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FUND & BANK, March 45

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THE BRETTON WOODS PROPOSALS

Questions and Answers on the ......

FUND AND BANK

U. S. TREASURY • WASHINGTON, D. C.

MARCH 15, 1945

REPRESENTATIVES of forty-four United Nations met at Bretton Woods, New Hampshire, last summer to consider means for dealing with post-war international monetary and financial problems. Out of this conference came proposals for an International Fund and an International Bank, now being considered by the United States Congress and by governments all over the world.

In letters, through the press, and in local discussion groups throughout the country people are asking how the proposed Fund and Bank will work. Some of the questions most frequently asked, together with answers prepared by members of the Treasury staff, have been collected in this pamphlet for the purpose of answering inquiries.

HENRY MORGENTHAU, Jr.,
Secretary of the Treasury.

INTRODUCTION

Proposals for an International Monetary Fund and an International Bank for Reconstruction and Development were drafted at a conference held last summer at Bretton Woods, New Hampshire. Called by President Roosevelt, the conference was attended by representatives of 44 countries. Behind it lay three years of intensive study and continuous discussion between representatives of the United States Government and those of the principal countries associated with us in winning the war. It remains for all of the participating countries to accept the proposals. In the case of the United States, acceptance will require Congressional action.

THE INTERNATIONAL MONETARY FUND

1. What is the International Monetary Fund?

The International Monetary Fund is one of two proposed institutions for which detailed plans were drafted at the United Nations Monetary and Financial Conference held at Bretton Woods, New Hampshire, in July 1944. All of the 44 countries that participated in the conference subscribed to the view that because international monetary problems concern all countries, they can be dealt with satisfactorily only through a cooperatively supported international agency.

2. What is the Fund intended to do?

The Fund is intended to accomplish three things.

First, it will stabilize the value of currencies in terms of each other. It will do this by requiring every member country to define the value of its currency in terms of gold and to refrain from changing this value without first consulting with the Fund.

Second, the Fund will hasten the removal of artificial barriers against the making of payments across boundary lines. It will do this by requiring member countries to eliminate existing

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exchange controls on trade as soon as possible, and to impose no new controls without the Fund's approval.

Third, the Fund will provide a supplementary source of foreign exchange to which a member, embarrassed because its international out-payments exceed its international in-payments, may apply for temporary assistance. This assistance will give the member a breathing spell, which may be all that is required to bring its international payments into balance. If unable to secure assistance, the member might be obliged to depreciate the exchange value of its currency or resort to other measures that interfere with trade.

3. How will the Fund operate?

First, the Fund will be an international organization through which all member countries will cooperate to bring about stable currencies, freedom in exchange transactions, and the elimination of discriminatory currency practices.

Second, the Fund will be a financial institution. In this capacity, it will make available to a member the particular currency, whether dollars, pounds, francs, or Mexican pesos, that may be required to keep the member's current international payments in balance. Such aid will be in the form of a sale of foreign exchange, in payment for which the member will surrender to the Fund an amount of its own currency having the same gold value as the foreign exchange purchased. After a limited period, the member will be required to reverse the process. That is, it will repurchase its own currency held by the Fund, tendering in payment foreign exchange or gold equal in value to the foreign currency originally purchased. The Fund's assets, therefore, although continually paid out and returned, will always have the same gold value.

4. How will the Fund get its working capital?

The Fund's working capital will be subscribed by the 44 member countries. Its total resources in gold and member currencies will be equal in value to $8.8 billion. Of this amount, the United States will subscribe $2.75 billion, the largest single share, or quota. Other members having large quotas are the United Kingdom, Russia, China, and France. For every hundred dollars of a member's quota, it will pay in roughly the equivalent of $25 in gold and $75 in its own currency.

5. What will the Fund mean to the United States?

Another way to ask this question would be to inquire what the Fund will mean to American business, agriculture, and labor. The interests of all of these groups are bound together.

It has been estimated that our exports, which were only $3 billion in 1938, will have to be more than tripled in the post-war period if we are to achieve full employment of manpower and full utilization of our enormously expanded industrial capacity. To the extent that this objective is realized, those engaged in the numerous occupations related to foreign trade—production, marketing, shipping, and insurance—will of course stand to gain.

But the American businessman is fully aware that no threefold expansion of our foreign trade is possible unless currency systems the world over are stabilized; unless current exchange transactions are freed from petty bureaucratic control.

It was through ingenious exchange control devices, geared to grandiose preparations for military aggression, that the Nazis during the 1930's dealt a severe blow to the American economy. Germany had hitherto bought from this country a considerable volume of cotton, but it now suited her purposes to switch from American to other sources of supply—to countries with which she could drive a two-way bargain: "We will take your cotton; you take our goods in payment."

The American farmer lost the German cotton market; the American manufacturer lost his outlets in the countries signing such barter agreements, and American labor lost jobs by the thousands. For that matter, the other cotton-producing countries lost out in this deal too, since instead of getting the cheap automobiles, machine tools, farm equipment, and precision instruments that they wanted, they were more often than not forced to accept payment in aspirin tablets, harmonicas, and blocked balances in Berlin.

Exchange control is not the only obstacle the American exporter has had to fight. Again and again he has had his foreign markets for automobiles, radios, tools, tobacco, lard, cotton, and grain cut from under him by currency devaluation and the manipulation of exchange rates.

This is the way it worked: If payment was customarily made in the currency that was devalued, American exporters were no longer able to sell in that country except at higher prices in terms of the devalued currency. Or if payment was customarily made in dollars, foreigners who might otherwise buy our goods found the price of dollar exchange purchased with devalued currency prohibitive. In either case, if the American exporter was to continue to do business in that country, he had to be content with reduced dollar proceeds, which meant cutting costs, and that meant cutting wages. If in any event he could not hold the market, he had to cut production, and that meant cutting jobs.

As exchange controls and competitive currency depreciation spread from country to country, not only do they distort and depress trade; they breed vicious economic warfare that may end in an outbreak of actual hostilities. By solving cooperatively some of the problems that lead to that sort of competition, the Fund will not only promote world trade but will also improve the chances for lasting peace.

6. To what extent will the United States participate in the management of the Fund?

The voting power of each member country will be closely related to its subscription to the Fund, and most decisions will be by straight majority vote. The United States, however, will be the largest subscriber and will thus have the largest vote—28 percent of the total. This will be larger than the vote of any other country, and larger than the combined vote of all British Empire countries taken together. Furthermore, as dollars are

purchased from the Fund by other members, the vote of the United States will be increased while that of the countries purchasing dollars will be decreased.

7. How will the Fund be managed?

The Articles of Agreement provide, first, for a Board of Governors; second, for a Board of Executive Directors; and third, for a Managing Director and staff.

Every member country will be represented on the Board of Governors, which will meet at least once a year as the over-all policy-making body of the Fund.

Reporting to the Board of Governors and responsible for the general operations of the Fund will be 12 Executive Directors, five of whom will be appointed by the countries having the largest quotas. Thus the United States, the United Kingdom, Russia, China, and France will each appoint a director. Of the remaining seven, two will be elected by the Latin American Republics, and five by the other member countries.

The Executive Directors will select a Managing Director, who will organize a staff and manage the daily affairs of the Fund. The Fund will come into existence when formally approved by governments subscribing 65 percent of its assets. The principal office will be located in the United States.

8. How can we be sure that the interests of the United States in the Fund will be fully protected?

First, there will be the great weight of our voting power. Second, the vigilance of other member countries, concerned as much as we in the Fund's success, may be relied upon to assure the wise use of the Fund's resources.

A third protection is afforded by other strong safeguards written in the Fund Agreement. A member country may purchase from the Fund (with its own currency) only a limited amount of dollars, or any other currency, in any given year. Moreover, it will have to pay charges for thus using the Fund, the charges to increase both with the volume and length of time its currency is held by the Fund, and to repurchase its own currency (held by the Fund) with gold or foreign exchange. Finally, a country's right to assistance from the Fund is contingent upon its adoption of policies in harmony with the purposes of the Fund. If a member acts contrary to these purposes, or violates the provisions of the Fund Agreement, it will be denied use of the Fund's resources and may even be compelled to withdraw from membership.

9. In joining the Fund, will the United States surrender control over the value of the American dollar?

No. The American dollar will be defined in terms of gold and backed exactly as it is today. No other nation can alter or, under the proposed Agreement, even propose to alter the gold value of the dollar. That is a matter over which the Congress of the United States alone has jurisdiction.

In joining the Fund, the United States will not undertake any obligation other than those already voluntarily assumed, that is, to maintain the dollar at a stable value. Our present international monetary policies will, therefore, be continued without disturbance.

One of the principal reasons why United States Government officials have advanced the Fund proposal is that, in order to revive world trade and maintain it at a high and prosperous level, they want to encourage other countries to adopt similar policies for sound and stable currencies and freedom in current exchange transactions.

10.. Why is an international organization needed to maintain currency stability?

The economic problems of the post-war period will be complex and difficult. They will not be solved by handouts from the United States or Great Britain. A permanent institution is needed for international monetary cooperation, in good years and in bad, to study world economic conditions and take such

precautionary measures as may be required to prevent disruption of world trade.

The United States alone could not assume the full responsibility for dealing with international monetary problems. Nor is there any reason why it should. Stability, and the increased trade that stability makes possible, will enhance the well-being of all countries. Hence, all should share the responsibility for maintaining stability in proportion to their wealth and their participation in world trade. All should have a voice in the solution of problems in which they have a vital concern. The proposed International Monetary Fund will provide the appropriate co-operative machinery through which these objectives may be realized.

11. How much will the Fund cost?

One might as well ask how much it costs an individual to deposit his pay check in a local bank. To be sure, the United States quota in the Fund—$2.75 billion—is no small amount even by war-time standards. Yet it is no more than we laid out for war production during the first two weeks of January 1945. Moreover, our subscription to the Fund must not be thought of as money spent but as capital invested, the return on which will amount to a substantial sum even in terms of earnings. But these returns will be negligible compared to other benefits—revival of trade for the world as a whole, enlarged volume of foreign trade for the United States, effective utilization of our expanded industrial capacity, high levels of employment, and rising standards of living.

Finally, any member country may, on its own initiative, withdraw from membership and receive full settlement of its account in its own currency or in gold.

12. Why not postpone approval of the Fund for 5 years until the currencies of the principal trading countries have become stable?

Given another 5 years, many countries will have extended and intensified their systems of control. The governmental organizations established to administer such matters will have had ample time to take deep root, and in some countries to exert sufficient pressure to prevent the dissipation of their powers.

It is not likely, however, that many countries would find it practicable to remove controls, so that after the lapse of 5 years the world would have made little or no progress toward currency stability. On the contrary, each country would want to assure itself of necessary imports by entering into two-way agreements with other countries. The smaller countries would seek protective ties with the larger, around which would be formed competing economic blocs. Their principal weapons of economic warfare would undoubtedly consist of the discredited practices and devices which the Fund is intended to eradicate.

With trading areas narrowly limited, countries like the United States would suffer most. A restricted volume of foreign trade would mean, as it did in the 1930's, that large surpluses of many goods would have to be dumped on the home market. The consequences would be depressed prices, foreclosures, and unemployment.

Meanwhile, trade between countries, just as in wartime, would be carried on either directly by governments or, if by individuals, through governmental direction. Whether one might purchase goods abroad, the countries from which purchases might be made, what might be sold abroad and where, and the disposition to be made of the proceeds—all of these matters would likely remain under strict control for a long time to come if approval of the Fund should be postponed.

Once established, the Fund will commit 44 countries to an international agreement to maintain stable exchange rates and to remove exchange controls. Because they will all act together to remove controls, every country will know that its own security will not be endangered by the practices of its neighbors. Furthermore, if temporarily embarrassed for want of resources with which to make foreign payments, a country would not be obliged suddenly to restrict its imports and otherwise interfere with production and employment abroad. Instead, it would simply

purchase from the Fund the kind and amount of currency needed to keep its current international accounts in balance.

International cooperation in monetary and financial matters is an indispensable stepping-stone on the road to a peaceful and prosperous world.

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1. What is the International Bank for Reconstruction and Development?

The nature of the proposed Bank for Reconstruction and Development is suggested by its title. Its purpose is to facilitate the movement of capital both to the countries that have been devastated by war and to those that have long needed assistance in developing their industries and improving their living standards. In performing these functions the Bank will stimulate the growth of foreign trade and at the same time provide a way through which countries with capital to lend may find wider opportunities for profitable investment.

2. How will the Bank function?

The International Bank for Reconstruction and Development will not function as a commercial bank. It will accept no deposits. And although it will make some direct loans, it will supplement rather than supplant the established institutions in the investment and banking business.

The Bank's main function will be to guarantee loans made by private investors. The object of the guarantee is to encourage a substantial volume of private international investment. In this way, many countries will be able to increase their production and buy and sell more. Any member country may enlist the Bank's assistance in securing productive capital that cannot be raised through the usual channels; any country with capital to lend, like the United States and others, may use the Bank to find new and promising investments that could not otherwise be made.

It is generally agreed that an increasingly large volume of foreign investment by the United States is essential to our own economic security. Without it, we cannot expect to build up the volume of exports required to help absorb the output of our greatly expanded industrial plant.

In stimulating international investment, the proposed Bank will operate as follows: When requested to guarantee a loan, it will first assure itself that the project for which the loan is sought is thoroughly sound; second, it will request evidence that the necessary funds cannot be raised in the private capital market at reasonable rates of interest; third, it will determine whether the borrower and the country will be able to repay the loan; finally, it will secure the guarantee of the government in the country where the project is to be located. Only then will the Bank add its own guarantee.

The risks of international loans will fall not on the investors themselves, nor even on any one country, but upon all of the 44 member countries. This is only fair, since all of the countries associated for the purpose of making the Bank possible will benefit through an expansion of international investment and the increased volume of trade and income that investment makes possible.

3. Will the Bank also make direct loans?

Yes. The Bank will make two kinds of direct loans. First, it will make direct loans in which it serves only as an intermediary between borrowers and lenders. The Bank will sell its own obligations in the market of a member country, and in turn lend directly to the ultimate borrower. By this device the Bank will be able, on the one hand, to consolidate miscellaneous demands for small amounts of capital and, on the other, to appeal to a class of investors who might prefer to look directly to the Bank for repayment.

The Bank will also make direct loans out of its capital assets. Such loans may be made only with the consent of the country whose currency is being lent. Direct dollar loans, for example, can be made only with the approval of the United States. The total volume of this type of direct loans will be limited to 20 percent of the Bank's subscribed capital.

4. Where will the International Bank for Reconstruction and Development get its capital?

The authorized capital of the International Bank for Reconstruction and Development will be \$10 billion. At the outset, however, its subscribed capital will be \$9.1 billion. Of this amount, the United States, the largest single stockholder, will subscribe \$3.175 billion. The United Kingdom will subscribe \$1.3 billion, and all British Empire countries taken together, \$2.375 billion. Russia, China, and France, in that order, will be the next largest subscribers.

Because of the primary emphasis on the Bank's guaranteeing function, participating countries may never be asked to pay more than a fraction of their total subscriptions. In the first year of the Bank's operation, members will be required to pay in only 10 percent, of which 2 percent will be in gold and the remainder in their currencies. Another 10 percent will be subject to call at the convenience of the Bank. This 20 percent of total subscriptions will constitute the assets out of which the Bank may make direct loans.

The remaining 80 percent of the Bank's subscribed capital will remain uncalled except to meet losses. In general, no member will be asked to pay in more than 20 percent of its subscription unless a borrower defaults on a guaranteed loan, and then only if the Bank is unable to meet the obligation from accumulated reserves.

Thus, out of a total of \$9.1 billion of subscribed capital, members will pay in a total of \$1,820 million, of which our share will be \$635 million.

5. Can any nation become a member of the Bank?

Initially, membership will be open only to the countries that participated in the United Nations Monetary and Financial Conference at Bretton Woods and have become members of the International Monetary Fund. At a later date, other governments, when admitted to membership in the Fund, may also be admitted to membership in the Bank.

Membership in the Bank has been tied to membership in the Fund because countries that are bound by the standards of exchange practice established in the Fund are more likely to be in a position to meet their obligations on international loans. Moreover, joint membership will facilitate cooperation between the Fund and Bank in dealing with broad international problems in which they have common interests.

6. Where will the Bank be located?

The head office of the Bank will be located in the United States, the largest single subscriber. The Bank may establish regional or branch offices in other countries.

The Bank may be established any time after May 1, 1945, although not until after countries subscribing 65 percent of its capital have accepted membership.

7. How will the Bank be managed?

The Bank will be under the over-all direction of a Board of Governors, consisting of one representative from each member country. Reporting to the Board of Governors and responsible for the general operations of the Bank will be a board of 12 Executive Directors, of whom five will be appointed by the five countries having the largest number of shares—the United States, the United Kingdom, Russia, China, and France—and seven will be elected by the remaining members. The Executive Directors will select a President, who will organize a staff and, under the direction of the Executive Directors, serve as the operating head of the Bank.

The United States will control 32 percent of the total voting power. Its vote will be larger than that of any other single nation, and larger than that of the British Empire countries taken as a whole. In general, all decisions will be arrived at by straight majority vote. The United States, however, will have veto power over any proposal to increase the capital of the Bank or the subscription of the United States.

8. Will membership in the Bank mean an expansion of Government control over the banking system?

No. The International Bank for Reconstruction and Development will have no dealings with our banking system except of a purely business character. Persons and institutions with funds to invest will, as always, be at liberty to decide for themselves whether they will buy the securities issued or guaranteed by the Bank. The Bank will in no way restrict or supervise commercial banking.

9. Will a member be able to withdraw from the Bank?

Yes. Any member country may withdraw from the Bank by submitting notice of its intention to do so. The withdrawing country will not be liable for any portion of the obligations subsequently assumed by the Bank. No country, however, can by withdrawing divest itself of its share of liabilities assumed by the Bank when it was a member.

10. Instead of accepting the Bank proposal now, would it not be safer for the United States to wait until normal financial relationships have been re-established?

The need for reconstruction loans is urgent. Locomotives, bridges, port facilities, factories, and power plants in war-torn countries must be replaced or rebuilt. The sooner this is done, the sooner their economies will be pushed off dead center and restored to normal levels of productivity. Revival of their export industries, which will be a primary objective of renewed international lending, will not only provide the means of paying interest and amortization charges but will also stimulate world trade generally.

The need for developmental loans is perhaps less urgent, though equally important from the standpoint of promoting trade expansion. The undeveloped countries offer immense stores of raw materials that the more advanced countries, including the United States, need to supplement their own exhaustible resources. They also offer the prospect of a substantial market for manufactured goods. Their first need, however, is for machinery, tools, and heavy equipment, all of which will have to be imported and largely paid for with borrowed funds.

There are, moreover, our own special needs to be considered. We will emerge from the war with a greatly expanded industrial plant and the recognized necessity of providing productive employment for millions more than were gainfully employed in 1940. Full utilization of productive capacity and sustained high levels of employment will be primary objectives of national policy. In order to achieve these objectives we shall have to expand our trading area—export more of our own specialized goods and services to other countries and import more of theirs. The result will be a higher level of economic activity for all.

A large portion of the expanded output in the United States should go into improved standards of living, and much should be employed in the further development of our agricultural and industrial resources. But after due allowance has been made for these purposes, there will remain a large volume of goods that must be sold abroad if our productive resources are to be fully employed.

The immediate establishment of the proposed International Bank for Reconstruction and Development, therefore, will mean that we have taken a constructive step to close the gap between the war and peacetime economies, and that we are determined to do everything within our power to assure continued high levels of productive activity.

U. S. GOVERNMENT PRINTING OFFICE: 1945

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One of the principal reasons why United States Government officials have advanced the Fund proposal is that, in order to revive world trade and maintain it at a high and prosperous level, they want to encourage other countries to adopt similar policies for sound and stable currencies and freedom in current exchange transactions.

10. Why is an international organization needed to maintain currency stability?

The economic problems of the post-war period will be complex and difficult. They will not be solved by handouts from the United States or Great Britain. A permanent institution is needed for international monetary cooperation, in good years and in bad, to study world economic conditions and take such

precautionary measures as may be required to prevent disruption of world trade.

The United States alone could not assume the full responsibility for dealing with international monetary problems. Nor is there any reason why it should. Stability, and the increased trade that stability makes possible, will enhance the well-being of all countries. Hence, all should share the responsibility for maintaining stability in proportion to their wealth and their participation in world trade. All should have a voice in the solution of problems in which they have a vital concern. The proposed International Monetary Fund will provide the appropriate cooperative machinery through which these objectives may be realized.

11. How much will the Fund cost?

One might as well ask how much it costs an individual to deposit his pay check in a local bank. To be sure, the United States quota in the Fund—$2.75 billion—is no small amount even by war-time standards. Yet it is no more than we laid out for war production during the first two weeks of January 1945. Moreover, our subscription to the Fund must not be thought of as money spent but as capital invested, the return on which will amount to a substantial sum even in terms of earnings. But these returns will be negligible compared to other benefits—revival of trade for the world as a whole, enlarged volume of foreign trade for the United States, effective utilization of our expanded industrial capacity, high levels of employment, and rising standards of living.

Finally, any member country may, on its own initiative, withdraw from membership and receive full settlement of its account in its own currency or in gold.

12. Why not postpone approval of the Fund for 5 years until the currencies of the principal trading countries have become stable?

Given another 5 years, many countries will have extended and intensified their systems of control. The governmental organizations established to administer such matters will have had ample time to take deep root, and in some countries to exert sufficient pressure to prevent the dissipation of their powers.

It is not likely, however, that many countries would find it practicable to remove controls, so that after the lapse of 5 years the world would have made little or no progress toward currency stability. On the contrary, each country would want to assure itself of necessary imports by entering into two-way agreements with other countries. The smaller countries would seek protective ties with the larger, around which would be formed competing economic blocs. Their principal weapons of economic warfare would undoubtedly consist of the discredited practices and devices which the Fund is intended to eradicate.

With trading areas narrowly limited, countries like the United States would suffer most. A restricted volume of foreign trade would mean, as it did in the 1930's, that large surpluses of many goods would have to be dumped on the home market. The consequences would be depressed prices, foreclosures, and unemployment.

Meanwhile, trade between countries, just as in wartime, would be carried on either directly by governments or, if by individuals, through governmental direction. Whether one might purchase goods abroad, the countries from which purchases might be made, what might be sold abroad and where, and the disposition to be made of the proceeds—all of these matters would likely remain under strict control for a long time to come if approval of the Fund should be postponed.

Once established, the Fund will commit 44 countries to an international agreement to maintain stable exchange rates and to remove exchange controls. Because they will all act together to remove controls, every country will know that its own security will not be endangered by the practices of its neighbors. Furthermore, if temporarily embarrassed for want of resources with which to make foreign payments, a country would not be obliged suddenly to restrict its imports and otherwise interfere with production and employment abroad. Instead, it would simply

purchase from the Fund the kind and amount of currency needed to keep its current international accounts in balance.

International cooperation in monetary and financial matters is an indispensable stepping-stone on the road to a peaceful and prosperous world.

THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

1. What is the International Bank for Reconstruction and Development?

The nature of the proposed Bank for Reconstruction and Development is suggested by its title. Its purpose is to facilitate the movement of capital both to the countries that have been devastated by war and to those that have long needed assistance in developing their industries and improving their living standards. In performing these functions the Bank will stimulate the growth of foreign trade and at the same time provide a way through which countries with capital to lend may find wider opportunities for profitable investment.

2. How will the Bank function?

The International Bank for Reconstruction and Development will not function as a commercial bank. It will accept no deposits. And although it will make some direct loans, it will supplement rather than supplant the established institutions in the investment and banking business.

The Bank's main function will be to guarantee loans made by private investors. The object of the guarantee is to encourage a substantial volume of private international investment. In this way, many countries will be able to increase their production and buy and sell more. Any member country may enlist the Bank's assistance in securing productive capital that cannot be raised through the usual channels; any country with capital to lend, like the United States and others, may use the Bank to find new and promising investments that could not otherwise be made.

It is generally agreed that an increasingly large volume of foreign investment by the United States is essential to our own economic security. Without it, we cannot expect to build up the volume of exports required to help absorb the output of our greatly expanded industrial plant.

In stimulating international investment, the proposed Bank will operate as follows: When requested to guarantee a loan, it will first assure itself that the project for which the loan is sought is thoroughly sound; second, it will request evidence that the necessary funds cannot be raised in the private capital market at reasonable rates of interest; third, it will determine whether the borrower and the country will be able to repay the loan; finally, it will secure the guarantee of the government in the country where the project is to be located. Only then will the Bank add its own guarantee.

The risks of international loans will fall not on the investors themselves, nor even on any one country, but upon all of the 44 member countries. This is only fair, since all of the countries associated for the purpose of making the Bank possible will benefit through an expansion of international investment and the increased volume of trade and income that investment makes possible.

3. Will the Bank also make direct loans?

Yes. The Bank will make two kinds of direct loans. First, it will make direct loans in which it serves only as an intermediary between borrowers and lenders. The Bank will sell its own obligations in the market of a member country, and in turn lend directly to the ultimate borrower. By this device the Bank will be able, on the one hand, to consolidate miscellaneous demands for small amounts of capital and, on the other, to appeal to a class of investors who might prefer to look directly to the Bank for repayment.

The Bank will also make direct loans out of its capital assets. Such loans may be made only with the consent of the country whose currency is being lent. Direct dollar loans, for example, can be made only with the approval of the United States. The total volume of this type of direct loans will be limited to 20 percent of the Bank's subscribed capital.

4. Where will the International Bank for Reconstruction and Development get its capital?

The authorized capital of the International Bank for Reconstruction and Development will be $10 billion. At the outset, however, its subscribed capital will be $9.1 billion. Of this amount, the United States, the largest single stockholder, will subscribe $3.175 billion. The United Kingdom will subscribe $1.3 billion, and all British Empire countries taken together, $2.375 billion. Russia, China, and France, in that order, will be the next largest subscribers.

Because of the primary emphasis on the Bank's guaranteeing function, participating countries may never be asked to pay more than a fraction of their total subscriptions. In the first year of the Bank's operation, members will be required to pay in only 10 percent, of which 2 percent will be in gold and the remainder in their currencies. Another 10 percent will be subject to call at the convenience of the Bank. This 20 percent of total subscriptions will constitute the assets out of which the Bank may make direct loans.

The remaining 80 percent of the Bank's subscribed capital will remain uncalled except to meet losses. In general, no member will be asked to pay in more than 20 percent of its subscription unless a borrower defaults on a guaranteed loan, and then only if the Bank is unable to meet the obligation from accumulated reserves.

Thus, out of a total of $9.1 billion of subscribed capital, members will pay in a total of $1,820 million, of which our share will be $635 million.

5. Can any nation become a member of the Bank?

Initially, membership will be open only to the countries that participated in the United Nations Monetary and Financial Conference at Bretton Woods and have become members of the International Monetary Fund. At a later date, other governments, when admitted to membership in the Fund, may also be admitted to membership in the Bank.

Membership in the Bank has been tied to membership in the Fund because countries that are bound by the standards of exchange practice established in the Fund are more likely to be in a position to meet their obligations on international loans. Moreover, joint membership will facilitate cooperation between the Fund and Bank in dealing with broad international problems in which they have common interests.

6. Where will the Bank be located?

The head office of the Bank will be located in the United States, the largest single subscriber. The Bank may establish regional or branch offices in other countries.

The Bank may be established any time after May 1, 1945, although not until after countries subscribing 65 percent of its capital have accepted membership.

7. How will the Bank be managed?

The Bank will be under the over-all direction of a Board of Governors, consisting of one representative from each member country. Reporting to the Board of Governors and responsible for the general operations of the Bank will be a board of 12 Executive Directors, of whom five will be appointed by the five countries having the largest number of shares—the United States, the United Kingdom, Russia, China, and France—and seven will be elected by the remaining members. The Executive Directors will select a President, who will organize a staff and, under the direction of the Executive Directors, serve as the operating head of the Bank.

The United States will control 32 percent of the total voting power. Its vote will be larger than that of any other single nation, and larger than that of the British Empire countries taken as a whole. In general, all decisions will be arrived at by straight majority vote. The United States, however, will have veto power over any proposal to increase the capital of the Bank or the subscription of the United States.

8. Will membership in the Bank mean an expansion of Government control over the banking system?

No. The International Bank for Reconstruction and Development will have no dealings with our banking system except of a purely business character. Persons and institutions with funds to invest will, as always, be at liberty to decide for themselves whether they will buy the securities issued or guaranteed by the Bank. The Bank will in no way restrict or supervise commercial banking.

9. Will a member be able to withdraw from the Bank?

Yes. Any member country may withdraw from the Bank by submitting notice of its intention to do so. The withdrawing country will not be liable for any portion of the obligations subsequently assumed by the Bank. No country, however, can by withdrawing divest itself of its share of liabilities assumed by the Bank when it was a member.

10. Instead of accepting the Bank proposal now, would it not be safer for the United States to wait until normal financial relationships have been re-established?

The need for reconstruction loans is urgent. Locomotives, bridges, port facilities, factories, and power plants in war-torn countries must be replaced or rebuilt. The sooner this is done, the sooner their economies will be pushed off dead center and restored to normal levels of productivity. Revival of their export industries, which will be a primary objective of renewed international lending, will not only provide the means of paying interest and amortization charges but will also stimulate world trade generally.

The need for developmental loans is perhaps less urgent, though equally important from the standpoint of promoting trade expansion. The undeveloped countries offer immense stores of raw materials that the more advanced countries, including the United States, need to supplement their own exhaustible resources. They also offer the prospect of a substantial market for manufactured goods. Their first need, however, is for machinery, tools, and heavy equipment, all of which will have to be imported and largely paid for with borrowed funds.

There are, moreover, our own special needs to be considered. We will emerge from the war with a greatly expanded industrial plant and the recognized necessity of providing productive employment for millions more than were gainfully employed in 1940. Full utilization of productive capacity and sustained high levels of employment will be primary objectives of national policy. In order to achieve these objectives we shall have to expand our trading area—export more of our own specialized goods and services to other countries and import more of theirs. The result will be a higher level of economic activity for all.

A large portion of the expanded output in the United States should go into improved standards of living, and much should be employed in the further development of our agricultural and industrial resources. But after due allowance has been made for these purposes, there will remain a large volume of goods that must be sold abroad if our productive resources are to be fully employed.

The immediate establishment of the proposed International Bank for Reconstruction and Development, therefore, will mean that we have taken a constructive step to close the gap between the war and peacetime economies, and that we are determined to do everything within our power to assure continued high levels of productive activity.

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