoria Hotel, New York City, January 22, 1962)

Above all, we shall have to be mindful of balance-of-payments developments and it is to this topic that I wish to address most of my remaining comments. I must say, first of all, that the latest statistics in this area are on balance disappointing, even though they have some encouraging aspects. On the en-

couraging side, our international payments showed only a small deficit in the first half of 1961, after excluding the effects of special debt repayments. But this marked improvement over the substantial and persistent deficits of the previous 3 years was partly a fortuitous result of different business cycle phasing here and abroad; our own imports were held down by recession while booming conditions abroad boosted the demand for our exports. It is also encouraging that in the most recent half year our exports have performed exceedingly well despite some slowing down of the European boom, but our own imports naturally have risen as our economy gained strength. I am informed, too, that preliminary fourth-quarter data indicate an improvement in our combined trade, Government, and long-term capital accounts as against the third quarter. At the same time, however, there has apparently been a substantially increased outflow of short-term capital with the result that the overall deficit widened again in the fourth quarter following the substantial deficit that had emerged in the third quarter. While part of the recent worsening—perhaps much of it—appears to reflect temporary, reversible factors, the situation certainly is one that requires the most careful watching, with the Federal Reserve and, I am sure, all other branches of the Government as well, prepared to take resolute action if there should be developments ahead that represent more than a temporary setback on the road to our goal of balance-of-payments equilibrium.

Monetary policy clearly must pay increasingly close attention to this problem, and it will be increasingly free to do so as the domestic business situation strengthens. Let me emphasize, however, that there is no simple solution to our international monetary problem. The causes of our balance-of-payments deficits are complex and there are other vital objectives in the international area that must not be neglected while the balance-of-payments deficit is being corrected. Nor would I want to give the impression that there is any basic or irreconcilable conflict between policies designed to achieve sturdy economic growth at home and those aimed at maintaining a viable international balance. In the short run there will certainly have to be compromises among our objectives from time to time, but over the long pull the same policies are needed to achieve both our internal and external goals.

Indeed, the more competitive world in which we now live, and which makes our day-to-day monetary problems considerably more difficult, is in my judgment already proving itself to be a greatly improved world from the standpoint of our own national interest. We in the United States are already benefiting, through broader export markets and greater domestic price stability, from increased two-way trade with larger and stronger partners in the free world. We have much to gain from the building of a still broader and freer trading area among the advanced nations—one which should permit more effective mobilization of aid to the less-developed countries and, more important, a better market for the raw materials produced by those countries. Without question, to achieve the superior growth rates needed to give the free world its full economic and military strength depends in good measure on a substantial further lowering of national barriers to international trade and investment.

In the face of these considerations it would be inexcusable to seek a solution of our troublesome balance-of-payments problem through such measures as import restrictions, higher tariffs, or exchange controls. Even if balance in our international accounts could be achieved in such a manner—and frankly I believe that retaliatory measures would more than offset potential gains—this would be small return for the inevitable loss in our real income and world position, political and military as well as economic. But if we firmly reject, as we must, solutions of this kind, we must also accept the burdens and responsibilities inherent in the new environment in which we live. We must be willing not merely to recognize foreign competition as an economic fact but also to make an aggressive effort to compete more effectively in all markets, both with new and improved products and with lower costs. And regarding the latter, let me say that while the role of monetary policy in helping to hold back inflationary pressures is difficult and unpopular—particularly when those pressures originate elsewhere than in excessive demand—the responsibility is nonetheless one that cannot be shrugged off. Of course, this is not the job of monetary policy alone, nor even of monetary policy primarily; wholehearted cooperation from Government, industry, and labor is a necessity in this area.

Success along these lines, together with more skillful and effective export promotion, will enable us to achieve a trade surplus high enough to take care of our heavy net military outlays abroad, our economic assistance payments, and

the outflow of private long-term investment. At the same time, we must make sure that the drains from these latter sources are no larger than necessary. In this connection, I am much heartened by the progress which the Government has already made in arranging for our allies to purchase in this country more of the military equipment for mutual defense. Progress has also been made in achieving a better sharing of the foreign-aid burden. In my opinion, more can surely be done along these lines. It might also be worthwhile to give further study to the question whether our existing tax laws now make it unnecessarily attractive to invest in relatively well-developed foreign countries.

Measures of this kind are of the utmost importance to achieve the basic payments equilibrium that we must have. Of course, even after such an equilibrium is achieved there will be swings from time to time in response to different business developments in this country and abroad. But to some extent we could expect to see such cyclical swings in trade offset by opposite swings in capital movements, largely short term, which would be influenced by relative levels of interest rates and credit availability here and abroad. In fact, the proper role of our monetary reserves—including our drawing privileges at the International Monetary Fund as well as our gold—is to cushion the effects of such swings in payments.

It follows, too, that the closer we come to equilibrium in our balance of payments the greater scope we have for adjusting our monetary policy more largely to our domestic needs, relying on various measures of international cooperation to absorb the disequilibrating force of capital flows moving in the wrong direction. The difficulty today is that we do not enjoy a sufficient margin of safety in our balance of payments to give monetary policy the desirable degree of freedom to act without inviting excessive risks. Even a gold stock as large as ours cannot withstand an indefinite stream of losses, nor can we depend on an unlimited willingness of foreign countries to build dollar balances. Hence there is a real need for monetary policy to remain entirely uncommitted and flexible, ready to move if necessary in ways that will help to remedy any significant worsening in our balance-of-payments position.

I would like, finally, to comment on some of the steps taken in the past year which have made 1961 a real milestone in the history of international monetary cooperation. Goaded by the urgent need to minimize the danger of massive speculative forays against one currency or another—a danger greatly increased by the major payments imbalances of several leading industrial countries, including the United States—we have made notable progress in a number of areas. As has often been pointed out, the gold exchange standard has brought great benefits to the postwar world by making possible striking economies in the use of a limited supply of monetary gold. But in building the banker role of the key currency countries, which in effect means the United States and Britain, we have also increased the vulnerability of these currencies and countries to wide swings in capital movements.

This vulnerability was strikingly demonstrated by the speculative assault on sterling which followed the German and Dutch revaluations last March. These changes in parities left the foreign exchange markets in a state of shock, so that they were easy prey to speculative rumors of further changes in parities.

Within a few days, many hundreds of millions of dollars in various currencies moved across the exchanges, with particularly heavy speculative flows from London to Zurich and Frankfurt. At this critical moment, the central banks meeting each month at the Bank for International Settlements in Basle announced that they were cooperating in the exchange markets. As subsequently revealed, this cooperation took the form of short-term loans, ultimately reaching a total of \$910 million, to the Bank of England from other European central banks. In this connection, I should like to pay tribute to the decisive and statesmanlike approach taken by the various European central banks involved—particularly the National Bank of Switzerland and the German Bundesbank, which received the bulk of the hot money outflow from London. This so-called "Basle Agreement" which provided emergency credit facilities of a necessarily short-term nature will stand, I hope, as a first big milestone on the road toward creating a truly formidable first line of defense for the world's major currencies.

The lessons of the March revaluation were not lost upon the U.S. Government. Since then much time and effort has been spent in exploring and developing techniques, in cooperation with foreign monetary authorities, to defend the dollar against similar speculative flows of hot money. Those New York banks which are active in the exchange markets will recall that shortly after

the German revaluation the Federal Reserve Bank of New York, as agent for the U.S. Treasury, began to provide forward marks. This action, which was undertaken in cooperation with the Bundesbank, was designed to deal with an abnormally high premium on the forward mark and, more generally, to exert a stabilizing effect on both the spot and forward markets. At the end of June, more than 1 billion marks of such forward sales were outstanding, but the speculative tide had already begun to recede before the Berlin crisis and, by mid-December, the entire volume of forward contracts had been liquidated at maturity and the market was again operating smoothly with only token intervention. In effect, the German forward mark operation helped to bridge the gap between heavy speculative buying of marks and the subsequent restoration of a more balanced payments position.

Sizable operations have also been carried out in the forward Swiss franc market, where cooperative measures undertaken with the Swiss National Bank have succeeded in reducing the unduly high premium on the forward Swiss franc which had been one of the factors impeding outflows of capital from Switzerland. In connection with these operations, the U.S. Treasury supplemented its holdings of Swiss francs by issuing short-term Treasury obligations denominated in that currency. This technique has proved effective and may well be employed in other situations, if this seems desirable.

At the moment, operations in other European currencies are being given serious consideration and will serve, I hope, to extend still further the perimeter of the first line of central bank defenses against speculative capital movements. Incidentally, I should also like to mention the effective cooperation of various foreign central banks in cushioning exchange market pressures generated by the heavy repatriation of short-term funds to foreign markets for yearend window-dressing purposes. In contrast with the experience of earlier years, such foreign central bank cooperation at the end of 1961 effectively minimized the potentially disturbing effects of these operations upon both market rates and actual reserves.

One important obstacle to a fuller use of such cooperative exchange operations by the United States is that the Treasury's resources for such purposes are quite limited. We may need to consider, therefore, whether the problems in this area may not require that the Federal Reserve System also enter into foreign exchange operations. The last few years have shown that monetary policy does not stop at the water's edge. Short-term capital now can, and does, move across national frontiers in the hundreds of millions of dollars within a span of a few weeks. And indeed, such movements can have marked repercussions on our own money and capital markets in addition to their impact on our gold and exchange reserves.

Effective as they are, measures of immediate counteraction to speculative pressures in the exchange markets clearly have to be backed up by a "second line" of even sturdier defenses since one cannot always count upon an early reversal of such pressures. In this connection, the already large lending facilities of the International Monetary Fund are in the process of being augmented further. Through a network of standby credit arrangements, the Fund will be in a position to obtain an additional \$6 billion of the world's leading currencies if and when any major crisis endangers the world payments system.

The successful completion of these negotiations by the 10 major industrial countries involved must be a great source of satisfaction to all who are interested in seeing our international monetary mechanism bolstered to withstand any foreseeable contingencies. One may reasonably expect, therefore, that the required legislative approval can be obtained promptly in all countries concerned, including the United States. Of course, it is also to be hoped that the mere existence of these facilities will make it unnecessary to use them.

The progress of the past year has involved and indeed has required, increasingly close personal contacts, in the financial area, between representatives of this country and those of the leading countries of Europe. I am thinking of the regular attendance of Federal Reserve representatives at the monthly meetings of the BIS in Basle, Federal Reserve participation in U.S. delegations to various working groups of the OECD in Paris, and ever more frequent and cordial bilateral meetings with representatives of the other principal trading nations to exchange information and discuss mutual interests. These frank interchanges have brought us a much deeper understanding of the domestic and international economic problems not only of our trading partners, but also of ourselves, as we have seen our own problems ranged alongside those of other countries. If the momentum of all these moves can be maintained, 1962 should produce further

noteworthy gains in this vital area of international cooperation. Yet, I would be remiss if I did not remind you once more, at the end of my remarks, of the continuing reality and urgency of our balance-of-payments problem. While the initial development of close international cooperation can be and has been stimulated through the very strains it is designed to combat, the ultimate responsibility of each nation for its own finances is still recognized both here and abroad.

I am aware that time has allowed me only to touch very lightly some of the high spots of the very broad subject I selected for this talk. But I hope you will agree that we are pursuing goals which all Americans feels are worth seeking, and that the seriousness of the problems we face together in the monetary sphere calls for the patient understanding and cooperation of all elements in our society. If we can work together effectively, as I believe we can, we can have confidence that our economy will measure up to its full potential and that the dollar will retain its key position in the arch through which the trade and investments of the free world move.

Mr. VANIK. Mr. Chairman.

Mr. SPENCE. Mr. Vanik.

Mr. VANIK. I notice, according to the way the testimony is arranged, that we have two Government witnesses, and that no other witnesses are immediately scheduled. I ask unanimous consent, that any other persons who have a point of view to express be allowed to place a statement in the record and, if possible, be allowed to appear before the committee before this is considered.

Mr. SPENCE. Before permission is given to insert in the record, we should know something in regard to who desires to insert the statement and the organization he represents.

Mr. VANIK. I just wonder if there is anyone present who has a statement to make. I think we ought to have the benefit of such expressions when considering this legislation.

Mr. SPENCE. I think that is a little too broad, Mr. Vanik. I think we should know who the people are who want to put in statements. Do you know anybody who wants to put in a statement?

Mr. VANIK. At this moment, I do not, Mr. Chairman. I may consider renewing my request tomorrow, if there is someone who turns up with a statement.

Mr. SPENCE. If he will identify himself, I think we would consider putting his statement in the record. I would not want to throw it open that wide.

Mr. VANIK. I can see the chairman's point. I just want to make sure we have the benefit of any other opinion that is available.

Mr. SPENCE. I think we have had a very comprehensive explanation of the bill, very able and very enlightening to everybody.

Mr. Gonzalez.

Mr. GONZALEZ. Thank you, Mr. Chairman. I also wish to add my thanks to the Secretary for his explanation, and, to show how clear it is, I have no questions.

Secretary DILLON. Thank you.

Mr. SPENCE. Mr. Secretary, this is but a ratification of an agreement. It would not be subject to any amendments in the House.

Secretary DILLON. That is correct. Any amendment to the agreement itself would have to be renegotiated like any other international agreement, with the other members, and I don't think that would be practical.

Mr. SPENCE. Therefore, if we want this to go into effect, we should vote out the bill as it has been introduced?

Secretary DILLON. That is correct.

Mr. SPENCE. If we enact this bill, will not that Fund have a great effect from a psychological standpoint? Don't you think the psychological effect of it would be great?

Secretary DILLON. I think the psychological effect would be very great, Mr. Chairman, because it would show, to all the people who might wish to speculate, that the Monetary Fund has adequate resources to stop any speculation.

Mr. SPENCE. How many members signed the original Bretton Woods Agreement?

Secretary DILLON. I am afraid I don't have that figure here. I know there are 75 members now. I don't know how many signed at Bretton Woods.

Mr. SPENCE. I think there were about 39 at that time.

Secretary DILLON. That sounds reasonable.

Mr. SPENCE. And now all the nations of the free world are members of the Fund; isn't that true?

Secretary DILLON. Most of them. Switzerland is not. There are 75 members.

Mr. SPENCE. And that is evidence of confidence in the Fund and its purposes?

Secretary DILLON. That is correct.

Mr. SPENCE. Thank you very much, Mr. Secretary, for your very able testimony. We are delighted to have had your comprehensive and enlightening statement, and I feel confident that the Congress will pass this bill.

Secretary DILLON. Thank you, Mr. Chairman. It has been a great pleasure to appear before you and this whole Banking and Currency Committee.

Mr. SPENCE. The Government has a very fine advocate when it sends you up here to speak for it.

The committee will adjourn to meet tomorrow morning at 10 o'clock. (Thereupon, at 12:25 p.m., the committee adjourned, to reconvene at 10 a.m., Wednesday, February 28, 1962.)



# BRETTON WOODS AGREEMENTS ACT AMENDMENT

WEDNESDAY, FEBRUARY 28, 1962

HOUSE OF REPRESENTATIVES,  
COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D.C.*

The committee met at 10 a.m., Hon. Brent Spence, chairman of the committee, presiding.

Present: Messrs. Spence (presiding), Patman, Multer, Addonizio, Barrett, Mrs. Sullivan, Reuss, Vanik, Moorhead of Pennsylvania, Miller, Stephens, St. Germain, Gonzalez, Kilburn, Widnall, Mrs. Dwyer, Halpern, Harvey, Moorehead of Ohio, Rousselot, and Scranton.

Mr. SPENCE. We are going to adopt the rule we adopted yesterday—the 5-minute rule. On the first round each member will be allotted 5 minutes.

We have with us this morning Mr. Martin, Chairman of the Federal Reserve Board, and we will resume hearings on H.R. 10162.

We are always glad to have Mr. Martin with us, because of his great ability and comprehensive knowledge on the subjects on which he testifies.

We are glad to have you here today, Mr. Martin.

Mr. MARTIN. Thank you, Mr. Chairman.

## STATEMENT OF WILLIAM McCHESNEY MARTIN, JR., CHAIRMAN, BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Mr. MARTIN. It is a pleasure to be here today, at the invitation of Chairman Spence, to discuss with you why the Federal Reserve supports H.R. 10162, and how the proposed special IMF borrowing arrangements contemplated under H.R. 10162 would fit in with other actions the Federal Reserve is taking to help preserve the strength of the dollar in the international payments system.

If we are to maintain vigorous, growing economies in the free world, we must have a system of international payments that permits countries to finance the goods and services they exchange with a minimum of risk and cost, whether payment is made in cash or on credit. We have come a long way since World War II toward the achievement of this goal. Western Europe has made a remarkable recovery. It has restored convertibility of its principal currencies, eliminated most of its trade controls, and reduced its tariff barriers.

These favorable developments have, however, brought with them new problems, as well as new opportunities. As it became easier to exchange one currency for another, flows of short-term funds between countries have increased. Holders of liquid funds have become increasingly aware of opportunities to benefit from interest-rate differentials and exchange-rate arbitrage.

International flows of funds in response to profit opportunities are useful features of a free world economy, and an increase in such flows should not, as a general matter, give rise to any concern.

In recent years, however, the continuing deficits in this country's international payments and the persisting surpluses of some European countries have created recurrent uneasiness in foreign-exchange markets and have added an element of destabilizing speculation to the profit considerations that ordinarily influence international flows of short-term funds.

H.R. 10162 would put the United States in a better position to deal with some of the problems arising out of this development. With this same object in view, the Federal Reserve has recently decided to reenter the field of foreign-exchange transactions. The Federal Reserve, therefore, is particularly interested in the enactment of this legislation.

In order to bring both H.R. 10162 and the recent decision of the Federal Reserve into proper focus, we must remember that neither action will correct the underlying difficulty, which is our international-payments deficit.

Regardless of the methods chosen to deal with problems of international flows of short-term funds, the United States must achieve a balance between the amounts we spend, lend, and invest abroad and the amounts foreigners spend, lend, and invest here.

Until equilibrium is achieved in our payments accounts, there will be a risk that the flow of dollars into the hands of foreigners might become larger than they would be willing to hold. This state of affairs could lead to recurrent drains on our gold stock. And even if the dollars are not presented by foreign central banks to our Treasury for redemption in gold, the feeling of the financial community that the dollar balances of foreigners may be excessive could affect dollar rates adversely in foreign-exchange markets.

We must, therefore, work steadily to reduce, and finally eliminate, the deficit in our international payments. Among other things, we must seize every opportunity, major or minor, to build an even larger export surplus. And, as other countries grow and prosper, we should expect them to take a greater share of the necessary costs of mutual defense and aid to underdeveloped areas.

Your committee has recognized these needs in its consideration of recent legislation, such as the International Development Association Act and last year's authorization for an expanded export guarantee program.

Obviously, the present proposal to supplement the resources of the IMF will not reduce our payments deficit. But it will be of important help in maintaining orderly exchange markets during the period of adjustment and avoiding speculative forays against the dollar pending correction of our deficit. It will make possible an increase in international liquidity that would be available for meeting extraordinary movements of funds due to temporary factors.

The borrowing arrangements contemplated by H.R. 10162 will help to achieve this purpose in two ways. First, the knowledge of the existence of a mechanism that can mobilize, in addition to present IMF resources, about \$4 billion in major foreign convertible cur-

rencies in support of the dollar will in itself restrain speculation against the dollar.

Second, if any adverse developments should nevertheless occur, resulting in offers to sell more dollars than the normal dealings in the market would absorb, these facilities, together with our other resources could be called upon to deal with any consequent disruption of exchange markets.

In case of established need, the IMF would sell to the United States for dollars the major foreign convertible currencies that the IMF would borrow from the other participating countries. The United States could then use these currencies to buy up dollars offered in the market by private holders, and to redeem dollars acquired by foreign central banks in excess of the amounts they are willing to hold. This would tend to prevent dollar holdings of foreign central banks from becoming a drain on our monetary gold stock.

The dollars acquired by the IMF in the course of these transactions would be kept by the IMF for 3 to 5 years, unless in the meantime our reserve position, as we might hope, had so improved that we would no longer need to continue the arrangement.

The contemplated Federal Reserve operations in convertible foreign currencies would complement the proposed IMF arrangements in two ways.

The Federal Reserve would help to deal with minor pressures before they reach a scale commensurate with IMF action. And it could take prompt action in more serious circumstances while IMF arrangements are being worked out.

In accordance with established reserve banking practice, however, the System would not enter into long-term foreign exchange commitments. That is to say, it would not make arrangements under which the United States would acquire foreign exchange for a period of 3 to 5 years, as under IMF procedures.

Federal Reserve foreign-exchange transactions and the proposed IMF arrangement would, therefore, complement each other. Both would play important roles in maintaining an efficient international payments system.

While reserve banks in other countries customarily engage in foreign-exchange operations, the Federal Reserve has not done so for its own account for many years. Until recently the U.S. dollar has been the only fully convertible currency widely used in international transactions.

Accordingly, the United States has been settling its international accounts exclusively by transfers of dollars and by sales and purchases of gold. The Federal Reserve Bank of New York has, however, continued to deal in foreign exchange for accounts of its foreign correspondents and as fiscal agents for U.S. Government agencies. For the last year or so, it has also been operating for the account of the Treasury stabilization fund.

The Federal Reserve has recently acquired small amounts of several convertible currencies widely used in international transactions from the Treasury Stabilization Fund and has opened accounts with several European reserve banks. We plan to acquire further amounts through open-market purchases of cable transfers or bills of exchange at home or abroad, when conditions on foreign-exchange markets are favor-

able, and also through reciprocal transactions with foreign reserve banks.

While in time it may be desirable to recommend amendment of the Federal Reserve Act to provide greater flexibility than we now have under the act in carrying out these operations, it would be impractical to request such legislation before operating experience under existing authority has provided a clear guide as to the need for it.

The System will, of course, coordinate its foreign exchange operations with those of the Treasury Stabilization Fund. The relatively modest resources of the Stabilization Fund have been used recently to counteract speculative pressures in the exchange markets. The System operations will be conducted not only with broader resources than those of the Stabilization Fund, but also with an additional purpose.

Necessarily, operations of either the Fund or the System in foreign exchange will influence exchange rates in some degree. Indeed, one of the purposes of these operations will be to correct or avoid disorderly movements of exchange rates, which might otherwise spark disruptive flows of funds internationally.

But the System will also have this additional purpose: to improve the international payments system by cooperative arrangements with foreign reserve banks that would permit the financing of sudden large movements of volatile funds without impairing the role of the dollar as a medium for international transactions.

In the case of an outflow from the United States, these arrangements would permit us to moderate its impact on our gold stock; in the case of an outflow from other countries to the United States, they would permit those countries to moderate its impact on their gold and dollar reserves. This would be one way in which the System would carry out its responsibilities for providing the U.S. economy with a sound dollar.

If we want cooperation from others, we must be prepared to cooperate with them. This principle is applicable also to the present proposal to strengthen the resources of the IMF. If we want foreign countries to lend additional support to the IMF, so that it will be better able to offset possible adverse pressures on the dollar, we must be prepared to lend dollars to the IMF, so that it will be better able to offset adverse pressures on other major convertible currencies.

In conclusion, we can look to these new arrangements in the international payments system to give us time to correct our balance-of-payments position. But we must clearly understand, that they will not be substitutes for a basic cure.

Mr. SPENCE. Are you aware of any opposition by any of the financial interests of America to the passage of this bill?

Mr. MARTIN. None that I know of, Mr. Chairman.

Mr. SPENCE. Certainly none would be opposed to what we are trying to achieve?

Mr. MARTIN. I think that world understanding on this problem is better than it has been for some time, and that our efforts to handle the situation are appreciated more clearly than they have been for a long time; yes, sir.

Mr. SPENCE. Mr. Kilburn.

Mr. KILBURN. Mr. Martin, it is always a pleasure and profitable to have you testify before this committee.

I just want to pursue for 1 minute, Mr. Spence's question.

I remember the British loan when that was up. There was a violent difference of opinion between the First National Bank of New York and the First National Bank of Chicago.

Now, this field, of course, is way up in the stratosphere, as far as I am concerned. Do you know of anyone who is an authority on foreign exchange and who knows the subject, who is opposed to this bill?

Mr. MARTIN. I can't say that I do, Mr. Kilburn. But there may be some. I don't know them, though.

Mr. SPENCE. We have never heard from any foreign interests to the effect that they are opposed to this bill.

Mr. MARTIN. I have not heard of it.

Mr. KILBURN. And you are strongly for it?

Mr. MARTIN. I am indeed, I support this bill strongly. I think those of us who attended the conference in Vienna understand the background of the bill more clearly perhaps than some others. But it is certain that that understanding came out of that meeting and was generally agreed to.

Mr. KILBURN. I attended the conference in Vienna, but I am still learning. There is a lot I don't know about it.

That is all, Mr. Chairman.

Mr. SPENCE. Mr. Patman.

Mr. PATMAN. Mr. Chairman, I ask permission to extend my remarks commenting on Mr. Martin's remarks.

Mr. SPENCE. Without objection.

Mr. PATMAN. Mr. Martin, I am concerned about this situation. I know that the imbalance of payments is the greatest problem that we have and I do not want to do anything that would interfere with the satisfactory solution of it. I have just two or three things that bother me about it.

One is I don't want to turn things over to what can probably be called the International Banking Group and get it away from our national sovereignty. If we turn everything over to these international groups, and we just have 30 percent of the votes, we are in somewhat of a helpless position in case of dire need. And that is something that bothers me a great deal.

Another is that Mr. Kennedy, in his message of February 11, I believe it was, last year, recommended that we permit a difference in interest rate on foreign balances from domestic balances.

Did you approve of that? You were consulted, I know.

Mr. MARTIN. Yes, sir; I approved.

Mr. PATMAN. You are in favor of paying a higher amount in New York for these balances, in order to help our imbalance-of-payments situation? You think it would be helpful?

Mr. MARTIN. I had some question on whether we ought to do it only for foreign deposits and not also for domestic.

Mr. PATMAN. Well, I think it is justified, because during the war, as I brought out here yesterday—have you seen yesterdays' testimony?

Mr. MARTIN. No.

Mr. PATMAN. I brought out that we needed more copper produced. The copper price was 12 cents, and we decided, instead of increasing the price of copper to 24 cents, which would be a 100-percent wind-fall for the big companies that didn't need it and which were making a substantial profit on 12 cents, we decided to give a subsidy to copper producers, the marginal producers, which had to have more. And, in that way, we increased the production of copper enormously and saved enormous amounts of money for the taxpayers. And this appears to be somewhat of a comparable situation.

Here the imbalance of payments caused principally by these deposits in a few banks in our country, and if we justify the payment of what we will call a "bonus" or "subsidy"—I don't care what you call it—so long as it is in the public interest—then we can save the interest rates being increased all over the Nation.

Don't you think that makes sense?

Mr. MARTIN. Well, are you assuming that interest rates will be increased all over the Nation?

Mr. PATMAN. You have kept them that way, Mr. Martin. You have, by your actions, kept high the short-term rate, have you not? Haven't you deliberately done that?

Mr. MARTIN. We have tried to disperse our activities in the open market, as I have explained on a number of occasions through all maturities, in order to minimize pressures on the short rate.

Mr. PATMAN. I know, Mr. Martin. I heard what you said. But you can answer me one way or the other. Now, you can either say you have or you haven't. That is all I am asking.

Mr. MARTIN. We have operated in order to try to—

Mr. PATMAN. Keep interest rates up?

Mr. MARTIN. I am talking about overall interest rates.

Mr. PATMAN. Well, Mr. Martin, you and I have had lots of colloquies in the past, and I happen to know your policy pretty well. And I only have 5 minutes, subject to the order of the chairman, which is all right. I am all for that. We will go around for 5 minutes and then have a longer time when we come back, but I was hoping we could get the material points by asking a few questions and getting categorical replies.

It seems like a categorical reply is impossible, Mr. Martin. I thought you would admit what I know you have admitted over the country in public speeches, that you have deliberately kept the short-term rate up to help the balance of payments.

Mr. MARTIN. We have endeavored to do that, but the point I am trying to make, Mr. Patman, is that your inference that long-term interest rates—

Mr. PATMAN. I didn't say anything about long-term rates.

Mr. MARTIN. But it is all part of the same spectrum.

Mr. PATMAN. You are bringing it up; I am not.

I asked you a very simple question:

Whether you have deliberately kept short-term rates up and now you are mentioning long-term.

Mr. MARTIN. As you say, we have been through this many times. I don't think they can be separated and you do. But that is a difference of opinion.

Mr. PATMAN. But I am only asking you about one. If you can't answer, I will just have to give up.

Mr. MARTIN. I will say we have been gratified that short-term interest rates have remained as high as they have.

Mr. PATMAN. I am not pleased with that type of service, Mr. Martin. I will just have to break down and confess that I am not.

You are advocating something that will cost the borrowers of this Nation billions of dollars a year extra, because of that, when you could do it just as we did for the copper prices.

On this hot money, if you want to call it that, or money that is in foreign accounts, you can pay them a subsidy or bonus and save all the people all over America this increased interest rate, and that is billions of dollars a year.

So, I think you ought to urge that.

Now, you made a good suggestion—whoever suggested that—but you didn't follow through. The President followed through, but his supporters, you and the Secretary of the Treasury, have made a very feeble effort to carry out the will of the President.

I say that respectfully. But I say it from the bottom of my heart because I believe it. I think the President suggested something that is wonderful, would save the people billions of dollars a year. But his lieutenants, or helpers, or assistants, whatever you want to call them, have not followed through, and have not tried to carry out what would have been of so much help to the people on that. And I am sorry and I hope you will get with Mr. Dillon and will get up some plan of operation and send the chairman of this committee a copy of the bill; ask him to introduce it, tell him it is the administration's bill and he will give you a hearing on it. That will do more good than this bill will do.

This bill turns it over to the foreign international banks.

We have only 30 percent of the votes. They have 70 percent. And I don't look with favor on it.

I am not going to try to stop it because I don't want to do anything that would interfere with your activities. I don't agree with you but at the same time it is better than nothing at all.

I sure hope you will try on this other deal, Mr. Martin. At this point I should like to insert in the record a letter to Mr. Martin, dated February 28, 1962, and reply.

(The letters referred to are as follows:)

CONGRESS OF THE UNITED STATES  
HOUSE OF REPRESENTATIVES,  
*Washington, D.C., February 28, 1962.*

Hon. WILLIAM MCCHESENEY MARTIN, Jr.,  
*Chairman, Board of Governors of the Federal Reserve System,  
Washington, D.C.*

DEAR MR. MARTIN: PURSUANT to the hearings before the Banking and Currency Committee on H.R. 10162, could you supply me with the following information:

1. Data as to the dollar volume of foreign deposits in U.S. commercial (or member) banks, as of the following dates: September 1, 1961; October 1, 1961; November 1, 1961; December 1, 1961; January 1, 1962; February 1, 1962; February 28, 1962.

2. Same information, broken down by location, as follows: New York City, Boston, Philadelphia, Chicago, San Francisco, Los Angeles, any other major cities with sizable quantities of foreign deposits.

3. The volume of savings and time deposits of all member banks, as of the following dates:

January 1, 1961; February 1, 1961; December 1, 1961; January 1, 1962; February 1, 1962; February 28, 1962.

4. To the best of your knowledge and judgment, to what extent has any increase in savings and time deposits since the lifting of the ceiling on interest payments,

(a) represented a transfer from demand deposits,

(b) represented a transfer from accounts in savings and loan and other thrift institutions, and

(c) represented new savings withdrawn from consumption expenditures as a result of the higher interest rates permitted.

In your reply please indicate the extent to which data are not available, and it would be appreciated if you would undertake such surveys as are necessary to supply such information to me in the near future.

Sincerely yours,

WRIGHT PATMAN.

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM,  
Washington, March 13, 1962.

HON. WRIGHT PATMAN,  
House of Representatives, Washington, D.C.

DEAR MR. PATMAN: As requested in your letter of February 28, 1962, the Board's staff has prepared estimates of foreign deposits and of savings and time deposits on selected dates and has analyzed recent changes in savings and time deposits. We are glad to enclose this material which we trust will be helpful to you.

Sincerely yours,

(Signed) Wm. McC. MARTIN, Jr.

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

MARCH 13, 1962.

(Information prepared in response to letter of Feb. 28, 1962, from  
Hon. Wright Patman)

1. Data as to the dollar volume of foreign deposits in U.S. commercial (or member) banks, as of the following dates:

September 1, October 1, November 1, and December 1, 1961.

January 1, February 1, and February 28, 1962.

TABLE I.—Foreign deposits in commercial banks in the United States—  
selected dates

	[In millions of dollars. Partly estimated]
Sept. 1, 1961	5,341
Oct. 1, 1961	5,461
Nov. 1, 1961	5,493
Dec. 1, 1961	5,529
Jan. 1, 1962	5,766
Feb. 1, 1962	5,672
Feb. 28, 1962	5,620

NOTES.—Table I shows the estimated dollar volume of foreign deposits in commercial banks in the United States at the beginning of each month for the period September 1961 through February 1962 and as of Feb. 28, 1962. These figures were prepared by using (1) the total amount of deposits due to foreign official institutions (central banks, governments, etc.) and foreign commercial banks reported by weekly reporting member banks in leading cities as of the last Wednesday of each month, and (2) the total deposit liabilities due to foreigners other than official institutions and banks as reported in the Treasury B.1 statement, "Liabilities to Foreigners" as of the end of each month. Amounts reported in these series have been adjusted upward to include estimated foreign deposits at non-weekly reporting commercial banks and downward for nonbank institutions that report to the Treasury in the B.1 series.

Both the Federal Reserve weekly reporting member bank series and the Treasury B.1 series include banks in the United States that hold the bulk of foreign deposits. The figures shown are considered to be representative of the amount of such deposits due to foreigners held by U.S. commercial banks and a valid indication of changes in the amount of such deposits.

2. Some information, broken down by location, as follows:  
New York City, Boston, Philadelphia, Chicago, San Francisco, Los Angeles, any other major cities with sizable quantities of foreign deposits.

TABLE II.—*Deposits of foreign official institutions and foreign banks at commercial banks in leading cities in the United States—selected dates*

[In millions of dollars]

Date	New York City	Boston	Phila- delphia	Chicago	San Francisco	Los Angeles	Wash- ington, D.C.	All other leading cities
<i>1961</i>								
Sept. 1.....	2,755	73	69	131	434	22	45	152
Oct. 1.....	2,897	72	71	137	424	22	46	128
Nov. 1.....	2,873	80	73	141	432	28	47	140
Dec. 1.....	2,916	77	77	145	410	26	44	146
<i>1962</i>								
Jan. 1.....	3,094	79	78	158	430	27	50	149
Feb. 1.....	2,927	77	80	162	425	26	48	148
Feb. 28.....	2,863	81	81	170	425	26	44	151

NOTE.—Table II shows the amount of deposits due to foreign official institutions and foreign banks by cities; these amounts are also included in table I. Table II does not include deposits due to other foreigners which are not available to us by cities; however, on a national basis the total amount of such deposits has been fairly stable between September 1961 and February 1962. The cities shown include the 6 cities listed in your letter and Washington, D.C., which reported a substantial amount of foreign deposits. No other city in the series reported a sizable volume of such deposits.

3. The volume of savings and time deposits of all member banks, as of the following dates:

January 1, February 1, and December 1, 1961.  
January 1, February 1, and February 28, 1962.

TABLE III.—*Savings and time deposits at all Federal Reserve member banks—selected dates*

[In millions of dollars. Partly estimated]

Jan. 1, 1961.....	58,912
Feb. 1, 1961.....	59,234
Dec. 1, 1961.....	66,685
Jan. 1, 1962.....	67,153
Feb. 1, 1962.....	69,194
Feb. 28, 1962.....	70,624

NOTE.—Table II shows the total amount of savings and other time deposits held by all Federal Reserve member banks on selected dates in 1961–62. These data are published monthly as of the last Wednesday of each month in the Board's G.7 series, "Assets and Liabilities of All Banks," and are considered to be reliable although they are partly estimated.

4. To the best of your knowledge and judgment, to what extent has any increase in savings and time deposits since the lifting of the ceiling on interest payments—

- (a) represented a transfer from demand deposits,
- (b) represented a transfer from accounts in savings and loan and other thrift institutions, and
- (c) represented new savings withdrawn from consumption expenditures as a result of the higher interest rates permitted.

Despite sharp gains in time and savings deposits at commercial banks since the end of 1961 the flow of savings into savings and loan associations and mutual savings banks appears to have continued in substantial volume. Data for January 1962, the latest available, indicate that the net increase in deposits at mutual savings banks and share capital at savings and loan associations, after adjustment for seasonal variation, totaled \$865 million. This compared with an average monthly increase (seasonally adjusted) of \$961 million in the last quarter of 1961, as shown in the following table:

## Net seasonally adjusted monthly increases in :

[In millions of dollars]

	Commer- cial bank and savings deposits	Mutual savings bank deposits <sup>1</sup>	Savings and loan association share capital <sup>2</sup>	Total
1961—October.....	800	128	823	1,751
November.....	1,100	152	891	2,143
December.....	100	174	717	991
4th quarter average.....	667	151	810	1,628
1962—January.....	2,200	216	<sup>3</sup> 649	3,085

<sup>1</sup> National Association of Mutual Savings Bank data; seasonal adjustment by Federal Reserve.

<sup>2</sup> Federal Savings and Loan Insurance Corporation data (January preliminary); seasonal adjustment by Federal Reserve.

<sup>3</sup> Preliminary.

In the absence of widespread increases in savings rates announced by commercial banks, the inflow of savings into the mutual savings institutions might well have been somewhat larger in January 1962 than in late 1961. Even after allowing for this possibility, and taking into consideration the erratic nature of the monthly series, it seems doubtful that more than a small proportion of the \$2.2 billion January increase in commercial bank time and savings deposits (after seasonal adjustment) represented net transfers or diversions of funds from mutual savings banks and savings and loan associations, the two principal types of competing savings institutions.

The January pattern of savings flow to major financial institutions shown in the above table represents only an initial response to the changed structure of interest rates on savings. The January figures themselves concealed widely different but largely offsetting experiences by geographic areas. Although the mutual savings banks in total reported a slightly larger inflow in January 1962 than in January 1961, savings banks in New York State had sharply reduced gains which were more than offset by substantial year-to-year increases in other States such as Connecticut and New Jersey. Similar regional differences occurred among the savings and loan associations; while in aggregate, and in most parts of the country, the net inflow to associations was moderately smaller this January than last, equal or larger net gains were reported in the Boston, Greensboro, Topeka, and Indianapolis home loan bank districts. This divergent pattern would suggest a competitive situation still in a state of flux, although information permitting a detailed area-by-area analysis of interest rate changes and savings flow responses is not yet available.

As the foregoing indicates, reductions in net savings flows to competing financial intermediaries were not a substantial source of the large January 1962 increase in commercial bank time and savings deposits. For the three types of savings institutions combined, the January inflow was about \$1.4 billion larger than the average increases experienced in other recent months. It seems unlikely that any substantial share of this large increase in institutional savings flow represented a sudden increase in the savings rate, although not much evidence on aggregate personal saving since year-end is yet available. Personal income in January, though slightly lower than in December, was \$1.5 billion above the fourth quarter 1961 average, at annual rates, but personal consumption expenditures also probably advanced slightly from the late 1961 monthly average.

A plausible explanation for much of the January increase in commercial bank time and savings deposits is that some holders switched out of stocks and bonds or reduced demand deposit balances. Little direct evidence is available on preference shifts in the security markets, since sales by some holders must of necessity be matched with purchases by others (including banks), but the relative weakness in stock prices during January is not inconsistent with this premise of a fall in demand. As for demand deposits, total balances declined \$1.1 billion, seasonally adjusted, between the last half of December and the last half of January, following sharp earlier increases. The fact that the seasonally adjusted rate of deposit turnover outside New York and other financial centers increased from December to January (from 25.9 to 27.4) also suggests some transfer from idle demand balances to time deposits. This by itself, however, does not

necessarily mean that the increase in time deposits came directly out of demand deposits, since individual holders may have switched from stocks and other securities into time deposits, while other nonbank investors drew down their cash holdings to buy the securities sold.

Mr. SPENCE. The gentleman's time has expired. Mr. Widnall.

Mr. WIDNALL. Mr. Martin, as always, you have given a very lucid statement and one that is readily readable and understandable.

We all appreciate your appearance here before the committee.

I would just like to make a comment on the previous colloquy. Isn't copper one of the items that we have stockpiled in the surplus, that the President is so worried about?

Mr. MARTIN. I believe that is correct, Mr. Widnall. But I am not too familiar with the stockpile program.

Mr. WIDNALL. Actually there has not been such a profitable operation, that I can see, as far as the country is concerned.

I would like to make this one comment.

In reading over your statement, twice you have emphasized one item of extreme importance.

On page 2, you say :

In order to bring both H.R. 10162 and the recent decision of the Federal Reserve into proper focus, we must remember that neither action will correct the underlying difficulty, which is our international payments deficit.

Then you end up your statement by saying :

In conclusion, we can look to these new arrangements in the international payments system to give us time to correct our balance-of-payments position. But we must clearly understand that they will not be substitutes for a basic cure.

I believe this is in line with what you recently testified to before the Joint Economic Committee?

Mr. MARTIN. That is correct.

Mr. WIDNALL. That we have some very basic things to do and this is just a palliative, for the present?

Mr. MARTIN. That is right. This is in the nature of lubrication and is not a cure.

Mr. WIDNALL. On page 2, also, you say "With this same object in view, the Federal Reserve has recently decided to re-enter the field of foreign-exchange transactions."

That is for the purpose of the stabilization of the dollar; isn't it?

Mr. MARTIN. That is correct. We are not insensitive to the world payments mechanism, but it is the position of the dollar as a key currency in that payments mechanism to which we are directing our entire effort. We are not trying to stabilize the other currencies of the world, except incidentally. Our primary purpose is the dollar.

Mr. WIDNALL. That is all. Thank you.

Mr. SPENCE. Mr. Multer.

Mr. MULTER. Thank you, Mr. Chairman.

Mr. Martin, because of your friendships and contacts with central bankers throughout the world, your attendance at the last International Monetary Conference was certainly very helpful to our country, and particularly to Secretary Dillon, in working out the agreement as a result of which we have this legislation before us today.

On page 6 of your statement, Mr. Martin, you refer to the possibility or desirability of recommending an amendment of the Federal Reserve

Act at some future time. We should not draw the inference from that that what you have done thus far in these operations are not authorized by the act?

Mr. MARTIN. They are, in our judgment, Mr. Multer. We studied that very carefully. What I was trying to convey was the fact that there are some things that we might want to do because of changed circumstances, that we would not think we had authority to do, and we would certainly be very careful to hue to our authority.

If we wanted to do those things we would come up for legislation.

Mr. MULTER. You don't think the time is ripe to ask for such amendments at this time?

Mr. MARTIN. No, we think we ought to experiment with our existing authority before coming up for more.

Mr. MULTER. I think that you and the Treasury Department and everybody in Government, and certainly the Congress, find it desirable to bring about a balance-of-payments so as to improve the situation created by the present imbalance-of-payments. I think you have indicated, this bill will not be the answer to it, but another tool to be used in solving that problem.

Wouldn't another tool—after all, what we are doing is trying to continue confidence in the American dollar—and wouldn't another tool in that regard be to repeal the now obsolete provision of the act which requires a gold reserve, having in mind that no American today can hold gold, either at home or abroad?

Isn't the time here when we can repeal that provision for the gold reserve for our Federal Reserve currency?

Mr. MARTIN. Mr. Multer, it is a matter of timing, I think, on that. I would think that we ought to make more progress in correcting our balance-of-payments deficit than we have made before repealing or revising the gold reserve requirement. I don't think it is a matter of urgency.

Mr. MULTER. Isn't this the time to tell the international financial world that we don't need this provision at home, and now you can look to our gold reserve to back up any foreign demands. We don't need it at home, we haven't used it, we don't intend to use it, and to show that all of this gold can be used to back up our foreign demands we have repealed that section?

Mr. MARTIN. I think that is well enough understood today, and I think the President's balance-of-payments speech last March was a very splendid document in pinpointing this, and my visit at Vienna convinced me that most of the foreign financial people accepted what he said and felt that our entire gold was at their disposal in this matter.

Mr. MULTER. I had the same reaction from all of the international bankers that I talked to in Vienna at that time, also. That is why I thought, while confidence is at its height, in the dollar and not looking to gold as such, that this would be the time to do it.

Mr. MARTIN. I think it is a matter of judgment. I think we would do better to have made more progress on our basic problem than we have before doing it.

Mr. MULTER. One other thing I would like to touch upon with you briefly, and that is the question of the interest on time deposits and on thrift accounts in this country.

It was my impression that the interest on these thrift accounts was increased primarily to keep foreign funds here. I understood you to say a little while ago that Americans as well as foreigners can now get this increased rate.

Mr. MARTIN. I think that was one of the major factors. I think the other factor is to encourage savings for the growth and development which we all anticipate and which we are going to need in this country.

Mr. MULTER. Did you anticipate that the commercial banks would, to the extent they did, increase the interest rate to the extent they have done?

Mr. MARTIN. A number of them went faster than I thought they would, because this is permissive. This is not mandatory. But I have been very much encouraged by talking to bankers, to mortgage lenders, and to some people seeking mortgages, that the flow of additional savings that seems to be generated over and above shifting from one institution to another, has tended to supply additional funds for mortgage lending as well as for municipalities and others, and has not put any upward pressure on their interest rates generally.

Mr. SPENCE. The gentleman's time has expired. Mrs. Dwyer.

Mrs. DWYER. No questions, Mr. Chairman.

Mr. SPENCE. Mr. Barrett.

Mr. BARRETT. Mr. Martin, it is certainly nice to have you here again.

Mr. MARTIN. Thank you, Mr. Barrett.

Mr. BARRETT. You indicated that there was no opposition to this bill from an international standpoint. I was wondering if you expected some opposition since you previously indicated that you wanted to have your guns cocked in the event that some developed. Would you explain that?

Mr. MARTIN. Well, I didn't intend to suggest that any opposition would crop up. I merely meant in the paragraph that I believe Mr. Multer referred to also, to say that, for example, in our Federal Reserve Act, I would see no way in which we could buy foreign Treasury bills as an investment. I wouldn't think we would have the authority to do that, and we wouldn't do it.

But it might be of value to us to be able to buy foreign Treasury bills at some time. I don't think we have authority to do so at the present time, so we will certainly abide by the letter of the law as it is now drawn. But if we felt that it was desirable for us to do that, we would expect to come up with legislation.

Mr. BARRETT. That is all, Mr. Chairman.

Mr. SPENCE. Mr. Halpern.

Mr. HALPERN. I have no questions, Mr. Chairman; but I would like to say that it is always informative, enlightening, and enriching, if I may say, to hear Mr. Martin.

Mr. MARTIN. Thank you, sir.

Mr. SPENCE. Mrs. Sullivan.

Mrs. SULLIVAN. No questions, Mr. Chairman. But I would like to yield my 5 minutes to Mr. Multer and Mr. Reuss to pursue that part of the questioning on the gold problem, if they care to.

Mr. MULTER. I will take part of it.

Mr. SPENCE. Mr. Reuss.

Mr. REUSS. Thank you, Mr. Chairman, I will accept such part of the gracious offer of Mrs. Sullivan as my colleague Mr. Multer may not wish to take.

Mr. MULTER. I suggest we proceed in order and I will pick it up on the second time around.

Mr. REUSS. Thank you, Mr. Chairman. Mr. Martin, I am delighted to see you here and looking so well today, as my other colleagues are, but I am not so happy at what you have said.

I am delighted that you support H.R. 10162, the bill before us, which will authorize the Treasury to enter into a new IMF arrangement and which I think will be helpful.

However, you go on to tell us about a highly independent, large-scale operation, which the Federal Reserve has designed to do the same thing in a bigger way. What you are saying is that you consider the nearly unlimited money creative powers of the system available for not only operations in the foreign exchange market, but for a broader purpose, and I am quoting from page 7, "to improve the international payments system by cooperative arrangements with foreign Central and Reserve Banks, that would permit the financing of some large movements of volatile funds."

Then you go on to say that in the case of other countries, these arrangements would permit those countries to moderate the impact on their gold and dollar reserves.

You apparently assert the right to do this independently of the President or the Secretary of the Treasury, though you say something about consulting him occasionally. Much of the operation that you are doing under this seems to me to duplicate the foreign exchange stabilization operation that the Secretary of the Treasury has very properly undertaken pursuant to the Gold Reserve Act of 1934.

To me this is a tremendous power you have taken upon yourself, and I must serve notice on you right now that I consider this an usurpation of the powers of Congress. I don't think you are authorized to do this at all, and you give us only the vaguest generalities about what kind of arrangements you are going to make with foreign Central Banks.

The Treasury, when it comes up here with H.R. 10162, gives us a very detailed, lawyerlike act of what it proposes to do. You come up with an open-end proposal, the objects and purposes of which I can't even guess. I frankly have never had explained to me just what these spot and forward exchange operations which you contemplate are, or, indeed, what these broader "cooperative arrangements" are.

Let me ask you this: What do you propose to do under this by way of informing, either publicly or in executive session, the duly constituted committees of Congress, including this committee, the House Committee on Banking and Currency?

Mr. MARTIN. We intend to make reports in our statements periodically.

Mr. REUSS. Once a year?

Mr. MARTIN. No. Our statements come out weekly and monthly. We have a bulletin. We will try to report as fully as we think the public interest requires every transaction that will be useful.

Mr. REUSS. Are you willing to report to us as fully as we think the public interest requires or are you the judge of that?

Mr. MARTIN. Well, I think we have to make the judgment on the basis of our present authority. I would be perfectly willing to come up here in executive session and discuss any aspect of it with you at any time.

Mr. REUSS. Is there any reason why you can't make, to each member of the Banking and Currency Committee who passes whatever security clearance you propose to set up, a monthly report which tells him in understandable language just what it is you are doing, what you bought and sold, and what you propose to do? And, particularly, what these vague cooperative arrangements are that you propose to make with foreign central and reserve banks?

Mr. MARTIN. I don't believe, in the absence of more experience, that we would be justified in doing that. If we open an account with a bank of X country, they are entitled to some consultation with respect to their end of the transaction. I think that our reporting what we are doing, and our holdings, similar to the way we report our open market transactions, is about all we could be asked to do at the present time without defeating the purpose of what we are driving at.

Mr. SPENCE. The gentleman's time has expired.

Mr. REUSS. Mr. Chairman, will there be a second round of questioning?

Mr. SPENCE. Yes, sir: we will have a second round.

Mr. MARTIN, this bill does not delegate any authority to the Federal Reserve System, does it?

Mr. MARTIN. None whatsoever.

Mr. SPENCE. And it does not take any existing powers away from it?

Mr. MARTIN. Nothing whatever.

Mr. SPENCE. There is nothing in the bill with reference to the subject you are discussing?

Mr. MARTIN. Nothing whatever, Mr. Chairman; that is correct.

Mr. SPENCE. Mr. Moorehead.

Mr. MOOREHEAD of Ohio. Mr. Martin, you are speaking of dollar stabilization. How is the position of the dollar now in the world markets?

Mr. MARTIN. Well, again, in terms of various currencies, the situation differs. I would say, however, that the dollar is doing reasonably well in all of the markets of the world today.

Mr. MOOREHEAD of Ohio. Would you say that in some markets it is at a discount?

Mr. MARTIN. It is. It has a tendency that way; yes, sir.

Mr. MOOREHEAD of Ohio. Then, I note that, in reference to the Treasury Stabilization Fund, you say the "modest resources of the Treasury Stabilization Fund."

Would you care to say what they are?

Mr. MARTIN. I don't really think I ought to disclose. The Treasury might be willing to disclose what their resources are; but they are under \$500 million, let me say that, just to give you some idea of the magnitude. That is a part of the Gold Reserve Act, and at one time you know it was a very large amount.

It has been paid down and some of the funds have been used for stabilization of South American currencies, the Philippines, and other operations like that. I don't think I ought to take over the Secretary of the Treasury's functions. I know something about it because I was Assistant Secretary of the Treasury, once, in charge of it, but generally it is his province.

Mr. MOOREHEAD of Ohio. Thank you very much. That is all.

Mr. SPENCE. Mr. Moorhead.

Mr. MOORHEAD of Pennsylvania. Thank you, Mr. Chairman.

Mr. Martin, first, under present international financial conditions, which 1 of the 10 countries participating in this arrangement would be the primary beneficiary of the agreement?

Mr. MARTIN. Well, I think it is hard to say which one would. I think it is obvious that there is a change—there has been a change, Mr. Moorhead, in the fact that the United States is now another borrower instead of the principal lender in the world. That has been a basic change. So, the United States, which is a major contributor here, also stands to be a major beneficiary.

Mr. MOORHEAD of Pennsylvania. So the United States would be a major beneficiary of this arrangement?

Mr. MARTIN. It would indeed, in the event of trouble.

Mr. MOORHEAD of Pennsylvania. Mr. Martin, I am also interested in this foreign exchange operation which the System is carrying on. As I understand, in order to engage in the process of stabilizing the dollar through the use of foreign currencies, it would be necessary first for the System to acquire such funds, would it not?

Mr. MARTIN. That is correct.

Mr. MOORHEAD of Pennsylvania. And won't the purchase of such foreign currency by the System, using dollars, presumably, have the immediate effect of weakening the dollar abroad?

Mr. MARTIN. Well, it depends. If you had a currency that was under par, for example, it would just be good business, in the short run. The only risk you would run would be devaluation of that currency.

Mr. MOORHEAD of Pennsylvania. I meant the use of dollars to purchase, let's say, marks. Would not that, in the marketplace, tend to strengthen the mark and weaken the dollar?

Mr. MARTIN. Yes, sir, but we would not engage in that, you see, unless there was—the only form in which we would do that would be to take a reciprocal agreement with the Deutsch Bundes Bank, in which they would give us dollars for deutch mark for 30, 60 or 90 days, and the interest rate differential would be the same for both sides.

So that it would merely be something that could be undone by either party during the period of time, against pressure on either side and in which either side could unwind the transaction.

That would be the only way, on a strong currency like that, that we would do it, or else we would be weakening the dollar by doing it.

Mr. MOORHEAD of Pennsylvania. I understand from your testimony, Mr. Martin, that the System now owns some foreign currencies; is that correct?

Mr. MARTIN. Yes, sir; that is correct.

Mr. MOORHEAD of Pennsylvania. Would you be willing to tell the committee, in terms of dollars, approximately how much foreign currency the System now owns?

Mr. MARTIN. I would rather not give it other than to use the phrase that they are in modest amounts.

Mr. MOORHEAD of Pennsylvania. The next question is, what arrangements are there for coordinating your operations with the operations of the Treasury? Are these statutory, or just friendly cooperation between individuals?

Mr. MARTIN. They are completely cooperative at the moment, but I want to point out that the Treasury uses the Federal Reserve Bank of New York as their fiscal agent, and the operations for the Treasury Stabilization Fund are conducted by the same people that would conduct our operations. The only difference would be that the letter "A" might be used for a Stabilization Fund transaction, and the numeral "1" for a transaction for System account, or vice versa.

Mr. MOORHEAD of Pennsylvania. But the Treasury has no control over your independent operations. You could—I don't say you would obviously—but you could be working at cross purposes with the Treasury if you so chose to do?

Mr. MARTIN. We could indeed. And we have been working very carefully to draw up guidelines. Obviously the Treasury and the Federal Reserve are working for the same purpose, but we could overlap and we could have difficulty, and we have been trying to work out some guidelines between the two of us, as to how we would coordinate.

But I think it takes some experience before you can determine what these guidelines ought to be. We have a completely cooperative arrangement at the present time, and the Treasury and ourselves are working steadily in this. And obviously for the same purpose, so that I am not worried about the lack of specific guidance. I am not worried about their interfering with our independence or our trying to make it difficult for them by asserting our independence.

Mr. MOORHEAD of Pennsylvania. Mr. Martin, as you look ahead to the next 2 or 4 years, what would you say the likelihood is of a call being made on the United States for any substantial amount of the United States' \$2 billion contribution or arrangement under this new special lending program of the International Monetary Fund?

Mr. MARTIN. Mr. Moorhead, I would hope we would not have to make a call on it at all during that period, but I would not want to say.

Mr. MOORHEAD of Pennsylvania. I said a call being made on the United States.

Mr. MARTIN. To borrow?

Mr. MOORHEAD of Pennsylvania. To contribute to this Fund?

Mr. MARTIN. I would hope we would neither be borrowing from the Fund nor lending to it.

Mr. MOORHEAD of Pennsylvania. Thank you.

Mr. SPENCE. Mr. Rousselot.

Mr. ROUSSELOT. Mr. Martin, since you twice indicate in your statement that the measure before us only gives us time to correct the balance-of-payments and is not a basic cure, do you generally feel that this legislation is really necessary?

Mr. MARTIN. That is a difficult question, Mr. Rousselot. I believe that it is necessary. I started out on this believing that we ought to make our adjustments without any additional crutch, but after attending the meeting at Vienna and talking to a good many of my associates in this field, I came to the conclusion that we are in a relatively new area as regards the payments mechanism of the world. There have been shifts there. And that we ought to have all the crutches we can have, without obscuring the necessity of doing fundamental things.

And I think that this is a crutch which might be unnecessary. But I think it is very desirable for us to have it with the uncertainties that there are in the world today, and I emphasize this by saying that dealing in foreign exchange, dealing in a broad way in speculation in foreign exchange, is something that has begun to achieve an importance only since convertible currencies were achieved, following 1958, and I think it is going to take us some time in the world, to determine how to handle the overall payments mechanism.

Mr. ROUSSELOT. You would not call this need pressing, then?

Mr. MARTIN. I think it is a very desirable thing to do. Let's put it that way.

Mr. ROUSSELOT. In his statement yesterday, the Secretary made the following statement:

Since the countries concerned are in constant close communication regarding their balance-of-payment positions, not only in the Fund—

referring to the International Monetary Fund—

but also through the Organization for Economic Cooperation and Development, and bilaterally, a decision can be reached very rapidly.

Could you explain, rather briefly, your knowledge—I didn't get a chance to ask him—of this so-called cooperation between the Fund and the Organization for Economic Cooperation and Development, and its relationships to our balance of payments?

Mr. MARTIN. Well, there were 18 countries in this Organization before you gentlemen approved our joining it along with Canada, about a year ago. The OECD has been having meetings in Paris quite regularly. They are now a 20-nation group, which represents essentially the Western World as we know it. I have attended two meetings of the Policy Committee of this group and we have discussed monetary policy and other questions, not for any other purpose than information and clearing ideas between us.

Mr. ROUSSELOT. Do you think the Organization for Economic Cooperation and Development is contributing to or taking away from our ability to improve our position?

Mr. MARTIN. I think it is contributing to our ability. I think it is very essential, through cooperative discussions, to impress upon governments, as well as central banks, that the payments mechanism, the gold exchange standard, which we now have is a privilege that also carries with it a responsibility. I believe there is nothing better than this type of cooperation to emphasize that and to improve our operations.

Mr. Young, who is with me, is head of our Foreign Department, and has attended the working party meetings of the Organization for Economic Cooperation and Development for the Federal Reserve. I have

attended, with him, the Policy Committee meetings. I am sure he would agree with me on this point.

Mr. ROUSSELOT. Thank you.

Mr. SPENCE. Mr. Stephens.

Mr. STEPHENS. Thank you, Mr. Chairman.

Mr. MARTIN, you have stated that, in your opinion, the idea of putting the \$2 billion up will not cure the basic defect, and you have stated, in your statement here, that the basic defect is that we are spending, lending, and investing, more abroad than foreigners are spending, lending, and investing here.

How will this stimulate or help that in any way? Will this particular thing help in creating that imbalance in our favor, or would it be just something that would facilitate it if we do other things to reverse the picture?

Mr. MARTIN. I think it is something that will facilitate it if we do these things, but I think it is a major safeguard against our having a speculative foray of some sort which would upset confidence before we could take more drastic action that might be called for.

In other words, it is a defense that protects us from being put into a bind before we have a chance to really face up to a critical situation that may develop.

Mr. STEPHENS. And the remedies which would assure that we would spend, lend, and loan, and invest more abroad, would not necessarily be in the Federal Reserve field, but would be in our field here in the Congress, or in the executive department, to stimulate that?

Mr. MARTIN. That is correct.

Mr. STEPHENS. Thank you.

Mr. SPENCE. Mr. Scranton.

Mr. SCRANTON. Mr. Martin, like the others, I certainly welcome your testimony here this morning.

In answering one of Mr. Widnall's questions, you, as I understand it, stated that the main, and perhaps the overall sole purpose of the Federal Reserve's activities that you are discussing this morning, in foreign exchange, are for the stabilization of the dollar; is that correct?

Mr. MARTIN. That is correct.

Mr. SCRANTON. And not for the stabilization of foreign exchange; is that correct?

Mr. MARTIN. That is correct.

Mr. SCRANTON. Now, one thing which concerns me very deeply about this problem, which has arisen because of the economic rise of Western Europe, is the activity in the last couple of years with regard to short-term capital movements which affected us very materially in 1960 and in the last quarter of 1961.

Is there any way in your judgment, besides what we are presently doing, through agreement among nations or in any way, that something can be done about holding down particularly the speculative aspects of this unfortunate factor?

Mr. MARTIN. Well, that is what this is primarily directed at, and I believe this will have some impact. I do not want to claim too much for it, but I am hoping it will prove effective.

Mr. SCRANTON. When Secretary Dillon was here I tried to get into this with him, but we didn't have enough time. It seems to me, and I would like your judgment on this, that we can expect to have more of this short-term movement rather than less in the future. Is this, in your judgment, correct or not?

Mr. MARTIN. No, I am hopeful that we are going to continue the progress that I think we are making in other directions.

Let me cite one example that I think is encouraging. The Defense Department, in its procurement activities, under Deputy Secretary Gilpatric, has done a very good job of shifting procurement in such a way that we will save substantial foreign exchange.

Now, we have to explore every possible way to correct our payments deficit, but I believe for the moment that speculation has quieted down because people have realized that this is so important to all of the countries concerned, that they are going to intervene and also take the necessary actions to put their houses in order.

Mr. SCRANTON. That is reassuring. Of course, there are other motives in movements of short-term capital than speculation.

Mr. MARTIN. That is correct.

Mr. SCRANTON. Interest rates and other things. I understand that there is in this Nation today a little over \$22 billion invested by foreigners; is that approximately correct?

Mr. MARTIN. That is right.

Mr. SCRANTON. And now with the tremendous increase in the worldwide importance of the dollar in the sense that most foreign exchange revolves around the dollar—as for example, with sterling in the last century—

Mr. MARTIN. That is right.

Mr. SCRANTON (continuing). It would seem to me it would mean a great deal of this kind of thing in the future. But you are firm in your conviction that this kind of operation, which we are trying to do now, which I thoroughly understand, is going to do the job of allaying this possibility?

Mr. MARTIN. Well, I think it is a first step in doing it. That is why I think it is very important that we do it.

Mr. SCRANTON. What I am getting to is this: I am very interested in this short-term business that seems to be causing so much of a problem, but basically with regard to this particular bill it has been said over and over again by you and by Secretary Dillon and the National Advisory Council—and may I say that I respect your thinking, because all of you are experts in this field—that we have, therefore, every reason to believe that in the next 4 years, the length of this agreement, that we will not be called upon for our share of it, and yet I feel that strong short-term movement is possible in the next 4 years, to the degree that it was in 1960, that we may have to borrow from the Fund.

Mr. MARTIN. I don't want to mislead you. I hope we won't be called on for it, but it is possible we may be. I am not minimizing that point at all. It is possible, too, that we may have to borrow from the IMF because we do need time to make the necessary adjustments, the most critical of which is that American business, technologically, must be

come more competitive in some aspects with foreigners than it is at the present time.

Mr. SCRANTON. Now, just one other corollary to that: Could you give us—I know that nobody in your position likes to comment on another nation, but I was alarmed, as I am sure everybody was, by the United Kingdom's withdrawal of approximately \$2 billion out of this Fund last summer—is it your opinion that they are now making such progress in their financial situation that we should not anticipate their tremendous use of this in the next 4 years to any such degree?

Mr. MARTIN. Well, I think they are up against the gun more than we are.

Mr. SCRANTON. I am sure.

Mr. MARTIN. And I am hopeful that the austerity program they are presently following will be successful. They are presently repaying some of the funds that they withdrew from the Monetary Fund. They have been making steady repayments on that, and they have been making progress on their overall position, with the marked difference between them and us that they have been running a deficit on current account and we still have a substantial surplus on current account.

Mr. SPENCE. The gentleman's time has expired.

Mr. St. Germain.

Mr. ST. GERMAIN. Mr. Martin, getting down to the very simple and basic aspects of this, in the letter of transmittal it is stated that the reason for all of this is to strengthen the monetary system in general of the countries of the free world?

Mr. MARTIN. Yes, sir.

Mr. ST. GERMAIN. Now, one thing that I haven't gotten clear during these hearings is, in proportion to the amount of money that the United States is contributing to the Fund, what amount can we borrow from the Fund, if this were to become necessary, should we be in need of funds?

Mr. PATMAN. Mr. Chairman, I suggest that the gentleman who is with Mr. Martin get to the microphone with Mr. Martin if he is going to testify. Is he with Mr. Martin?

Mr. MARTIN. Mr. Herbert Furth, of our Foreign Affairs Department, who is an expert in this. I will get him to give you the exact figures.

Mr. FURTH. Our fund quota is \$4.1 billion. Of that we can draw, as a matter of right, approximately \$1.7 billion without much formality. We could, under the Articles of Agreement, draw on the Fund up to \$6 billion. Now how much of that could be drawn without putting this mechanism into motion is a question which would depend upon the judgment of the Managing Director, because obviously he may not want to use all the resources of the Fund before invoking this arrangement.

At present the Fund has more than \$2 billion in gold and several hundred millions of other major convertible currencies, in addition to a large amount of sterling. How much of that the Managing Director would be willing to put at the disposal of the United States

before invoking this arrangement, would be a matter for him to decide in consultation, of course, with the Board of the Fund.

Mr. ST. GERMAIN. Now I tried to take notes here. I understand that at the present time we have \$1.7 billion that we, the United States, guarantee to the Fund, is that correct?

Mr. FURTH. We could draw this amount on the Fund.

Mr. ST. GERMAIN. We could draw up to that?

Mr. FURTH. As a matter of right.

Mr. ST. GERMAIN. Now how much money do we have invested in the Fund at the present time, or have we guaranteed to the Fund?

Mr. FURTH. Our contribution was \$4.1 billion.

Mr. ST. GERMAIN. So out of the \$4.1 we have put in as a matter of right we could now look to \$1.7 billion, that is prior to the possible or probable enactment of the present legislation before us?

Mr. MARTIN. That is correct.

Mr. FURTH. The new arrangement does not increase our drawing rights at all.

Mr. ST. GERMAIN. But it increases our guarantee, so to speak, by a \$2 billion?

Mr. FURTH. It increases our guarantee by \$2 billion and makes it more likely that the Fund will have the resources to fulfill our drawing if we should need one.

Mr. ST. GERMAIN. Our drawing of \$1.7 billion?

Mr. FURTH. No, our total drawings.

Mr. ST. GERMAIN. Our total drawings?

Mr. FURTH. Yes, sir.

Mr. ST. GERMAIN. Now, should the time come when the United States finds it necessary to draw upon the Fund, and other participating countries have drawn upon the Fund, is there a possibility or probability that there would be no funds to take care of our necessity, say, 3 years from now?

Mr. FURTH. Under this arrangement?

Mr. ST. GERMAIN. Yes, sir.

Mr. FURTH. Very unlikely, because most other nations probably would be quite willing to draw dollars and sterling.

Mr. ST. GERMAIN. That is all, Mr. Chairman.

Mr. SPENCE. Mr. Gonzalez.

Mr. GONZALEZ. I have no questions, Mr. Chairman.

Mr. PATMAN. Mr. Chairman, may we have an understanding about the time now?

We have had 5 minutes for each member on the first round, which is perfectly all right. That gives all members an opportunity.

Now, is it all right to take 10 or 15 minutes the second time?

But, should there be any time when any member can ask any germane question, I would suggest in going around it be 10 or 15 minutes.

Mr. SPENCE. The Chairman has not the power that the Court has. The Court can say that a question is not really relevant or pertinent. I can't control it to that extent. But I do ask the members to have their questions relative and germane to the passage of this bill. We can't explore the whole financial field this morning.

Now, we are getting into the international field and that is even wider. I think there ought to be some restraint exercised by the members themselves when we go around for additional time.

Mr. Patman is recognized for 10 minutes.

Mr. PATMAN. Thank you, Mr. Chairman.

After we go around 10 minutes, if somebody like Mr. Reuss has a number of questions to ask, and I happen to know that they are very pertinent and important questions, I think he ought to have unlimited time at a certain point.

Mr. SPENCE. Proceed with your 10 minutes.

Mr. PATMAN. I would like to ask unanimous consent, Mr. Chairman, to insert in the record at this point, a copy of the President's message of February 12, last year, on this particular question, and also, Mr. Chairman, to insert in the record at this point—

Mr. SPENCE. I would like to know—I don't have the time to investigate—but I would like your assurance that it is all relevant to this bill.

Mr. PATMAN. Certainly, I say it is.

You know, in this message, Mr. Kennedy said this: He said:

The Federal Reserve Act should now be amended to permit the Federal Reserve System to establish separate maximums for rates of interest paid by member banks on time and savings deposits held in this country by foreign governments or monetary authorities (sec. 19, par. 14). This authority, when exercised would enable American banks to make a maximum competitive effort to attract and hold dollar balances which might otherwise be converted into gold. At the same time domestic rates, when desirable for reasons of domestic policy, could be held at a lower level. I will shortly send to the Congress a draft of the needed legislation.

That was February 11, last year, 1961.

Also, I would like to insert in the record at this point, Mr. Chairman, a letter from the White House dated March 14, 1961, to the Speaker, sending up a memorandum from the President about this same subject, and also a copy of a bill to be introduced along this line, and I ask unanimous consent that all this be inserted in the record at this point.

Mr. SPENCE. I don't think that is relevant.

Mr. PATMAN. Not relevant? Why this is what we are talking about.

Why have a meeting, if you are not going to consider the bill? This is about this bill.

I ask unanimous consent to put this in the record, Mr. Chairman.

Mr. SPENCE. Well, without objection, it may be done.

Mr. ROUSSELOT. Reserving the right to object, is the statement concerning the President relevant?

Mr. PATMAN. Yes, sir; it is.

Mr. ROUSSELOT. Is it the speech that you have put in? Do you have to put in the whole speech?

Mr. PATMAN. It is a message, it is not a speech, on this very point.

Mr. ROUSSELOT. Thank you.

(Document No. 84 and memorandum, are as follows:)



U.S. BALANCE OF PAYMENTS AND GOLD OUTFLOW  
FROM UNITED STATES

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M E S S A G E

FROM

THE PRESIDENT OF THE UNITED STATES

RELATIVE TO

U.S. BALANCE OF PAYMENTS AND THE GOLD OUTFLOW FROM  
THE UNITED STATES

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FEBRUARY 6, 1961.—Referred to the Committee of the Whole House on the  
State of the Union and ordered to be printed, with illustrations

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*To the Congress of the United States:*

The gold outflow of the past 3 years has dramatically focused world attention on a fundamental change that has been occurring in the economic position of the United States. Our balance of payments—the accounting which shows the result of all of our trade and financial relations with the outside world—has become one of the key factors in our national economic life. Mainly because that balance of payments has been in deficit we have lost gold.

This loss of gold is naturally important to us, but it also concerns the whole free world. For we are the principal banker of the free world and any potential weakness in our dollar spells trouble, not only for us but also for our friends and allies who rely on the dollar to finance a substantial portion of their trade. We must therefore manage our balance of payments in accordance with our responsibilities. This means that the United States must in the decades ahead, much more than at any time in the past, take its balance of payments into account when formulating its economic policies and conducting its economic affairs.

Economic progress at home is still the first requirement for economic strength abroad. Accordingly, the first requirement for restoring balance in our international payments is to take all possible steps to insure the effective performance of our own economic system—to improve our technology, lower our production and marketing costs, and devise new and superior products, under conditions of price stability. The real wealth of a nation resides in its farms and factories and the people who man them. A dynamic economy producing goods competitively priced in world markets will maintain the strength of the dollar.

Thanks to our international reserves we have time, if we use it wisely, in which to strengthen our domestic economy and make it fully competitive with that of other nations. Our situation is one that justifies concern but not panic or alarm.

In my message on February 2, I dealt with the measures for reviving our domestic economy. The steps I now propose will strengthen our dollar position and insure that our gold reserves are employed effectively to facilitate the commerce of the free nations and to protect the stability of their currencies. Because these steps supplement the policies for strengthening our domestic economy, and because we can take them calmly and deliberately, they are not for that reason any less important or less urgent. Those that are within the present authority of the Executive will be the subject of vigorous action. Where action by the Congress is required I urge early consideration and approval.

For the past decade our international transactions have resulted in a deficit—payments that were in excess of receipts—in every year except that of the Suez crisis, 1957. The surplus of our exports over our imports, while substantial, has not been large enough to cover our expenditures for U.S. military establishments abroad, for capital invested abroad by private American businesses, and for Government economic assistance and loan programs. All of these outlays are essential. Our military establishments in foreign countries protect the national security. Private investment promotes world economic growth and trade and, through the return of profits to our country, will strengthen our balance of payments in future years. Our economic assistance programs, much the smallest of these three items in its effect on payments balance, is vital in the continuing struggle against tyranny and oppression, and the poverty on which they feed.

Over the period 1951 to 1957 the deficit in our balance of payments averaged about \$1 billion annually. These did not result in a net outflow of gold from the United States; foreign monetary authorities, banks, and private individuals held these earnings as dollars or claims on dollars. Thus our gold reserves were \$22.8 billions at the end of 1950 and \$22.9 at the end of 1957. But during these years the dollar holdings by foreign countries increased from \$8.4 billion at the end of 1950 to almost \$15 billion at the end of 1957.

These earlier deficits in our balance of payments were, in fact, favorable in their world effect. They helped to restore foreign monetary systems by enabling foreign countries to earn the dollars which they needed to rebuild their international reserves. They made it possible for the industrialized countries of Western Europe to restore the convertibility of their currencies, thus freeing world trade and payments from exchange control. This was of benefit to the export trade of the United States. However, this growth in

foreign dollar holdings placed upon the United States a special responsibility—that of maintaining the dollar as the principal reserve currency of the free world. This required that the dollar be considered by many countries to be as good as gold. It is our responsibility to sustain this confidence.

In 1958 and 1959 the deficit in our balance of payments sharply increased—to \$3.5 billion in 1958 and to \$3.8 billion in 1959. This came about mainly because of lagging exports and rising imports. There was no significant increase in our outlays for military expenditures, private investment, or Government economic assistance. However in these years, unlike the period 1951–57, the deficit resulted in large transfers of gold to foreign accounts as well as a further increase in foreign dollar holdings. For the 2 years together, 1958 and 1959, gold transfers to foreign accounts were \$3.0 billion while foreign dollar holdings by foreign countries increased by another \$4.3 billion. These gold transfers did not make the underlying balance of payments fundamentally worse. They did reflect a decision by foreigners to take more of their earnings in gold and to hold less in dollars.

Last year, 1960, the surplus of our exports of goods and services over our imports increased from \$2.2 billion in 1959 to \$5.8 billion. This was caused, principally, by an increase—amounting to more than \$3 billion—in our exports. This once more reduced what may be called our basic deficit—it was only about \$1.5 billion for the year. However, during 1960 there was a large movement abroad of short-term capital. Favorable interest rates abroad, a high rate of growth, and good investment prospects in Europe and some speculative fears concerning the future value of the dollar all played a part. It is estimated that this outward flow of short-term funds was between \$2 and \$2.5 billion, and this was the crucial factor in raising the overall deficit to \$3.8 billion. Of this, \$1.7 billion were transferred in the form of gold and \$2.1 billion took the form of increased foreign dollar holdings.

An outward movement of short-term funds such as that which occurred in 1960 should not be considered a part of the basic deficit. Such movements are quickly reversible in response to changes in interest rates and other business factors here and abroad. Moreover, insofar as short-term funds transferred to foreign financial centers consist of U.S.-owned capital, they create U.S. claims against the recipient country. In the new era of convertible currencies upon which we have entered, we may expect that short-term money will continue to flow back and forth. I have requested the Secretary of State and the Secretary of the Treasury to work for still closer cooperation between the monetary and financial authorities of the industrialized free nations with a view toward avoiding excessive short-term money flows which could be upsetting to the orderly development of international trade and payments.

In sum our basic deficit of \$1.5 billion is of manageable proportions. And it is this basic deficit which affects the real strength of our currency. But the time has come to end this deficit. It must be ended by responsible, determined, and constructive measures.

There are other factors which lend basic support to our monetary and financial position. Our gold reserve now stands at \$17.5 billion. This is more than  $1\frac{1}{2}$  times foreign official dollar holdings and more than 90 percent of all foreign dollar holdings. It is some two-fifths of the gold stock of the entire free world.

Of this \$17.5 billion, gold reserves not committed against either currency or deposits account for nearly \$6 billion. The remaining \$11.5 billion are held under existing regulations as a reserve against Federal Reserve currency and deposits. But these, too, can be freed to sustain the value of the dollar; and I have pledged that the full strength of our total gold stocks and other international reserves stands behind the value of the dollar for use if needed.

In addition, the United States has a quota in the International Monetary Fund of \$4.1 billion. This can be drawn upon if necessary and our access to the Fund's resources must be regarded as part of our international reserves.

Finally, beyond its liquid international reserves, the Government and citizens of the United States hold large assets abroad. Western European countries whose currencies are now strong owe us long-term governmental debts of \$2.9 billion. Our private short-term assets abroad now are estimated at \$4½ billion. Our long-term private investments in foreign countries—including both plants owned directly by American companies and securities of foreign business and governments owned by Americans—total over \$44 billion, exceeding foreign investments in the U.S. economy by some \$28 billion. In any reckoning of international assets and liabilities, the United States has a strong solvent position.

In short, powerful resources stand behind the dollar. Our gold and monetary reserves are large; so are the physical and monetary assets we hold throughout the world. And, in the years ahead, if the program I previously outlined is pursued, the dollar will have the added strength of the reviving power of the American economy itself.

Certain firm conclusions follow:

1. The United States official dollar price of gold can and will be maintained at \$35 an ounce. Exchange controls over trade and investment will not be invoked. Our national security and economic assistance programs will be carried forward. Those who fear weakness in the dollar will find their fears unfounded. Those who hope for speculative reasons for an increase in the price of gold will find their hopes in vain.

2. We must now gain control of our balance-of-payments position so that we can achieve overall equilibrium in our international payments. This means that any sustained future outflow of dollars into the monetary reserves of other countries should come about only as the result of considered judgments as to the appropriate needs for dollar reserves.

3. In seeking overall equilibrium we must place maximum emphasis on expanding our exports. Our costs and prices must therefore be kept low; and the Government must play a more vigorous part in helping to enlarge foreign markets for American goods and services.

4. A return to protectionism is not a solution. Such a course would provoke retaliation; and the balance of trade, which is now substantially in our favor, could be turned against us with disastrous effects to the dollar.

5. The flow of resources from the industrialized countries to the developing countries must be increased. In all that we do to strengthen our balance of payments, we must be especially mindful that the less-developed countries remain in a weak financial position. Help from the industrialized countries is more important than ever; we cannot

strengthen our balance of payments at the expense of the developing countries without incurring even greater dangers to our national security.

6. The United States must take the lead in harmonizing the financial and economic policies for growth and stability of those industrialized nations of the world whose economic behavior significantly influences the course of the world economy and the trend of international payments.

To carry forward these policies I propose a program for action, which may be divided into two parts. The first part describes those measures which will improve domestic monetary arrangements and strengthen international cooperation in economic and monetary policy. These measures will help us better to meet short-term demands on reserves such as those of recent years. The measures in the second group are designed to correct the persisting basic deficit in our balance of payments.

#### I. MEASURES TO EASE THE SHORT-TERM DEMAND PROBLEM

##### 1. *Measures to improve international monetary institutions*

Increasing international monetary reserves will be required to support the ever-growing volume of trade, services, and capital movements among the countries of the free world. Until now the free nations have relied upon increased gold production and continued growth in holdings of dollars and pounds sterling. In the future, it may not always be desirable or appropriate to rely entirely on these sources. We must now, in cooperation with other lending countries, begin to consider ways in which international monetary institutions—especially the International Monetary Fund—can be strengthened and more effectively utilized, both in furnishing needed increases in reserves, and in providing the flexibility required to support a healthy and growing world economy. I am therefore directing that studies to this end be initiated promptly by the Secretary of the Treasury.

##### 2. *Use of U.S. drawing rights in the International Monetary Fund*

The United States has never made use of its drawing rights under the International Monetary Fund to meet deficits in its balance of payments. If and when appropriate, these rights should and will be exercised within the framework of Fund policies. The United States will also support continued efforts in the Fund to facilitate drawings by other members in the currencies of industrialized countries whose payments positions are in surplus and whose reserves are large. This will help to reduce the burden now borne by the dollar.

##### 3. *Special interest rates for dollar holdings by foreign governments and monetary authorities*

(a) The Federal Reserve Act should now be amended to permit the Federal Reserve System to establish separate maximums for rates of interest paid by member banks on time and savings deposits held in this country by foreign governments or monetary authorities (sec. 19, par. 14). This authority, when exercised, would enable American banks to make a maximum competitive effort to attract and hold dollar balances which might otherwise be converted into gold. At the same time domestic rates, when desirable for reasons of domestic

policy, could be held at a lower level. I will shortly send to the Congress a draft of the needed legislation.

(b) I have directed the Secretary of the Treasury to use, whenever it appears desirable, the authority already extended to him by the Second Liberty Bond Act to issue securities, at special rates of interest, for subscription and holding exclusively by foreign governments or monetary authorities. The exercise of this authority could provide an additional inducement to hold foreign official balances in dollars.

(c) As a final means of holding or attracting foreign dollars, the Congress should enact a measure designed to unify the tax treatment accorded the earning assets of foreign central banks. At present, income derived by foreign central banks of issue from bankers acceptances and bank deposits is exempt from tax under section 861 of the code. Income from U.S. Government securities, however, is taxable to foreign central banks in the absence of applicable tax treaty provisions or a special ruling exempting a particular bank from taxation under particular circumstances. Suggested legislation will shortly be forthcoming.

#### *4. Prohibition on holding of gold abroad by Americans*

The recent Executive order forbidding the holding of gold abroad by Americans will be maintained. It was fully justified on grounds of equity. It will also help to prevent speculation in the gold market. I am directing the Secretary of the Treasury to keep me advised on steps being taken for effective enforcement. I place everyone on notice that those few American citizens who are tempted to speculate against the dollar will not profit in this manner.

### II. MEASURES TO CORRECT THE BASIC PAYMENTS DEFICIT AND ACHIEVE LONGER TERM EQUILIBRIUM

#### *1. Action by the Senate to approve the Organization for Economic Cooperation and Development*

I earnestly request early action by the Senate approving U.S. membership in the Organization for Economic Cooperation and Development. The OECD, in which the industrialized countries of Western Europe, the United States, and Canada will be joined, is of vital importance for assisting, on a cooperative basis, the developing countries of the free world. It will also provide a solid framework within which we can carry out intensive and frequent international consultations on the financial and monetary policies which must be pursued in order to achieve and maintain better balance in the international payments position.

#### *2. Export promotion*

The Department of Commerce will provide energetic leadership to American industry in a drive to develop export markets. Firms and industries will be encouraged to step up their efforts to develop exports and given every assistance in doing so. As American industry comes to realize the vital role of export earnings for our foreign policy, I have little doubt of its response.

We will promptly increase our commercial representatives and facilities abroad. This is a joint program of the Departments of Commerce and State which must proceed with drive and conviction

in order to produce effective results. The budget which has already gone to Congress requests \$1,250,000 for the State Department to add 41 Foreign Service commercial attachés overseas, together with 48 experienced foreign nationals and supporting American staff.

The new budget requests will also allow an increase in oversea commercial facilities. The Commerce Department is doubling its trade mission program from 11 to 18 per year and will provide more useful information to our oversea posts. I am ordering rapid completion of our two new foreign trade centers at London and Bangkok and have requested the Departments to explore whether three more could be added next year in Africa, Latin America, and Europe.

### *3. Cost and price stabilization*

Our export promotion efforts, no matter how well devised or energetically pursued, will not be effective unless American goods are competitively priced. Our domestic policies—of government, of business, and of labor—must be directed to maintaining competitive costs, improving productivity, and stabilizing or where possible lowering prices. Measures to achieve these ends which are important for the domestic economy are even more vital for our international competitive position. I have already stated my intention of creating an Advisory Committee on Labor and Management Policy to encourage productivity gains, advance automation, and encourage sound wage policies and price stability.

### *4. Export guarantees and financing*

Our Export-Import Bank must play an increasingly important role in our export promotion efforts. Last year the Export-Import Bank announced a widening of the facilities which it offers for extending credit to American exporters. Despite the improvements made, these facilities are not yet adequate, nor are they comparable to those offered by foreign countries, especially those offered to small- and medium-sized exporting concerns and those offered for the financing of consumer goods. I am directing the President of the Export-Import Bank, by April 1, to prepare and submit to the Secretary of the Treasury, as Chairman of the National Advisory Council on International Monetary and Financial Problems, a new program under the Export-Import Bank to place our exporters on a basis of full equality with their competitors in other countries. Also, I have asked the Secretary of the Treasury to initiate and submit by the same date a study of methods through which private financial institutions can participate more broadly in providing export credit facilities.

### *5. Foreign travel to the United States*

Foreign travel to the United States constitutes a large potential market hitherto virtually untapped. American travelers annually spend some \$2 billion in foreign countries. Foreign travelers only spend about \$1 billion in this country. Economic conditions in many foreign countries have improved to the point where a strong travel promotion effort by this country can be expected to yield significant results. The Department of Commerce, in cooperation with the Departments of State and Treasury, will announce shortly a major new program to encourage foreign travel in the United States along the lines envisaged in S. 3102, introduced by Senator Magnuson at the last session of the Congress. This program will include the

establishment of travel offices abroad; new advertising campaigns; action to simplify our visa and entry procedures for temporary visitors; and efforts to relax foreign restrictions on travel to the United States. The program will be energetically administered in the Department of Commerce. I am asking the Secretary of Commerce to report in full on plans and prospects by April 1.

#### *6. Agricultural exports*

Our agricultural industry, which is of unparalleled efficiency, must make its full contribution to our payments balance. I am directing the Secretary of Agriculture to report on all feasible and internationally desirable means of expanding our exports of farm products, and to emphasize the need for export expansion as a primary objective of our new farm programs.

#### *7. Policy on economic assistance*

Our foreign economic assistance programs are now being administered in such a way as to place primary emphasis on the procurement of American goods. This assistance, accompanied as it is by the export of American products, does not therefore have a significantly adverse effect on our balance of payments. (Not more than 20 percent of the funds expended for economic grants, development loan assistance, technical assistance, and contributions to international organizations, which amounted to \$2.6 billion in 1960, is today available for expenditures outside the United States, and we intend to keep an even closer review of these items.) These restrictions will be maintained until reasonable overall equilibrium has been achieved. Then the United States will discuss with other capital-exporting countries the desirability of instituting common policies for worldwide procurement in the administration of economic development or assistance programs.

#### *8. Tariffs, restrictions and discriminations against American exports*

Quota discriminations against American exports have largely disappeared with the return of currency convertibility. We will press for prompt removal of the few restrictions that still exist, as well as for the maximum liberalization of remaining nondiscriminatory quotas in other industrialized countries, which apply mainly to agricultural exports. In the tariff negotiations now going forward under GATT we shall seek the fullest possible measure of tariff reduction by foreign countries to the benefit of our exports.

#### *9. Promotion of foreign investment in the United States*

We shall press those Western European countries with strong reserve positions to eliminate the restrictions they still maintain limiting the opportunities for their citizens to invest in the United States and other foreign countries. Also, we are initiating, through the Department of Commerce, a new program to bring investment opportunities in the United States to the attention of foreign investors in the industrialized countries.

#### *10. Abuse of "tax havens." Taxation of American investment abroad*

I shall recommend that the Congress enact legislation to prevent the abuse of foreign "tax havens" by American capital abroad as a means of tax avoidance. In addition, I have asked the Secretary of

the Treasury to report by April 1 on whether present tax laws may be stimulating in undue amounts the flow of American capital to the industrial countries abroad through special preferential treatment, and to report further on what remedial action may be required. But we shall not penalize legitimate private investment abroad, which will strengthen our trade and currency in future years.

*11. Foreign assistance contribution to the less-developed countries and the common defense*

It is indispensable that the industrialized countries of the free world join in undertaking systematic budgetary contributions for economic assistance to the less-developed countries and the common defense. These contributions should be fully commensurate with their economic and financial positions. Some countries are fulfilling this responsibility; it is a matter of disappointment that others have not yet undertaken to do so. Such actions are important in the short run to achieve a better balance in international trade and payments. Even more important, they are essential to the continuing and effective discharge of our common responsibilities for free world security, economic growth, and stability.

*12. Reduction of customs exemption for returning American travelers*

After World War II, as part of our efforts to relieve the dollar shortage which then plagued the world, Congress provided for two additional increases of \$300 and \$100 in the duty-free allowance for returning travelers, for a total of \$500. The primary purpose for this change having vanished, I am recommending legislation to withdraw this stimulus to American spending abroad and return to the historic basic duty-free allowance of \$100.

*13. Centralized review of dollar outlays*

Through the Bureau of the Budget, it has long been our sound financial practice to centralize the review of total spending of the departments and agencies of the Government of the United States, including their spending abroad. Under present circumstances, foreign outlays must be examined in a new perspective. Accordingly, I am instructing the Director of the Bureau of the Budget, in consultation with the Secretary of the Treasury, to develop special procedures for analyzing that part of the requests of departments and agencies for spending authority which will involve oversea outlays to insure that our budgetary decisions will be taken with full understanding of their projected impact on the country's balance of payments.

*14. U.S. military expenditures abroad*

National security expenditures abroad constitute one of the largest items in the outflow of dollars, amounting to about \$3.0 billion a year. We must maintain a fully effective military force wherever necessary and for as long as needed. While it is clear that we must exercise maximum prudence in our dollar outlays abroad, it has become clear that the present limitation on dependents was not the best way to accomplish this savings, and that this limitation was seriously hurting morale and recruitment in the Armed Forces. At the same time, the Secretary of Defense has informed me that equivalent dollar savings could be made through other measures, including limitations on ex-

penditures abroad by military personnel for tourism and the purchase of durable consumer goods. Accordingly I have directed him to rescind the limitation on dependents and instead to put these measures into effect immediately.

I have also asked him to review the possibilities for savings in the logistic support of our forces, including the combined use of facilities with our allies. We shall also, where appropriate, urge the purchase of the newer weapons and weapons systems by those of our allies who are financially capable of doing so. We shall continue the policy inaugurated last November of emphasizing U.S. procurement for our military forces abroad wherever practicable, even though some increased budgetary cost may be incurred. Since foreign procurement of this nature has amounted to almost \$1 billion a year, significant savings in dollar outflow can be expected—and I am asking the Secretary of Defense to report on these and the other savings by no later than April 1, to see if further steps are needed then.

#### CONCLUSION

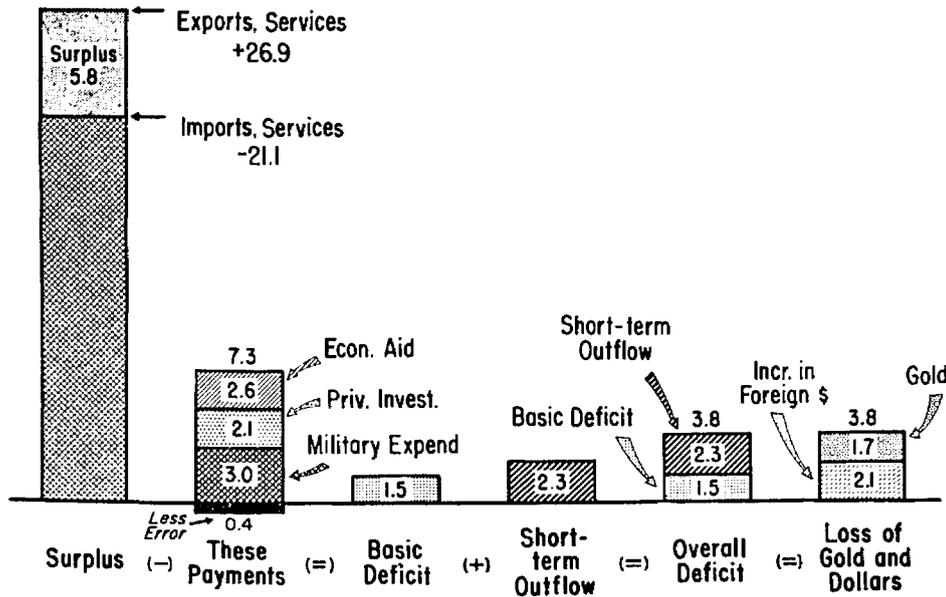
These measures, combined with increasing confidence in the dollar abroad and steady economic growth at home, can cure the basic long-term deficit in our balance of payments and check the outflow of gold. They symbolize a new dimension of this Nation's foreign and domestic economic policies—a new area of difficult problems—but they are problems which can be met by forceful and timely legislative and executive action.

JOHN F. KENNEDY.

The WHITE HOUSE, *February 6, 1961.*

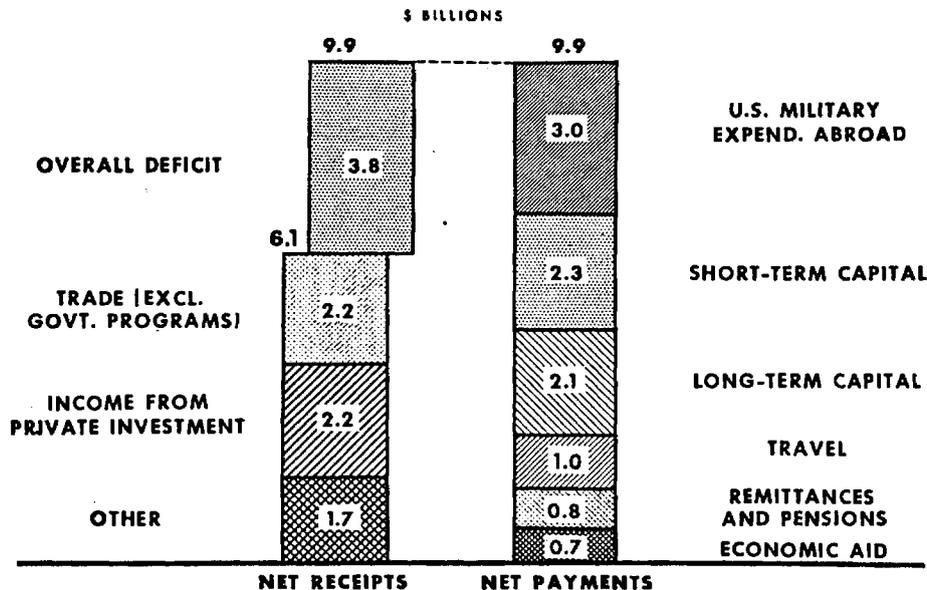
# U.S. BALANCE OF PAYMENTS, 1960

\$ Billions



Office of the Secretary of the Treasury

## HOW MAIN ITEMS IN BALANCE OF PAYMENTS AFFECTED OUR DEFICIT IN 1960



**NOTES:**

Trade excludes exports under P.L.480, Export-Import Bank, ICA and DLF programs.

Economic aid covers offshore expenditures of ICA and DLF.

Other includes receipts on government debt, transportation, and misc. items.

Office of the Secretary of the Treasury

THE WHITE HOUSE,  
Washington, March 14, 1961.

HON. SAM RAYBURN,  
*Speaker of the House of Representatives,*  
Washington, D.C.

DEAR MR. SPEAKER: I am transmitting herewith a draft of legislation which would amend existing law by permitting banks in this country to pay different rates of interest on time deposits held here by foreign governments than are paid to domestic depositors. Also transmitted is a memorandum from the Secretary of the Treasury describing the draft bill and its impact in detail.

The draft bill implements a recommendation contained in my message to the Congress dated February 6, 1961, relating to the balance-of-payments problem. It also complements and supports my directive to the Secretary of the Treasury to issue securities at special rates for exclusive holding by foreign central banks or governments.

If commercial banks are permitted to offer foreign governments higher rates of interest in competition with those existing abroad, those governments will be encouraged to maintain dollar accounts in this country rather than require the United States to convert their dollar accounts to gold for withdrawal. In this connection, it is only these foreign governments and their agencies which can directly purchase gold from the reserve stocks of the United States. However, as stated in my message of February 6, the proposed amendment is but one of a series of actions to be taken to alleviate the gold drain. Indeed, the factors which influence any central bank or government to prefer dollar accounts to gold are many and complex. Interest rates are only one. If we pursue policies of stability and growth inspiring world confidence, foreign governments should respond to higher interest rates on time deposits thereby aiding our gold outflow problem.

This inducement to foreign central bank deposits will have practically no impact on domestic market rates of interest. Moreover, any such impact would be confined to the short-term sector of the market and thus be consistent with national policy objectives.

In the interest of orderly procedure, the draft bill also permits similar treatment of deposits of international financial institutions of which the United States is a member.

I will appreciate it if you will lay the draft legislation before the House of Representatives. A similar draft has been transmitted to the President of the Senate. I urge that the Congress act promptly and favorably on the proposal.

Sincerely,

JOHN F. KENNEDY.

ATTACHMENT TO THE PRESIDENT'S LETTER OF MARCH 14, 1961, ADDRESSED TO THE  
PRESIDENT OF THE SENATE AND TO THE SPEAKER OF THE HOUSE OF REPRESENTATIVES

MARCH 8, 1961.

*Memorandum for the President*

There is attached a draft of legislation which is designed to implement the recommendation contained in your message of February 6, 1961, that banks be permitted to pay different rates of interest on time deposits held in this country by foreign governments. The bill would accomplish this by waiving the application as to foreign central banks of present legislation which requires the setting of the same limits as to both domestic and foreign depositors on the rate of interest which may be paid by banks in this country on time deposits.

The proposed legislation would permit commercial banks greater freedom in negotiating with foreign governments and central banks concerning the rates of interest to be paid on time deposits made by these foreign official bodies. It would thus enable the commercial banks to make the fullest competitive effort to attract and hold in dollar accounts in this country those balances which represent a direct and immediate claim on the gold stocks of the United States.

This action will not, of course, directly affect the actual supply of dollars to foreigners. That supply may result from a trade deficit, or an outflow of American funds, or many other causes. But it is only if and when such dollars pass from private hands into the holdings of foreign central banks and governments that they become directly usable for the purchase of our gold. It is, of course, essential for the operation of the international monetary system,

hinged upon the interconvertibility of gold and dollars at the \$35 fixed price, that no arbitrary barrier or limitation be placed upon the free availability of gold to any foreign government or central bank which presents dollars and asks to receive gold instead. At the same time, it must be our responsibility as banker for the world to "defend" our gold reserves through all forms of action that can appropriately be exerted in the marketplace. That defense should consist not only in spurring sales of our goods abroad, and in making competitive efforts to attract private funds here, but also in mobilizing the maximum competitive effort to provide foreign official institutions with any appropriate inducement to hold dollars in preference to gold.

The complex of considerations affecting the judgments of any central bank or government concerning its holdings of gold, or of dollars, includes many factors. Interest rates are only one among these. If the United States is not pursuing policies of stability and growth that engender confidence around the world, specific changes in particular rates of interest will have very little effect. The program announced by the administration on February 6 apparently has, however, strengthened confidence abroad in this country's recognition of what must be done. As this recognition is carried forward in action, there will be an environment in which changes in interest rates can play a part in causing foreign central banks to choose to hold more dollars, and to hold less gold.

It is important for the United States, as the leading spokesman for private enterprise in the world, to enable its commercial banks to make their maximum contribution in this effort. At the same time, the Treasury should be prepared to make a parallel effort to attract into U.S. Government securities some part of the growing dollar holdings of foreign official bodies. Whenever appropriate in relation to any action respecting commercial banks, the Treasury is prepared to utilize the authority you have already affirmed, in your message to the Congress of February 6, for the issuance of special securities at attractive rates to foreign central banks. The combined effect of these efforts, through the private commercial banks and through the Treasury, should be to afford foreign official holders of dollars the strongest practicable inducement for preferring dollar holdings to additional purchases of gold, within the framework of market conditions in the United States. This inducement to attract foreign central banks deposits would have very little, if any, impact on domestic market rates of interest. Any such impact would be confined to the short-term sector of the market and thus consistent with national policy objectives.

The provisions in the draft bill are also extended to include the international financial institutions of which the United States is a member. Because there is, in many respects, a general comparability between the treatment accorded these institutions and that extended to central banks, it seems desirable to make these provisions available to international financial institutions through the present amendment, in the interest of orderly procedure.

DOUGLAS DILLON,  
*Secretary of the Treasury.*

Enclosure.

ATTACHMENT TO SECRETARY DILLON'S MEMORANDUM TO THE PRESIDENT  
DATED MARCH 8, 1961

A BILL To amend section 19 of the Federal Reserve Act and section 18 of the Federal Deposit Insurance Act to remove the authority to limit the rate of interest on time deposits of foreign governments and international financial institutions

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That the fourteenth paragraph of section 19 of the Federal Reserve Act, as amended (12 U.S.C. 371b), is further amended by adding at the end thereof the following sentence: "The provisions of this paragraph shall not apply to the rate of interest which may be paid by member banks on time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member."

Sec. 2. Subsection (g) of section 18 of the Federal Deposit Insurance Act (12 U.S.C. 1828(g)) is amended by adding at the end thereof the following sentence: "The provisions of this subsection shall not apply to the rate of interest which may be paid by insured nonmember banks on time deposits of foreign governments, monetary and financial authorities of foreign governments when acting as such, or international financial institutions of which the United States is a member."

Mr. PATMAN. Now, Mr. Martin, about these foreign exchange transactions. Perhaps I don't know too much about the Federal Reserve Act and I don't claim to be an authority on it, but I would like you to tell me exactly where in the Federal Reserve Act you get your authority for this?

Mr. MARTIN. Section 14 of the Federal Reserve Act, first paragraph of section 14, which specifies that any Federal Reserve bank can purchase, or sell, at home or abroad, from or to domestic banks or foreign banks, from corporations, firms or individuals, cable transfers, bills of exchange or foreign exchange.

The House committee—this committee that I am before here now, the House Banking and Currency Committee—at the time the Federal Reserve Act was enacted, stated specifically in their report on the bill that the reason for this was to give the Federal Reserve authority to deal in foreign exchange or to regulate gold movements.

Mr. PATMAN. That was the original act, 1914?

Mr. MARTIN. That is correct.

Mr. PATMAN. I notice you have stated, and I think you were repeating the text of the law—

Mr. MARTIN. Approximately.

Mr. PATMAN. And you said, "Each Federal Reserve bank" which of course was right at that time, but subsequent to that time the Open Market Committee has been set up. Tell me where in the Open Market Committee law you have a right to do this?

Mr. MARTIN. The same principles apply to the Open Market Committee. This activity is being conducted by the Federal Reserve Board and the Open Market Committee, and we have an amendment to our regulation "N" so that this could be covered.

This activity is conducted on behalf of the entire System through the Open Market Committee.

Mr. PATMAN. Don't you think, Mr. Martin, or have you had advice of counsel on this, that the original act contemplated 12 separate original banks?

As you know we didn't have any central bank then. And then, in 1935, in the depths of the depression, of course, we had a different situation and we changed it and we had an open market committee consisting of the 12 governors.

And then, of course, 2 years later we created the Federal Open Market Committee, as set up as it is now.

Don't you think that you should have authority, in the text of the law, that creates the Federal Open Market Committee, to do this? Otherwise the Federal Open Market Committee does not have the power to do it.

Mr. MARTIN. No, Mr. Patman. I don't think so. We went into that very carefully. This was reviewed carefully by our counsel, by other counsel in the Federal Reserve System. They decided we had this authority under the existing law. It was taken up with the counsel of the Treasury of the United States, and he concurred in that opinion.

It was taken up with the Attorney General of the United States and he also concurred.

You can always get lawyers to disagree, but I don't know how many more we should consult.

Mr. PATMAN. Well, somebody must have had a question about it or you would not have gone to all that trouble.

Mr. REUSS. Would the gentleman yield?

Mr. PATMAN. I yield.

Mr. REUSS. I just want to state that I am a lawyer, qualified to practice, and I disagree. I don't think the Fed has the power to do the things that are in here, and I join with the request of Mr. Patman that you file with this committee the opinions, not only of your own counsel which I have seen, but of the counsel of the Treasury and of the Attorney General. I ask unanimous consent, Mr. Chairman, that they be inserted at this point.

Mr. SPENCE. Without objection.

(The data referred to above may be found on pp. 142-160.)

Mr. MARTIN. I will be glad to give you a brief summary statement of the position. But I will say you can get many lawyers. We consulted our own lawyers, those of the Treasury and those of the Attorney General.

Mr. PATMAN. I don't claim to be as good a lawyer as either one of them, of course; I am just a lawyer from Texas, and have a license to practice law, but I think Mr. Reuss is correct, and I believe that you will, on further analysis of your statement, find some holes or weaknesses in it.

Remember, the banks, when they were set up in 1913, your member banks, were given authority, not collectively, but individually, as Federal Reserve banks in 12 regions. They were given this power.

Now, you are assuming it for an entirely different agency—the Open Market Committee. You know they think they are out from under, even the Federal Reserve Act and the law, and that they are separate and independent, and being separate and independent as they claim to be, it occurs to me that if they are going to exercise this tremendous power in the new position they are in, that they should have been given that power specifically, without any doubt at all, and I think on reevaluation of your statement, Mr. Martin, that you will find that your position is a weak one in that respect.

Mr. MARTIN. No, Mr. Patman, I respectfully disagree with you on that.

Mr. PATMAN. I know you do.

Mr. MARTIN. Each individual bank, let me point this out, section 14(a) of the Federal Reserve Act, clearly gives each Federal Reserve bank and the Board of Governors, as the centralizing agency, the authority to buy or sell gold at home or abroad.

Now, that includes foreign exchange transactions also.

Mr. PATMAN. There is a difference in the way I see it, Mr. Martin.

Mr. SPENCE. The gentleman's time has expired.

Mr. PATMAN. You have as much right to your opinion as I have to mine.

Mr. MARTIN. Exactly.

Mr. PATMAN. But there is a difference.

Mr. SPENCE. The gentleman's time has expired.

Mr. MARTIN. I agree with you that the world has changed.

Mr. SPENCE. This bill is merely for the purpose of ratifying an international agreement. You haven't gotten any additional authority, you don't get any from the bill and none is taken away from you.

Mr. MARTIN. That is correct.

Mr. SPENCE. Any material amendment to this bill might have to be ratified by the governments of the various contracting parties; isn't that so?

Mr. MARTIN. That is correct.

Mr. SPENCE. And that is all that is involved here? These other questions are not pertinent, because this is merely a ratification of an agreement of nations.

Now, if you involve this in some irrelevant legislation, it may have a very bad effect upon the ratification by the other nations. Don't you think that is true?

Mr. MARTIN. That is correct.

Mr. SPENCE. Then why go into all this? Why not take this matter up at some other time? Why go into all this discussion about something that complicates and confuses the issue?

Mr. PATMAN. Aren't we entitled—

Mr. SPENCE. Any court sitting in this case would say that is irrelevant and immaterial to this particular consideration.

Mr. REUSS. Will the Chair yield?

Mr. SPENCE. And I think it is immaterial.

And I think we ought to decide whether or not we want to pass this bill, which ratifies this agreement which is essential to the stabilization of the American dollar. That is my point.

Mr. REUSS. Will the Chair yield?

Mr. SPENCE. I yield.

Mr. REUSS. The only reason I went into these questions, which are described by the Chair as being extraneous, was because the Chairman of the Federal Reserve System in his testimony devoted a great portion of his testimony toward describing these things which the Federal Reserve intends to do.

If the Federal Reserve will withdraw its assertion that it intends to do these things until Congress can have a chance to consider it, I certainly would not want to ask extraneous questions. But if we don't, it will be assumed that we approve of these things.

Mr. SPENCE. We are talking about ratifying this agreement.

Mr. REUSS. That is right.

Mr. SPENCE. Would you be willing to vote against the ratification of these international agreements that everybody says mean so much to America because there are extraneous issues which confuse and cloud the real question to be settled?

Mr. REUSS. Certainly not. I am enthusiastically for the proposal.

Mr. SPENCE. That is the issue submitted to Congress.

Mr. MULTER. Mr. Chairman, if I may interject at this point, I don't think this committee can limit itself to what anyone, even most respectfully the chairman, thinks is relevant or irrelevant to the controversy.

We have to be practical. Any question of this kind that presents itself to a member here on the committee will undoubtedly be raised on the floor by him or some other members and if we don't go to the floor with a record that covers all these situations, we are going to have difficulty getting this bill passed.

I am very much in favor of this bill. I want to see it passed. I want to see it passed with as little controversy about it, because con-

trovery will only tend to impair the confidence in the dollar. But at the same time I think we ought to make a record here, whether it is relevant or irrelevant, that is going to meet these issues properly, so we can make the argument that we have gone into these matters; here is the record; here is the answer.

I think we ought to have a very full and complete record on this, Mr. Chairman, or we will run into trouble on the floor with a very good bill which should be passed.

Mr. SPENCE. Well, can't we definitely decide what the Federal Reserve's authority is to engage in international exchange?

Mr. MULTER. Mr. Chairman, we cannot decide that with this bill. Only a court can decide that, legalistically, if the issue was ever presented, and I don't see how any court can have the issue you presented to it with this bill. But we are going to the court of public opinion, and I think that those who have one view of it ought to state it on the record, and Mr. Martin ought to place his view on the record to show that it is his opinion, or that of the Board.

Even if some may disagree, I think we ought to know his views.

Mr. SPENCE. I have no objection to Mr. Martin expressing his opinion. I wanted to know whether that was going to interfere with the passage of the bill.

Mr. MULTER. I am urging that we have this on the record so that we don't interfere with the passage of the bill. I am sure it doesn't matter how many of the lawyers here agree or disagree with Mr. Martin's lawyers' opinions. We still need their substantiation in the record so as to answer these questions that some other lawyers may raise.

Mr. SPENCE. Mr. Martin has said he will furnish it for the record.

Mr. MARTIN. My purpose in putting this in was so that you gentlemen would have all of the information which was germane to this particular bill. I thought that I might be in the position of withholding something from this committee if I testified only specifically on the bill itself.

Mr. MULTER. I am sure since there is some difference of opinion as to whether you have a right to do what you are doing, that you were very proper and forthright in setting forth what you did and your position on it.

Mr. SPENCE. I thoroughly agree with that. I thoroughly agree with Mr. Martin stating his position, and stating his authority for the position he takes. I have no objection to that at all.

Mr. ROUSSELOT. If the Chairman will yield, I think Mr. Martin has answered the question himself. He says that the matter he and Mr. Reuss were discussing is germane to the subject and I think that clarifies the question of relevance. So, I think Mr. Multer and Mr. Reuss are both sticking to the legislation before us.

Mr. MULTER. Mr. Chairman, may I take my 10 minutes at this time?

Mr. SPENCE. Yes, sir.

Mr. MULTER. Thank you.

Before I get into that and without it coming out of my time, Mr. Chairman, I think the record needs clarification.

In answer to Mr. St. Germain's question, the statement was made that we have the right, the United States has the right, to draw \$1,700 million from this Fund.

That statement standing by itself is quite correct, but I think it should be made very clear at that very point in the record, that we have the right, the United States has the right, to draw from this Fund up to the total amount of its gold payment, and an amount equal to the amounts of the members' currencies which have been drawn by other countries.

Now, when we take into accord what they have drawn, then we bring our right to draw up to \$1,700 million. As other countries draw more, we will have the right to draw more.

That is correct, is it not, Mr. Martin?

Mr. MARTIN. I will have a complete statement put in the record on this, if you would like, Mr. Multer.

(The data referred to above has been submitted and is as follows:)

#### U.S. DRAWING RIGHTS ON THE INTERNATIONAL MONETARY FUND

The U.S. Fund quota amounts to \$4,125 million; of this amount, the United States paid in \$1,031 million in gold and \$3,094 million in dollars, in the form of non-interest-bearing nonnegotiable demand notes.

As of January 31, 1962, foreign countries had drawn dollars from the Fund in a total of \$639 million (net) which, together with Fund expenditures of \$17 million, brought the Fund holdings of U.S. dollars down to \$2,438 million.

In accordance with article VI of the Fund Agreement, a member has special rights to draw currencies equivalent to the amount of its own currency in use (639 million at present in the case of the United States, as indicated above). In addition, under regular Fund procedure, members are given the overwhelming benefit of the doubt in relation to requests for drawings beyond that amount, provided they would bring the Fund's holdings of the member's currency to no more than 100 percent of its quota. Accordingly, the United States has a virtually automatic drawing right comprising those two portions, which on January 31, 1962, amounted to \$1,687 million, i.e., the difference between the quota of \$4,125 million and the actual dollar holdings of the Fund of \$2,438 million.

The Fund's attitude to requests for transactions involving the next 25 percent of quota is a liberal one, provided that the member itself is making reasonable efforts to solve its current balance of payments difficulties. This means that the United States could draw an additional \$1,031 million (one-fourth of its quota) with little delay or discussion.

Finally, a member may request further drawings equivalent to 75 percent of quota, provided it submits a sound program aimed at establishing or maintaining the enduring stability of its currency. Under this provision, the United States could draw an additional \$3,094 million, since the United States certainly would not request a large drawing without having decided on a sound stabilization program. However, thorough discussion with the Fund management and subsequent approval by the Fund's executive directors would be necessary.

The sum of U.S. drawings possible according to the preceding paragraphs would be \$5,812 million (as of January 31, 1962).

Mr. MULTER. Yes, sir, that is important. And it is important to note, also, that the Fund very liberally treats the requests for additional withdrawals up to 25 percent of the quotas.

We are in the position of going there and drawing even more than \$1,700 million. If we go in and make the request, the Fund usually will allow an additional 25 percent.

As the record stands now, people might think we are going to put an additional \$2 billion and can only draw \$1,700 million. Is that right, Mr. Martin?

Mr. MARTIN. That is right.

Mr. MULTER. Now, I would like to refer back to the question that was left pending when I was talking to Mr. Martin on the first ground, and that is with reference to the interest.

Now, as indicated by the President's message, and I tried to indicate too, that what we were trying to do was increase the interest rate the commercial banks would pay on foreign funds so as to keep those foreign funds here.

Now, since the Board has permitted commercial banks to increase their interest payments to depositors to 4 percent, has the amount of foreign funds in this country been increased? Deposits by foreigners and central banks of foreign countries, have they increased?

Mr. MARTIN. Slightly, but not to a very large extent.

Mr. MULTER. On the other hand, is it fair to say that only about 10 percent of the commercial banks of the country have foreign deposits? Is it much more than that?

Mr. MARTIN. I would not know how many. We would not know, Mr. Multer.

Mr. MULTER. At any rate, then, it is the big banks in California, Texas, Massachusetts, Illinois, Pennsylvania, and New York?

Mr. MARTIN. It is largely the big banks; that is correct.

Mr. MULTER. Now, since the permission to increase to 4 percent, at least 40 percent of the commercial banks have increased their rates beyond what they were paying, and at least 20 percent have gone all the way to 4 percent?

Mr. MARTIN. That is correct.

Mr. MULTER. And in January alone, I think the time and thrift accounts of the commercial banks had increased in 1 month by \$2½ billion.

Mr. MARTIN. That is about right, yes, sir.

Mr. MULTER. Now, at the same time the mortgage market, particularly the dwelling mortgage market, has remained comparatively steady?

Mr. MARTIN. Correct.

Mr. MULTER. I think it is fair to assume that most of that \$2½ billion has not gone into the residential mortgage market, but has gone into either the short-term market or the long-term bond market. Isn't that a fair assumption?

Mr. MARTIN. I think the municipal market has benefited by it greatly and you can see that in any chart on municipal security prices.

Mr. MULTER. Quite right.

And while that is important, municipalities must have that money at the lowest rate possible, at the same time you will agree that the economy of this country requires that the home construction market be kept at full strength, and that we continue to build the dwellings that the country needs?

Mr. MARTIN. I have received from several mortgage lenders recently indications that the flow of mortgage funds has substantially increased.

Mr. MULTER. Well, has it substantially increased?

Mr. MARTIN. Some of the commercial banks that did no mortgage business at all have begun to actively go out into the mortgage field as a result of this.

Mr. MULTER. Well, I suggest that you must watch that closely, because I am very fearful, having in mind the rate of increase in commercial banks on time and thrift accounts, and the falling off in the rate of increase in savings, in mutual savings banks and in the sav-

ings and loan associations, when compared with the tremendous increase in commercial banks, that that indicates to me that the home mortgage market is going to be hurt badly if this continues.

Mr. MARTIN. I see no indication of that, Mr. Multer. Quite the reverse, to date, and I believe the overall level of savings is being enlarged. I think we also should remember the other side of the coin, that considering accounts in the Federal Reserve System alone, 50 million people are getting more for their savings than they got before and that has given them an incentive to provide these funds for the mortgage market.

Mr. MULTER. Are you intimating that these people who put this additional money into the commercial banks, because the rate went to  $3\frac{1}{2}$  or 4 percent, would not have put that money into savings and loans association at 4 or  $4\frac{1}{2}$  percent?

Mr. MARTIN. I am convinced that quite a number of them would not.

I know of several cases where they would not. I think the overall level of savings has been increased by this.

Mr. MULTER. Well, the overall savings have been increased, I agree with you. I don't think that that money is going into the mortgage market as heretofore.

Mr. MARTIN. I think some of it is going into the mortgage market.

Mr. MULTER. Don't you think if as much as  $\$2\frac{1}{2}$  billion in a month went into the mortgage market, the interest on mortgages would have dropped?

Mr. MARTIN. No, I think the  $\$2\frac{1}{2}$  billion figure is far too early to draw any conclusions from. There are a good many shifts of many accounts from demand deposits to time deposits, to savings accounts. I would not take 1 month as a figure to lean very heavily on.

Mr. MULTER. That may be. But isn't this the danger signal? Isn't this the signal that we better take a careful look?

Mr. MARTIN. We are certainly going to watch this carefully, but what I am trying to say is that on the basis of preliminary data to date, I think the move has been beneficial to everybody.

Mr. MULTER. Isn't it fair to say that if a commercial bank is getting in time deposits and thrift accounts that can be withdrawn on demand, time accounts for less than a year, that they will not end up with that kind of money in long-term mortgages?

Mr. MARTIN. Well, they can't pay 4 percent on anything held less than a year.

Mr. MULTER. That is right.

Mr. MARTIN. It has to be there for a year before they can pay 4 percent.

So then  $3\frac{1}{2}$  would be the maximum up to that time.

Mr. MULTER. Is there any way of telling how much of this  $\$2\frac{1}{2}$  billion increase in time and thrift accounts was from foreign countries or foreign central banks, and how much was for 1 year and how much for less than a year?

Mr. MARTIN. No; we are trying to get the best material we can. We reported to the Joint Economic Committee—I can send you that testimony, and if we have any later figures I will be glad to make them available—we reported all the data we were able to accumulate up to that time. That was January 30.

Now, we have a little more data up to the end of February, but I will be glad to send you what we have, Mr. Multer.

(The data referred to has been submitted and is as follows:)

BOARD OF GOVERNORS OF THE  
FEDERAL RESERVE SYSTEM,  
Washington, March 13, 1962.

HON. ABRAHAM J. MULTER,  
House of Representatives, Washington, D.C.

DEAR MR. MULTER: During my testimony on February 28, you asked if we could tell how much of the increase in time and thrift accounts after the first of the year was from foreign countries or foreign central banks, and how much was for 1 year and how much for less. We now have some data which enable us to answer part of your question.

The figures in the attached tabulation indicate that time deposits of foreign central banks, official institutions, etc., rose, but only slightly, after the first of the year. The bulk of the increase was in domestic accounts, as is normally the case. Savings deposits of individuals increased sharply. The rise in time deposits was also unusually large; in fact, it was larger than the increase in savings deposits. In addition to personal accounts, time deposits include accounts of businesses, State and local governments, and foreign central banks and official institutions.

With regard to the length of time the funds will remain on deposit, it appears that the substantial increase in negotiable time certificates of deposits at nine large New York City banks was concentrated in those maturing in from 6 to 9 months. We have no information on how much of time and savings deposits are or can be expected to be for 1 year or more. In the case of regular savings deposits, which constitute the bulk of time and savings accounts, there is no requirement that the depositor declare his intention at the time he makes the deposit, so we will not get definitive information on this point.

Sincerely yours,

WM. McC. MARTIN, Jr.

*Time deposits at all commercial banks*

[Amounts outstanding, in millions of dollars]

	Total time and savings deposits at all commercial banks	Time deposits of foreign institutions, central banks, international institutions, etc. <sup>1</sup>
1961—Nov. 29.....	81,960	2,194
Dec. 27.....	82,450	2,243
1962—Jan. 31.....	84,960	2,262
Feb. 14.....	85,600	2,243
Feb. 21.....	( <sup>2</sup> )	2,247
Change, Dec. 27—Feb. 14.....	+3,410	+5

<sup>1</sup> Data for all commercial banks are not available; figures are foreign holdings at weekly reporting member banks, which hold nearly all of these deposits.

<sup>2</sup> Not available.

*Time deposits at weekly reporting member banks in leading cities*

[Amounts outstanding, in millions of dollars]

	Total time and savings deposits	Savings deposits	Other time deposits of individuals, partnerships, and corporations	Time deposits of State and local governments	Time deposits of foreign official institutions, central banks, etc.
1961—Nov. 29.....	41,188	29,771	6,190	2,721	2,194
Dec. 27.....	41,472	30,082	5,969	2,851	2,243
1962—Jan. 31.....	42,863	30,640	6,553	3,068	2,262
Feb. 14.....	43,369	30,899	6,764	3,108	2,248
Feb. 21.....	43,640	30,996	6,943	3,112	2,247
Change, Dec. 27—Feb. 21.....	+2,168	+914	+974	+261	+4

*Negotiable time certificates of deposit (9 large New York City banks)*

[Amounts outstanding, in millions of dollars]

1961:		
	Nov. 29 -----	1, 166. 6
	Dec. 27 -----	1, 004. 3
1962:		
	Jan. 31 -----	1, 101. 9
	Feb. 21 -----	1, 141. 3
	Change, Dec. 27-Feb. 21 -----	+137. 0

Mr. MULTER. I would appreciate it. I feel a little better knowing you are going to watch this very carefully, because I think you are as concerned about it as we are here in this committee.

Now, let me revert to another question for a moment.

When we lend, that is the United States, lends money abroad, do we provide that it is to be repaid in dollars, or in foreign currencies?

Mr. MARTIN. It is usually repayable in dollars.

Mr. MULTER. When you take that into account, we are not as badly off in our balance of payments as it would seem; is that not so? If you take into account the lending that is going to be repaid, even though it is going to be repaid over a period of years, we are not quite so bad off on the balance of payments?

Mr. MARTIN. No; I don't think we ought to paint too gloomy a picture. I think the surplus we have on current account is favorable, but I think that we cannot continue to run the overall deficits we have been running for very long without endangering our overall position.

But we also have political stability in this country that I happen to believe is superior to any country in the world.

Mr. MULTER. No one can argue with you on either of those two last statements, Mr. Martin. But I think we fail to show the true picture, which lends to some lack of confidence, with people who read as they run, when we don't show that a large part of this money going abroad is going to come back to us, and in dollars.

Mr. SPENCE. Are there any further questions?

Mr. ROUSSELOT. Mr. Chairman.

Mr. SPENCE. Mr. Roussetot.

Mr. ROUSSELOT. Mr. Martin, how much gold could the Fund demand as a result of this bill? In other words, if in calling on all or part of the additional \$2 billion which this bill authorizes, could the Fund demand a certain amount in gold?

Mr. MARTIN. No gold is involved.

Mr. ROUSSELOT. There would be no additional gold?

Mr. MARTIN. No additional gold.

Mr. ROUSSELOT. Then this payment would be made just in United States currency?

Mr. MARTIN. That is right.

Mr. ROUSSELOT. You mentioned, on page 4 of your statement, that the United States could then use these currencies, referring to major foreign convertible currencies, to buy up dollars offered in the market by private holders, and to redeem dollars acquired by foreign central banks in excess of amounts they are willing to hold. Were you assuming they would be willing to allow us to buy these?

Mr. MARTIN. Yes, sir; I think that is one of the things that we have to work toward. What the percentage of gold and dollars that will

be held by a foreign bank is, has varied with different countries, and there has been a tendency for some countries to keep almost all their reserves in gold.

During the postwar period the dollar became virtually the same as gold and they tended to have a larger percentage in dollars, and at one point before the devaluation the pound was also the same way. Since the devaluation, the pound hasn't had the same status, but I am convinced that if the payments mechanism is going to be as effective and useful as it should be, that people ought not to indiscriminately convert currencies into gold beyond what is a reasonable proportion.

Mr. ROUSSELOT. Thank you.

Mr. SPENCE. The AFL-CIO has requested permission to file a statement in favor of the bill. Without objection, it will be filed.

(The statement referred to has been submitted and is as follows:)

STATEMENT BY STANLEY H. RUTTENBERG, DIRECTOR OF RESEARCH, AMERICAN FEDERATION OF LABOR AND CONGRESS OF INDUSTRIAL ORGANIZATIONS, BEFORE THE HOUSE BANKING AND CURRENCY COMMITTEE ON AUTHORIZATION FOR UNITED STATES PARTICIPATION IN SPECIAL BORROWING ARRANGEMENTS OF THE INTERNATIONAL MONETARY FUND (H.R. 10162)

This statement expresses the support of the American Federation of Labor and Congress of Industrial Organizations for H.R. 10162, a bill to amend the Bretton-Woods Agreements Act to authorize the United States to participate in loans to the International Monetary Fund to strengthen the international monetary system. As the President indicated in his message of February 2, enactment of H.R. 10162 would permit the United States to participate in special borrowing arrangements which would strengthen the ability of the International Monetary Fund to deal with international payments problems.

#### INTERNATIONAL PAYMENTS AND OUR DOMESTIC ECONOMY

The AFL-CIO is, of course, concerned with the international aspects of this proposal for strengthening the international monetary system. However, we are also mindful of the impact of the international payments situation on our economy at home and on our domestic economic policies. This interrelationship between our domestic economy and our international payments was considered in the resolution on the national economy adopted by the AFL-CIO convention last December. In a section of the resolution devoted to the balance of payments questions, the resolution said:

"The United States must view the balance of international payments problem on two fronts—the domestic front of building a strong economy at home within the context of international economic relationships and the building of U.S. relations with the monetary and economic programs of other nations within the context of an expanding full-employment economy at home.

"Solutions to the balance-of-payments problem cannot be developed by concentrating on restrictive policies or on the wages of American working people. Measures to sustain a healthy and growing economy are the only sound basis for the longrun solution to this problem. At the same time, efforts should be made to reduce the outflow and to encourage the inflow of dollars and to curb the outflow of gold, without dangerous recourse to isolationist or protectionist policies. Steps should also be taken toward the development of an international banking arrangement that would relieve the United States of being the major world banker by reducing reliance on the U.S. dollar as an international currency."

The AFL-CIO is as interested as any group in America in the development of an appropriate and effective solution to our balance-of-payments problem. We recognize that this is a serious problem and that there are no easy solutions to it. However, we insist that whatever ways are worked out for meeting this problem, they must be measures which are fully consistent with the maintenance in the United States of a healthy growing economy. Adoption of restrictionist trade, aid, travel, and financial measures would stifle our own economic

progress by constituting an extremely short-sighted approach to dealing with our balance-of-payments situation. Pursuing a path of domestic retrogression would not only threaten the well-being of all Americans but it would also jeopardize the growth and prosperity of the entire free world.

Aside from the intrinsic ill effects involved in restrictionist measures, such measures, even though avowedly directed toward improving our balance-of-payments situation, would actually have just the reverse effect. They would worsen the problem.

The specific arrangements your committee are now considering are intended, in the main, for meeting comparatively temporary payments imbalances arising from sudden and largely unforeseen flows of short-term funds. If we can devise means, such as the machinery provided for in this proposal, then our main efforts can be concentrated on restoring balance in what the financial experts call our basic international accounts.

Some have suggested that we can deal with our basic accounts problem by adopting restrictive economic policies at home. These people say the way to restore confidence in the American dollar is to reduce the Government expenditures and balance the budget at whatever cost to our social welfare, to adopt a tight monetary policy and to depress the wages of American workers.

Such suggestions are nothing more nor less than a prescription for stifling the economic growth of our Nation. A declining America would shake the confidence of other nations in our economy and in our currency. Moreover, measures which would depress our economy at home would inevitably weaken our competitive stance abroad. We need high level production and full employment to achieve the economies of large-scale operations and to encourage continuing capital investment. In this way, we will enhance our competitive position in world markets, thereby increasing our exports and improving our basic balance-of-payments situation.

Such expansionist policies will also provide incentives for investment by foreigners in the United States, rather than investment by Americans abroad. The principal reason why the net flow of long-term investment in recent years has been out of the United States is that the record of economic growth in Western Europe and Japan has so greatly exceeded our own. An America restored to the path of rapid economic progress would attract investment from abroad and would discourage American business from seeking investment outlets overseas. This would not only reinforce the growth of our economy, but it would also help to restore a balance in our international payments.

There are probably no international financial gimmicks for dealing with our basic long-term balance-of-payments situation. We are convinced, however, that this problem can be met if we adopt and pursue the right kind of economic policies at home. Indeed, it is fortunate that the same progressive economic policies which would stimulate economic growth at home would also help us achieve equilibrium in our basic economic payments. Because of the key role of the United States in the world's economic and financial affairs, restoration of a healthy growing economy in the United States and a reasonable balance in our international payments would also help to strengthen the economy of the entire free world.

#### MEETING SHORT-TERM BALANCE-OF-PAYMENTS PROBLEMS

If we meet the problem of the basic balance-of-payments deficit, then the proposal you are now considering will be helpful in dealing with the short-term situations that may arise from time to time. The occurrence of such short-term situations, as vexing as they are, is in a real sense a measure and in evidence of the postwar recovery of the war-ravaged economies of Western Europe. This recovery made possible restoration of currency convertibility and helped to free both trade and capital movements.

However, substantial removal of restrictions on the movement of capital has made it easier for short-term funds to be transferred from one country to another in response to such factors as interest differentials, currency speculation, and other comparatively short-term developments. Such short-term movements of funds may have a considerable effect on a country's overall balance of payments even though they are essentially unrelated to its basic balance. Of course, it is also true that if a country's basic accounts are out of balance, especially countries like the United States and United Kingdom whose currencies are widely

used in international transactions, this may make them particularly vulnerable to such weakening, short-term movements.

The special borrowing arrangements which the IMF proposes to establish are designed to provide additional resources to strengthen the international monetary system. The new machinery would particularly help the IMF to cope with any short-term drain on the balances of reserve currencies, especially the dollar.

Specifically, the 10 participating nations would make available on a standby basis, \$6 billion of their currency to be used if needed to forestall or cope with any impairment of the international monetary system.

The U.S. share of this amount is \$2 billion, one-third of the total. This is approximately half of our existing quota in the Fund. However, the commitments of the five participating countries of the European Economic Community aggregating \$2,450 million amount to almost as much as their present quotas in the Fund. Even more important, however, is the fact that the lending commitment of the five EEC countries under the proposed arrangements would nearly triple the current amount of the Fund's holdings of their currencies. As of November 30, 1961, the Fund held \$889.5 million in the currencies of the five EEC countries. The new credit arrangements would make available on a standby basis an additional \$2,450 million in those currencies.

The addition of these available resources for strengthening the international monetary system is primarily aimed at making possible a drawing by the United States on the Fund should it ever become necessary. The Fund is now capable of meeting drawings by other countries including, judging from recent experience, even the United Kingdom. But it does not now have enough holdings of the other major currencies to make possible a large U.S. drawing if it should become necessary. The mere existence of such an enlarged borrowing fund in the IMF may well be enough in itself to reduce speculation in the United States. As long as such speculation is reduced short-term dollar outflow would be reduced the U.S. balance-of-payments position would be improved.

The short-term flow of funds out of the United States was responsible for almost \$2 billion of the U.S. balance-of-payments deficit in each of the last 2 years. In 1960, this short-term flow was due, in the main, to differentials in interest rates, while the differential in interest rates was much less responsible for the 1961 short-term outflow. The U.S. basic deficit was reduced from \$2 billion in 1960 to almost \$700 million in 1961.

The pressures upon domestic policy that may well interfere with the attainment of maximum employment, production and purchasing power are considerably greater as the U.S. balance of payments becomes larger. The average deficit of \$3.8 billion a year in the years 1958 through 1960 was reduced to \$2.5 billion in 1961. If, however, we were to remove the short-term money flow from the deficits in recent years, and talk in terms of the basic deficit, the complexion of our problem is changed substantially. The AFL-CIO has a strong feeling that the short-term deficit could and would be reduced further if the member countries of IMF realized that it no longer paid to speculate in currencies of other countries. With the increased IMF borrowing authority the United States would possess, countries would be deterred in moves to convert their U.S. holdings of short-term securities into other currencies that eventually means gold outflow from the United States. The mere existence, we repeat, of such borrowing authority would go a long way toward reducing short-term outflows from the United States. With this problem in hand, the United States could then concentrate on improving its basic balance-of-payments deficit.

The United States would not assume any additional financial obligation currently by approving a \$2 billion commitment to IMF. Only a standing commitment to make the funds available will be made. There would be no gold payments to the Fund and there would be no additional capital subscription. Our standby commitment would not require us to make any loan to the Fund until we had achieved a substantial improvement in our balance-of-payments position. As a matter of fact, the entire history of the negotiations leading up to this proposal makes it clear that for the foreseeable future, its main purpose is to make possible a loan to the United States if it becomes necessary.

It may very well be, however, that the existence of this new mechanism will help to assure that the United States will, in fact, never have to make a drawing from the Fund. The knowledge that these supplementary resources exist should bolster confidence in the dollar and thereby limit short-term flows in speculative situations which might otherwise get out of hand.

Thus, by providing resources to forestall or counteract movements of funds adversely affecting the dollar, the new arrangements will make such movements

less frequent and less drastic. This should help to ease that part of our balance-of-payments problem which results from short-term and essentially speculative movements of capital funds. This, in itself, will have at least psychological value in helping us to deal with the more fundamental problem of restoring the basic balance in our international accounts.

Mr. REUSS. Mr. Chairman.

Mr. SPENCE. Mr. Reuss.

Mr. REUSS. Thank you, Mr. Chairman. Getting back to your testimony before us this morning, Mr. Martin, you pointed out in your testimony that the System is now conducting operations not only for the purposes of the treasury stabilization fund, but for a broader purpose, and you define that broader purpose as "cooperative arrangements with foreign central and reserve banks."

Did the National Advisory Council on International Monetary and Financial Problems make a decision authorizing the Federal Reserve to enter into the sort of transactions and cooperative arrangements which you have described to us this morning?

Mr. MARTIN. I referred that to Secretary Dillon as Chairman of the National Advisory Council, and it is my understanding that they have.

Mr. REUSS. Would you please hand me the decision of the National Advisory Council?

Mr. MARTIN. The National Advisory Council doesn't hand down written decisions on any of these things.

Mr. REUSS. Then I must cross-examine you on your "understanding," because it was this committee which set up, in the Bretton Woods Agreements Act of 1945, the National Advisory Council. As you know, it consists of the Secretary of the Treasury as Chairman, and also consists of the Secretaries of State and Commerce, the Chairman of the Board of Governors of the Federal Reserve System, the President of the Export-Import Bank, and a fellow from FOA. We set up the Council and defined their duties as follows:

The Council shall coordinate the policies and operations of all agencies of the Government to the extent that they engage in foreign financial, exchange, or monetary transactions.

Well now, that described this to a "t", does it not?

Mr. MARTIN. And that will be done in this case.

Mr. REUSS. But here you come up and tell us what you are doing and I am confused. You said a moment ago that you understood you had authority from the National Advisory Council.

Mr. MARTIN. Before we took any action this was referred to Secretary Dillon for the National Advisory Council's approval.

Mr. REUSS. How was it referred?

Mr. MARTIN. By a letter from me to him.

Mr. REUSS. Would you place a copy of that letter in the record?

Mr. MARTIN. I would be very glad to.

Mr. REUSS. And would you place in the record the response to your letter from the National Advisory Council, which led you to the understanding you have just described to me, as saying that they are in accord with this?

Mr. MARTIN. I have no response, but I will see what I can do in getting one for you. I have no formal letter from them that I can submit to you, but that would fall in Secretary Dillon's jurisdiction, and I will ask him how he would like to handle that.

Mr. REUSS. Well, Secretary Dillon is the Chairman of the National Advisory Council?

Mr. MARTIN. That is correct.

Mr. REUSS. Now, he either approved your course of action, in consultation with the rest of the Council, or he did not. I am amazed to find that sweeping changes in national policy like this are not embodied in even a scrap of paper.

So I wish you would place the whole record before this committee so that we can know how the operations of the National Advisory Council are conducted.

Mr. Martin, the bill before this committee, as the chairman has said, is H.R. 10162, which, in meticulous and detailed terms, asks the Congress to authorize the exposure of \$2 billion of American governmental funds in aid of an arrangement to facilitate international monetary stability. Both the chairman and I, and some other members, also think this is an excellent arrangement. We are all for it and are going to try to see it through the House of Representatives.

What beats me, however, is that while we strain at this statutory arrangement, which relates only to \$2 billion, and which sets forth in the clearest and most meticulous way, exactly how these international arrangements shall be made, you come in here and tell us that you propose to go off on, if I may say so, a frolic of your own, involving unspecified sums without the slightest statutory guidance as to how you are going to make these, as you call them "cooperative arrangements." They sound to me very much like what used to be called a "treaty," or at least an "executive agreement," and when I ask you whether you are going to tell us, the Banking and Currency Committee, anything about this, you say, though in a good humored way, you are going to tell us what you think we ought to know, and no more.

This seems to me, Mr. Chairman, an extraordinary procedure, and I want to reiterate the sense of shock which I feel in hearing this. I would welcome your comment, or your distinguishing these two cases. It seems to me the Treasury has behaved in a proper manner, by coming up here and getting statutory authorization.

You, Mr. Martin, are attempting, in your own phrase, something much, much broader; but you have come up here just to tell us that you are doing it.

Mr. MARTIN. The Monetary Fund had to have statutory authority. Now, you may disagree as a lawyer with the lawyers for the Federal Reserve Board, as to our existing authority on this, Mr. Reuss. But as I reiterate, our lawyers said we had the authority, the Treasury counsel concurred, and the Attorney General concurred with them. And on the basis of that authority we have begun operations. I don't want to withhold anything from you.

We thought that, in furtherance of what is being done here, with no requirement for additional statutory authority, with rigid adherence to the law—so that we will not embark, for example, on buying Treasury bills abroad, because it isn't specifically authorized in the law—we thought that we would be helpful in this operation. I thought it was wise to give you full disclosure under the existing authority, and our reporting to you will be exactly the same as it

is with respect to other operations of the system, in the procedures which the Congress has set up for us.

Mr. REUSS. You speak of the opinions of the Treasury and Attorney General. I would like to look at those right now, if I may. May I have them?

Mr. MARTIN. You can get those from them, not from me. I don't run their departments.

Mr. REUSS. Well, they assuredly gave you a copy, and you are the witness before us, so I thought in response to Mr. Patman's inquiry that you agreed to submit those.

Mr. PATMAN. He did agree to submit them.

Mr. REUSS. I think at this point we should look at the record on that.

Mr. MARTIN. No, I said I would submit a statement, Mr. Patman.

Mr. PATMAN. That is not my understanding at all. There is no meeting of the minds at all there.

Mr. SPENCE. Is the gentleman through?

Mr. REUSS. In just a minute.

I would like to make a formal request of you to furnish this committee today, Mr. Martin, with the opinion of the General Counsel of the Treasury Department and the opinion of the Attorney General of the United States, which you say were the basis of this action on your part. You have copies of those, and I would like to see a photostatic or other copies of those opinions.

Mr. MARTIN. Mr. Reuss, I have no such opinions, and I will see what the Attorney General wants to do on it and what the Treasury wants to do on it. I have no control over them.

Mr. MULTER. Will you yield?

Mr. REUSS. I will yield.

Mr. MULTER. Mr. Martin, let's see if we can't clarify this situation.

Did the Attorney General or Counsel for the Treasury, either or both of them, render any written opinions to the Federal Reserve Board on this subject?

Mr. MARTIN. The Attorney General did not render a written opinion to the Board, but he concurred and I have his concurrence.

The General Counsel of the Treasury has a written opinion that I have in my files. What he has in his files, I don't know.

Mr. MULTER. I don't think Mr. Reuss is asking you to deliver anything other than what was submitted to you, and I think with that clarification, I think if you will agree that you will submit whatever you have in your files, submitted by either Treasury or Justice, it will meet his request.

Mr. MARTIN. I will be glad to.

Mr. REUSS. Specifically, if you will, with all deliberate speed, submit to the Treasury and the Attorney General, your testimony this morning, and perhaps show them a copy of the record which will be ready later today. You could then ask them to put in writing what they have hitherto told you orally.

Mr. PATMAN. That is not important, Mr. Reuss, with all due respect to the gentleman from Wisconsin.

Why should they ask consent—

Mr. MULTER. You misunderstand. Mr. Reuss is not asking to get consent to put anything in. He is asking Mr. Martin to submit what he received.

Now, he is asking Mr. Martin to request them to do other things. I would like to suggest to Mr. Reuss that we ought to ask the Treasury and the Attorney General to submit their background material on the basis of which they give their opinions. I don't think we ought to ask it of Mr. Martin.

Mr. PATMAN. I want this plain about the understanding.

I asked that Mr. Martin put in the record at that point, the opinion, or opinions of his lawyers, the Federal Reserve lawyers, upholding his power and right to do what he is doing in these foreign exchange transactions.

Mr. MULTER. That is what Mr. Reuss is asking.

Mr. PATMAN. I know. And also the other opinions that he related corroborating his lawyers' opinions.

Mr. MULTER. Mr. Martin is suggesting he can do that only to the extent of what he received.

Mr. PATMAN. That is all right. I understood you to say that you went to a lot of trouble to get these opinions, that they are all right, and that being true I thought you should submit them.

Mr. SPENCE. I think Mr. Martin has been very frank in coming here and stating his purpose in the future. We would not have known anything about it if he had not divulged it today.

It is not involved in the bill.

And I think that if Mr. Martin will give us what he has, that that will be sufficient. I don't think you ought to put Mr. Martin in the position of trying to evade or misrepresent anything. I don't think he has done that.

Mr. MULTER. That is not what we have been trying to do.

Mr. PATMAN. That is not the object. I am not willing to accept a statement from Mr. Martin as to what he intended to do.

I wanted to see the opinions from these lawyers.

That is what I asked to have put in the record.

Mr. MARTIN. I will be glad to put the Federal Reserve legal opinions in the record.

Mr. PATMAN. Also, whatever you got from the Treasury and the Attorney General.

Mr. MARTIN. I cannot speak for the Treasury or the Attorney General.

Mr. PATMAN. You have a written statement from them, don't you?

Mr. MARTIN. Only of concurrence.

Mr. PATMAN. That is all right. Put that in. That is all you can put in.

Mr. MARTIN. I will make the record perfectly clear.

(The statement and data referred to above are as follows:)

BOARD OF GOVERNORS,  
FEDERAL RESERVE SYSTEM,  
OFFICE OF THE CHAIRMAN,  
*Washington, March 1, 1962.*

HON. BRENT SPENCE,  
*Chairman, Committee on Banking and Currency, House of Representatives,  
Washington, D.C.*

DEAR Mr. CHAIRMAN: In response to requests made by Representative Patman and Representative Reuss, I enclose for inclusion in the record of the hearings on H.R. 10162 five documents relating to foreign-exchange operations by the Federal Reserve System.

The first document is a memorandum from our General Counsel, Howard Hackley, dated November 22, 1961, in which he expresses the opinion that such operations are authorized by the Federal Reserve Act.

The second is a summary opinion to the same effect by Mr. Hackley.

The third is a letter from the General Counsel of the Treasury Department, Robert H. Knight, to Mr. Hackley, expressing his concurrence and that of the Attorney General in Mr. Hackley's opinion, and enclosing a memorandum he had submitted to the Secretary of the Treasury to the same effect.

The fourth is a copy of a letter I sent on February 16, 1962, to the Secretary of the Treasury as Chairman of the National Advisory Council on International Monetary and Financial Problems, in compliance with section 4(c) of the Bretton Woods Agreements Act, informing the Secretary of the action of the Federal Open Market Committee, taken on February 13, 1962, authorizing such operations, to which is attached a copy of the authorization.

The fifth item is a copy of an action by the National Advisory Council, dated February 28, confirming the understanding I expressed at yesterday's hearing that the National Advisory Council was in accord with the System's decision to undertake foreign-currency operations.

Copies of this letter and the enclosures are being sent to Representatives Patman and Reuss.

Sincerely yours,

Wm. McC. MARTIN, Jr.

Enclosures.

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MEMORANDUM  
Paper No. 6—Confidential (Fr)

Date: November 22, 1961.

To: Federal Open Market Committee.

From: Mr. Hackley, General Counsel.

Subject: legal aspects of proposed plan for Federal Reserve operations in foreign currencies.

At the September 12, 1961, meeting of the Federal Open Market Committee, legal questions were raised regarding a proposed plan under which the Federal Reserve Bank of New York would open and maintain accounts in certain foreign currencies with foreign central banks, acting pursuant to directions and regulations of the Committee and, to the extent legally necessary, in accordance with regulations of the Board of Governors.

It is understood that in general the principal purposes of operations in foreign currencies through such accounts would be to promote international monetary cooperation among the central banks of countries maintaining convertible currencies, to foster orderly conditions in exchange markets for such currencies, to facilitate the expansion and balanced growth of international trade, and to supplement the activities of the International Monetary Fund in this field. It is assumed that the underlying basic objective would be to accommodate commerce and business and maintain sound credit conditions in the United States, in accordance with the governing principles stated in section 12A of the Federal Reserve Act.

It is also understood that such accounts with foreign central banks would be opened and maintained principally through the purchase of cable transfers by the Federal Reserve Bank of New York, although they might also be created through sales of gold to foreign central banks and the direct establishment of cross credits. It is further understood that, while such accounts would be established primarily for the purposes above indicated, any amounts in excess of minimum working balances might be invested in foreign bills of exchange.

As the plan has been described, it gives rise to a number of legal questions, some of basic importance and others that may be of only minor or secondary importance. In general, it appears that the questions may be regarded as falling within the six categories indicated below, and they will be discussed here in that order:

- I. Authority of a Federal Reserve bank to open and maintain accounts with foreign central banks;
- II. The legality of the proposed methods of acquiring foreign exchange;
- III. Investments of foreign accounts;

IV. The respective jurisdictions of the Board of Governors and the Federal Open Market Committee;

V. The possible effects of the Gold Reserve Act of 1934 and the Bretton Woods Agreements Act; and

VI. Administration of the proposed plan, including delegations of authority with respect to day-to-day operations.

This memorandum does not consider policy questions that may be involved in the present proposal.

#### CONCLUSIONS

For the reasons hereafter presented, my conclusions are as follows:

1. *General.*—The opening of accounts with foreign central banks by the Federal Reserve Bank of New York for the purposes and through the methods contemplated by the proposed plan would be consistent with the law, provided appropriate actions are taken by the Board of Governors and the Federal Open Market Committee within their respective jurisdictions. However, this matter is admittedly subject to questions; and, while it is unlikely that the plan would be challenged in court, there can be no assurance, in the absence of legislation, that it would not be criticized from some sources on legal grounds. Certain suggested features of the plan (e.g., purchases of foreign Treasury bills) would require specific legislation.

2. *Opening of accounts with foreign banks.*—Pursuant to section 14(e) of the Federal Reserve Act, a Federal Reserve bank may open an account with a foreign central bank even though such account is not opened for the principal purpose of purchasing foreign bills of exchange and is not fully or extensively utilized for that purpose; but any questions as to such authority would be lessened if some portion of the account was used to purchase foreign bills.

3. *Methods of acquiring foreign currency accounts.*—A Federal Reserve bank may lawfully open and maintain such an account through cross-credits, sales of gold to the foreign bank, or transfers of credit to the account through either spot or forward purchases of cable transfers in the open market.

4. *Purchases from Stabilization Fund.*—The purchase by a Federal Reserve bank of cable transfers directly from the Stabilization Fund of the Treasury would constitute a purchase in the "open market" as authorized by the first paragraph of section 14 of the Federal Reserve Act. It is possible that such purchases from the Stabilization Fund might be criticized as being inconsistent with section 14(b) of the act which indicates that direct purchases of Government obligations from the Treasury are not purchases in the "open market"; but, in my opinion, any such criticism would not have legal validity.

5. *Dealings with International Monetary Fund.*—Purchases of cable transfers by a Federal Reserve bank for its own account directly from the International Monetary Fund could be regarded as "open market" transactions authorized by section 14 of the act; but, unless otherwise interpreted by the Fund, it seems questionable whether the Fund would have authority to sell cable transfers to a Federal Reserve bank except in the Reserve bank's capacity as fiscal agent of the United States.

6. *Investment of foreign accounts.*—Such foreign accounts could be invested in foreign bills of exchange and acceptances that arise out of actual commercial transactions and have maturities of not more than 90 days. They could not, in the absence of further legislation, be invested in foreign Treasury bills or other obligations of foreign governments or central banks. Some portion of any such account could lawfully be invested in a time deposit with a foreign central bank.

7. *Jurisdictions of Board and FOMC.*—All of the above actions would be subject to regulations of the Board of Governors or the Federal Open Market Committee, or both, as follows:

(a) Open market purchases of cable transfers, bills of exchange, and acceptances would be subject to direction and regulations of the Committee;

(b) The opening and maintenance of accounts with foreign banks, negotiations and arrangements with foreign banks for this purpose, and sales of gold to foreign banks would be subject to the consent and regulations of the Board pursuant to sections 14(e) and 14(g) of the Federal Reserve Act; and

(c) The Board could not lawfully delegate to the Committee the Board's statutory responsibilities with respect to supervision and regulation of such foreign accounts and incidental transactions with foreign banks. However, the Board could, by regulation, consent to the maintenance of

such accounts and to such negotiations and arrangements with foreign banks as may be authorized or directed by the FOMC in order to effectuate open market transactions, subject, however, to such limitations and reporting requirements as the Board may prescribe, and subject also to reservation in the Board of the right to modify or revoke such authorizations.

8. *Effect of other laws.*—The authorities of the Committee and the Board, as above described, would not be legally limited by the provisions of section 10 of the Gold Reserve Act with respect to the Stabilization Fund of the Treasury. (Dealings in gold would, of course, continue to be subject to the licensing authority of the Secretary of the Treasury.) Nor would such authorities be legally limited by provisions of the Bretton Woods Agreements Act, although it would be desirable, in view of the language and purposes of that act, for any plan of the kind proposed to be brought to the attention of the National Advisory Council.

9. *Administration.*—If the Board should take appropriate actions along the lines indicated in paragraph 7(c) above, it is believed that the Committee could lawfully (a) direct the Federal Reserve Bank of New York to open accounts and execute transactions pursuant to the plan, subject to limitations prescribed by the Committee, and (b) delegate to a Subcommittee of the Committee authority for supervision of day-to-day operations by the New York Bank, subject to general policies established by the Committee.

#### I. AUTHORITY TO OPEN FOREIGN ACCOUNTS

Section 14(e) of the Federal Reserve Act (12 U.S.C. 358) authorizes any Federal Reserve bank

"\* \* \* with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said Board, to open and maintain accounts in foreign countries, appoint correspondents, and establish agencies in such countries *wheresoever it may be deemed best for the purpose of purchasing, selling, and collecting bills of exchange.* \* \* \*." (Italic supplied.)

A basic legal question is whether the underscored "wheresoever" clause in this provision has the effect of permitting a Reserve bank to open an account with a foreign bank *only* for the purpose of "purchasing, selling, and collecting bills of exchange" and as, therefore, forbidding the opening of such accounts for the purposes contemplated by the present proposal.

*Previous position of Board.*—In 1933, in a letter to the Federal Reserve Bank of New York, the Federal Reserve Board stated:

"\* \* \* Federal Reserve banks are authorized to establish and maintain accounts in foreign countries only with the consent of the Federal Reserve Board and subject to such regulations as the Board may prescribe; and it is the Board's view that such accounts may be opened and maintained only for the purpose of facilitating the purchase, sale, and collection of bills of exchange and the conduct of other open market transactions of the kind specified in section 14 of the Federal Reserve Act. \* \* \*"

The same position was indicated by the Board in another letter to the New York Reserve Bank dated August 16, 1934:

"\* \* \* it is the Board's view that the deposit balance with the Bank for International Settlements should be reduced as soon as practicable to the minimum amount which is actually needed for the purpose of facilitating the purchase, sale, and collection of bills of exchange and the conduct of other open market transactions of the kinds specified in section 14 of the Federal Reserve Act. \* \* \*"

These letters have sometimes been referred to as reflecting the position of the Board that a foreign account may not legally be opened except for the purpose of buying, selling, and collecting bills of exchange. However, it is not clear that the Board in these letters intended to express such a legal conclusion; it may have been indicating only its view as to policy. Moreover, even if the Board's letters are considered as interpretations of the statute, it may be argued that the present proposal would be entirely consistent with those letters since they stated that one of the permissible purposes of a foreign account is to facilitate "the conduct of other open market transactions of the kinds specified in section 14" and since foreign accounts under the present proposal would be designed to facilitate purchases of cable transfers pursuant to that section.

*Language of the statute.*—Presumably, the Board's 1933-34 position was based on a construction of the language of the statute under which the "wheresoever"

clause was regarded as limiting not only the authority of a Reserve bank to appoint correspondents and establish agencies but also its authority to open foreign accounts. There is reasonable ground, however, for a contrary construction.

While commas appear after the authorities "to open and maintain accounts in foreign countries" and to "appoint correspondents," there is no comma after the authority to "establish agencies in such countries" and, consequently, it may be argued that, as a matter of grammatical construction, the "wheresoever" clause modifies only the nearest antecedent, that is, the authority to establish agencies. However, it seems unreasonable to suppose that Congress intended to make an arbitrary distinction in this respect between correspondents and agencies.

The so-called Aldrich bill, upon which the Federal Reserve Act was based, contained a corresponding provision that appeared to limit the establishment of agencies to the purpose of buying and selling bills of exchange but not to place such a limitation upon the opening of foreign accounts. The Aldrich bill would have authorized a Reserve bank

"\* \* \* to open and maintain banking accounts in foreign countries, and to establish agencies in foreign countries for the purpose of purchasing, selling, and collecting foreign bills of exchange, and \* \* \* to buy and sell, with or without its indorsement, through such correspondents or agencies. \* \* \*"

The provision of section 14(e) that authorizes the opening of accounts, the appointment of correspondents, and the establishment of agencies is immediately followed by language authorizing a Reserve bank to buy and sell bills of exchange or acceptances "through such correspondents or agencies," again suggesting, although not conclusively, that the purchase and sale of bills of exchange was intended to be linked with correspondents and agencies but not with the maintenance of accounts with foreign banks.

A final, and perhaps the strongest, argument for the more liberal construction of the statute may be based upon the ambiguous nature of the phrase "wheresoever may be deemed best." Even if that phrase is interpreted as applying not only to the appointment of correspondents and agencies but also to the opening of foreign accounts, it does not expressly require such accounts, correspondents, or agencies to be utilized *only* for the purpose of buying and selling bills of exchange. It is susceptible of the construction that such accounts may be opened wherever geographically it may be reasonably contemplated that they *might* be used at some time for such purpose but that they need not be limited to that purpose.

Some support for this construction may be derived from the last sentence of section 14(e). That sentence provides in effect that whenever a Reserve bank opens a foreign account or appoints or establishes a foreign correspondent or agency, any *other* Reserve bank may carry on, through such Reserve bank, "any transaction authorized by this section [section 14]". In other words, where one Reserve bank opens foreign accounts or appoints foreign correspondents or agencies, *other* Reserve banks may conduct through such accounts, correspondents, or agencies not only transactions in bills of exchange but *any* transactions authorized by section 14—even *non-open* market transactions, such as dealings in gold. From this, it may be argued that it would be illogical if not absurd to hold that the Reserve bank opening such accounts or appointing such correspondents or agencies could use them only for the purpose of buying and selling bills of exchange. This argument, of course, points to the conclusion that the "wheresoever" clause, even if it modifies the authority to open foreign accounts, was not intended to limit the use of such accounts to the buying and selling of bills of exchange. The argument is also entirely consistent with the language of the Board's letters of 1933 and 1934, which stated that foreign accounts could be opened, not only to purchase and sell bills of exchange, but also in order to facilitate the conduct of any of the open market transactions authorized by section 14.

*Intent of Congress.*—The intent of Congress in the enactment of the provision in question is not crystal clear. However, legislative history tends in some degree to support the conclusion that Congress contemplated that foreign accounts opened by the Reserve banks might be used to influence foreign exchange and to control international movements of gold as well as to purchase and sell bills of exchange. For example, the House Committee report on the original act contained the following statement with respect to this provision:

"The final power to open and maintain banking accounts in foreign countries for the purpose of dealing in exchange and of buying foreign bills is necessary in

order to enable a Reserve bank to exercise its full power in controlling gold movements and in facilitating payments and collections abroad."

Since it refers to "dealing in exchange" as well as "buying foreign bills," this statement might be interpreted as contemplating that foreign accounts could be broadly used as a means of dealing in foreign exchange, other than through purchases of bills, in order to control gold movements and facilitate payments and collections abroad. Admittedly, however, the statement is not entirely convincing, since the phrase "dealing in exchange" might have been used only as a loose phrase to cover dealings in foreign bills of exchange.

*Administrative construction.*—In 1925, the Federal Reserve Bank of New York opened an account with the Bank of England which was clearly *not* for the purpose of buying, selling, and collecting bills of exchange. Under that arrangement, the Reserve bank agreed to place \$200 million of gold at the disposal of the Bank of England, with the understanding that the proceeds of sales of such gold would be deposited in an account in pounds sterling with the Bank of England to the credit of the Reserve bank to be available for investment for the account of the Reserve bank in sterling commercial bills guaranteed by the Bank of England, and with the further understanding that, at the end of the standby period, any amount outstanding was to be payable at the Reserve bank in gold or its dollar equivalent. This arrangement was described by the Board in its annual report to Congress for the year 1925, and as thus described it was made clear that the account with the Bank of England *might* be used from time to time for the purchase of commercial bills, but that this was not the principal purpose of the arrangement.

Although the Board subsequently (in 1933 and 1934) construed section 14(e) as limiting foreign accounts to the purchase of bills of exchange, the fact remains that the 1925 arrangement with the Bank of England did not conform to this construction and that Congress, with full knowledge of that arrangement, did not then or subsequently amend the statute in any manner designed to prevent such an arrangement.

*Conclusion.*—For all of the reasons above indicated, it is my opinion that a Federal Reserve bank may lawfully open and maintain an account in foreign currency with a foreign central bank whether or not the account is maintained and utilized for the purpose of investing in foreign bills of exchange and that, therefore, the opening of such accounts for the purposes now contemplated would not be inconsistent with the statute. I do not believe that the "wheresoever" phrase was intended to limit the authority to open foreign accounts; but, even if it may be so regarded, I believe that it can be construed as meaning only that such accounts shall be established where it may reasonably be expected that they *might* be used for the purchase and sale of bills of exchange. The present proposal would comply with that requirement.

*Consultation with Banking and Currency Committees.*—Admittedly, the question is debatable, particularly in view of the 1933-34 position of the Board. Moreover, it may be noted that in 1932, Senator Glass had criticized certain foreign operations of the Federal Reserve Bank of New York, which might be considered as similar to those now contemplated, as being contrary to the law.

When the bill that subsequently became the Banking Act of 1933 was under consideration by Congress, Senator Glass on the floor of the Senate referred to Federal Reserve "stabilization" operations under which credits had been extended to European banks, and suggested that such operations were inconsistent with the Federal Reserve Act. The pertinent portions of his statement were the following:

"For a period of 6 years one of the Federal Reserve banks has apparently given more attention to 'stabilizing' Europe and to making enormous loans to European institutions than it has given to stabilizing America. Accordingly, we have a provision in this bill asserting, in somewhat plainer terms, the restraint the Federal Reserve supervisory authority here at Washington should exercise over the foreign and open market operations of banks which may assume to be a 'central bank of America.'

"We did not think that we were having a central bank. We thought we were having 12 regional banks. The operations of the bank particularly referred to were so extensive in the European field that it found itself liable for hundreds of millions of dollars of foreign acceptances which could not be collected, which had to be renewed at maturity—just a sort of revolving fund—absolutely foreign to the intent, and, as I contend, to the text of the Federal Reserve Act." (75 Cong. Rec. 9384, May 10, 1932.)

For the reasons heretofore indicated, it is believed that the legal validity of Senator Glass' statement may be questioned. In any event, he was obviously referring to instances in which the Federal Reserve had undertaken operations to bolster the credit of foreign countries; and some distinction may be drawn between those operations and the plan now proposed, which, in net effect, is designed to insure international monetary cooperation and convertibility of currencies, as well as to protect the American dollar.

Nevertheless, in view of the uncertainties as to the construction of the law and the history of this matter, it might be desirable, before instituting the plan now proposed, to inform the Banking and Currency Committees of Congress. Such action would not, of course, have any legal significance; but it could help to diminish the likelihood of adverse criticism. On the other hand, of course, such action might tend to generate criticism and controversy.

## II. METHODS OF ACQUIRING FOREIGN EXCHANGE

### A. *Cross-credits and sales of gold*

As indicated at the outset of this memorandum, it is understood that the proposed foreign currency operations would be effected principally through purchases of cable transfers that would result in credits in accounts with foreign central banks. However, such credits could be established also through direct arrangements for cross-credits between the Federal Reserve Bank of New York and foreign banks or through sales of gold to foreign banks.

Opening of foreign accounts through straight cross-credit arrangements would be authorized by section 14(e) of the Federal Reserve Act, subject to the consent of the Board and under regulations of the Board as provided in section 14(e) and section 14(g). Unless such arrangements involved the purchase of cable transfers or bills of exchange, they would not constitute open market operations.

As to the establishment of foreign accounts through sales of gold, it seems clear that this would be authorized by section 14(a) of the Federal Reserve Act (12 U.S.C. 354) which empowers the Reserve banks to "deal with gold coin and bullion at home or abroad." Again, such sales of gold would not be open market operations and, as hereafter discussed, would be subject only to such regulations as the Board might prescribe pursuant to sections 14(e) and 14(g).

### B. *Purchase of cable transfers generally*

The first paragraph of section 14 provides in part that:

"Any Federal Reserve bank may, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations, or individuals, cable transfers \* \* \*." (12 U.S.C. 353.)

To the extent that the proposed foreign exchange operations would be effected through purchases of cable transfers in the open market from domestic banks or dealers in foreign exchange or from foreign banks, there would, in my opinion, be no legal question of authority involved, whether the cable transfers related to spot or forward transactions.

### C. *Dealings with Stabilization Fund*

A more difficult question would be presented if the Federal Reserve Bank of New York (or any other Federal Reserve bank) should purchase cable transfers from the Stabilization Fund administered by the Secretary of the Treasury under section 10 of the Gold Reserve Act (31 U.S.C. 822a).

First, it may be questioned whether such a purchase from the Treasury would be an "open market" purchase within the meaning of the first paragraph of section 14 of the Federal Reserve Act.

Doubt on this score might be engendered by the provisions of section 14(b) of the act (12 U.S.C. 355), which clearly regard direct purchases of Government obligations from the Treasury as *not* constituting "open market" purchases. However, for the reasons hereafter indicated, it is believed that these provisions are not inconsistent with holding that direct purchases of cable transfers from the Treasury constitute "open market" purchases within the meaning of the first paragraph of section 14. The same term may sometimes be differently construed in the light of different statutory contexts and purposes.

From 1913 until 1935, the Reserve banks under section 14(b) freely purchased Government obligations directly from the Treasury, even though section 14

was designated as relating to "open market operations." By the Banking Act of 1935, Congress prohibited such purchases of Government obligations except in the "open market." In 1942, Congress permitted the "direct" purchase of Government obligations from the Treasury for a temporary period and up to a limited amount; and this authorization has been extended by subsequent amendments. It seems clear, however, that this limitation on direct purchases of Government obligations was intended to prevent the Federal Reserve System from lending its resources to the Treasury in a manner that might be inconsistent with the System's monetary and credit responsibilities. These considerations, of course, are not applicable to purchases of cable transfers from the Treasury. In other words, an "open market" in cable transfers may be regarded as embracing any person with whom a Reserve bank may feel free to deal, including the United States Treasury, which is a part of that market; whereas an "open market" in Government obligations may be regarded as excluding the United States Treasury, which issues such obligations and consequently is *not* a part of that market.

A further question arises as to whether the United States is a "corporation" within the meaning of the first paragraph of section 14 from which a Reserve bank may properly purchase cable transfers. Obviously, the United States is not a corporation in the usual sense of a business corporation with stock outstanding; and it is probable that, in the original Federal Reserve Act, Congress had in mind only such corporations. However, the courts have held that, depending upon the context, the United States may be regarded as a "corporation" in the sense envisaged by Chief Justice Marshall in the *Dartmouth College* case (4 Wheat. (336): "an artificial being, invisible, intangible and existing only in contemplation of law.")

On balance, it is my opinion that a Reserve bank's purchases of cable transfers from the Stabilization Fund may reasonably be regarded as "open market" purchases from a "domestic corporation" within the meaning of the first paragraph of section 14.

Admittedly, such purchases might be criticized on the ground that, like direct purchases of Government obligations under section 14(b), direct purchases of cable transfers from the Treasury should not be treated as "open market" transactions; but I would not regard any such criticism as having legal validity. If cable transfers purchased from the Treasury had previously been acquired by the Treasury from the International Monetary Fund solely for purpose of sale to the Federal Reserve bank, such a transaction might be criticized as a device for accomplishing directly what could not be accomplished directly, i.e., direct acquisition of cable transfers by the Reserve bank from the IMF; but, again, any such criticism would, in my opinion, relate to policy and not to legal validity.

#### D. Dealings with International Monetary Fund

Section 1 of article V of the Articles of Agreement of the International Monetary Fund provides:

"Each member shall deal with the Fund only through its treasury, central bank, stabilization fund, or other similar fiscal agency and the Fund shall deal only with or through the same agencies."

On the assumption that the Federal Reserve System may be considered the "central bank" of the United States, the *United States* could purchase cable transfers from the Fund through the Federal Reserve Bank of New York acting under directions of the Board of Governors and the Federal Open Market Committee; but obviously this would not constitute an "open market" transaction by the Reserve bank.

Literally, the first part of the above-quoted provision of the Articles of Agreement of the Fund would not prohibit a Reserve bank from dealing for its own account with the IMF, and it might be argued that the second part of the provision would permit the Fund to deal directly "with" the Reserve bank as well as "through" the Reserve bank. This is, of course, a question for determination by the Fund; but it is my opinion that the provision contemplates that the Fund will deal only with a member country or with or through its fiscal "agencies" and that, therefore, it is seriously questionable whether dealings between the Fund and the Reserve bank in a capacity other than fiscal agent for the Treasury would be permissible.

## III. INVESTMENT OF FOREIGN ACCOUNTS

Assuming that the proposed plan would not be impeded by lack of authority of the Federal Reserve banks to open and maintain accounts with foreign central banks or to purchase cable transfers, questions arise as to the types of instruments in which such accounts may lawfully be invested.

*Bankers' acceptance and bills of exchange.*—The first paragraph of section 14 of the Federal Reserve Act authorizes any Reserve bank, under rules and regulations prescribed by the Board, to purchase and sell in the open market, at home or abroad, "bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the indorsement of a member bank." (12 U.S.C. 353.) Putting aside for the moment the question whether such purchases are subject to regulations of the Board (to be discussed hereafter), it seems clear that under this provision a Reserve bank could use accounts with foreign banks only for investment in acceptances and bills of exchange that would be eligible for rediscount under sections 13 and 13a of the Federal Reserve Act. In general, this would limit such investments to 90-day commercial paper, 9-months agricultural paper, and acceptances of the kinds and maturities described in section 13.

In addition, section 14(e) authorizes a Reserve bank, with the consent or upon the order and direction of the Board of Governors and under regulations of the Board, to "buy and sell, with or without its indorsement," through foreign correspondents or agencies, "bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than 90 days to run, exclusive of days of grace, and which bear the signature of two or more responsible parties." Unlike the authority conferred by the first paragraph of section 14, section 14(e) does not require that paper purchased through foreign correspondents or agencies must comply with the eligibility requirements of the Federal Reserve Act; instead, section 14(e) sets its own requirements as to such purchases through foreign correspondents or agencies. However, these requirements, like those of section 13, limit purchases to paper arising out of "actual commercial transactions" with maturities not exceeding 90 days.

*Foreign treasury bills.*—In view of the provisions of law just discussed, it seems clear that Federal Reserve banks would have no authority to purchase through an account with a foreign central bank paper that does not arise from actual commercial or agricultural transactions. Consequently, such accounts could not be utilized for the purpose of investment in obligations of foreign government, such as foreign treasury bills. If the investment of foreign accounts in such obligations is considered desirable, further legislation would be necessary.

*Time accounts.*—Question has been raised as to whether any part of an account with a foreign bank could be invested in a *time* account with a foreign bank. If, as heretofore concluded, the opening of accounts with foreign banks need not be conditioned upon investment of such accounts in bills of exchange, there appears to be no reason for which a Reserve bank may not maintain a time deposit with such a foreign bank. The authority conferred by section 14(e) is not limited to the opening and maintenance of *demand* accounts with banks in foreign countries.

## IV. RESPECTIVE JURISDICTIONS OF BOARD OF GOVERNORS AND FEDERAL OPEN MARKET COMMITTEE

## A. General

So far in this memorandum, the powers of the Reserve banks with respect to the opening of foreign accounts, the methods by which such accounts may be opened and maintained, and investments through such accounts, have been discussed without reference to the extent to which the exercise of those powers may be limited or regulated by the Board of Governors or the Federal Open Market Committee or both. Discussion of this aspect of the matter has been deferred because, while it directly affects the exercise of the powers of the Reserve banks, it presents somewhat separate and distinct considerations.

In general, it is clear that the Committee has regulatory authority with respect to "open market" transactions of the Reserve banks and that the Board has supervisory and regulatory authority with respect to other operations of the Reserve banks. However, the exact boundaries between the jurisdictions of the Board and the Committee are difficult to determine when, as in the present matter, certain of the operations of the Reserve banks appear to fall in both areas of jurisdiction.

All of the Reserve bank powers heretofore discussed are based upon provisions of section 14 of the Federal Reserve Act which is entitled "Open-Market Operations," and which was a part of the original Federal Reserve Act. As described in section 14, some of these powers, such as the powers to purchase cable transfers and bills of exchange and to open foreign accounts, are made subject to regulation by the Board. However, section 12A of the act, as amended by the Banking Act of 1935, provides that

"No Federal Reserve bank shall engage or decline to engage in open-market operations under section 14 of this Act except in accordance with the direction of and regulations adopted by the [Federal Open Market] Committee \* \* \*." (12 U.S.C. 263.)

The jurisdictional question is complicated by the fact that the contemplated operations involve both open market transactions and nonopen market transactions which are nevertheless closely interrelated.

*B. Purchase of cable transfers, bankers' acceptances, and bills of exchange*

The first paragraph of section 14 provides that a Federal Reserve bank—  
 " \* \* \* may, under rules and regulations prescribed by the Board of Governors of the Federal Reserve System, purchase and sell in the open market, at home or abroad \* \* \* cable transfers and bankers' acceptances and bills of exchange of the kinds and maturities by this act made eligible for rediscount, with or without the indorsement of a member bank." (12 U.S.C. 353.)

Although this provision, which was a part of the original Federal Reserve Act, continues to refer to rules and regulations of the Board, it seems clear that, since the transactions described are "open market" operations, they are now subject to the direction and regulation of the FOMC pursuant to section 12A of the act.

*Cable transfers.*—When section 12A was first enacted by the Banking Act of 1933, it vested the Board with regulatory authority over open market operations of the Reserve banks; and, pursuant to that authority, the Board issued its regulation M which, among other things, made purchases and sales of cable transfers subject to the Board's approval. However, when section 12A was amended in 1935 to vest regulation of open market operations in the FOMC, the Board withdrew that regulation.

The current regulation of the FOMC clearly assumes that open market purchases and sales of cable transfers by the Reserve banks are within the Committee's jurisdiction. Section 7 of that regulation provides:

"(4) No Federal Reserve bank shall engage in the purchase or sale of cable transfers for its own account except in accordance with the directions of the Committee."

apparently pursuant to this provision of its regulation, the Committee adopted on November 20, 1936, a resolution which is still in effect authorizing the Reserve banks to purchase and sell cable transfers "to the extent that they may be deemed necessary or advisable in connection with the establishment, maintenance, operation, increase, reduction, or discontinuance of accounts of Federal Reserve banks in foreign countries." It may be noted that this resolution assumes that the FOMC has authority with respect to purchases and sales of cable transfers even though they relate to the opening and maintenance of foreign accounts.

*Bills of exchange and acceptances.*—It seems clear that the Committee, rather than the Board, now has regulatory authority with respect to the open market purchase and sale of bills of exchange and bankers' acceptances pursuant to the first paragraph of section 14.

There is, however, a distinction to be noted between cable transfers on the one hand and bills of exchange and acceptances on the other. The former are *not* eligible for discount under the Federal Reserve Act, whereas acceptances and bills of exchange are eligible for discount subject to certain requirements of the law and regulations of the Board. Consequently, even though the Committee has regulatory authority with respect to the open market purchase of acceptances and bills of exchange, they must still comply with statutory and regulatory requirements as to eligibility for discount. Moreover, the Board still has outstanding a regulation (regulation B) regarding the eligibility of acceptances and bills of exchange for *purchase* by the Reserve banks, despite the authority of the Committee to regulate such purchases in the open market. Any

conflict of jurisdiction, however, is resolved by section 7(2) of the Committee's regulation:

"(2) Only acceptances and bills of exchange which are of the kinds made eligible for purchase under the provisions of regulation B of the Board of Governors of the Federal Reserve System may be purchased: *Provided*, That no obligations payable in foreign currency shall be purchased and sold for the account of the Federal Reserve bank except in accordance with directions of the Committee."

In addition to the authority contained in the first paragraph of section 14 for the open market purchase of bills of exchange and acceptances, authority for the purchase of such obligations is also contained in subsection (e) of that section. Subsection (e) of section 14 provides that "with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said Board," a Federal Reserve bank may buy and sell, through foreign correspondents or agencies, "bills of exchange (or acceptances) arising out of actual commercial transactions which have not more than 90 days to run, exclusive of days of grace \* \* \*." Even though here again the law continues to refer to regulations of the Board, it is my opinion that purchases of bills of exchange and acceptances through foreign correspondents and agencies under this provision are subject to regulation by the Committee rather than the Board, despite the failure of Congress to repeal the Board's regulatory authority in this respect when in 1935 it transferred to the FOMC authority over open market operations.

That such purchases through foreign correspondents and agencies, like other open market operations, are subject to the jurisdiction of the Committee, was indicated by the Board in a letter to the Federal Reserve Bank of Boston dated May 15, 1936 (F.R.L.S. No. 4276), wherein the Board stated:

"\* \* \* no Federal Reserve bank can open and maintain accounts in foreign countries, appoint correspondents or establish agencies in such countries except with the consent of the Board, nor can it engage in the purchase or sale of bills through such accounts, correspondents, or agencies without the consent also of the Federal Open Market Committee \* \* \*."

#### *C. Dealings in gold*

To the extent that the proposed plan may involve acquisitions of foreign exchange through sales of gold by a Reserve bank it seems clear that such transactions would not constitute open market transactions subject to regulatory authority of the Committee. Section 14(a) of the Federal Reserve Act authorizes the Reserve banks to "deal in gold coin and bullion at home or abroad" (12 U.S.C. 354). Any such transactions would seem to be subject to supervision by the Board of Governors, under both its general power of supervision conferred by section 11(j) of the Federal Reserve Act (12 U.S.C. 248(j)) and its special supervisory powers over relationships with foreign banks conferred by section 14(g) of the act (12 U.S.C. 348a), to be discussed later in this memorandum.

#### *D. Opening of foreign accounts*

Section 14(e) authorizes a Federal Reserve bank—

"\* \* \* with the consent or upon the order and direction of the Board of Governors of the Federal Reserve System and under regulations to be prescribed by said Board, to open and maintain accounts in foreign countries \* \* \*." (12 U.S.C. 358.)

The question whether such foreign accounts may be opened and maintained only for the purpose of buying and selling bills of exchange has heretofore been discussed. At this point we are concerned only with the question whether regulatory authority as to the opening of such accounts is vested in the Board or in the FOMC. Clearly, the language of the statute seems to vest such authority in the Board. However, it may be argued that, if such accounts are established through the open-market purchase of cable transfers, the opening and maintenance of such foreign accounts is merely an incident to open market operations and therefore subject to regulation by the Committee. (This argument might be considered implicit in the Committee's 1936 resolution previously mentioned.) Conversely, however, it might be argued that the purchase of cable transfers is merely a mechanical incident to the opening of foreign accounts and that, therefore, the authority of the Board is paramount.

It would not seem necessary, however, to determine whether the Board or the FOMC has paramount authority. The question seems to be resolved by the

overall intent of Congress that the Board and the Committee shall have separate but coordinate jurisdictions. This intent, I believe, is clearly reflected in the legislative history of the Banking Act of 1935 as hereafter discussed.

*E. Authority with respect to foreign relationships*

Section 14(g) of the Federal Reserve Act (12 U.S.C. 348a) provides in effect that—

(1) the Board of Governors shall exercise "special supervision" over all relationships and transactions of any kind between any Federal Reserve bank and any foreign banks;

(2) all such relationships and transactions shall be subject to "such regulations, conditions, and limitations as the Board may prescribe";

(3) no representative of a Reserve bank shall conduct negotiations with representatives of a foreign bank without the Board's permission;

(4) the Board shall have the right to be represented in any such negotiations; and

(5) a full report of any such negotiations shall be filed with the Board.

When section 14(g) was added by the Banking Act of 1933, the same act authorized the Board of Governors (in section 12A of the Federal Reserve Act) to regulate not only the open-market operations of the Federal Reserve banks but also "the relations of the Federal Reserve System with foreign central or other foreign banks."

Subsequently, the Banking Act of 1935 amended section 12A to vest authority over open-market operations in the FOMC instead of the Board. Significantly, however, the 1935 amendment to section 12A *eliminated* the reference to relationships with foreign banks, thus indicating the intent of Congress that the Board should retain its authority with respect to this matter, despite the Open Market Committee's authority over open-market transactions.

It is my conclusion, therefore, that, whether or not the opening of foreign accounts as the result of open-market purchases of cable transfers would be subject to the "consent" and regulations of the Board under section 14(e) of the Federal Reserve Act, any such foreign accounts would be subject to supervision and regulation by the Board under section 14(g) of the act, even though they may also be subject to regulation by the FOMC to the extent that they involve open market transactions.

*F. Possible actions by Board and Committee*

On the basis of the foregoing discussion, it is my opinion that effectuation of the plan here proposed would require actions by both the Board and the Committee but that such actions may be coordinated without conflict. Such actions might be taken along the following lines:

1. The Board could authorize the New York Reserve Bank (a) to open accounts with foreign banks in such foreign currencies, through such methods, and in such amounts as may be determined by the FOMC to be necessary for effectuation of the proposed plan; and (b) to conduct such negotiations and enter into such arrangements with foreign central banks as, in the judgment of the FOMC, may be necessary to effectuate or implement open-market transactions under the plan.

Logically, any such action by the Board should be taken in the form of an appropriate amendment to the Board's regulation N, "Relations with Foreign Banks and Bankers."

Such action would be based upon the Board's authority under both sections 14(e) and 14(g) and it should be in the form of an *exercise*, rather than a *delegation* to the Committee, of the Board's statutory responsibilities with respect to foreign transactions of the Reserve banks. For this reason, it would be desirable for the action to include a requirement, in conformity with section 14(g), that reports of agreements with foreign banks and operations in such foreign accounts be made to the Board at periodic intervals.

The Board's action might also include consent to participation by other Reserve banks in accounts opened by the New York Reserve Bank.

2. The Committee could issue appropriate regulations or directives, or both, regarding (a) the purchase and sale by the New York Reserve Bank of cable transfers in connection with the opening and maintenance of accounts with foreign banks and (b) the purchase and sale of bills of exchange and acceptances through such foreign accounts. Action as to these matters would be within the Committee's own authority over open-market transactions; and logically such action might be taken through appropriate amendments to provisions relat-

ing to cable transfers and bills and acceptances now contained in section 7 of the Committee's regulation.

3. The Committee could take action, in accordance with the action of the Board described in paragraph 1 above, regarding the foreign currencies to be acquired, limitations on aggregate amount and on the amounts of particular currencies, the foreign banks with which accounts could be opened, minimum balances in such accounts, etc.

4. To the extent that the operations of the plan might involve purchases and sales of gold or borrowings or loans on gold by the New York Reserve Bank, such transactions should have the approval of the Board.

The above or similar actions would, in my opinion, be consistent with the law and would properly preserve the respective authorities of the Board and the Committee. It is necessary, however, to consider whether the authority to take such actions would in any way be affected by other statutes that may appear to give other Government agencies certain responsibilities in this field.

#### V. EFFECT OF OTHER LAWS

##### A. *Gold Reserve Act of 1934*

Section 10 of the Gold Reserve Act of 1934, as originally enacted (31 U.S.C. 822a) established a "stabilization fund" of \$2 billion under the Secretary of the Treasury, for the purpose of "stabilizing the exchange value of the dollar." Since the purposes of this provision were so obviously similar to the purposes of the plan now proposed, question arises whether Congress by the Gold Reserve Act meant in any way to modify or supersede whatever powers the Federal Reserve System might have had in this field.

In my opinion, there is no evidence that Congress had any such intent.

In the first place, the stabilization fund was originally designed as a temporary measure to expire 2 years after the date of enactment. It is not reasonable to suppose, therefore, that it was intended as a substitute for whatever powers the Federal Reserve System might have in this respect.

Secondly, when the fund was made permanent by the Bretton Wood Agreements Act of 1945, it was reduced to \$200 million, since the rest of the fund was allocated for investment in the International Monetary Fund. This action was hardly consistent with the exclusive use of the fund as a means for stabilizing the exchange value of the dollar.

Finally, section 3 of the Gold Reserve Act of 1934 itself authorized the Federal Reserve banks to hold gold for the purpose of settling international balances or of maintaining the equal purchasing power of U.S. currency. Such action, again, would be inconsistent with any intent by Congress to repeal any authority possessed by the Federal Reserve System to maintain the integrity of the dollar.

Even though the provisions of section 10 of the Gold Reserve Act do not affect Federal Reserve authority in this field, it would, of course, be desirable as a matter of policy for Federal Reserve activities under the proposed plan to be coordinated with the utilization of the stabilization fund for related purposes.

##### B. *Bretton Woods Agreements Act of 1945*

Section 4 of the Bretton Woods Agreements Act of 1945, relating to the National Advisory Council on International Monetary and Financial Problems (of which the chairman of the board of governors is a member) provides in part as follows:

"Sec. 4. (a) \* \* \*

\* \* \* \* \*

"(3) The Council shall coordinate, by consultation or otherwise, so far as is practicable, the policies and operations of the representatives of the United States on the Fund and the Bank, the Export-Import Bank of Washington and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions.

\* \* \* \* \*

"(c) The representatives of the United States on the Fund and the Bank, and the Export-Import Bank of Washington (and all other agencies of the Government to the extent that they make or participate in the making of foreign loans or engage in foreign financial, exchange or monetary transactions) shall keep the Council fully informed of their activities and shall provide the Council with such

further information or data in their possession as the Council may deem necessary to the appropriate discharge of its responsibilities under this Act."

While the Federal Reserve banks are quasi-governmental agencies exercising public functions, they are not "agencies of the Government" within the meaning of these provisions. However, to the extent that the Board and the FOMC would participate in the plan here proposed, it seems clear that they would be "agencies of the Government" participating in "foreign financial, exchange or monetary transactions."

Nevertheless, the Bretton Woods Agreements Act refers only to coordination, "by consultation or otherwise, so far as practicable." It does not endow the National Advisory Council with any enforceable authority. Consequently, there would appear to be no legal respect in which activities by the Board and the Committee would be subject to control by the Council. At the same time, it would seem desirable as a matter of policy for any Federal Reserve operations of the kind contemplated to be brought to the attention of the Council in advance, particularly in view of the related operations of the Stabilization Fund of the Treasury and of the International Monetary Fund.

#### VI. ADMINISTRATION

As the proposed plan has been described, it would contemplate that the Committee would designate the Federal Reserve Bank of New York to execute the transactions (opening of accounts with foreign banks, purchase of cable transfers, etc.) necessary to accomplish the purposes of the plan on behalf of the System Open Market Account, pursuant to directions of the Committee. The plan further contemplates that immediate direction and supervision of operations in foreign exchange would be vested by the Committee in a subcommittee consisting of the chairman and vice chairman of the Committee and the vice chairman of the board of governors in his capacity as a member of the Committee; that the New York Reserve Bank would select an officer of that bank satisfactory to the Committee who would act as "special manager of the System Open Market Account for Foreign Currency Operations" and would conduct day-to-day operations in this field; and that the subcommittee would establish maximum amounts of currencies to be purchased, rates of exchange, and other guidelines for such day-to-day operations.

The proposed designation of the New York Reserve Bank and selection of the special manager would be consistent with section 5 of the present Regulations of the Committee and with section 3(b) of the Committee's rules on organization and information.

There would appear to be no legal objection to the proposed delegation to a subcommittee of authority to supervise and direct day-to-day operations in foreign currencies, provided, of course, that general policies are established by the full committee. The Open Market Committee, unlike the Board of Governors, is not a "full time" Government agency; and it is clear that Congress in section 12A did not expect that the committee would meet daily or exercise day-to-day supervision over the implementation of policies formulated by the committee. This is evidenced by the fact that the committee was required to consist of the seven members of the Board of Governors and five of the Federal Reserve bank presidents—individuals who are obviously already fully occupied as a daily matter. It is also significant that the committee is required to meet only at least four times each year, a requirement scarcely consistent with any intent that the committee should directly supervise day-to-day implementation of its policies. In addition, the presently proposed delegation of authority to a subcommittee is similar (and perhaps not even as extensive) to the delegation of authority to an "Executive Committee" that existed with the knowledge of Congress for many years prior to 1955.

#### LEGAL AUTHORITY FOR FEDERAL RESERVE FOREIGN EXCHANGE OPERATIONS

It is understood that the Executive Director of the staff of the Joint Economic Committee has orally requested a brief statement regarding the legal authority of the Federal Reserve System to engage in foreign currency operations or, as they are sometimes called, foreign exchange operations.

The first paragraph of section 14 of the Federal Reserve Act (12 U.S.C. 353) authorizes any Federal Reserve bank to "purchase and sell in the open market, at home or abroad, either from or to domestic or foreign banks, firms, corporations,

or individuals, cable transfers and bankers' acceptances and bills of exchange \* \* \*." The term "cable transfers" itself suggests dealings in foreign exchange, since cable transfers are, of course, a medium through which the Reserve banks may acquire or dispose of holdings of foreign currency in the form of balances with foreign banks.

Section 14(a) of the Federal Reserve Act (12 U.S.C. 354) authorizes the Federal Reserve banks to deal in gold at home or abroad and to make loans on gold.

Section 14(e) of the act (12 U.S.C. 358) authorizes any Federal Reserve bank, with the consent or upon the order and direction of the Board of Governors and under regulations prescribed by the Board, to open and maintain accounts in foreign countries, and to appoint correspondents and establish agencies in such countries, and, through such foreign correspondents or agencies, to buy and sell bills of exchange and acceptance. Whenever an account in a foreign country is opened by a Federal Reserve bank, any other Federal Reserve bank may, with the consent and approval of the Board, be permitted to carry on, through the Reserve bank opening such account, any of the transactions authorized by section 14 of the act.

All of these provisions were contained in substantially their present form in section 14 of the original Federal Reserve Act. The report of the House Banking and Currency Committee with respect to the original act stated that one of the objectives of the provisions of section 14 was to provide an outlet through which funds of the Federal Reserve banks might be used in order "to facilitate transactions in foreign exchange or to regulate gold movements."

Holdings of foreign currency by the Federal Reserve banks in the form of accounts with foreign banks may arise through open market purchases of cable transfers and bills of exchange, through sales of gold to foreign banks, and through the establishment of cross-credits or reciprocal balances between a Federal Reserve bank and a foreign bank.

To the extent that such transactions involve open market purchases and sales, they are subject to direction and regulation by the Federal Open Market Committee under the provisions of section 12A of the Federal Reserve Act (12 U.S.C. 263) which provides that "no Federal Reserve bank shall engage or decline to engage in open market operations under section 14 of the act except in accordance with the direction of and regulations adopted by the Committee." Insofar as such transactions involve the opening and maintenance of amounts with foreign banks, they are subject also to the consent and regulations of the Board of Governors of the Federal Reserve System.

There is, of course, no provision of present law that specifically refers to foreign currency or foreign exchange operations by the Federal Reserve System; and, accordingly, it cannot be said that there is explicit and clear authority for such operations. However, in view of the provisions of law above mentioned, and without attempting here to recite all of the reasons that lead to such conclusion, it is my opinion that the Federal Reserve banks are authorized by present law to engage in open market transactions in foreign exchange subject to direction and regulation of the Federal Open Market Committee and, for this purpose, to open and maintain accounts in foreign banks subject to the consent and under regulations of the Board of Governors of the Federal Reserve System.

In the course of consultations between the Board of Governors and the Treasury Department regarding this matter, the Treasury Department advised the Board that the above-stated opinion has been concurred in by the General Counsel for the Treasury Department and by the Attorney General of the United States.

HOWARD H. HACKLEY,  
*General Counsel, Federal Open Market Committee.*

THE GENERAL COUNSEL OF THE TREASURY,  
*Washington, January 8, 1962.*

HON. HOWARD H. HACKLEY,  
*General Counsel, Board of Governors of the Federal Reserve System, Federal Reserve Building, Washington, D.C.*

DEAR HOWARD: With Secretary Dillon's approval, I am forwarding herewith to you for transmittal to the Federal Open Market Committee a copy of my opinion to Secretary Dillon with regard to the power under existing legislation of the Federal Reserve System to conduct operations in foreign currencies under

the proposed plan now being considered by the Federal Open Market Committee. As you will note in this opinion, I am authorized to state that the Attorney General concurs in my opinion which in turn concurs generally in your opinion of November 22, 1961, to the Federal Open Market Committee on the same subject.

I should like to add my expression of appreciation for the superior job which was performed in rendering your opinion, which greatly simplified my task and, I am advised, the task of the Attorney General in our separate investigations of the subject.

With best wishes.

Sincerely,

(S) Bob  
ROBERT H. KNIGHT.

Enclosure.

Date: January 6, 1962.

Memorandum to the Secretary.

From: Robert H. Knight.

Subject: Opinion re power under existing legislation of Federal Reserve System to conduct operations in foreign currencies under a proposed plan.

You have asked my opinion as to the power of the Federal Reserve System to open and maintain accounts in foreign currencies in certain foreign countries with foreign central banks or official agencies of foreign governments, and to conduct operations in foreign currencies in accordance with a proposed plan now being considered by the Federal Open Market Committee. More specifically, you have asked if I concur in the opinion of the General Counsel of the Board of Governors of the Federal Reserve System (who is also General Counsel of the Federal Open Market Committee) as set forth in his confidential memorandum, denominated Paper No. 6, and dated November 22, 1961.

I conclude that a Federal Reserve bank may under existing law open and maintain accounts with foreign central banks, that it may do so through cross credits, sales of gold under Treasury license to foreign central banks, or transfer of credit to or from the accounts through either spot or forward purchases or sales of cable transfers of foreign currencies in the open market, and through purchase or sale of foreign currencies direct from or to the Exchange Stabilization Fund of the Treasury. Additionally, in my opinion such foreign currencies held in such accounts could be invested in foreign bills of exchange and acceptances arising out of actual commercial transactions and having maturities of not more than 90 days from date of purchase, and in time deposits with foreign central banks. I have also ascertained that foreign currencies in such accounts may properly be utilized to purchase other currencies, e.g., francs may be used to acquire deutsche marks.

I further agree with the General Counsel of the Board of Governors that, should it be determined to be desirable for the Federal Reserve System to make investments in bills having maturities over 90 days, or in foreign Treasury bills or other similar foreign government obligations, it would be necessary to obtain specific legislative authority before such investments could legally be made.

In sum, I concur with the conclusions reached by the General Counsel of the Federal Reserve Board as set forth in conclusions 1, 2, 3, 4, 5, 6, and 8. I have not thought it appropriate to investigate the legal conclusions of the aforesaid General Counsel set forth in his conclusions 7 and 9 relating generally to the division of responsibilities between elements of the Federal Reserve System.

Additionally, I have asked the Department of Justice as to whether the Attorney General concurs in my position and am authorized by that Department to state that he does.

With your approval I will send a copy of this opinion to the General Counsel of the Federal Reserve Board for transmittal to the Federal Open Market Committee.

ROBERT H. KNIGHT.

[By messenger—For National Advisory Council use only]

FEBRUARY 16, 1962.

HON. DOUGLAS DILLON,  
*Chairman, National Advisory Council on International Monetary and Financial  
Problems, Treasury Department, Washington, D.C.*

DEAR DILLON: The Federal Open Market Committee, by action of February 13, 1962, has authorized Federal Reserve Bank operations in foreign currencies for the System Open Market Account.

In accordance with Section 4(c) of the Bretton Woods Agreements Act, I attach a copy of that action.

Sincerely yours,

WILLIAM MCC. MARTIN, Jr.

Enclosure.

[Confidential (FR)—Federal Open Market Committee—Approved February 13, 1962]

#### AUTHORIZATION REGARDING OPEN MARKET TRANSACTIONS IN FOREIGN CURRENCIES

Pursuant to section 12A of the Federal Reserve Act and in accordance with section 214.5 of regulation N (as amended) of the Board of Governors of the Federal Reserve System, the Federal Open Market Committee takes the following action governing open market operations incident to the opening and maintenance by the Federal Reserve Bank of New York (hereafter sometimes referred to as the New York bank) of accounts with foreign central banks.

##### I. ROLE OF FEDERAL RESERVE BANK OF NEW YORK

The New York bank shall execute all transactions pursuant to this authorization (hereafter sometimes referred to as transactions in foreign currencies) for the System Open Market Account, as defined in the Regulation of the Federal Open Market Committee.

##### II. BASIC PURPOSES OF OPERATIONS

The basic purposes of System operations in and holding of foreign currencies are:

- (1) To help safeguard the value of the dollar in international exchange markets;
- (2) To aid in making the existing system of international payments more efficient and in avoiding disorderly conditions in exchange markets;
- (3) To further monetary cooperation with central banks of other countries maintaining convertible currencies, with the International Monetary Fund, and with other international payments institutions;
- (4) Together with these banks and institutions, to help moderate temporary imbalances in international payments that may adversely affect monetary reserve positions; and
- (5) In the long run, to make possible growth in the liquid assets available to international money markets in accordance with the needs of an expanding world economy.

##### III. SPECIFIC AIMS OF OPERATIONS

Within the basic purposes set forth in section II, the transactions shall be conducted with a view to the following specific aims:

- (1) To offset or compensate, when appropriate, the effects on U.S. gold reserves or dollar liabilities of those fluctuations in the international flow of payments to or from the United States that are deemed to reflect temporary disequilibrating forces or transitional market unsettlement;
- (2) To temper and smooth out abrupt changes in spot exchange rates and moderate forward premiums and discounts judged to be disequilibrating;
- (3) To supplement international exchange arrangements such as those made through the International Monetary Fund; and
- (4) In the long run, to provide a means whereby reciprocal holdings of foreign currencies may contribute to meeting needs for international liquidity as required in terms of an expanding world economy.

## IV. ARRANGEMENTS WITH FOREIGN CENTRAL BANKS

In making operating arrangements with foreign central banks on System holdings of foreign currencies, the New York bank shall not commit itself to maintain any specific balance, unless authorized by the Federal Open Market Committee.

The bank shall instruct foreign central banks regarding the investment of such holdings in excess of minimum working balances in accordance with Section 14(e) of the Federal Reserve Act.

The bank shall consult with foreign central banks on coordination of exchange operations.

Any agreements or understandings concerning the administration of the accounts maintained by the New York bank with the central banks designated by the Board of Governors under section 214.5 of regulation N (as amended) are to be referred for review and approval to the Committee, subject to the provision of section VIII, paragraph 1, below.

## V. AUTHORIZED CURRENCIES

The New York bank is authorized to conduct transactions for System Account in such currencies and within the limits that the Federal Open Market Committee may from time to time specify.

## VI. METHODS OF ACQUIRING AND SELLING FOREIGN CURRENCIES

The New York bank is authorized to purchase and sell foreign currencies in the form of cable transfers through spot or forward transactions on the open market at home and abroad, including transactions with the Stabilization Fund of the Secretary of the Treasury established by section 10 of the Gold Reserve Act of 1934 and with foreign monetary authorities.

Unless the bank is otherwise authorized, all transactions shall be at prevailing market rates.

## VII. PARTICIPATION OF FEDERAL RESERVE BANKS

All Federal Reserve banks shall participate in the foreign currency operations for System Account in accordance with paragraph 3G(1) of the Board of Governors' State of Procedure With Respect to Foreign Relationships of Federal Reserve Banks, dated January 1, 1944.

## VIII. ADMINISTRATIVE PROCEDURES

The Federal Open Market Committee authorizes a Subcommittee consisting of the Chairman and the Vice Chairman of the Committee and the Vice Chairman of the Board of Governors (or in the absence of the Chairman or of the Vice Chairman of the Board of Governors the members of the Board designated by the Chairman as alternates, and in the absence of the Vice Chairman of the Committee his alternate) to give instructions to the Special Manager, within the guidelines issued by the Committee, in cases in which it is necessary to reach a decision on operations before the Committee can be consulted.

All actions authorized under the preceding paragraph shall be promptly reported to the Committee.

The Committee authorizes the Chairman, and in his absence the Vice Chairman of the Committee, and in the absence of both, the Vice Chairman of the Board of Governors:

(1) With the approval of the Committee, to enter into and needed agreement or understanding with the Secretary of the Treasury about the division of responsibility for foreign currency operations between the System and the Secretary;

(2) To keep the Secretary of the Treasury fully advised concerning System foreign currency operations, and to consult with the Secretary on such policy matters as may relate to the Secretary's responsibilities;

(3) From time to time, to transmit appropriate reports and information to the National Advisory Council on International Monetary and Financial Problems.

## IX. SPECIAL MANAGER OF SYSTEM OPEN MARKET ACCOUNT

A Special Manager on the Open Market Account for foreign currency operations shall be selected in accordance with the established procedures of the Federal Open Market Committee for the selection of the Manager of the System Open Market Account.

The Special Manager shall direct that all transactions in foreign currencies and the amounts of all holdings in each authorized foreign currency be reported daily to designated staff officials of the Committee, and shall regularly consult with the designated staff officials of the Committee on current tendencies in the flow of international payments and on current developments in foreign exchange markets.

The Special Manager and the designated staff officials of the Committee shall arrange for the prompt transmittal to the Committee of all statistical and other information relating to the transactions in and the amounts of holdings of foreign currencies for review by the Committee as to conformity with its instructions.

The Special Manager shall include in his reports to the Committee a statement of bank balances and investments payable in foreign currencies, a statement of net profit or loss on transactions to date, and a summary of outstanding unmatured contracts in foreign currencies.

## X. TRANSMITTAL OF INFORMATION TO TREASURY DEPARTMENT

The staff officials of the Federal Open Market Committee shall transmit all pertinent information on System foreign currency transactions to designated officials of the Treasury Department.

## XI. AMENDMENT OF AUTHORIZATION

The Federal Open Market Committee may at any time amend or rescind this authorization.

## ACTION BY THE NATIONAL ADVISORY COUNCIL, FEBRUARY 28, 1962

## FEDERAL RESERVE BANK OPERATIONS IN FOREIGN CURRENCIES

The National Advisory Council notes with approval the decision of the Federal Reserve System to conduct operations in foreign currencies and the intention of the Federal Reserve System and the Treasury to submit periodic reports to the NAC on their foreign exchange operations.

Mr. SPENCE. If they want the record amplified you can do that.

Mr. PATMAN. Not at this late date.

Mr. MULTER. Let's not tie his hands; if Mr. Martin wants to give us more than you asked for, let's have it.

Mr. SPENCE. If there are no further questions, the Committee will adjourn.

Mr. PATMAN. Wait just a moment, Mr. Chairman. There are two members waiting to interrogate the witness.

Mr. SPENCE. Do any members have any questions?

Mr. MOORHEAD of Pennsylvania. I have a question, Mr. Chairman.

Mr. SPENCE. Please be brief, Mr. Moorhead. The House is in session.

Mr. MOORHEAD of Pennsylvania. Mr. Martin, assume first, that you do have the power to engage in these foreign market operations, should the Congress pass H.R. 10162?

Mr. MARTIN. Yes, sir.

Mr. MOORHEAD of Pennsylvania. Now, assume you do not have this power, should the Congress pass H.R. 10162?

Mr. MARTIN. It should, yes, sir, quite aside from that.

Mr. MOORHEAD of Pennsylvania. That is all.

Mr. SPENCE. If there are no further questions, Mr. Martin, thank you very much for your very lucid statement supporting the necessity for passage of H.R. 10162. We are very glad to have your testimony.

Gentlemen, before closing, I received a letter from Mr. George Champion, chairman of the Chase Manhattan Bank of New York, regarding his statement dealing with H.R. 10162. Inasmuch as he was unable to appear and present his statement, without objection, the letter and statement will be entered into the record at this point as well as a letter from the National Foreign Trade Council, Inc., of New York.

(The letters and statement referred to above are as follows:)

THE CHASE MANHATTAN BANK,  
New York, N.Y. February 26, 1962.

HON. BRENT SPENCE,  
Chairman, Committee on Banking and Currency, House of Representatives,  
Washington, D.C.

MY DEAR MR. SPENCE: You were kind indeed to allow me to present a written statement to your distinguished committee in regard to H.R. 10162 and I am most appreciative.

Unfortunately our directors' meeting here at 2:15 p.m. on Wednesday makes it necessary for me to be at the bank that afternoon. Consequently, the only time I could be in Washington on that day would be the early part of the morning.

This bill is important to the United States, particularly at this time and I sincerely hope it will be favorably recommended by the Committee on Banking and Currency.

With kindest personal regards,

Sincerely,

GEORGE CHAMPION, Chairman, Board of Directors.

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STATEMENT SUBMITTED BY GEORGE CHAMPION, CHAIRMAN, THE CHASE  
MANHATTAN BANK, NEW YORK, N.Y.

The following statement is submitted in support of H.R. 10162. This bill would amend the Bretton Woods Agreement Act so as to authorize the United States to participate in loans to the International Monetary Fund, with the objective of strengthening the international monetary system.

The original Bretton Woods Act was passed in 1945 and the International Monetary Fund first began operations in 1947. The Fund's potential currency holdings at that time (including gold) totaled \$7.7 billion, with the United States contributing \$2.75 billion. Since then additional members have joined the Fund, and in 1960 subscriptions of members were enlarged by an average of 50 percent. Today holdings of gold and currency total \$14.3 billion, including a subscription by the United States of \$4.1 billion.

Far-reaching changes have occurred in the world economy and in international trade and financial relationships since the IMF was first organized in 1947. The gross national products of most industrialized members have been doubled and even tripled in terms of current prices, and money supplies of the countries concerned have in some instances grown even more rapidly. Liquidity has increased enormously, and along with it supplies of short-term assets in all countries have been greatly expanded.

Likewise, on the international side, trade between nations about doubled during the fifties and continues to grow at a rate of 5 percent or more a year. Moreover, since the early fifties a fundamental readjustment has occurred in the international reserve position of the industrialized countries of the free world. Today the countries of Western Europe (excluding Great Britain) hold gold and foreign exchange reserves amounting to around \$23 billion. In 1950 the total was only \$6.8 billion. In the meantime, the gold stock of the United States has been reduced from approximately \$23 billion to \$16.8 billion, while short-term liabilities to foreigners have increased by \$14 billion to a current total of \$22.4 billion. (This latter figure includes \$10.6 billion held by central

banks and official institutions; \$3.8 billion owned by international organizations, chiefly the IMF; and some \$8 billion owned by foreign private entities.)

The rise in foreign exchange reserves in Western Europe, then, has been achieved in part at the expense of the United States, and it has been made possible as a result of a persistent deficit in the international balance of payments of the United States. Until 1958 the expansion of reserves in Western Europe appeared desirable and the deficit in the U.S. balance of payments did not cause concern. Since early 1958, however, the continuance of large deficits in the U.S. balance of payments has been recognized as highly undesirable and a matter that must be corrected.

The restoration of the reserve position in Western Europe (and one should also add Japan) finally made it possible for countries in that area to remove restrictions on foreign exchange. By late 1958 full currency convertibility had been adopted by both Britain and the countries of Western Europe for all international transactions on current account. This development introduced for the first time in the postwar period a long-neglected element in the international exchange; namely, the possibility of free movement of short-term funds between countries.

Since 1958 both the potential and the actual movement of short-term funds between countries has expanded greatly. In our own country, the outflow of short-term funds appears to have exceeded \$1½ billion in both 1960 and 1961. Perhaps a more dramatic example is the outflow from Great Britain following the revaluation of the German mark and Dutch guilder in March 1961. In a relatively short period following that event more than \$1 billion moved from British accounts to accounts of continental countries.

No one should be surprised at these large movements of short-term funds. They are facts of life and the free world must be prepared to cope with them. In all countries the great economic growth of recent years has been accompanied by a huge expansion of funds which seek investment in assets of relatively short maturity. In the United States, leading outlets for such funds include U.S. Treasury bills and other short-term Government obligations, the supply of which currently amounts to about \$79 billion. Commercial paper, bankers' acceptances, and time deposits of banks provide another outlet of \$23 billion or more. Similar outlets are available in Great Britain and to some extent on the Continent. The bulk of such assets, of course, are held by domestic investors. However, they are available in many countries for foreign investors as well.

A variety of incentives act to induce funds to move from one country to another, often on a temporary basis. One such incentive is the difference which sometimes exists in interest rates. From time to time over the past several years American investors, including corporations, have been able to obtain a higher yield from British Treasury bills or other short-term obligations abroad than was available in the United States. In consequence, a sizable volume of funds has been transferred from the United States to Great Britain and the Continent, as well as to Canada.

Another motive which can be potent in some instances is speculative in character. Anticipation of possible changes in exchange rates induces some investors to shift funds from one country to another (often on the basis of rumors that prove ill founded and capricious in nature). Still other elements that contribute to the international movement of funds include the availability of short-term credit at lower cost in one country rather than another, the existence in one country of certain types of short-term assets that meet peculiar needs of specific investors in another country, and the like.

The main point to be emphasized is that short-term capital movements are growing in size and diversity. Moreover, for a variety of reasons the United States may find itself unusually susceptible to such flows. The very size of our internal economy and financial resources is one contributing factor. But in addition, the United States occupies a unique position in several other important respects.

For one thing, the dollar has become the leading reserve currency of the world, and it is highly important that it remain so. Today the dollar stands as the keystone in the free world's monetary structure—a fact which in itself makes the dollar susceptible to unusual pressure. The existence of \$22.4 billion of liquid assets held in the United States by foreigners provides a potential source for a sizable drain.

In addition, the dollar has become an international currency in other respects. Foreign institutions, businesses, and individuals often carry out financial trans-

actions with the use of dollar deposits they maintain in the United States. The so-called "Euro-dollar" market presents one aspect of this—involving the use of dollar deposits held by certain European institutions and individuals. This market alone has been estimated to involve dollar deposits in excess of \$1 billion—deposits which could, in some circumstances, be transferred from the United States.

The major objective of the changes authorized by H.R. 10162 is to strengthen the ability of the international monetary system to cope with these short-term capital movements. I believe your committee has received a report from the National Advisory Council which describes the nature of the proposed changes in some detail, and I shall not go into them at great length here. Let me only repeat that the proposal involves an agreement under which the International Monetary Fund may borrow, under certain stated conditions, additional currencies from those countries which are signatories to the agreement; namely; the United States, Canada, Great Britain, Sweden, Japan, and the countries which are members of the European Economic Community (exclusive of Luxembourg). It is contemplated that the IMF would borrow such currencies in order to relend them to countries requiring them. In effect, the IMF could thereby make available to countries experiencing a sizable outflow of funds, those currencies into which funds are actually being transferred.

The aggregate of currencies which might be made available to the International Monetary Fund under the proposed agreement amounts to \$6 billion. Standby commitments for each of the signatories would be as follows:

	<i>In millions</i>		<i>In millions</i>
United States.....	\$2, 000	Netherlands.....	\$200
United Kingdom.....	1, 000	Canada.....	200
Germany.....	1, 000	Belgium.....	150
France.....	550	Sweden.....	100
Italy.....	550		
Japan.....	250		6, 000

It should be appreciated that the IMF is not likely to call upon the United States for dollars under the proposed agreement in the foreseeable future. At yearend the IMF already held 2.4 billion U.S. dollars and it had lent out to other countries an additional 640 million U.S. dollars. The IMF also possesses large holdings of British pounds. On the other hand, holdings of most Western European currencies, which were relatively small initially, are now badly depleted. As of December 31, 1961, the total of such holdings amounted only to the equivalent of \$976 million. As shown above, the proposed standby commitment would make available to the IMF under certain conditions a further \$2,550 million of Western European currencies, if needed.

At this point, I believe it is important to emphasize that the possible availability of additional funds to the IMF in no way provides a crutch for the United States or any other country to avoid correcting a basic deficit in its international balance of payments. Thus passage of H.R. 10162 would make it no less essential for the United States in particular to take the steps necessary to get its own balance of payments in order: to balance the Federal budget, to maintain a sound dollar, and above all to keep our costs under control and improve our competitive position in world markets. Nor does adoption of this new arrangement relieve other countries of the necessity of offsetting a larger proportion of U.S. military expenditures abroad, and providing greater economic aid for lesser-developed countries. All these policies must be pursued vigorously by our own Government and by others which must cooperate with us, whether or not the arrangements contemplated under H.R. 10162 are adopted. Indeed, restoring a balance to U.S. payments with other nations holds a top priority among all our problems and nothing should deflect us from it.

The procedures governing the provision of funds under the proposed standby commitments (outlined in the letter to Secretary Dillon from the French Minister of Finance) are designed to provide added assurance that the new facilities will in fact be properly used. There is no denying that circumstances could arise where the existence of these new facilities could be a decided advantage to the United States. If the United States were ever to be confronted, for any reason, with a huge outflow of short-term funds, the ability of the International Monetary Fund to assist under present circumstances would be severely limited—especially if it desired to conserve its existing supply of gold. Under the proposed standby commitment, however, the IMF would have access to substantial

amounts of the currencies which undoubtedly would be in demand in exchange for dollars. As a practical matter, then, some arrangement of the type contemplated is necessary if the facilities of the IMF are to be regarded as of possible future use to the United States.

It might be pointed out, also, that a number of positive aspects exist for any country which is called upon to make a loan under the agreement. For example, such loans in effect carry a gold guarantee in the sense that the exchange rate is fixed in terms of gold and cannot be altered by devaluation on the part of the borrower. Likewise, loans bear a 1½ percent rate of return, along with a fixed payment of one-half of 1 percent at each borrowing. The maximum term of each loan is 5 years; moreover, the lending country has the right to request early repayment if its own balance of payments should so change as to make this desirable. These and other aspects appear to make loans under the agreement solid assets for any lending country—a factor of significance if conditions should so shift in the future that the United States were to be called upon to lend dollars under the agreement.

In summary, the arrangements contemplated in H.R. 10162 for adding to the potential resources available to the International Monetary Fund appear to be sound and desirable and I do not hesitate to support them. They are consistent with the existing international monetary mechanism and do not represent a radical departure. Along with other changes of the past several years (such as closer and more effective cooperation between central banks) this added agreement should serve to strengthen the ability of the free world to cope with problems that inevitably arise as a result of economic growth and the free exchange of currency between industrialized nations.

At the same time, the limitations of these new arrangements must also be recognized. They are not a panacea; they merely represent an added string to the bow of the IMF, one which complements those already in existence. Moreover, these new arrangements are designed to meet a specific problem; namely, to offset temporary flows of short-term capital between countries which might otherwise endanger the stability of the international monetary framework. Above all, these new arrangements are not a substitute to any nation for the internal discipline, effort, and prudence required to maintain a balance in international payments. These are qualities which the United States must itself now exercise to get its own house in order.

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NATIONAL FOREIGN TRADE COUNCIL, INC.,  
New York, N.Y., February 27, 1962.

HON. BRENT SPENCE,  
Chairman, Committee on Banking and Currency,  
U.S. House of Representatives, Washington, D.C.

MY DEAR CONGRESSMAN SPENCE: Reference is made to H.R. 10162, which is currently under consideration by your committee. This bill would amend the Bretton Woods Agreement Act to authorize the United States to participate in loans to the International Monetary Fund to strengthen the international monetary system.

In support of the proposed legislation, we should like to submit the following pertinent resolution adopted by the 48th National Foreign Trade Convention last November:

CURRENCY AND MONETARY POLICIES

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*“International Monetary Cooperation.*—The convention has noted the added burdens being placed on the international monetary system by the growth of world commerce and is particularly mindful of the sudden strains that may be imposed by large speculative movements of short-term capital funds. Believing that confidence in the world's reserve currencies is an indispensable element in the proper functioning of the existing system and that monetary stability is the only safe foundation for sustained economic growth, the convention calls on the monetary authorities of all nations on whom the responsibility primarily rests to pursue policies which will insure such confidence and stability. In this endeavor, the International Monetary Fund should continue to serve as a leader and as an effective channel for intergovernmental cooperation. Recognizing the key role of the Fund, the convention supports the proposed strengthening of its

resources through the establishment of suitable borrowing arrangements subject to appropriate safeguards."

Further and more specifically, subsequent to the announcement earlier this year of the detailed arrangements and procedures governing the access by the International Monetary Fund to supplementary resources, the relevant documents were submitted to our International Finance Committee for study. On the basis of their review, the members of the Committee expressed the view that participation by the United States in the new arrangements would be in the national interest and recommended that the proposal be supported.

It is respectfully requested that this communication be made a part of the record of the hearings of your committee.

Very truly yours,

WILLIAM S. SWINGLE, *President.*

Mr. SPENCE. This concludes the hearings on this bill and the committee will adjourn.

(Thereupon, the committee was adjourned, to reconvene at the call of the Chair.)



