

# BRETTON WOODS AGREEMENTS ACT AMENDMENT

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HEARINGS  
BEFORE THE  
COMMITTEE ON FOREIGN RELATIONS  
UNITED STATES SENATE  
EIGHTY-SEVENTH CONGRESS  
SECOND SESSION  
ON  
**H.R. 10162**  
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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MARCH 30 AND APRIL 3, 1962

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# BRETTON WOODS AGREEMENTS ACT AMENDMENT

FRIDAY, MARCH 30, 1962

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
Washington, D.C.

The committee met, pursuant to notice, at 10:35 a.m., in room 4221, New Senate Office Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Symington, Aiken, Capehart, and Carlson.

The CHAIRMAN. The committee will come to order.

The Committee on Foreign Relations today is holding a public hearing on proposed legislation to amend the Bretton Woods Agreements Act to authorize the United States to participate in loans to the International Monetary Fund.

(The text of H.R. 10162 follows:)

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

AN ACT 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(i), 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 or 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(i), of the Articles of Agreement of the Bank."

Passed the House of Representatives April 2, 1962.

Attest:

RALPH R. ROBERTS, *Clerk.*

The CHAIRMAN. The purpose of this legislation submitted by the President to Congress is to strengthen the international monetary system and thereby to encourage the continued expansion of world trade.

A special callable-loan arrangement involving up to \$6 billion has been worked out among the 10 principal industrial IMF member countries. The proposal before us provides that the United States accept a one-third share in this arrangement.

The only scheduled witness this morning is the Honorable Douglas Dillon, Secretary of the Treasury.

Mr. Dillon, we are very glad to have you before us again.

You have a prepared statement, I believe?

Secretary DILLON. Yes, Mr. Chairman.

The CHAIRMAN. Do you wish to read it, or do you wish to summarize it and just put it in the record?

You do it either way you like.

Secretary DILLON. Either way you prefer.

The CHAIRMAN. How long is it?

Secretary DILLON. About 20 minutes.

The CHAIRMAN. All right, you read it, then.

Secretary DILLON. All right.

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

Secretary DILLON. Mr. Chairman and committee members, I am glad to appear before the committee this morning in support of legislation to 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 U.S. participation in proposed arrangements which will make \$6 billion of additional resources available to the fund. The House Banking and Currency Committee reported without amendment on March 8, H.R. 10162, a bill to accomplish this purpose.

#### OTHER COUNTRIES PARTICIPATING IN LENDING ARRANGEMENT

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.

#### PURPOSE OF THE INTERNATIONAL MONETARY FUND

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 to about \$20.1 billion.

#### INCREASE IN MOVEMENTS OF SHORT-TERM CAPITAL

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.

## U.S. BALANCE-OF-PAYMENTS DEFICITS

Increases in foreign monetary reserves were largely the counterpart of overall deficits in the balance of payments of the United States. Our deficits totaled approximately \$13.5 billion during the 4-year period 1958-61 and have reduced our gold reserves by almost \$6 billion.

The basic part of our deficit has been made up of trade transactions, long-term investment and expenditure for military and economic 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 almost \$2.5 billion, respectively.

## STABILITY OF THE DOLLAR ESSENTIAL

The stability of the dollar is essential not only to the economy of the United States but to that of the entire 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.

## OPERATION OF THE FUND

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.

## U.S. DRAWING RIGHTS ON THE FUND

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 addi-

tional 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 standby 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.

#### VIENNA MEETING OF BOARD OF GOVERNORS

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.

#### AGREEMENT REACHED IN PARIS

The Fund decision and the related Paris arrangements are reproduced in the report of the National Advisory Council which is now before you.

(See appendix, p. 45.)

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.

#### PURPOSE OF THE ARRANGEMENT

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 arrangement 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 \$2.5 billion from the regular U.S. quota, it is highly unlikely that a need for borrowing from the United States will arise.

#### PROPOSED PROCEDURE FOR WITHDRAWALS FROM, AND LOANS TO, THE FUND

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 one 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 positions 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

Loans to the Fund by participating countries would carry a transfer charge of one-half 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 one-half 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 repayments 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.

## ADVANTAGE OF BORROWING ARRANGEMENTS TO UNITED STATES

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.

## CLARIFICATION OF PROPOSED AMENDMENTS

Legislation is required in order to 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. Such legislation should 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 \$2 $\frac{1}{2}$  billion—had been exhausted. This is to be a standby commitment to the Fund. There would 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 technical amendment designed to clarify existing legislative authority is also desirable 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 should make entirely clear the Treasury's authority on this matter.

#### IMPORTANCE OF PROPOSED ARRANGEMENT

In conclusion, Mr. Chairman, I should like to say that the present proposal 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 last year in his balance-of-payments message, we will use our drawing rights in the International Monetary Fund as a supplementary form of reserves. The legislation being requested 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 someday 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.

The CHAIRMAN. Thank you, Mr. Secretary.

#### NEED FOR PROPOSED LEGISLATION

Would you say that the Monetary Fund up to now has been successful in fulfilling its purpose?

Secretary DILLON. Yes, I think that the Monetary Fund has been one of the real successes of the postwar era.

The CHAIRMAN. The proposed legislation is not necessary because of any failure on the part of the Fund to function as contemplated under existing legislation, is it?

Secretary DILLON. Not at all. It is merely that apparently when the Fund was originally set up no one contemplated that the United States might ever be in a position to need to use its resources.

Also, at that time, immediately after the war, the countries of Europe were not in very good economic condition, and their quotas in the Fund were set with that in mind. So their quotas are out of line with their present situation in the world.

This operation is merely designed to provide substantial extra quantities of these countries' currencies to help strengthen the international monetary system.

The CHAIRMAN. In other words, this is a readjustment in the system of the contribution of the other countries in view of the progress that they have made in their own economies. They have brought it up more in accord with our own and, therefore, they should make a greater contribution?

Secretary DILLON. That is right. I think that is a fair characterization. It is not done in the Fund. One might ask why it is not done as a change in quota, but that raises all sorts of difficult problems with other members as to relative size of quotas, and many countries are not interested in increasing their quotas at this moment.

So it is, therefore, felt better to do it this way.

#### NATURE OF APPROPRIATION REQUEST

The CHAIRMAN. Originally I believe this sort of increase might have been made, and I believe was made, by a request for authority to borrow as a public debt transaction, was it not?

Secretary DILLON. I assume that that is what we still will ask.

The CHAIRMAN. But I thought you were asking here for an appropriation.

Secretary DILLON. Yes, but when we go for the appropriation we will ask for authority to use the public debt transaction.

The CHAIRMAN. I am a little puzzled about that.

Secretary DILLON. The only difference is that there will be approval of this form of financing by the Appropriations Committee.

This is what happened in the case of the Inter-American Bank, if we look at the record. When we made our contribution to the Inter-American Bank there was some substantial amount, I think \$200 million, which was in the form of callable capital, similar to that of the World Bank, which would only be used if there had

been a default on the obligations of the Inter-American Bank. The Appropriations Committee, in addition to appropriating cash contributions, also gave borrowing authority for this \$200 million.

It was approved by them and that was the only difference.

The CHAIRMAN. So, in effect, is it correct to say that this piece of legislation is a request for an appropriation, but when you go to the Appropriations Committees for the appropriation you contemplate they will then give you borrowing authority?

Secretary DILLON. Yes, this is a request for authorization, and then when we go there we contemplate they will then give us borrowing power.

The CHAIRMAN. So the borrowing authority is all right so long as it is authorized by the Appropriations Committee, and not by this committee or any other committee. Is that correct?

Secretary DILLON. I think that there is a very strong feeling, certainly in the other body, that any and all appropriations should go through the appropriations process.

When they do that they should be made in the proper and best form. Certainly, as this money is not going to be spent in the foreseeable future, there is no use doing it in any other form than borrowing authority, and I think that is what the provision will be.

The CHAIRMAN. Is it fair to say that the "back-door financing"—a term of which I do not approve nor have ever used; the House originated it—is all right so long as the Appropriations Committees authorize it?

Secretary DILLON. Well, the words "back-door" mean, in the House, going around behind the Appropriations Committee.

The CHAIRMAN. Yes, they originated the term, I think.

Secretary DILLON. Surely, if you go through the Appropriations Committee it is "front-door."

The CHAIRMAN. It is "front-door" even though it is borrowing authority?

Secretary DILLON. That is right.

The CHAIRMAN. Well, I do not approve of this procedure, but it looks as if they have had their way anyway. They have convinced the Treasury it is necessary.

#### CORRECTIVE MEASURES

In your statement, you referred to corrective measures. Is it not so that one of the principal virtues of the IMF is the fact that it is in a position to require corrective measures, which I have always thought of as a rather important educational function in the field of international payments and international finance?

Is that correct?

Secretary DILLON. That is correct, and also the whole theory of the Fund would not work otherwise, because the theory is that the temporary pool of funds is to give countries time when they get an imbalance of payments and find it difficult to adjust without taking too drastic measures. And unless there were corrective measures taken during that time the Fund would be in a position where it would be putting out but not be repaid, and they have to be sure that the Fund will be repaid so there will be a readily available revolving fund.

So that is a very important element in the Fund.

The CHAIRMAN. And it is important because the Fund is able to require these conditions and reforms, we will say, apparently without offending the sovereignty and propriety of the participating countries. Is that not so?

Secretary DILLON. I think that is basically correct, yes.

The CHAIRMAN. Does this arrangement involve any transfer of gold?

Secretary DILLON. No, none whatsoever.

#### ROLE OF THE OECD

The CHAIRMAN. What role, if any, does the OECD play in the administration of this?

Secretary DILLON. It does not play any role in the administration of this. However, the 10 participating countries have agreed, among themselves, in accordance with the letters which are before you, as to how they will respond and the actions they will take to meet a call by the Managing Director of the Fund.

The 10 participating countries are all members of the OECD with the exception of Japan. So Japan is an extra member, and a number of the OECD countries are not members because their currencies are not sufficiently important in the international payments system.

So the OECD itself is not involved but, certainly, the types of coordination and cooperation that take place in the regular meetings of working party 3 of the OECD, which deals with monetary affairs and meets every couple of months in Paris, are very important in keeping everyone up to date and keeping close cooperation, because all but one of the members of this borrowing arrangement are also members of that Organization.

#### RELATIVE IMPORTANCE OF ARRANGEMENT TO UNITED STATES AND UNITED KINGDOM

The CHAIRMAN. Would you say that this new proposal is essentially beneficial to the United States or to the United Kingdom?

Secretary DILLON. Well, I would say especially to the United States.

The Monetary Fund has shown that it has adequate assets to meet a maximum drawing by the United Kingdom, such as occurred last summer.

It does not have the proper assets available to meet a drawing that would be of similar proportions by the United States, because that would be a larger drawing. The United States is a bigger country and if we had to draw, I presume, it would be larger.

So I think it is probably only in the case of the United States that there is this shortage of other useful currencies. This arrangement is required to build them up so that if we wanted to draw on the Fund, in accordance with our right, this would put it in a position to meet that drawing, something it is not in a position to meet today.

#### SYSTEM OF VOTING

The CHAIRMAN. Will the prospective system of weighted voting, as described here, be roughly the same or identical to that used in the IMF as a whole?

Secretary DILLON. Well, it is roughly the same.

In fact, I think it is pretty much the same except that it only applies to the 10 participating countries.

The only difference is that the weighted vote here is weighted solely on the amount of funds that are pledged by each country, whereas, in the IMF quotas, there is a fixed number of votes that any country gets, no matter how small it is, and then the rest of it is based on that quota.

#### THE "TRIFFIN PLAN" AND THE BERNSTEIN PROPOSAL

The CHAIRMAN. Last year, when this matter was under discussion, there was much talk about the so-called "Triffin Plan" and, I believe, another suggestion by a man named Bernstein for overhauling this international monetary system and creating a kind of common currency for it.

Would you say this is the result of that thought and, instead of following in that direction, that this is the procedure that you prefer?

Secretary DILLON. Well, there was talk of this in other areas, too.

The International Monetary Fund itself, its Managing Director, I think, started his thinking along these lines in the fall of 1960 when it first looked as though there might be serious difficulties for the dollar. He had come to the conclusion that some strengthening of this nature was necessary for the Fund and first circulated a paper to the Fund Board on it in early January of 1961. And so it has been considered off and on ever since then in the Fund.

The Bernstein proposals are, in essence, not too far different from this proposal. The basic Bernstein proposal was to make arrangements for lending a stated amount of funds to the Monetary Fund, and that is what is done here, although the details are somewhat different. But he had envisioned basically this.

The Triffin Plan is something quite different which involves creation of an international monetary organization and international monetary controls, sort of like an international monetary Federal Reserve System, you might say. It involves necessarily the function of a substantial giving up of national sovereignty, of national policy and monetary decisions, and it is very clear that none of the national monetary authorities of the world are presently interested in moving in that direction. They all feel it is better to perfect and make full use of the system that has operated reasonably well so far, and this is also the opinion of the Managing Director of the Fund, and it is our opinion.

#### CONTRIBUTIONS BY IMF MEMBERS TO THE FUND

The CHAIRMAN. The Senator from Vermont.

Senator AIKEN. Mr. Secretary, how many of the members of the International Monetary Fund have contributed to the Fund?

Secretary DILLON. There are 75 members of the International Monetary Fund altogether. They all have quotas and have contributed to the Fund.

If you mean this particular arrangement that we are talking about here, 10.

Senator AIKEN. Ten, yes; but, have all the 75 members contributed to the Fund?

Secretary DILLON. They have all contributed to the Fund. That is right.

Senator AIKEN. How have their contributions been determined? Are they purely voluntary?

Secretary DILLON. They are determined by negotiation with the Fund when they become a member; a negotiated quota is based on their size, their gross national product, their world trade, their reserves, and various things like that which are taken into account.

The Fund staff works out what they think is an appropriate quota, and they negotiate with the country. If the country agrees it then enters the Fund with a certain specified quota.

Senator AIKEN. When they vote on policy do they vote according to the contributions or does one country have just one vote?

Secretary DILLON. No, in the Monetary Fund it is entirely on the basis of weighted vote.

Senator AIKEN. You mean, according to the—

Secretary DILLON. According to the contributions but, as I said earlier, there are a fixed number of votes that go to any country no matter how small. So it is not quite exactly according to contributions. That serves to reduce slightly the proportion of the vote of the bigger countries.

Senator AIKEN. Are they all paid up on their contributions?

Secretary DILLON. Yes, sir.

Senator AIKEN. They are all paid up at the present time.

#### CHARGE OF INTEREST ON LOANS

Does the International Monetary Fund charge interest on its loans?

Secretary DILLON. Yes—it does not charge interest on first borrowings—"gold-tranche," as they call it—but thereafter they do charge interest, and the interest they charge increases with the amount of your quota that you draw. If you draw only a part of your quota you pay a lower rate. If you draw the full quota you have to pay a higher rate. Also it varies with the length of time your drawing is outstanding. If it is outstanding only a year it is less. If it is outstanding 5 years, which is the full amount of time, it is somewhat higher.

#### IMF'S PROFITMAKING STATUS

Senator AIKEN. What I intended to ask, really, was if it is a profit-making institution?

Does it make money?

Secretary DILLON. Oh, yes, it has.

For about the first 10 years of its existence it did not make much money because it did not do much business, but since then, as more of its members' currencies have become convertible, it has been called upon for much greater activity, and it has put aside in reserves substantial profits, you can say, in the order of \$50 million a year in the last few years.

#### INTERNATIONAL MONETARY FUND RESERVES

Senator AIKEN. What are its present reserves? An approximate figure is all right.

Secretary DILLON. Something over \$75 million.

Senator AIKEN. \$75 million?

Secretary DILLON. Yes.

#### WORLD BANK'S PROFITMAKING STATUS AND ITS RESERVES

Senator AIKEN. Now, the World Bank is also a profitmaking institution, is it not?

Secretary DILLON. Yes, it is, but it has been making profits for a little longer because it started actively to function earlier, and so it has larger reserves.

Senator AIKEN. And it has reserves of something in excess of half a billion dollars at the present time?

Secretary DILLON. Something like that, yes.

#### AFFILIATION WITH THE UNITED NATIONS

Senator AIKEN. Now, I would like to ask a couple of questions, since these two moneymaking institutions, in a sense, are affiliated with the United Nations. I believe they are, are they not?

Secretary DILLON. They are both specialized agencies of the United Nations.

Senator AIKEN. And the United Nations is in financial trouble.

Why cannot the United Nations sell its proposed bond issue to the World Bank and to the Fund?

Secretary DILLON. Well, the World Bank and the Fund both were established as independent agencies, affiliated with the United Nations, for very specific, limited purposes, and these purposes were spelled out in the charters of the two institutions.

As far as the Monetary Fund is concerned, its full purpose is to stabilize the monetary conditions throughout the world and, therefore, promote trade and so forth. It is just directed to short-term monetary stabilization, so that would not be appropriate.

As far as the World Bank is concerned, its purpose was initially reconstruction of war damage, which is now over, and international development. Now, to the extent that funds were used for development purposes, that would be a nice question, whether they could utilize their funds through some other organization, but I do not think they ever have. It has always—

Senator AIKEN. Well, the U.N. has borrowed when in need from other affiliated organizations—

Secretary DILLON. There is a legal difference. Certain of these affiliated U.N. organizations are much closer to the United Nations.

The affiliation of the World Bank and the Monetary Fund is rather tenuous. They are independent. Their headquarters are here in Washington. They do not take directives from the U.N. at all, but they are listed as specialized agencies, and once a year they go up or send a report there.

#### POSSIBILITY OF INVESTMENT IN U.N. BONDS BY THE WORLD BANK

Senator AIKEN. But the resolution authorizing the sale of bonds approved by the U.N. would permit the sale of bonds to the World Bank?

Secretary DILLON. Yes, the World Bank, as a matter of investment. If they wanted to invest in this they could, presumably, invest some of their funds there, if they wanted to.

Senator AIKEN. Would not it be a good investment for the World Bank to buy those bonds?

Secretary DILLON. I would think not, because I would think their own investments are generally short term. They do not try to have on hand any more cash than they need for current operations. And they have to raise the bulk of that cash by selling their own bonds on the market. The latest issue was sold at 4.5 percent, so it would not be very good for them to turn around and use that money at 2 percent on a long-term basis. If it was just a very short-term investment, that might be all right.

Senator AIKEN. Well, the World Bank sells its bonds in accordance with the capitalist system, does it not?

Secretary DILLON. That is correct. They sell them in the open market in various countries of the world.

Senator AIKEN. And the United Nations proposes to sell its bonds in accordance with the Communist system. Is that not correct?

Secretary DILLON. Well, I think that the bonds that the United Nations are selling are not being sold on a competitive interest cost basis, so there must be some humanitarian or political reason that would cause one to make an investment in these bonds. It would not be purely on a financial basis.

Senator AIKEN. Would the purchase of \$2 million worth of bonds by the World Bank impair the solvency of the Bank in any way?

Secretary DILLON. Impair the solvency? I do not think they would have those funds available for this purpose unless they went out and borrowed some more. I do not think it would be within the charter. As I understand it, these U.N. bonds are not solely directed for development purposes. So I do not think the World Bank could do that.

Senator AIKEN. Doesn't the World Bank make enough money so that it could devote parts of its profits to the United Nations, say, \$25 million or \$50 million a year?

Secretary DILLON. This, Senator, is a very difficult question because it is a question of what is an adequate reserve. They have had a very good repayment record so far, but they do assume some day they will have losses, and they are building up a rather large reserve.

I think they are beginning to give some thought as to just what to do about it, and it is a matter of discussion in the executive board of the World Bank.

#### WORLD BANK'S INVESTMENTS

Senator AIKEN. Well, is not the World Bank's investment reserve a half billion or \$600 million?

Secretary DILLON. I would have to look at the balance sheet.

Senator AIKEN. Well, I think we might assume that it is invested in something or other.

Secretary DILLON. Oh, yes.

Senator AIKEN. But wouldn't investment in United Nations bonds be a good place to put it?

Mr. Black has been around here, I believe, speaking to some of my colleagues, telling them what a good investment the United Nations bonds would be for the United States. I was wondering why they would not be a good investment for his bank.

Secretary DILLON. Well, I think he would like to get something to give him a little higher rate of interest, probably.

Senator AIKEN. You mean he would not feel like contributing \$2¼ million a year out of his earnings?

To your knowledge, has this possibility been talked over in the World Bank?

Secretary DILLON. To my knowledge—

Senator AIKEN. Has it been considered?

Secretary DILLON. No. To my knowledge, the United Nations has not approached the World Bank on this. There could have been discussions in the executive board, but I am not aware of them.

Senator AIKEN. Well, it has always appeared, and it appears more so now, that the successful financing in the United Nations may have to depend on something besides assessments on countries that will not pay their assessments.

So I was just wondering why the World Bank could not be used as a source of income to keep the U.N. solvent; and, as a good investment, it could help the World Bank earn money, and it would be a good thing all around.

Secretary DILLON. Apparently, in answer to the earlier question, reserves of the World Bank are \$600 million as of last June 30, and they are essentially all invested in U.S. Government obligations.

Senator AIKEN. You mean we would borrow money from the World Bank at 4¼ or 4.10 percent, or whatever it is—

Secretary DILLON. Oh, no. They just buy in the market.

Senator AIKEN. Short or long term?

Secretary DILLON. Short term.

Senator AIKEN. That would be 2.9 or 3 percent or something like that?

Secretary DILLON. Something of that nature.

Senator AIKEN. We borrow money from the World Bank, which is affiliated with the United Nations, and then we lend it to the United Nations for something over 1 percent less than what we pay the affiliate for the money.

That does not seem to make sense, does it?

Secretary DILLON. We do not borrow from the World Bank. The difference between the Bank and the U.N. is, as I pointed out, that the World Bank operates on a straight business basis, with no other—

Senator AIKEN. Capital assistance in the World Bank?

Secretary DILLON. That is correct. And they buy our issues in the market at the going rate of the market. There is no special negotiation with the World Bank. They just buy whatever is available there at the going rate.

Senator AIKEN. I hope you call Mr. Black's attention to this opportunity for an excellent investment, in buying the United Nations bonds, or even of making a liberal contribution each year out of the Bank's earnings and also those of the IMF.

Secretary DILLON. I will be glad to call his attention to it.

Senator AIKEN. I will not ask any more questions.

The CHAIRMAN. The Senator from Indiana.

## POSSIBLE DIVIDEND PAYMENTS BY WORLD BANK

Senator CAPEHART. Is it the intention of the World Bank to pay dividends on its reserves of \$600 million?

Secretary DILLON. It has not been their intention to do that so far.

Senator CAPEHART. In other words, someday they will pay dividends, will they not?

Secretary DILLON. They might. No action has been taken, but there is pressure from borrowing countries for them to reduce the rate of interest they charge. They currently charge 1 percent over the going rate on the money they have to borrow to set aside for their reserve purposes.

They make a rather substantial profit, and there has been some pressure to reduce that. They have not felt it wise to do so yet.

## AGREEMENTS BETWEEN THE BANK, THE FUND, AND THE U.N.

Senator CAPEHART. What is the exact connection between the Monetary Fund and the World Bank and the United Nations?

Secretary DILLON. I would have to supply for the record the exact connection with the United Nations.

(The texts of the agreements between the United Nations and the International Monetary Fund and between the United Nations and the International Bank for Reconstruction and Development follow:)

AGREEMENT BETWEEN THE UNITED NATIONS<sup>1</sup> AND THE  
INTERNATIONAL MONETARY FUND

## ARTICLE I

*General*

1. This agreement, which is entered into by the United Nations pursuant to the provisions of Article 63 of its Charter, and by the International Monetary Fund (hereinafter called the Fund), pursuant to the provisions of article X of its Articles of Agreement, is intended to define the terms on which the United Nations and the Fund shall be brought into relationship.

2. The Fund is a specialized agency established by agreement among its member governments and having wide international responsibilities, as defined in its Articles of Agreement, in economic and related fields within the meaning of Article 57 of the Charter of the United Nations. By reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Fund is, and is required to function as, an independent international organization.

3. The United Nations and the Fund are subject to certain necessary limitations for the safeguarding of confidential material furnished to them by their members or others, and nothing in this agreement shall be construed to require either of them to furnish any information the furnishing of which would, in its judgment, constitute a violation of the confidence of any of its members or anyone from whom it shall have received such information, or which would otherwise interfere with the orderly conduct of its operations.

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<sup>1</sup> The Agreement was approved by the Board of Governors of the International Monetary Fund on September 17, 1947 and by the General Assembly of the United Nations on November 15, 1947. Accordingly, the Agreement came into force on November 15, 1947.

## ARTICLE II

*Reciprocal representation*

1. Representatives of the United Nations shall be entitled to attend, and to participate without vote in, meetings of the Board of Governors of the Fund. Representatives of the United Nations shall be invited to participate without vote in meetings especially called by the Fund for the particular purpose of considering the United Nations point of view in matters of concern to the United Nations.

2. Representatives of the Fund shall be entitled to attend meetings of the General Assembly of the United Nations for purposes of consultation.

3. Representatives of the Fund shall be entitled to attend, and to participate without vote in, meetings of the committees of the General Assembly, meetings of the Economic and Social Council, of the Trusteeship Council and of their respective subsidiary bodies, dealing with matters in which the Fund has an interest.

4. Sufficient advance notice of these meetings and their agenda shall be given so that, in consultation, arrangements can be made for adequate representation.

## ARTICLE III

*Proposal of agenda items*

In preparing the agenda for meetings of the Board of Governors, the Fund will give due consideration to the inclusion in the agenda of items proposed by the United Nations. Similarly, the Council and its commissions and the Trusteeship Council will give due consideration to the inclusion in their agenda of items proposed by the Fund.

## ARTICLE IV

*Consultation and recommendations*

1. The United Nations and the Fund shall consult together and exchange views on matters of mutual interest.

2. Neither organization, nor any of their subsidiary bodies, will present any formal recommendations to the other without reasonable prior consultation with regard thereto. Any formal recommendations made by either organization after such consultation will be considered as soon as possible by the appropriate organ of the other.

## ARTICLE V

*Exchange of information*

The United Nations and the Fund will, to the fullest extent practicable and subject to paragraph 3 of article I, arrange for the current exchange of information and publications of mutual interest, and the furnishings of special reports and studies upon request.

## ARTICLE VI

*Security Council*

1. The Fund takes note of the obligation assumed, under paragraph 2 of Article 48 of the United Nations Charter, by such of its members as are also Members of the United Nations, to carry out the decisions of the Security Council through their action in the appropriate specialized agencies of which they are members, and will, in the conduct of its activities, have due regard for decisions of the Security Council under Articles 41 and 42 of the United Nations Charter.

2. The Fund agrees to assist the Security Council by furnishing to it information in accordance with the provisions of article V of this agreement.

## ARTICLE VII

*Assistance to the Trusteeship Council*

The Fund agrees to co-operate with the Trusteeship Council in the carrying out of its functions by furnishing information and technical assistance upon request, and in such other similar ways as may be consistent with the articles of Agreement of the Fund.

## ARTICLE VIII

*International Court of Justice*

The General Assembly of the United Nations hereby authorizes the Fund to request advisory opinions of the International Court of Justice on any legal questions arising within the scope of the Fund's activities other than questions relating to the relationship between the Fund and the United Nations or any specialized agency. Whenever the Fund shall request the Court for an advisory opinion, the Fund will inform the Economic and Social Council of the request.

## ARTICLE IX

*Statistical services*

1. In the interests of efficiency and for the purpose of reducing the burden on national Governments and other organizations, the United Nations and the Fund agree to co-operate in eliminating unnecessary duplication in the collection, analysis, publication and dissemination of statistical information.

2. The Fund recognizes the United Nations as the central agency for the collection, analysis, publication, standardization and improvement of statistics serving the general purposes of international organizations, without prejudice to the right of the Fund to concern itself with any statistics so far as they may be essential for its own purposes.

3. The United Nations recognizes the Fund as the appropriate agency for the collection, analysis, publication, standardization and improvement of statistics within its special sphere, without prejudice to the right of the United Nations to concern itself with any statistics so far as they may be essential for its own purposes.

4. (a) In its statistical activities the Fund agrees to give full consideration to the requirements of the United Nations and of the specialized agencies.

(b) In its statistical activities the United Nations agrees to give full consideration to the requirements of the Fund.

5. The United Nations and the Fund agree to furnish each other promptly with all their non-confidential statistical information.

## ARTICLE X

*Administrative relationships*

1. The United Nations and the Fund will consult from time to time concerning personnel and other administrative matters of mutual interest, with a view to securing as much uniformity in these matters as they shall find practicable and to assuring the most efficient use of the services and facilities of the two organizations. These consultations shall include determination of the most equitable manner in which special services furnished by one organization to the other should be financed.

2. To the extent consistent with the provisions of this agreement, the Fund will participate in the work of the Co-ordination Committee and its subsidiary bodies.

3. The Fund will furnish to the United Nations copies of the annual report and the quarterly financial statements prepared by the Fund pursuant to section 7 (a) of article V of its Articles of Agreement. The United Nations agrees that, in the interpretation of paragraph 3 of Article 17 of the United Nations Charter it will take into consideration that the Fund does not rely for its annual budget upon contributions from its members, and that the appropriate authorities of the Fund enjoy full autonomy in deciding the form and content of such budget.

4. The officials of the Fund shall have the right to use the *laissez-passer* of the United Nations in accordance with special arrangements to be negotiated between the Secretary-General of the United Nations and the competent authorities of the Fund.

## ARTICLE XI

*Agreements with other Organizations*

The Fund will inform the Economic and Social Council of any formal agreement which the Fund shall enter into with any specialized agency, and in particular agrees to inform the Council of the nature and scope of any such agreement before it is concluded.

## ARTICLE XII

*Liaison*

1. The United Nations and the Fund agree to the foregoing provisions in the belief that they will contribute to the maintenance of effective cooperation between the two organizations. Each agrees that it will establish within its own organization such administrative machinery as may be necessary to make the liaison, as provided for in this agreement, fully effective.

2. The arrangements provided for in the foregoing articles of this agreement shall apply, as far as is appropriate, to relations between such branch or regional offices as may be established by the two organizations, as well as between their central machinery.

## ARTICLE XIII

*Miscellaneous*

1. The Secretary-General of the United Nations and the Managing Director of the Fund are authorized to make such supplementary arrangements as they shall deem necessary or proper to carry fully into effect the purposes of this agreement.

2. This agreement shall be subject to revision by agreement between the United Nations and the Fund from the date of its entry into force.

3. This agreement may be terminated by either party thereto on six months' written notice to the other party, and thereupon all rights and obligations of both parties hereunder shall cease.

4. This agreement shall come into force when it shall have been approved by the General Assembly of the United Nations and the Board of Governors of the Fund.

TEXT OF AGREEMENT BETWEEN THE UNITED NATIONS AND THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOP-  
MENT

(Approved by the Board of Governors, September 16, 1947, and the United Nations General Assembly, November 15, 1947)

## ARTICLE I

## GENERAL

1. This Agreement, which is entered into by the United Nations pursuant to the provisions of Article 63 of its Charter, and by the International Bank for Reconstruction and Development (hereinafter called the Bank) pursuant to the provisions of Section 8(a) of Article V of its Articles of Agreement, is intended to define the terms on which the United Nations and the Bank shall be brought into relationship.

2. The Bank is a specialized agency established by agreement among its member governments and having wide international responsibilities, as defined in its Articles of Agreement, in economic and related fields within the meaning of Article 57 of the Charter of the United Nations. By reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Bank is, and is required to function as, an independent international organization.

3. The United Nations and the Bank are subject to certain necessary limitations for the safeguarding of confidential material furnished to them by their members or others, and nothing in this Agreement shall be construed to require either of them to furnish any information the furnishing of which would, in its judgment, constitute a violation of the confidence of any of its members or anyone from whom it shall have received such information, or which would otherwise interfere with the orderly conduct of its operations.

## ARTICLE II

## RECIPROCAL REPRESENTATION

1. Representatives of the United Nations shall be entitled to attend, and to participate without vote in, meetings of the Board of Governors of the Bank. Representatives of the United Nations shall be invited to participate without vote in meetings especially called by the Bank for the particular purpose of considering the United Nations point of view in matters of concern to the United Nations.

2. Representatives of the Bank shall be entitled to attend meetings of the General Assembly of the United Nations for purposes of consultation.

3. Representatives of the Bank shall be entitled to attend, and to participate without vote in, meetings of the committees of the General Assembly, meetings of the Economic and Social Council, of the Trusteeship Council and of their respective subsidiary bodies, dealing with matters in which the Bank has an interest.

4. Sufficient advance notice of these meetings and their agenda shall be given so that, in consultation, arrangements can be made for adequate representation.

## ARTICLE III

## PROPOSAL OF AGENDA ITEMS

In preparing the agenda for meetings of the Board of Governors, the Bank will give due consideration to the inclusion on the agenda of items proposed by the United Nations. Similarly, the Council and its Commissions and the Trusteeship Council will give due consideration to the inclusion on their agenda of items proposed by the Bank.

## ARTICLE IV

## CONSULTATION AND RECOMMENDATIONS

1. The United Nations and the Bank shall consult together and exchange views on matters of mutual interest.

2. Neither organization, nor any of their subsidiary bodies, will present any formal recommendations to the other without reasonable prior consultation with regard thereto. Any formal recommendations made by either organization after such consultation will be considered as soon as possible by the appropriate organ of the other.

3. The United Nations recognizes that the action to be taken by the Bank on any loan is a matter to be determined by the independent exercise of the Bank's own judgment in accordance with the Bank's Articles of Agreement. The United Nations recognizes, therefore, that it would be sound policy to refrain from making recommendations to the Bank with respect to particular loans or with respect to terms or conditions of financing by the Bank. The Bank recognizes that the United Nations and its organs may appropriately make recommendations with respect to the technical aspects of reconstruction or development plans, programs or projects.

## ARTICLE V

## EXCHANGE OF INFORMATION

The United Nations and the Bank will, to the fullest extent practicable and subject to paragraph 3 of Article I, arrange for the current exchange of information and publications of mutual interest, and the furnishing of special reports and studies upon request.

## ARTICLE VI

## SECURITY COUNCIL

1. The Bank takes note of the obligation assumed, under paragraph 2 of Article 48 of the United Nations Charter, by such of its members as are also members of the United Nations, to carry out the decisions of the Security Council through their action in the appropriate specialized agencies of which they are members, and will, in the conduct of its activities, have due regard for

decisions of the Security Council under Articles 41 and 42 of the United Nations Charter.

2. The Bank agrees to assist the Security Council by furnishing to it information in accordance with the provisions of Article V of this Agreement.

#### ARTICLE VII

##### ASSISTANCE TO THE TRUSTEESHIP COUNCIL

The Bank agrees to co-operate with the Trusteeship Council in the carrying out of its functions by furnishing information and technical assistance upon request and in such other similar ways as may be consistent with the Articles of Agreement of the Bank.

#### ARTICLE VIII

##### INTERNATIONAL COURT OF JUSTICE

The General Assembly of the United Nations hereby authorizes the Bank to request advisory opinions of the International Court of Justice on any legal questions arising within the scope of the Bank's activities other than questions relating to the relationship between the Bank and the United Nations or any specialized agency. Whenever the Bank shall request the Court for an advisory opinion, the Bank will inform the Economic and Social Council of the request.

#### ARTICLE IX

##### STATISTICAL SERVICES

1. In the interest of efficiency and for the purpose of reducing the burden on national governments and other organizations, the United Nations and the Bank agree to co-operate in eliminating unnecessary duplication in the collection, analysis, publication and dissemination of statistical information.

2. The Bank recognizes the United Nations as the central agency for the collection, analysis, publication, standardization and improvement of statistics serving the general purposes of international organizations, without prejudice to the right of the Bank to concern itself with any statistics so far as they may be essential for its own purposes.

3. The United Nations recognizes the Bank as the appropriate agency for the collection, analysis, publication, standardization and improvement of statistics within its special sphere, without prejudice to the right of the United Nations to concern itself with any statistics so far as they may be essential for its own purposes.

4. (a) In its statistical activities the Bank agrees to give full consideration to the requirements of the United Nations and of the specialized agencies.

(b) In its statistical activities the United Nations agrees to give full consideration to the requirements of the Bank.

5. The United Nations and the Bank agree to furnish each other promptly with all their non-confidential statistical information.

#### ARTICLE X

##### ADMINISTRATIVE RELATIONSHIPS

1. The United Nations and the Bank will consult from time to time concerning personnel and other administrative matters of mutual interest with a view to securing as much uniformity in these matters as they shall find practicable and to assuring the most efficient use of the services and facilities of the two organizations. These consultations shall include determination of the most equitable manner in which special services furnished by one organization to the other should be financed.

2. To the extent consistent with the provisions of this Agreement, the Bank will participate in the work of the Coordination Committee and its subsidiary bodies.

3. The Bank will furnish to the United Nations copies of the annual report and the quarterly financial statements prepared by the Bank pursuant to Section 13 (a) of Article V of its Articles of Agreement. The United Nations agrees that, in the interpretation of paragraph 3 of Article 17 of the United Nations

Charter it will take into consideration that the Bank does not rely for its annual budget upon contributions from its members, and that the appropriate authorities of the Bank enjoy full autonomy in deciding the form and content of such budget.

4. The officials of the Bank shall have the right to use the *laissez passer* of the United Nations in accordance with special arrangements to be negotiated between the Secretary-General of the United Nations and the competent authorities of the Bank.

#### ARTICLE XI

##### AGREEMENTS WITH OTHER ORGANIZATIONS

The Bank will inform the Economic and Social Council of any formal agreement which the Bank shall enter into with any specialized agency and in particular agrees to inform the Council of the nature and scope of any such agreement before it is concluded.

#### ARTICLE XII

##### LIAISON

1. The United Nations and the Bank agree to the foregoing provisions in the belief that they will contribute to the maintenance of effective cooperation between the two organizations. Each agrees that it will establish within its own organization such administrative machinery as may be necessary to make the liaison, as provided for in this Agreement, fully effective.

2. The arrangements provided for in the foregoing Articles of this Agreement shall apply as far as appropriate to relations between such branch or regional offices as may be established by the two organizations, as well as between their central machinery.

#### ARTICLE XIII

##### MISCELLANEOUS

1. The Secretary-General of the United Nations and the President of the Bank are authorized to make such supplementary arrangements as they shall deem necessary or proper to carry fully into effect the purposes of this Agreement.

2. This Agreement shall be subject to revision by agreement between the United Nations and the Bank from the date of its entry into force.

3. This Agreement may be terminated by either party thereto on six months written notice to the other party and thereupon all rights and obligations of both parties hereunder shall cease.

4. This Agreement shall come into force when it shall have been approved by the General Assembly of the United Nations and the Board of Governors of the Bank.

Secretary DILLON. They were both created before the United Nations, so they preceded the United Nations.

They are independent and have their own independent resources, but they do have a working agreement governing their relationship, and they voluntarily report to the U.N. once a year.

Now, the Bank and the Fund have no direct relationship with each other except that one cannot be a member of the World Bank without first being a member of the Monetary Fund. That is a prerequisite for membership in the World Bank.

Senator CAPEHART. Can you be a member of the World Bank without being a member of the United Nations?

Secretary DILLON. Yes.

Senator CAPEHART. Well, does the United Nations have any veto over the actions of the World Bank?

Secretary DILLON. None whatsoever; no.

Senator CAPEHART. Then it is not quite clear what connection they do have, is it?

Secretary DILLON. It is just a cooperative reporting arrangement. There is no connection as regards a legal obligation to be subservient in any way or subordinate in any way to the United Nations.

COUNTRIES WHICH HAVE BORROWED FROM THE FUND

Senator CAPEHART. What countries have borrowed money so far through the International Monetary Fund?

Secretary DILLON. Oh, a great many countries. I would be glad to put a list in for the record.

(The list referred to follows:)

*IMF member countries that have made drawings (as of February 28, 1962)*

Argentina	Ethiopia	Norway
Australia	Finland	Pakistan
Belgium	France	Paraguay
Bolivia	Haiti	Peru
Brazil	Honduras	Philippines
Burma	Iceland	South Africa
Ceylon	India	Spain
Chile	Indonesia	Sudan
Colombia	Iran	Syria
Costa Rica	Israel	Turkey
Cuba	Japan	United Arab Republic:
Denmark	Mexico	Egypt
Dominican Republic	Morocco	United Kingdom
Ecuador	Netherlands	Yugoslavia
El Salvador	Nicaragua	

RECENT AMOUNTS BORROWED BY UNITED KINGDOM

Secretary DILLON. I think we all know the most recent large borrow was the United Kingdom.

Senator CAPEHART. What was that amount? Do you know?

Secretary DILLON. They borrowed \$1½ billion in cash, plus a standby agreement, which they did not have to utilize so far, of \$500 million, a total line of credit of—

Senator CAPEHART. What currency was that in?

Secretary DILLON. They borrowed that in a number of currencies: \$450 million of it was in dollars. There was \$270 million each in deutsche marks and French francs, but I can give you the whole list. They borrowed about eight different currencies.

(The list referred to follows:)

*Currency composition of United Kingdom drawing on IMF—August 1961*

	<i>Million</i>
U.S. dollars.....	\$450
Deutsche marks.....	270
French francs.....	270
Italian lire.....	120
Netherlands guilders.....	120
Belgian francs.....	90
Japanese yen.....	75
Canadian dollars.....	75
Swedish kroner.....	30
<b>Total.....</b>	<b>1,500</b>

## U.S. TRANSACTIONS WITH THE FUND

Senator CAPEHART. How much money do we, at the moment, have in the Monetary Fund?

Secretary DILLON. We have in the Monetary Fund ourselves, at the moment, \$4,125 million, of which just over \$1 billion, or a quarter of it—\$1,030,000,000-odd—was paid in gold. The rest is in non-interest-bearing securities and notes and is used by the Fund as needed to make its advances to other countries.

Senator CAPEHART. But we have an investment at the moment of over \$4 billion?

Secretary DILLON. That is right.

Senator CAPEHART. Have we ever borrowed any money from the Fund?

Secretary DILLON. No, we never have.

Senator CAPEHART. Do you anticipate that we will, in the near future, borrow money from the Fund?

Secretary DILLON. No, I do not, but I think we should be in a position where, if we needed to, we would be able to do so. And that is the purpose of this legislation. I do not anticipate, though, any borrowing.

## REASON FOR LEGISLATION REQUEST

Senator CAPEHART. Well, how much additional money will be put into the Fund as a result of this legislation?

Secretary DILLON. As a result of this legislation we will undertake a contingent commitment to loan to the Fund, under certain circumstances, an additional \$2 billion.

We will not immediately put anything additional in, and it is highly unlikely in the foreseeable future that this will ever be called upon. It could only be called upon if the Fund ran short of dollars, and it has over \$2½ billion now. The only way they could really run short of dollars would be if there was a major imbalance-of-payments crisis, affecting all the major countries of the Continent of Europe, all at the same time, and that is certainly the complete opposite of the present monetary situation.

Senator CAPEHART. You say it has \$2½ billion in dollars at the moment?

Secretary DILLON. Yes.

Senator CAPEHART. Then why do you feel it is necessary for us to make a commitment of another \$2 billion?

Secretary DILLON. Well the reason for this is, Senator, this is a cooperative arrangement between these particular 10 countries. The funds that they agree to put up are available for the restricted purpose of being loaned through the Fund to these 10 member countries and not anybody else. It is not a general increase in the resources of the Monetary Fund, and unless we were one of these countries, the way it is set up, we could not benefit in this thing.

Now the other countries, who are in this Fund and who have put up far more than we have, all they have asked in return is that we ought to put something up because maybe sometime the monetary situation that presently exists will turn upside down—all of Europe might be in very bad trouble at the same time—and there might be a need for extra dollars.

## U.S. BALANCE-OF-PAYMENTS DEFICIT

Senator CAPEHART. Well what major countries at the moment have an imbalance of trade?

Secretary DILLON. Of what?

Senator CAPEHART. Have an unfavorable balance of payments?

Secretary DILLON. Have a deficit?

Senator CAPEHART. Yes; what major countries at the moment—

Secretary DILLON. Well I think the United States, among the major countries at the moment, is the only one.

The British have had from time to time an imbalance of payments, but they just reported last year they had a very small basic surplus in the second half.

Senator CAPEHART. In other words, the United States is the only one of the major countries at the moment which has an imbalance of trade?

Secretary DILLON. That is correct—oh, Japan also does. I am sorry.

Senator CAPEHART. Japan and the United States?

Secretary DILLON. Yes.

Senator CAPEHART. What was our imbalance of trade, say, for the last 2 years?

Secretary DILLON. Well we had a basic balance-of-payments deficit 2 years ago of \$1.9 billion, and last year of \$600 million.

These were increased by substantial short-term capital outflows to a total overall figure of \$3.9 billion in 1960 and \$2.45 billion last year.

## FAVORABLE U.S. BALANCE-OF-TRADE POSITION

The CHAIRMAN. Will the Senator yield there for a clarification?

Senator CAPEHART. Yes.

The CHAIRMAN. When you refer to the "balance of trade," is there not a difference between a deficit in the balance of trade and one in the balance of payments?

Senator CAPEHART. I corrected it to "balance of payments."

Secretary DILLON. I think that is what the Senator meant.

The CHAIRMAN. Well you used the word "trade" and in trade alone there has not been a deficit.

Secretary DILLON. Oh, no.

Senator CAPEHART. You mean the trade in physical things?

Secretary DILLON. That is right.

Senator CAPEHART. We have a surplus?

Secretary DILLON. We have a continuing surplus.

## FACTORS CONSTITUTING UNFAVORABLE U.S. BALANCE-OF-PAYMENTS POSITION

Senator CAPEHART. How does our imbalance then occur?

Secretary DILLON. Our imbalance then occurs because we have a substantial responsibility in defense around the world. We keep many troops overseas. That costs us about \$3 billion a year.

We have substantial outflows of long-term capital. We are investing heavily around the world. That is some \$2½ billion a year.

We have, also, foreign aid programs. While we are trying to limit them as much as possible, the purchases not made here in the United

States last year accounted for \$1.3 billion. There were large purchases outside the United States.

All of these items combined require us to enlarge our surplus on trade, since we wound up with a deficit.

Senator CAPEHART. Well you—

Secretary DILLON. There has been a deficit for the last few years.

## U.S. GOLD LOSS

Senator CAPEHART. Of course, as a result of this, we have had an imbalance of payments likewise in the loss of gold?

Secretary DILLON. That is correct.

Senator CAPEHART. And our gold now is down to about \$16½ billion?

Secretary DILLON. \$16.6 billion.

Senator CAPEHART. \$16.6 billion. Are we still losing gold?

Secretary DILLON. We have, during the first quarter of this year. Our gold loss has been \$280 million, which is large in comparison with our balance-of-payments overall deficit in the same period, and it will probably prove to be the major part of our overall deficit for the first 3 months of the year. The main reason for this has been a realignment of monetary reserves in other countries. So while capital has flowed from Europe to the United Kingdom, and since the United Kingdom habitually always keeps their reserves in gold, that resulted in drainings on our gold stock.

The United Kingdom, you may notice, has recently reduced their bank rate from 6 to 5 percent which may slow up very large inflows.

Senator CAPEHART. How many dollars do foreign governments and foreign individuals have in the United States?

Secretary DILLON. Foreign officials—governments and central banks—had just about \$11 billion in short-term dollar assets at the end of last year and foreign individuals, in addition, had about \$8 billion more.

Senator CAPEHART. So that is about \$19 billion?

Secretary DILLON. About \$19 billion.

Senator CAPEHART. Is that the total call of our gold, \$19 billion?

Secretary DILLON. I would say that is probably the most accurate figure.

That does not take account of foreign holdings of Treasury bonds and notes or of dollars that are held by international institutions, but these institutions do not habitually call on gold.

Senator CAPEHART. I see the figure of \$23 billion.

Secretary DILLON. That would include, you see, the \$3 billion in the International Monetary Fund.

Senator CAPEHART. And foreign relations, foreign institutions, and foreign individuals have a call on our gold up to \$23 billion?

Secretary DILLON. Probably, technically, but these international institutions do not operate that way.

Senator CAPEHART. But they technically have—

Secretary DILLON. Technically, I think, that is correct.

Senator CAPEHART. What is the amount of gold required to maintain our currency?

Secretary DILLON. Under the 25 percent requirement, it is currently around \$11.75 billion.

Senator CAPEHART. \$11.75 billion.

Do you think you could stop this imbalance of payments and outflow of gold?

Secretary DILLON. Yes. We definitely plan to. We are working toward that end. I submitted a rather detailed report to the President the other day, which he transmitted to the Congress, showing for last year a very drastic improvement already in our basic balance.

We hope that improvement will continue this year. We are making very real efforts to offset and reduce the cost of maintaining our troops abroad, and I think we are having very real success in that area. I think that there will be probably some decrease in capital outflows, and there also should be some decrease in foreign aid outflows, as the policies that were adopted a number of years ago, of spending money only in the United States have time to really take effect.

But this will leave a necessity of improving our export surplus by some reasonable amount, somewhere between half a billion and \$1 billion a year. I think that is possible with the big efforts that are now being put into that area.

#### REASON FOR \$2 BILLION REQUEST

Senator CAPEHART. Well, then the reason for this additional \$2 billion is really like one going to a bank and establishing credit, borrowing in advance in case he may need it later?

Secretary DILLON. That is exactly—

Senator CAPEHART. And the reason we are doing this is that we anticipate that as a result of this imbalance of payments and the loss of gold that we may need to call upon this Fund.

Is that right?

Secretary DILLON. That is about right, but we have seen in the last few years—since currency convertibility, which after all is a relatively new thing, starting only in early 1959—that the short-term flows are very much larger than people thought before and do require larger resources to take care of them. That is what this is for, to strengthen us for that purpose.

Senator CAPEHART. Should we not couple this reserve that we are talking about, this credit that we are talking about that we hope we will never need but that we might need, with a reduction in our foreign expenditures and attack it from that angle, too?

Secretary DILLON. Oh, very much so. That is why I said we have been working very hard in our military expenditures and felt that we would have very real results there.

Senator CAPEHART. That is all.

The CHAIRMAN. The Senator from Kansas?

#### THE FUND AS A U.S. RESERVE RESOURCE

Senator CARLSON. Mr. Secretary, you stated, I believe, that we have not used the Fund as yet.

Secretary DILLON. We have never drawn on the Fund.

Senator CARLSON. Well, in view of that statement, why should we expand it at the present time, in view of the fact that we have not needed it?

Are you just asking us to increase this Fund with the thought that we may need large withdrawals from it or—

Secretary DILLON. The reason for that, I think, is simply that we now can foresee, in view of these great, sharp movements of funds, which are not always for business reasons but sometimes for political reasons from country to country, that there might be a sudden sharp demand for dollars that would require our using the Fund as a second line of reserve, as we have every right to do.

We have not needed to do it yet. If we should, if that occasion should occur, our drawing rights are very large in the Fund. But, unfortunately, they are paper rights at the moment because the Fund has not got the money to meet them.

If we asked for the drawing rights, and this arrangement will provide that money if it ever should be necessary, we would be in the same position as every other country is in now if we want to go in and exercise our right to draw. Then we can have it met.

Senator CAPEHART. If the Senator will yield, he is doing what I think I learned to do as a businessman.

When I did not need the money, then is when I arranged to borrow it, and arranged for my credit, because I discovered a couple of times that I had waited too late because I really needed it and it was then awfully hard to get.

Secretary DILLON. That is correct; you have to have it all set up so you can operate very rapidly if you need it.

Senator CARLSON. Well, following the Senator's suggestion, my thinking was this: I think everyone who follows our fiscal situation is concerned about the withdrawal of gold. I know the Secretary is because I have heard him express himself on this.

Now, we have a Fund. We are going to increase it greatly.

Would not that be a temptation to not really make every sincere effort we can to preserve our balance of gold in this country?

Secretary DILLON. No, not at all, because, as I pointed out, the Fund is only available to meet the short-term movements, temporary movements, to give someone a little time to put their house in order, and is not a cure for the balance-of-payments deficit.

It does not hold itself out as such, and we have to, and will, continue to work in every way, to work in every way possible, to help our balance of payments, which we are doing all the time. This is only one element that is certainly not the only element, or even the main element.

It is an element, however, which would give us knowledge, and the certainty, that if there should be one of these short-term scares, such as occurred a few years ago, in the fall of 1960, that we would be in a position, if needed, to draw from the Fund.

We think one thing that is very important is that with this currency convertibility there is greater opportunity in the world market-places for speculation on currencies, and it is very useful for the speculators to know that the resources are available to handle any possible attack on the dollar.

And we think this will greatly diminish the possibility of this ever being needed.

## POSSIBILITY OF INVITING CARELESS FISCAL POLICIES

Senator CARLSON. Well, I know this would not be true of the present Secretary of the Treasury but, looking to the future, I can see why some folks might say, "Well, we have no problems now, but we have a Fund here to take care of any problems that arise and so why not be a little careless?"

That is one thing that concerns me.

Secretary DILLON. Well, I think that is a very real question, but there is an answer to that, and that is that any drawings from the Fund of the type we have been talking about, which we would have a right to, can only be made under the terms and provisions of the Fund. And while they are very free in allowing these drawings up to the extent of the original gold contribution of a country, as you begin to get beyond that they do require a performance on the part of the borrower and, as the Chairman pointed out, that is one of the most important things about the Fund.

So no one could count on borrowing a very large amount of money unless they were prepared and willing to put their house in order at home, and also to indicate that they were going to correct their imbalance of payments.

Senator CARLSON. Well, now, you stated that our withdrawals would be based or could be based, at least, on our contributions in gold.

Is it not true that over 50 percent of our contribution to this Fund is in our own gold?

Secretary DILLON. No, our contribution to the Fund was \$4 billion, altogether, and we paid in \$1 billion of that in gold and \$3 billion in dollars. That first \$1 billion in the Fund is practically automatic in a drawing if this country feels it needs it.

It is only when it gets beyond that, and the resources that are required beyond that, that the Fund begins to press for significant action by the country. And the more money they want, the more action they press for.

Also, any borrowing from the Fund has to be repaid in 3 to 5 years. It is a temporary thing there. It is not any invitation to careless fiscal policies because they would not be allowed to carry these borrowings on for any length of time by the Fund.

## U.S. GOLD CONTRIBUTIONS TO THE FUND

Senator CARLSON. In your statement you said that the U.S. quota is \$4.125 billion, one-quarter of which the United States paid to the Fund in gold.

Secretary DILLON. That is right.

Senator CARLSON. Later on you said:

On December 31, 1961, the Fund had available to it \$2.1 billion in gold and \$11.5 billion in member currencies.

Would that not mean that we had contributed 50 percent of the gold to this Fund?

Secretary DILLON. Oh, I see, you mean 50 percent of the presently available gold?

Senator CARLSON. Yes.

Secretary DILLON. Well, I do not think so because the Fund has received more gold than the \$2 billion that presently remains, and in order to acquire needed currencies, in order to make some interest-bearing investments, they have disposed of some of the gold.

The total amount of gold that the Fund originally acquired, by countries' subscriptions, is about \$3 billion. The United States put in about a third, because we have about a third interest in the Fund, just under 30 percent.

#### TYPES OF CONTRIBUTIONS CONTEMPLATED BY LEGISLATION

Senator CARLSON. You said to the chairman that this proposal would require no transfer of gold.

Now, under this arrangement, would there be any additions to this Fund in the form of gold?

Is our next contribution going to be in currency?

Secretary DILLON. Under this borrowing arrangement this would all be in currencies that are needed.

As I said, there are very inadequate resources in the currencies of the continental European countries such as the deutsche mark, the French franc, and these assets will be greatly increased, and they would, of course, under present circumstances, be very useful to us if we ever needed a drawing.

The Fund does continually get a small amount of gold because, under its provisions, interest on its loans are generally payable in gold, and I think last year they received some \$45 million in gold from various people. And whenever a new country joins they have to pay a quarter of their quota in gold, and they do.

#### U.S. GOLD WITHDRAWALS

Senator CARLSON. Mr. Chairman, I have heard the Secretary testify many times, and I was just concerned on this point. He is familiar with this situation, and I appreciate that he is, because I think he is vitally concerned.

I noticed this morning on the financial pages, and I think that was the Secretary's response to Mr. Caphart, that our gold holdings were down to 16.6 million in this country, and this article said that we have had rather substantial withdrawals this year which is not too encouraging.

Secretary DILLON. Well, as I pointed out, this has been the case this year. The withdrawals in gold have been the major part of our actual deficit, but that has not been caused by anything that we have been doing. It has been caused by the shifting of reserves between continental countries, such as Germany, which generally keeps a portion of their reserves in dollars, to England which traditionally keeps all of their reserves in gold.

So when this reserve shifts the British wish to buy gold with it.

Senator CARLSON. Well, I think this is one of the important problems facing our Nation.

Thank you, Mr. Chairman.

## COUNTRIES AFFECTED BY THE AMENDMENT

The CHAIRMAN. Mr. Secretary, will this amendment affect only the rights of the 10 participating members or does it affect the others' rights to borrow?

Secretary DILLON. It does not affect others at all. It is very carefully insulated.

The CHAIRMAN. In other words, the other 65 members cannot obtain any larger rights under this proposal?

Secretary DILLON. No. This is specifically designed to deal with the crises that might impair the functioning of the world monetary system.

So it only includes countries that have substantially important currencies.

The CHAIRMAN. And I believe you said that it would be very discouraging to speculation against the dollar, too?

Secretary DILLON. To have this in effect, oh, very much so.

## COMMENT ON OPPOSITION EXPRESSED TO THE PROPOSED AMENDMENT

The CHAIRMAN. Mr. Secretary, I have a telegram here which I would like you to comment on.

It is a request to appear in opposition to this bill. It says:

Permission is requested for the Citizens Foreign Aid Committee to submit a statement on S. 2824 to amend the Bretton Woods Agreement in view of the fact that this bill would increase foreign claims on dollars. This is in effect foreign aid and is regarded with disfavor by this committee.

It is signed by General Bonner Fellers, the national chairman.

Is that a correct statement as to what this bill does?

Secretary DILLON. No, in fact, it is upside down.

The basic advantage of this bill is to allow us to join in an agreement which would make available, if needed, very substantial additional quantities of funds from other countries to the United States. And other countries are putting in, in total, \$4 billion compared to the \$2 billion that we are putting up.

Our commitment is conditioned on the need of the Fund for dollars. It already has \$2½ billion. So it is hard to see that that need will come very early.

It is also conditioned on our balance-of-payments situation. As long as we are in balance-of-payments difficulties, there is no obligation to put up any funds, and that is the situation now.

So, under present circumstances, it does not increase our liabilities at all, and will not until such time as these other conditions are met.

The CHAIRMAN. And by no stretch of the imagination can this be considered a foreign aid program?

Secretary DILLON. None whatsoever.

The CHAIRMAN. We have another letter—

Senator CARLSON. Before you leave that, did they request you to put a statement in the record or did they want to appear here?

The CHAIRMAN. The Citizens Foreign Aid Committee requested permission to submit a statement.

Senator CARLSON. I would hope that the chairman would have that letter placed in the record, if they requested it be included as a part of the hearings.

The CHAIRMAN. Yes; I contemplate asking him, in reply to this, to submit a statement, but if he wishes to appear on Tuesday morning for the usual 10 minutes for public witnesses, he may. But I thought since the Secretary was here I would like him to comment on the statement made in the request.

I will put the whole telegram in the record.  
(The telegram referred to follows:)

WASHINGTON, D.C., March 29, 1962.

Hon. J. W. FULBRIGHT,  
*Chairman, Senate Foreign Relations Committee,*  
*U.S. Senate, Washington, D.C.:*

Permission is requested for the Citizens Foreign Aid Committee to submit a statement on S. 2824, to amend the Bretton Woods agreement. In view of the fact that this bill would increase foreign claims on dollars this is in effect foreign aid and is regarded with disfavor by this committee.

BONNER FELLERS,  
*National Chairman, Citizens Foreign Aid Committee.*

#### RESOLUTION OF THE AMERICAN BANKERS ASSOCIATION

The CHAIRMAN. I also have a letter here from the American Bankers Association, signed by Charles E. Walker, which the reporter will put in the record at this point.

(The letter referred to follows:)

THE AMERICAN BANKERS ASSOCIATION,  
*New York, N.Y., March 23, 1962.*

Hon. J. W. FULBRIGHT,  
*Chairman, Committee on Foreign Relations,*  
*U.S. Senate, Washington, D.C.*

DEAR MR. CHAIRMAN: Mr. Sam M. Fleming, president of the American Bankers Association, has asked me to send you the enclosed copy of a resolution, adopted by the ABA in October 1961, endorsing an increase in the resources of the International Monetary Fund in order to help minimize pressures resulting from large international movements of short-term funds. It is our understanding that S. 2824, now being considered by your committee, would permit the United States to participate in such an arrangement in a manner consistent with the ABA resolution.

The resolution is being sent to you for your use as you may see fit.

Yours sincerely,

CHARLES E. WALKER.

#### INTERNATIONAL MONETARY FUND

Resolution adopted at the second general session of the 87th annual convention of the American Bankers Association, San Francisco, October 18, 1961

The Treasury and the officials of the IMF are to be commended on their efforts to find more acceptable ways to minimize pressures that result from large movements of short-term funds among world financial markets. Proposals have been advanced to increase the resources available to the International Monetary Fund for this purpose. Careful and arduous negotiations will be required to reconcile differing positions and to reach agreement on details, but the reasonable prospects are that a workable agreement will be developed in the months ahead.

Action along this line would be a very useful precautionary measure. A major contribution of the proposed IMF arrangement is that it would give to a country whose currency is under pressure additional time in which to make necessary adjustments in its balance-of-payments position. However, the proposal would not relieve any country, including the United States, of the need to avoid chronic deficits in its balance of payments.

## FURTHER OPPOSITION

The CHAIRMAN. I also have received a letter from Groseclose, Williams & Associates, which is in opposition to it.

There is one statement I would like the Secretary to comment on. It says:

The legislation in essence is another step in the demonetization of gold and the substitution of governmental fiat for an intrinsic value in our currency system. We do not believe that the economy and livelihood of a nation can be maintained in a healthy state under any such theory and policy. A stable price level—a main object of monetary policy—can, as British experience prior to 1914 proved, be maintained only under conditions of a gold-based and fully convertible currency, and the present legislation, and other legislation like it, only tend to extend and solidify the unfortunate and deleterious system of managed money.

Would you say that is a correct statement?

Secretary DILLON. No.

The CHAIRMAN. It is incorrect?

Mr. Reporter, put this entire letter in the record.

(The letter referred to follows:)

GROSECLOSE, WILLIAMS & ASSOCIATES,  
Washington D.C., March 29, 1962.

In re S. 2824, to amend Bretton Woods Agreements Act.

HON. J. WILLIAM FULBRIGHT,  
Chairman, Senate Foreign Relations Committee, Washington, D.C.

MY DEAR SENATOR FULBRIGHT: I am requested by Mr. E. K. Barnes, president, Northwest Mining Association, West 522 First Avenue, Spokane, Wash., to file with the committee on behalf of the association the following statement in opposition to S. 2824, and to request that the statement be made a part of the hearings record:

## STATEMENT ON S. 2824, TO AMEND BRETTON WOODS AGREEMENTS ACT

"The Northwest Mining Association registers its opposition to S. 2824, to amend the Bretton Woods Agreements Act to authorize the United States to participate in loans to the International Monetary Fund and to authorize the Secretary of the Treasury to make loans to the International Monetary Fund up to \$2 billion when appropriated. Opposition to the bill is based on the following grounds:

"1. The legislation, if enacted and implemented, would increase the strain on the dollar rather than strengthen it. It would add \$2 billion to foreign claims on U.S. gold at a time when such short term claims are already in excess of \$22.5 billion and the gold supply is steadily dwindling and is now less than \$16.7 billion.

"2. The tacit purpose of the legislation is to strengthen the dollar internationally by providing access to other strong currencies. It sets up what has been officially described as a 'standby' credit. This is an erroneous use of language and the arrangement is an illusion. It is an illusion for the reason that access to such currencies will not be automatic but must be approved by the sovereignties whose currencies are affected. A 'standby' credit is one in which funds are available on call, or demand. The officials of these sovereignties, notably Germany and France, have made clear that their funds will not be available automatically.

"3. The legislation will only palliate the existing dollar crisis, and will permit the administration to postpone any basic solutions to the gold outflow and the balance of payments deficit.

"4. Despite the favorable legal opinions offered by various law officials of the administration, the agreements entered into by the Federal Reserve Board with foreign central banks, which this legislation seeks to confirm and legitimize, have an odor of illegality and unconstitutionality and the passage of such legislation will only encourage such ultra vires actions in future.

"5. The legislation in essence is another step in the demonetization of gold and the substitution of governmental fiat for an intrinsic value in our currency system. We do not believe that the economy and livelihood of a nation can be maintained in a healthy state under any such theory and policy. A stable price level—a main object of monetary policy—can, as British experience prior to 1914 proved, be maintained only under conditions of a gold-based and fully convertible currency, and the present legislation, and other legislation like it, only tend to extend and solidify the unfortunate and deleterious system of managed money."

The foregoing is submitted on behalf of the Northwest Mining Association.  
Very truly yours,

ELGIN GROSECLOSE.

#### RELATIONS OF THE FUND WITH SWITZERLAND

The CHAIRMAN. Mr. Secretary, does the fact that Switzerland, which is a major financial center, is not a member of the IMF create any measurable difficulties, especially regarding short-term flows of capital?

Secretary DILLON. No, it does not. We are cooperating very closely with the Swiss Government. The Swiss are a member of the OECD working party that deals with monetary matters, and we meet with the Swiss. We have monthly meetings of the central bankers that are Governors of the BIS in Basel and we have found that they have been most cooperative.

Specifically, they have been informed and are aware of the arrangements, and they are in contact with the Fund to see if they cannot work out some sort of a parallel arrangement whereby Swiss currency will also be made available in case of need even though they are not a member of the Fund.

I hope that someday they might become a member of the Fund but they have never been one.

The CHAIRMAN. Are they contemplating becoming a member?

Secretary DILLON. I do not think so at this time. They had their own reasons for not joining it at the time the Fund was set up in 1945.

I would hope that those reasons might gradually appear less cogent to them.

They are very friendly and do have very close working relationships with member countries here and the Fund itself.

Senator CARLSON. Mr. Chairman, right on that point, I heard an interesting comment the other day that these Swiss bankers were working with the Soviet Government and, through the connection with the banks, were having some effect on some of our international financial operations, in the area of balancing gold payments and so forth.

Do you know anything about that?

Secretary DILLON. I would not comment on that. I have not seen that story.

It must refer to Swiss private banks, as opposed to the Swiss governmental bank, which is what I have been talking about in connection with our monetary cooperation.

## BUDGETARY EFFECT; ROLE OF THE EXCHANGE STABILIZATION FUND

The CHAIRMAN. What effect, if any, will this bill have upon the current U.S. budget?

Secretary DILLON. It will have none.

The CHAIRMAN. I recall, I think, a story or something to the effect that the Treasury is now acting through the Federal Reserve Bank of New York in conducting foreign currency operations.

Does that have any relation to this matter at all?

Secretary DILLON. Yes, I think it does. This is another line of defense.

We started operations about a year ago through the exchange stabilization fund of the Treasury which were designed to moderate shifts in the foreign exchange market and designed to reduce the drain of dollars. And I think those operations, which have been very modest in size because of the size of the exchange stabilization fund, have been generally agreed to have been quite successful.

The Federal Reserve, with its much larger assets, has now agreed to enter into the same general field.

Now all of the central banks without exception in Europe have operated in this area for a long time, and I think it is useful for us. It will make a better international monetary market to be in this position.

## STATUS OF RATIFICATION OF AGREEMENT

The CHAIRMAN. How many of the 10 States which entered into this agreement have already approved it?

Secretary DILLON. One of them, Italy, has already completed ratification.

The others are all moving through the ratification process, and we expect that it will be completely ratified by all the other countries by early fall.

The CHAIRMAN. But you are very interested in having us act on this legislation as soon as possible?

Secretary DILLON. As soon as possible, yes.

The CHAIRMAN. Do you have anything else you would like to add?

Secretary DILLON. No, I have nothing else. Thank you, Mr. Chairman.

The CHAIRMAN. Any further questions?

Senator CARLSON. No.

The CHAIRMAN. Thank you very much, Mr. Secretary.

The committee is adjourned.

(Whereupon, at 12 o'clock noon, the committee was adjourned.)

# BRETTON WOODS AGREEMENTS ACT AMENDMENTS

TUESDAY, APRIL 3, 1962

UNITED STATES SENATE,  
COMMITTEE ON FOREIGN RELATIONS,  
*Washington, D.C.*

The committee met, pursuant to notice, at 10:30 a.m., in room F-53, U.S. Capitol Building, Senator J. W. Fulbright (chairman) presiding.

Present: Senators Fulbright, Lausche, and Wiley.

The CHAIRMAN. The committee will come to order.

The first witness this morning is Dr. Elgin Groseclose, economic consultant, Citizens Foreign Aid Committee, Washington, D.C.

Dr. Groseclose is representing, I believe, General Fellers of the Citizens Foreign Aid Committee. We received a telegram from General Fellers this week to that effect, didn't we?

Mr. GROSECLOSE. Yes; General Fellers.

The CHAIRMAN. You are representing him?

Mr. GROSECLOSE. Yes.

The CHAIRMAN. You go right ahead.

## STATEMENT OF ELGIN GROSECLOSE, ECONOMIC CONSULTANT, CITIZENS FOREIGN AID COMMITTEE, WASHINGTON, D.C.

Mr. GROSECLOSE. Mr. Chairman, and members of the committee, thank you for this privilege of appearing before you on behalf of the Citizens Foreign Aid Committee, in opposition to S. 2824. My appearance is also on behalf of the Northwest Mining Association, which has already registered with you its opposition to this bill and has authorized me to make a further statement in its behalf. My name is Elgin Groseclose and I am head of Groseclose, Williams & Associates, financial analysts and consultants of this city, and research consultants to the Citizens Foreign Aid Committee. I have been concerned with monetary problems for over 35 years since my first official post as specialist in Far Eastern finance with the U.S. Department of Commerce. I was the first financial editor of *Fortune* magazine, and during World War II served as Treasurer-General of Iran by appointment of the Iranian Parliament, with responsibilities for monetary policy, note issue and the operations of the central bank. I have taught money and banking at the College of the City of New York, and I am the author of the recently published "Money and Man," a new version of a history of money first published by the University of Oklahoma Press in 1935. A copy of this work is offered to the committee in evidence of my competence to testify on the subject before you.

## STABILITY OF DOLLAR ESSENTIAL TO FREE WORLD'S ECONOMY AND POLITICAL STABILITY

The Secretary of the Treasury has testified that the dollar is the major reserve currency of the free world and that the stability of the dollar is essential not only to the economy of the United States but to that of the entire free world. I may add not only the economy of the free world, but the political stability of the free world. Let us not forget that Hitlerism rose to power on the collapse of the gold standard and that the Hitler madness fed on the hashish of managed money.

## REASONS FOR OPPOSITION TO LEGISLATION

The Citizens Foreign Aid Committee believes that the most effective foreign aid we can render the world is to maintain a sound dollar, and it opposes this legislation because it does not strengthen but rather weakens the dollar, and because it is a form of foreign aid. The bill weakens the dollar because:

(a) It would increase rather than limit or reduce foreign claims on dollars;

(b) it palliates the balance of payments crisis instead of confronting it;

(c) it is a form of back-door financing to evade needed fiscal reforms; and

(d) finally, it is an extension of the system of managed money, a further dilution of the money system, and a move toward the demonetization of gold.

Last Friday, Mr. Chairman, you asked the Secretary of the Treasury two questions prompted by statements in opposition to this bill filed by the Citizens Foreign Aid Committee and the Northwest Mining Association. The first was whether the bill was a form of foreign aid. The second was whether it represented an extension of the system of managed money. To both questions the Secretary gave a short negative. Let us attribute this light dismissal to the lateness of the hour Friday; they are questions too serious to permit here indulgence in levity. They go to the core of the issue.

## FUND'S RESOURCES MAINLY OF WEAK CURRENCIES

It is curious that the Secretary should deny that the bill is a form of foreign aid in the light of his explanation as to why the resources of the International Monetary Fund could not be drawn upon by the United States. The Fund commands total subscription resources theoretically equivalent to \$15 billion, but actually consisting largely of weak currencies. In 1959, you will recall, the United States increased its subscription by 50 percent in order to strengthen the Fund's resources. Fifteen billion dollars sounds like a lot of money. The President, you will also recall, assured the country in his balance-of-payments message last year that we had a secondary reserve in the Fund of around \$4 billion. A member of the committee asked the Secretary Friday in effect why this bill was necessary in view of such resources and the President's assurances. The Secretary's response, as I recall, was not explicit, but the answer may be found in the Secretary's prepared statement and in the reports of the Fund itself.

Neither the \$15 billion nor even the \$4 billion referred to by the President is available to us. The Fund's resources are not available to us because they are largely locked up in the currencies of the less-developed countries.

Senator LAUSCHE. May I ask a question at this point, Mr. Chairman?

The CHAIRMAN. Yes.

Senator LAUSCHE. Are you saying that if these were hard currencies, and were in the possession of the Monetary Fund, they would be available to us?

Mr. GROSECLOSE. Yes, I think so.

Senator LAUSCHE. But because they are soft, they are of no utility.

Mr. GROSECLOSE. That is the Secretary's statement. He said they are not the kind that we can use.

Senator LAUSCHE. Thank you.

Mr. GROSECLOSE. The United States has supplied the Fund \$4.125 billion in gold and convertible currency. Over the years the Fund has been exchanging these strong dollars for the weak currencies of the world, giving sound fruit for culls. Of sales of good currencies by the Fund to the end of 1960, totaling \$3.7 billion, some 87 percent consisted of dollars, a minor balance consisting of European currencies and Canadian dollars. Certainly this is foreign aid, however you disguise it in the technicalities of international finance.

Senator WILEY. May I ask a question?

The CHAIRMAN. Yes.

Senator WILEY. Is this money that we speak of now—you say \$3.7 billion—in the hands of these other nations used to create a demand upon our economy?

Mr. GROSECLOSE. They can use those dollars to buy goods here, yes.

Senator WILEY. That is what I mean.

#### U.S. GOLD

Mr. GROSECLOSE. Yes, sir, they represent resources to them, or they can use them to buy gold.

Senator WILEY. In other words, these dollars come back home.

Mr. GROSECLOSE. Well, they may be taken out in the form of gold. A good deal of it has been taken out in the form of gold.

Senator WILEY. If they are taken out in the form of gold, they still are used to buy American merchandise, are they not?

Mr. GROSECLOSE. Not if they are taken out in the form of gold, Senator.

Senator WILEY. Why not?

Mr. GROSECLOSE. Well, gold is a commodity, of course. Gold is a commodity—it is buying U.S. gold. The French last week bought \$50 million worth of U.S. gold.

Senator WILEY. In other words, you are talking about other nations buying the gold in America.

Mr. GROSECLOSE. Yes.

Senator WILEY. With the credit or the dollars we have provided them.

Mr. GROSECLOSE. That is right.

Senator WILEY. That is all.

## CURRENCIES ALLOWED TO ACCUMULATE IN BALANCES IN UNITED STATES

Senator LAUSCHE. Mr. Groseclose, you don't mean to say that when the International Monetary Fund's dollars are sent to one country to stabilize their currency, those dollars must be spent in the United States mandatorily?

Mr. GROSECLOSE. Well, if they are spent, they could only be spent in the United States. But they may be left here as a deposit with the Federal Reserve, as a bank deposit, or they may be drawn out in the form of gold, or they may be used to buy American commodities. But what has happened is that we have made credits available to these foreign countries, and they have not used them to buy U.S. commodities. They have allowed them to accumulate here in balances, as the Secretary testified in his statement.

Senator LAUSCHE. Aren't the provisions of the Monetary Fund that the hard currency which the borrower gets he can use to purchase goods wherever he wants? He doesn't have to purchase American goods for the American dollar, and Canadian goods for the Canadian dollar, and Swiss goods for the Swiss franc.

Mr. GROSECLOSE. That is undoubtedly true, Senator. What I mean to say is that once these dollars are out, they may pass, say, from the Indian Government, which acquires the dollars—and which may trade them for British goods. Then the British acquire the dollars, and they may buy U.S. goods with them, or they may buy gold.

Senator LAUSCHE. They eventually come back.

Mr. GROSECLOSE. Unfortunately a good deal have been going to Germany and France, these dollars, and they have been using them to buy gold—not entirely goods. We have been trying to get them to buy more goods here.

Senator LAUSCHE. All right. Thank you very much.

Mr. GROSECLOSE. What has happened to the \$4 billion already provided by the United States to the Fund you may be sure will sooner or later happen to the \$2 billion you are now asked to supply.

## U.S. BALANCE-OF-PAYMENT DIFFICULTIES

But the Secretary assures the committee that there is little likelihood of the United States being called upon to put up this money. The real purpose of the bill, we are informed, is to give the United States access to certain strong foreign currencies in order to relieve our balance-of-payments difficulties. The inference is that our \$2 billion is analogous to the cost of a key to one of these gaslight clubs after which everything comes with the price of a drink. I am sure the committee is not so naive as to accept such an interpretation of the case.

## CURRENCY POOL AGREEMENT

Ten governments, initially, are to subscribe \$6 billion to a loan pool, of which the U.S. quota is \$2 billion. Thus, we are told, the United States will be able to acquire marks, francs, guilders, and other good currencies to meet some of our overseas bills.

Now, will these marks, francs, guilders be a gift to the United States? Even the most optimistic one-worlder must shudder at the reluctance of our allies to come to our need, as reflected in the lectures

read to us by Herr Blessing and Monsieur Baumgartner at the Vienna meeting of the Fund.

No, the agreements show these foreign currencies do not come as a gift. We have to buy them. With what? Either cash or I O U's, of course. Here is where the need for this bill enters. The committee will not be deceived. Either this currency pool agreement means that we put up \$2 billion, or the whole scheme is a sham.

#### THREAT TO THE DOLLAR

A further curiosity in the Secretary's testimony is his assurance that this device will help alleviate the balance-of-payments deficit. As you are aware—as the Secretary made clear—the threat to the dollar arises from the overhang of some \$23 billion quick claims on dollars held abroad. The solution to the problem, as must appear to any novice, is either to redeem these claims or to fund them into long-term claims so that the liability is spread out. The operation proposed by this bill does neither. It adds \$2 billion of prospective liabilities, and these liabilities are of short term. As already noted, to the extent that the Treasury obtains marks or francs, it must surrender dollars.

The net effect of this is to aggravate our balance-of-payments problem, rather than to alleviate it. For when the Treasury obtains marks or francs, they are largely spent to support our troops in Europe, but the dollars which we give in exchange are not spent but, as the thrifty French are doing, they are converted into gold and taken out of the country in specie.

#### MANAGED MONEY

The Secretary's denials, in response to the chairman's second question, that the transactions to be authorized by the bill represent an extension of managed money, is even more puzzling. By "managed money" ordinarily is meant money, the amount and value of which is governed by government fiat and manipulation, and that does not represent an intrinsic substance such as gold or silver. What the administration proposes here is that we create certain Treasury obligations or credits and that certain foreign governments will also create certain credits and that by trading these back and forth we will somehow manage to keep gold from flowing out of the country. It is hard to see how this is not the very essence of managed money. The unfortunate aspect of this proposal, as is the case with all managed money systems, is that it allows the governments to avoid dealing with the fiscal realities involved in the creation of actual wealth. In this case, it is an attempt to postpone any balancing of our payments deficit by the legerdemain of Treasury obligations.

#### LEGISLATION'S INFLATIONARY IMPACT

A final comment: A prime object of administration policy is the maintenance of stable price level. But the bill before you is, in essence, inflationary and contributes to the unsettlement of prices. It is inflationary because it creates new Government debt and provides for its monetization through the mechanism of the International Monetary Fund. By so doing it is an impetus to price inflation. We will regain stability of prices only so soon as we abandon the leger-

demand of managed money, with its paraphernalia of international monetary funds, gold pools, standby credits, and the like, and return to fully convertible money, fully backed by gold.

#### STUDY OF GREAT BRITAIN'S PRICE LEVEL DEPRECIATION

In the question read to the Secretary reference was made to the stability of the price level in Great Britain prior to 1914, during the period of free gold currency, by contrast with the steady depreciation of the price level since. Figures for the price level of Great Britain are found in Prof. Edwin W. Kemmerer's work, "Gold and the Gold Standard," a compilation based upon the studies of John Parke Young, N.J. Silberling, and Sauerbeck. They indicate that, with 1913 as a base, in the 93 years between 1821 and 1914 the index varied not more than 30 percent in either direction, that is, between a low of 72 and a high of 128. Since 1914 when Great Britain suspended the gold standard, and moved toward managed money, the pound sterling has been officially devalued between three or four times, depending on how one regards official devaluation, and the gold content has been reduced to nearly a third. The movement of prices since 1914 is not easy to trace due to the absence of reliable statistical material, but, in general, the price level may be said to have moved up some 400 percent by 1954, and another 20 percent since. Meantime the pound sterling has lost all its former stability and from being the strongest currency of the world is today one of the weakest in Europe. Last year, as the Secretary testified, the British Government had to borrow \$1.5 billion from the Fund with a standby arrangement for another half billion. The sad experience of Britain belies the assertion that the International Monetary Fund has been instrumental in the restoration of European currency stability and convertibility. Currency stability will be obtained, as Germany has demonstrated, only by fiscal honesty, hard work, and hard money.

#### NATURE OF OPPOSITION TO LEGISLATION

For the foregoing reasons, and others that could be presented if time permitted, the Citizens Foreign Aid Committee and the Northwest Mining Association oppose S. 2824 and other like bills to extend the power and authority of the International Monetary Fund, and respectfully urge the committee to report the bill unfavorably.

The CHAIRMAN. Senator Wiley, do you have any questions?

Senator WILEY. Yes. Now tell us just what will happen if we don't report the bill?

Mr. GROSECLOSE. In what respect, Senator?

Senator WILEY. In an international monetary sense.

Mr. GROSECLOSE. Well, if we don't stop some of our overseas expenditure, and put our fiscal house in order, I will expect to see more gold go out and I will expect to see the dollar devalued by force majeure, you might say.

Senator WILEY. Do you mean to say this will happen if we do not pass the bill?

Mr. GROSECLOSE. No. If we do not put our fiscal house in order, if we do not curb some of our foreign spending, which is the main cause of the gold drain and the balance-of-payments deficit, I expect to see the dollar devalued.

Senator WILEY. All right. Now tell us—in your judgment—what you think should be done?

Mr. GROSECLOSE. The first thing that should be done should be to drastically curb our foreign aid expenditures, most of which are extravagant and have proved unprofitable and ineffective. Our foreign aid costs us around \$5 billion a year, plus the \$3 billion we spend in maintenance of our troops overseas—a total drain on our economy of the order of \$8 billion.

Now if we could reduce that bill by \$3 billion we would have balanced our payments and stopped the outflow of gold—restored confidence in the dollar; but this bill allows us to continue these payments, and postpones the day of reckoning. If we don't do it today we will have to do it next year, and the condition will be even worse, because we will have added even more billions of dollars to foreign claims.

#### FOREIGN AID CONTRIBUTIONS OF ALLIES

Senator WILEY. I think there was something in the paper this morning—and I didn't get time to read it thoroughly—to the effect that there is an intention to make a considerable reduction in foreign aid to certain countries, particularly in Europe. Did you see that article?

Mr. GROSECLOSE. The only item that struck my eye this morning was the statement, I believe, that they have had some difficulty in getting our allies to take over any proper share of the foreign aid bill. I think they have a little more understanding of the problem—they are less willing to pour out money the way we have been.

Senator WILEY. In other words, then, your suggestion is that we should say to our allies: "Unless you come through, we will not come through to any great extent ourselves," or words to that effect.

Mr. GROSECLOSE. Well, there is a lot of foreign aid that goes to countries that are not our allies, as I recall, Senator. We wouldn't have to say that to them.

Senator WILEY. My question referred to allies.

Mr. GROSECLOSE. You mean speaking about the NATO—

Senator WILEY. For example, take country X that is not a so-called ally, but which we are aiding. We are also claiming, as I understand it, that our allies should make a contribution to assist that country X, whatever it is.

Mr. GROSECLOSE. Yes, sir.

Senator WILEY. Now, assume they are not coming through with their fair contribution.

Mr. GROSECLOSE. Yes.

Senator WILEY. All right. Let's find out, in a case like that, what your idea is. Do you think we can keep on expending the amount of money we do? What is your idea as to the budget? Where are we going to find the budget next year?

#### NEED FOR POLITICAL AND MORAL REFORMS IN UNDERDEVELOPED COUNTRIES

Mr. GROSECLOSE. So far as our allies' reluctance to come through, I think they appreciate that the real solution to the problems of all these underdeveloped countries is not money. Their problems are political. And we do not solve them by money. I went around the

world this past winter, and spent a few days in some of these underdeveloped countries, where I had been earlier. My conviction is—steadily increases—that we are approaching our international problems the wrong way by trying to solve them with money. Their need is political and moral reform.

And all the money in the world is not going to solve their problems—give them stable governments or stable economies—until they accomplish these basic reforms. And by putting the emphasis upon money, we lead them away from making the proper cures that are needed to their systems—just as in this bill before us, instead of facing the real issue, which is fiscal reform, we are trying to postpone it through creating more Treasury obligations. I hope that the committee will allow me the privilege of discussing the foreign aid bill in extenso when that bill comes before the committee, and I would like to go into some of these things in more detail, because I think a good deal could be said that hasn't been said in analysis of the failure of foreign aid. But as it relates to this bill, foreign aid is certainly the major way by which we could balance our budget, and balance our international payments. And until we have positive proof that results are being accomplished through our foreign aid we can do much more by strengthening the dollar than by pouring out untold billions of dollars. It is much more important to the world that we have a strong dollar than a strong India, for example.

Senator WILEY. Do you want to apply that logic to any particular section of this globe?

Mr. GROSECLOSE. Any section in which I have traveled and am familiar, I would be glad to discuss; yes.

I think India, for example, if you want to discuss India.

Senator WILEY. What about South America?

Mr. GROSECLOSE. Well I have never traveled in South America but I can say this for South America—from anyone's normal reading: Here is a country that is a new continent like ours—we say that our wealth is due to the fact that we have new resources, a new continent to develop—it is populated by people of European stock, people of the Christian tradition mainly. Why are they so far behind us economically, if it is not they are politically weak? It is not the fact that money hasn't gone into Latin America, or that they don't have the racial stock or the cultural traditions; but they don't have the political stability that is necessary to encourage the formation of capital. And I don't see how you create it by pouring in more capital while they drain it out themselves into the foreign banks, and European banks.

Senator WILEY. There are "haves" and the "have-nots" down there.

Mr. GROSECLOSE. That is right.

Senator WILEY. All right. Now then, if I understand your answer, it is that the President's program should be stymied. He is talking about \$10 billion and you are not in favor of that.

Mr. GROSECLOSE. No indeed, I am not, Senator.

Senator WILEY. I think I have taken enough time, Mr. Chairman.

The CHAIRMAN. Is that all?

Senator WILEY. That is all.

The CHAIRMAN. Thank you very much, Dr. Groseclose.

(Whereupon the committee proceeded to other business.)

APPENDIX

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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

**JANUARY 1962**



## 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.

## 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.....	22,373	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	1,683
Sweden.....	484	473	434	483	662
Japan.....	979	861	1,322	1,824	1,611
<b>Total of listed countries<sup>2</sup>.....</b>	<b>32,052</b>	<b>38,800</b>	<b>37,656</b>	<b>40,242</b>	<b>41,182</b>
<b>World total.....</b>	<b>49,020</b>	<b>57,285</b>	<b>57,040</b>	<b>59,700</b>	<b>61,060</b>

<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	+523	-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 prepayments 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>4,022.7</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	51.6	12.2	—	—
1956.....	692.5	677.5	15.0	113.3	-4.1	117.4	—	—
1955.....	27.5	27.5	—	232.5	68.5	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	45.2	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.....	208.0	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	2,598.2	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	557.6	71	350.6	45	361.1	46
Italy.....	270.0	159.5	59	43.2	16	27.2	10
Belgium.....	337.5	253.1	75	193.1	57	181.1	54
Netherlands.....	412.5	276.9	67	186.9	45	169.9	41
Subtotal.....	2,595.0	1,591.8	-----	866.5	-----	839.5	-----
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 \$800,000,000 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 fulfill 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.

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