8 10/19/76

APPROVED
OCT 19 1976,
Statement issued 10/20/76

THE WHITE HOUSE

WASHINGTON

October 18, 1976

ACTION

Last Day: October 20

MEMORANDUM FOR THE PRESIDENT

FROM: JIM CANNON

SUBJECT: H.R. 13955 - Amendments to the Bretton Woods Agreements Act

Posted 10/21/76

archive 10/21/76

Attached for your consideration is H.R. 13955, sponsored by Representatives Rees and seven others.

The original Articles of Agreement of the International Monetary Fund were signed at Bretton Woods, New Hampshire on July 22, 1944. The Articles of Agreement define the formal framework of the international monetary system, and their basic structure has remained largely unchanged since 1944.

The enrolled bill authorizes the United States to accept proposed amendments to the Articles of Agreement of the International Monetary Fund and to consent to an increase in the United States quota in the Fund.

The details of the proposed amendments are discussed fully in OMB's enrolled bill report at Tab A.

OMB, Max Friedersdorf, Counsel's Office (Lazarus), NSC, Bill Seidman, CEA and I recommend approval of the enrolled bill and the proposed signing statement which has been cleared by the White House Editorial Office (Smith).

RECOMMENDATION

That you sign H.R. 13955 at Tab B.

That you approve the signing statement at Tab C.

Approve ______ Disapprove ______

THE WHITE HOUSE

WASHINGTON

October 20, 1976

Mr. President:

Do you approve or disapprove the signing statement?

GRF Approve ____Disapprove

Jim Cavanaugh

Bill signed 10/19/76.

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OCT 15 1976

MEMORANDUM FOR THE PRESIDENT

Subject: Enrolled Bill H.R. 13955 - Amendments to the Bretton Woods Agreements Act
Sponsors - Rep. Rees (D) California and 7 others

Last Day for Action

October 20, 1976 - Wednesday

Purpose

Authorizes the United States to accept proposed amendments to the Articles of Agreement of the International Monetary Fund and to consent to an increase in the United States quota in the Fund.

Agency Recommendations

Office of Management and Budget	Approval
Department of the Treasury	Approval (Signing Statement attached)
Department of State	Approval
National Security Council	Approval
Council of Economic Advisers	Approval
Council on International Economic Policy	Approval
Federal Reserve Board	No objection (informally)

Discussion

The original Articles of Agreement of the International Monetary Fund (IMF) were signed at Bretton Woods, New Hampshire, on July 22, 1944. The Articles of Agreement define the formal framework of the international monetary system, and their basic structure has remained largely unchanged since 1944.

This structure, among other things, required IMF members to establish par values for their currencies in terms of gold and to maintain exchange rates for their currencies within a narrow margin of those par values. Though this structure worked effectively for many years, since the 1960's persistent strains and disequilibria in international payments have demonstrated the need for significant reform. Events finally overtook the formal structure in the early 1970's as the U.S. was forced to end gold convertibility, the fixed exchange rate pattern disintegrated, and the present floating rate system emerged. At present no IMF member is meeting its formal par value obligation under the existing Articles.

Since 1971, when the United States abolished the convertibility of the dollar into gold, the United States has been negotiating to achieve basic reforms in the international monetary system. These negotiations have culminated in a set of amendments to the Articles of Agreement of the Fund. Among other things, the amendments would demote gold from its present official status, repeal members' obligations to define and maintain a par value for their currencies in terms of gold, and abolish the use of gold in other transactions between the Fund and members. In effect these amendments would legalize the existing floating exchange rate system, give greater flexibility to the use of Special Drawing Rights (SDR's), and increase the IMF's role in maintaining surveillance over the exchange rate practices of its members.

H.R. 13955 would authorize the United States to accept these amendments to the IMF Articles of Agreement and to consent to an increase in the United States' quota in the IMF of 1,705 million SDR's (approximately $2 billion). This legislation is necessary, because the Bretton Woods Agreements Act specifies that congressional authorization must be obtained for any person, acting on behalf of the United States, to accept any amendment of the Articles of Agreement or to consent to any change in the quota of the United States in the Fund.

The increase of 1,705 million SDR's in the United States' quota in the Fund is part of an overall 33.6 percent increase in the collective quota of all members. Proportionately, the United States' share of the total quota would decrease from the present level of 22.93 percent to 21.53 percent, while the collective quota share of the major oil exporters would be doubled. Further, this increase in the United States quota would require no congressional appropriation since it would not be considered a budget expenditure, but rather an exchange of monetary assets.

In addition to its major purposes of authorizing United States acceptance of the amendments, H.R. 13955 contains a number of other technical provisions that would make existing laws conform to the amendments to the Articles of Agreement. An additional provision of H.R. 13955 would also require approval by law before the United States could, in the future, approve any new IMF trust fund that would benefit any single member or segment of membership of the Fund. This provision is a congressional response to the recent United States approval of the establishment of a trust fund to provide concessional balance of payments assistance to countries with an annual per capita income of less than 300 SDR's.

The Treasury Department, in its enrolled bill letter, strongly recommends that you approve H.R. 13955. In discussing the amendments to the Articles of Agreement, Treasury's letter states:

> "These changes, which are the product of over four years of negotiations, constitute essential reforms in the international monetary system and represent the achievement of key United States objectives in the international economic area."

We have reviewed Treasury's proposed signing statement and recommend it for your consideration.

James T. Lynn
Director

Enclosures

STATEMENT BY THE PRESIDENT

I am today approving H.R. 13955, an Act "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes." This legislation authorizes United States acceptance of amendments to the Articles of Agreement of the International Monetary Fund and United States consent to a proposed increase in its quota in the Fund.

The reforms of the international monetary system which the United States accepts through these amendments are the culmination of years of debate and negotiation following the breakdown of the Bretton Woods par value system in 1971. This new international monetary system recognizes that development of stable underlying economic and financial conditions is an essential prerequisite to the achievement of international monetary stability. At the same time, the new system will provide the increased flexibility, resilience, and reliance on market mechanisms which today's monetary relationships require, replacing the exchange rate rigidity and gold emphasis of the Bretton Woods system.

In the post-World War II era, we have increasingly recognized the importance of a smoothly-functioning international monetary system to American jobs, production and growth, and to the maintenance of a prosperous and stable world economy. The attainment of the international economic, as well as political and national security, objectives of the United States, depends in large measure on our success in maintaining a strong and healthy world economy -- and that in turn requires a sound, smoothly-functioning and equitable international monetary system.

For all these reasons, I am especially pleased to sign into law this Act to provide for amendment of the Bretton Woods Agreements Act.

DEPARTMENT OF STATE

Washington, D.C. 20520

OCT 7 1976

Dear Mr. Lynn:

I am responding to your request of October 5 for Department of State views on enrolled bill H.R. 13955, an act "to provide for amendment of the Bretton Woods Agreement Act, and for other purposes". This legislation will allow the United States to approve amendment of the International Monetary Fund's (IMF) Articles of Agreement and to consent to an increase in the United States quota in the IMF. Both actions will be in the interest of the United States.

The new changes in the IMF Articles of Agreement will legalize the option of floating exchange rates, continue the process of phasing gold out of the center of the international monetary system, give greater flexibility to the use of Special Drawing Rights (SDRs) in the system and reconfirm the role of the International Monetary Fund as the central international financial institution with certain surveillance responsibilities over the operation of the system. The amendments are the result of considerable study and international negotiation. The increase in IMF members' quota subscriptions is justified by the increase in world production and trade, and will help insure the IMF has an appropriate level of financial resources.

The Department of State has followed carefully the negotiations leading up to the new amendments to the IMF Articles of Agreement and the increase in IMF quotas. We believe that the

The Honorable
James T. Lynn,
Director,
Office of Management and Budget.

bill H.R. 13955 now before the President for his final approval is an important piece of legislation. We recommend that the President act favorably on it.

If I can be of further assistance, please let me know.

Sincerely,

Kempton B. Jenkins

Kempton B. Jenkins
Acting Assistant Secretary
for Congressional Relations

THE CHAIRMAN OF THE
COUNCIL OF ECONOMIC ADVISERS
WASHINGTON

October 7, 1976

Dear Mr. Frey:

This is in response to your request for our views on H. R. 13955, a bill "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes."

The Council of Economic Advisers recommends that the President sign this legislation.

Sincerely,

Alan Greenspan

Mr. James M. Frey
Assistant Director for Legislative Reference
Office of Management and Budget
Washington, D. C.

Attn: Ms. Ramsey

AMERICAN REVOLUTION BICENTENNIAL 1776-1976

COUNCIL ON INTERNATIONAL ECONOMIC POLICY
WASHINGTON, D.C. 20500

October 6, 1976

MEMORANDUM FOR:

JAMES M. FREY
ASSISTANT DIRECTOR FOR
LEGISLATIVE REFERENCE
O M B

SUBJECT:

ENROLLED BILL HR 13995 -
TO PROVIDE FOR AMENDMENT OF
THE BRETTON WOODS AGREEMENTS
ACT

CIEP has reviewed the enrolled bill HR 13955, and concurs with its draft as amended.

John C. Bennison

John C. Bennison
Deputy General Counsel

NATIONAL SECURITY COUNCIL
WASHINGTON, D.C. 20506

October 11, 1976

MEMORANDUM FOR:

Mr. James M. Frey
Assistant Director
for Legislative Reference
Office of Management and Budget

SUBJECT: Enrolled Bill H.R. 13955

The NSC Staff concurs in the enrolled bill H. R. 13955 - Amendment of the Bretton Woods Agreements Act.

Jeanne W. Davis
Staff Secretary

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON **LOG NO.:**

Date: October 15 Time: 200pm

FOR ACTION:
Paul Leach
Max Friedersdorf
Bobbie Kilberg
Bill Seidman

cc (for information):
Jack Marsh
Ed Schmults
Steve McConahey
Mike Duval

FROM THE STAFF SECRETARY

DUE: Date: October 18 Time: 200pm

SUBJECT:

H.R.13955-Amendments to the Bretton Woods Agreements Act

ACTION REQUESTED:

____ For Necessary Action
____ For Your Recommendations
____ Prepare Agenda and Brief
____ Draft Reply
x For Your Comments
____ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

approval

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE

WASHINGTON

ACTION MEMORANDUM

LOG NO.:

Date: October 15

Time: 200pm

FOR ACTION:
Paul Leach
Max Friedersdorf
Bobbie Kilberg
Bill Seidman

cc (for information):
Jack Marsh
Ed Schmults
Steve McConahey
Mike Duval

FROM THE STAFF SECRETARY

DUE: Date: October 18

Time: 200pm

SUBJECT:

H.R.13955-Amendments to the Bretton Woods Agreements Act

ACTION REQUESTED:

___ For Necessary Action	___ For Your Recommendations
___ Prepare Agenda and Brief	___ Draft Reply
x For Your Comments	___ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

Recommend approval. [illegible]

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE WHITE HOUSE

ACTION M MORANDUM WASHINGTON LOG NO.:

Date: Oc ber 15 Time: 200pm

FOR ACTI Paul Leach
Max Friedersdorf
Bobbie Kilberg
Bill Seidman

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey
Mike Duval

FROM THE STAFF SECRETARY

DUE: Date: October 18 Time: 200pm

SUBJECT:

H.R.13955-Amendments to the Bretton Woods Agreements Act

ACTION REQUESTED:

____ For Necessary Action ____ For Your Recommendations

____ Prepare Agenda and Brief ____ Draft Reply

x For Your Comments ____ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

No objection -- Ken Lazarus 10/18/76

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

ACTION MEMORANDUM WASHINGTON LOG NO.: 10/18/76 - 8 am
n

Date: October 15 Time: 200pm

FOR ACTION: Paul Leach
Max Friedersdorf
Bobbie Kilberg
Bill Seidman
Robert Hartmann

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey
Mike Duval

FROM THE STAFF SECRETARY

DUE: Date: October 18 Time: 200pm

SUBJECT:

H.R.13955-Amendments to the Bretton Woods Agreements Act

ACTION REQUESTED:

___ For Necessary Action

___ For Your Recommendations

___ Prepare Agenda and Brief

___ Draft Reply

x For Your Comments

___ Draft Remarks

REMARKS:

please return to judy johnston, ground floor west wing.

10/18/76 - copy sent for researching. nm

10/18/76 - Researched copy returned. nm

OK

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James M. Cannon
For the President

STATEMENT BY THE PRESIDENT

I am today approving H.R. 13955, an Act "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes." This legislation authorizes United States acceptance of amendments to the Articles of Agreement of the International Monetary Fund and United States consent to a proposed increase in its quota in the Fund.

The reforms of the international monetary system which the United States accepts through these amendments are the culmination of years of debate and negotiation following the breakdown of the Bretton Woods par value system in 1971. This new international monetary system recognizes that development of stable underlying economic and financial conditions is an essential prerequisite to the achievement of international monetary stability. At the same time, the new system will provide the increased flexibility, resilience, and reliance on market mechanisms which today's monetary relationships require, replacing the exchange rate rigidity and gold emphasis of the Bretton Woods system.

In the post-World War II era, we have increasingly recognized the importance of a smoothly-functioning international monetary system to American jobs, production and growth, and to the maintenance of a prosperous and stable world economy. The attainment of the international economic, as well as political and national security, objectives of the United States, depends in large measure on our success in

maintaining a strong and healthy world economy -- and that in turn requires a sound, smoothly-functioning and equitable international monetary system.

For all these reasons, I am especially pleased to sign into law this Act to provide for amendment of the Bretton Woods Agreements Act.

WASHINGTON LOG NO.: 10/18/76

Date: October 15 Time: 200pm

FOR ACTION: Paul Leach
Max Friedersdorf
Bobbie Kilberg
Bill Seidman
Robert Hartmann

cc (for information): Jack Marsh
Ed Schmults
Steve McConahey
Mike Duval

FROM THE STAFF SECRETARY

404 to Res 8:45 10/18 9Am

to DJS 10/18 10:30 9Am

DUE: Date: October 18 Time: 200pm

SUBJECT:

H.R.13955-Amendments to the Bretton Woods Agreements Act

ACTION REQUESTED:

____ For Necessary Action ____ For Your Recommendations

____ Prepare Agenda and Brief ____ Draft Reply

__x__ For Your Comments ____ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

James M. Cannon
For the President

Ok/jml

Attached Jane Lynn back-up

STATEMENT BY THE PRESIDENT

I am today approving H.R. 13955, an Act "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes." This legislation authorizes United States acceptance of amendments to the Articles of Agreement of the International Monetary Fund and United States consent to a proposed increase in its quota in the Fund.

The reforms of the international monetary system which the United States accepts through these amendments are the culmination of years of debate and negotiation following the breakdown of the Bretton Woods par value system in 1971. This new international monetary system recognizes that development of stable underlying economic and financial conditions is an essential prerequisite to the achievement of international monetary stability. At the same time, the new system will provide the increased flexibility, resilience, and reliance on market mechanisms which today's monetary relationships require, replacing the exchange rate rigidity and gold emphasis of the Bretton Woods system.

In the post-World War II era, we have increasingly recognized the importance of a smoothly-functioning international monetary system to American jobs, production and growth, and to the maintenance of a prosperous and stable world economy. The attainment of the international economic, as well as political and national security, objectives of the United States, depends in large measure on our success in

maintaining a strong and healthy world economy -- and that in turn requires a sound, smoothly-functioning and equitable international monetary system.

For all these reasons, I am especially pleased to sign into law this Act to provide for amendment of the Bretton Woods Agreements Act.

MEMORANDUM 5788

NATIONAL SECURITY COUNCIL

October 19, 1976

MEMORANDUM FOR: JAMES M. CANNON

FROM: Jeanne W. Davis JWD

SUBJECT: H.R. 13955

The NSC Staff concurs in the proposed signing statement for H.R. 13955 - Amendments to the Bretton Woods Agreements Act.

STATEMENT BY THE PRESIDENT

I am today approving H.R. 13955, an Act "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes." This legislation authorizes United States acceptance of amendments to the Articles of Agreement of the International Monetary Fund and United States consent to a proposed increase in its quota in the Fund.

The reforms of the international monetary system which the United States accepts through these amendments are the culmination of years of debate and negotiation following the breakdown of the Bretton Woods par value system in 1971. This new international monetary system recognizes that development of stable underlying economic and financial conditions is an essential prerequisite to the achievement of international monetary stability. At the same time, the new system will provide the increased flexibility, resilience, and reliance on market mechanisms which today's monetary relationships require, replacing the exchange rate rigidity and gold emphasis of the Bretton Woods system.

In the post-World War II era, we have increasingly recognized the importance of a smoothly-functioning international monetary system to American jobs, production and growth, and to the maintenance of a prosperous and stable world economy. The attainment of the international economic, as well as political and national security, objectives of the United States, depends in large measure on our success in

maintaining a strong and healthy world economy -- and that in turn requires a sound, smoothly-functioning and equitable international monetary system.

For all these reasons, I am especially pleased to sign into law this Act to provide for amendment of the Bretton Woods Agreements Act.

STATEMENT BY THE PRESIDENT

I am today approving H.R. 13955, an Act "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes." This legislation authorizes United States acceptance of amendments to the Articles of Agreement of the International Monetary Fund and United States consent to a proposed increase in its quota in the Fund.

The reforms of the international monetary system which the United States accepts through these amendments are the culmination of years of debate and negotiation following the breakdown of the Bretton Woods par value system in 1971. This new international monetary system recognizes that development of stable underlying economic and financial conditions is an essential prerequisite to the achievement of international monetary stability. At the same time, the new system will provide the increased flexibility, resilience, and reliance on market mechanisms which today's monetary relationships require, replacing the exchange rate rigidity and gold emphasis of the Bretton Woods system.

In the post-World War II era, we have increasingly recognized the importance of a smoothly-functioning international monetary system to American jobs, production and growth, and to the maintenance of a prosperous and stable world economy. The attainment of the international economic, as well as political and national security, objectives of the United States, depends in large measure on our success in maintaining a strong and healthy world economy -- and that in turn requires a sound, smoothly-functioning and equitable international monetary system.

For all these reasons, I am especially pleased to sign into law this Act to provide for amendment of the Bretton Woods Agreements Act.

Calendar No. 1081

94th Congress 2d Session | SENATE | Report No. 94–1148

AMENDMENT OF THE BRETTON WOODS AGREEMENTS ACT

August 10, 1976.—Ordered to be printed

Mr. Sparkman, from the Committee on Foreign Relations, submitted the following

REPORT

[To accompany H.R. 13955]

The Committee on Foreign Relations, to which was referred the bill (H.R. 13955) to provide for amendment of the Bretton Woods Agreements Act and for other purposes, having considered the same, reports favorably thereon with amendment and recommends that the bill as amended do pass.

Purpose of the Bill

The purpose of the bill H.R. 13955 is threefold. First, the bill authorizes the U.S. Governor of the International Monetary Fund (IMF) to sign for the United States the amended Articles of Agreement of the Fund. The new amendment IMF Articles of Agreement are printed in House of Representatives document no. 94–447. (The corresponding pages of the old Articles of Agreement are printed on the opposing pages of the House document.) Second, the bill authorizes an increase in the United States quota to the IMF by 1,705 million Special Drawing Rights (SDR) or approximately $2 billion with the SDR valued at 1 SDR__$1.16 U.S. Third, H.R. 13955 amends three other acts of relevant financial legislation to reflect the changes in the amended IMF Articles of Agreement.

Cost of the Bill

There are no budgetary implications in this bill. The expansion of the U.S. quota at the IMF is treated as an exchange of assets between the Fund and the U.S. Government. Such an exchange must be authorized but not appropriated since there is no uncompensated expenditure of fiscal resources.

57–010 O

Historical Background

The international monetary system as it has been experienced over the last three decades in the creation of the Bretton Woods Conference in 1944. The conference agreement was authorized by the United States and the United Kingdom. The objective of the system was to provide financial stability in international markets. This was achieved by fixing exchange rates, by setting an official price for gold, by guaranteeing the conversion into gold of major currencies, and by forming the IMF to oversee the system and provide it with the credit facilities to stabilize the currencies of countries having balance of trade difficulties.

The dissolution of the monetary system created by the Bretton Woods Agreements can be traced to the early 1960s. The monetary system during this time period made a de facto transition from a "gold standard" to a dollar standard. The continuing annual balance of payments deficits of the United States, which were seen as a blessing in the 1950s when the new post-war monetary system was starved for liquidity, produced a dollar glut abroad by the early 1960s. There were more dollars abroad than the U.S. had gold. The U.S. commitment to redeem international dollars for gold became a physical impossibility. The reality of dollar convertibility ended. The strength of the dollar and the U.S. economy became the base for the system, as major trading countries were forced to hold their international monetary reserves in dollars.

Continuing U.S. balance of payments deficits through the 1960s meant the U.S. was providing more monetary paper for the real resources it bought from abroad. The dollar was overvalued in relation to other major currencies. The inflation generated by the Vietnam War expenditures further accelerated both the flow of dollars abroad and the overvaluation. However, during the 1960s, devaluation of the dollar was not politically acceptable in the United States nor desired abroad by our trading partners. A number of actions during the 1960s marked the U.S. efforts to help relieve pressures on the monetary system. The interest equalization tax (IET) and regulations on capital flows were instituted. Military offset agreements were negotiated. Agreements were made between the largest 10 countries on gold holdings, the price of gold and foreign dollar holdings. A system of currency swap arrangements between the major central banks came into being to help stem short-term speculative flows against major currencies. U.S. Export-Import Bank activities were expanded in the hopes of reducing the deficit and the domestic international sales corporation (DISC) authorized to further stimulate exports.

By the late 1960s, major pressures were building for change. The monetary system was not serving the objectives of major interest groups. The Europeans became sensitive to U.S. purchases of European firms with overvalued dollars. U.S. labor felt that jobs were being shipped abroad at the same time that imports were competing easily with domestic production because of the overvalued dollar. U.S. exporters were losing overseas markets and finding it difficult to compete with European firms in third country markets. Studies by the OECD (Organization for Economic Cooperation and Development) began to show that under a fixed exchange rate system, the U.S. had exported to Europe and the world its own inflation. The Europeans argued that the dollar had two functions, one as a domestic currency and one as an international currency. The United States was accused continually of opting for domestic political considerations rather than fulfilling its international responsibilities as a reserve currency country.

The system had been faltering for a decade, but the benchmark date of the collapse is put at August 15, 1971. On this day, President Nixon reversed U.S. international monetary policy by officially declaring the non-convertibility of the U.S. dollar into gold and unilaterally imposing a 10 percent surcharge on all imports. The latter act represented a 10 percent devaluation of the dollar. The August 15 declaration led to the Smithsonian Agreement of December, 1971, which realigned the exchange rates between the dollar and other major currencies in the world. As part of the agreement, the dollar was devalued by 8 percent in relation to gold, while such currencies as the Deutsche mark and the Japanese yen were appreciated substantially.

The Smithsonian Agreement was an attempt to hold together the monetary system under the Bretton Woods structure of fixed exchange rates and currencies denominated in gold at official prices. But economic pressures in the United States, in the face of continuing balance of payments deficits, forced the United States to unilaterally devalue again by 10 percent in January, 1973. This devaluation signaled the end of the Smithsonian Agreement and the demise of the fixed rate exchange of Bretton Woods. By March of 1973, all of the major trading nations, with few exceptions, were floating their currencies and allowing world exchange markets to set currency values. While sanctioned by the IMF, the float was in technical violation of the Bretton Woods Agreements and the Articles of the International Monetary Fund.

The 1973 float of currencies eventually ended IMF efforts to structure a new monetary system on the principle of fixed exchange rates. The focus of reform was redirected to structuring a new system reflecting the realities of the floating rates. During the summer of 1974, the Interim Committee of the IMF was formed to negotiate this change. The major industrialized countries are represented directly on the Committee, with other members of the IMF selecting representatives that each represent a group of countries. The representatives are of ministerial rank. The Interim Committee was set up with the basic idea that the finance ministers have the capacity to make the political decisions necessary to reach the compromises needed to form a consensus on the shape of a new international monetary system.

There were three major issues facing the Interim Committee when it began negotiations in September 1974. These three issues were: the future role of gold in the new monetary system, the changes in the IMF quota structure to reflect the changes in economic wealth in the world, and the structure of the exchange rate system in the new monetary system.

The basic political compromise on the issue of gold was reached between the French and Americans at the bilateral summit meeting in

Martinique, December, 1974. President Ford met with President Giscard d'Estaing, with finance ministers William Simon and Jean-Pierre Fourcade present. The agreement, accepted by the Interim Committee in August, 1975, abolished an official price for gold, allowed each nation to value its gold reserves at market price if it so wished, and advocated the sale of IMF gold assets. It seemed to indicate substantial withdrawal by the French from their long-held position that gold should remain central to the monetary system. Yet it is argued by some that the agreement may allow gold actually to come back into the system in the future. The United States advocates that the Special Drawing Right (SDR) replace gold in the system. The U.S. also surfaced the proposal at Martinique that the IMF might sell a portion of its gold, the profits from the sale being placed in a fund to be used by less developed countries to help with special balance of payment problems. This proposal evolved into the idea of the new IMF Trust Fund.

The second question before the Interim Committee, that of changing quotas in the IMF, was approved on August 31, 1975, at the Committee's meeting in Washington, D.C. It was decided to expand the total quotas of the IMF by one-third. Almost all countries will increase their quotas by an absolute amount but a limited number of countries will increase their quotas by a larger percentage than others. This will result in a change in the relative percentage of national participation in the IMF. The most significant relative increase in participation was an expansion of the OPEC (oil-exporting) nations' percentage from 5 percent to 10 percent, with the U.S. and other OECD nations reducing their cumulative percentage by 5 percent.

On the third issue—exchange rates—the main differences were between the French position advocating fixed rates and the American position promoting floating rates. The issue was not resolved at the September, 1975, IFM/IBRD meeting, but a consensus was reached among the industrial countries that if the French and the Americans could solve their differences, the others would accept the compromise. Accordingly, the U.S. took advantage of the opportunity to work with the French to design the foundation of the new international monetary system. The drafting was carried on in relative secrecy until the French-U.S. agreement surfaced at the November, 1975, economic summit conference at Rambouillet, France. The other countries attending Rambouillet had no previous knowledge of the document, although they were cognizant of the French-American negotiating effort.

The negotiations began with both countries committed to the same objective, the reestablishment of stability in the international monetary system. It was the French belief that this stability could be imposed by the central governments. The Americans countered with the argument that the central governments did not have the resources to stabilize the market without each economy reaching its own internal equilibrium. The French came to accept this position.

The actual document still remain classified as secret. However, U.S. Treasury Under Secretary for Monetary Affairs, Edwin Yeo, III, discussed the contents of the document as follows before the Senate Foreign Relations Committee on June 22, 1976:

> The understandings at Rambouillet came in two forms: one, an agreement between the French government and ourselves which dealt with our mutual perception of the shape of international monetary reform. In other words, we had a number of points on which we had been unable to agree, and the understanding dealt with those disagreements.
>
> The second aspect of the understanding of Rambouillet involves, again between the French and ourselves, an agreement to collaborate to (sic) consult between Treasuries and central banks regarding exchange rate developments—specifically an agreement to counter disorderly market conditions, which has been our policy for some time.
>
> The other participants at Rambouillet associated themselves not with the understanding per se, but with the communique which came out of that understanding . . .

While it is publicly known that the agreement contained a working draft of the key compromise on a new Article IV of the IMF Articles of Agreement, the second aspect of the Rambouillet Agreement mentioned by Under Secretary Yeo has received minimal public attention. From his statement, it must be concluded that a process involving national treasuries and central banks has been put into place to oversee the management of the new monetary system. The Rambouillet Agreement, therefore, takes on a longer term significance than just a compromise on the issue of the structure of the exchange rate system.

The Rambouillet compromise on the structure of the exchange rate system formally was accepted by the other members of the IMF at the Interim Committee meeting in January, 1976, in Kingston, Jamaica. With this key decision made, it was possible for the Governors of the Fund to vote on resolutions expanding quotas and accepting the amendments to the Articles of Agreement. The amended agreements enter into force upon signature of three-fifths of the members having four-fifths of the weighted voting power.

The Secretary of the Treasury, as U.S. Governor of the Fund, cast a favorable vote on the quota resolution in March, 1976, and a favorable vote on the amendment resolution in April, 1976. These votes did not constitute acceptance by the United States of the resolutions. Under Section 5 of the Bretton Woods Agreements Act, Congressional authorization is necessary prior to U.S. acceptance of amendments to the Articles of Agreements or of the expansion of quotas. The necessary legislation was transmitted to the Congress and introduced on May 19, 1976, in the Senate as S. 3454 and on May 21, 1976 in the House as H.R. 13955.

Committee Action

The bill to amend the Bretton Woods Agreements, S. 3454, was introduced (by request) by Senator Sparkman on May 19, 1976. The Committee held two days of hearings on S. 3454. On June 22, 1976, the Committee heard Under Secretary of the Treasury Edwin H. Yeo III. Senator Sparkman also introduced into the record a letter in support of the bill on behalf of the Atlantic Council from former Secretary of the Treasury Henry Fowler. On June 29, 1976, the Committee invited a panel of three Brookings Institution economists to comment on the implications of S. 3454: Edward R. Fried, William Cline and Philip H. Trezise. The Committee also took testimony from Eugene A. Birnbaum, Vice President and Chief Economist of the First National Bank of Chicago and Patrick M. Borman from the Institute for Economic and Legal Analysis in New York City. The Committee held the record of the hearings open for two weeks for those parties who wished to submit statements for the record. Statements were received from Deputy Assistant Secretary of State for International Finance and Development Paul H. Boeker and from Irving S. Friedman from Citibank of New York City.

On July 27, 1976, the House of Representatives passed H.R. 13955 by a vote of 289 yeas and 121 nays, and that bill was referred to the Committee on Foreign Relations on the following day. The Committee took H.R. 13955 under consideration on August 3, 1976. The staff reviewed for the Committee the House amendments. These amendments are identified in the section-by-section analysis of the bill. The Committee had no objection to the House amendments except for one technical point which was amended.

The technical amendment was made to Section 5 of the Bretton Woods Agreements Act. Section 5 specifies certain actions which neither the President nor any person or agency can take on behalf of the United States unless authorized by Congress. The House amended Section 5 by adding paragraph (g) which prohibits U.S. approval of the establishment of any additional trust fund at the IMF which would provide special benefits to a single member or group of members. This language limited the U.S. Governor from approving IMF management of national trusts without Congressional approval. Such services are authorized under Article V, Section 2(b) of the IMF Articles of Agreement. The Committee amended this amendment by inserting the phrase "whereby resources of the International Monetary Fund would be used." This phrase makes it clear that the amendment deals with IMF financial resources and not national or multinational resources being managed by the IMF on a contractual basis. The amendment has the approval of the Department of the Treasury.

The Committee further amended H.R. 13955 on a motion by Senator Charles Percy by inserting a new Section 4. Section 4 adds a new subsection (b) to section 14 of the Bretton Woods Agreements Act which would require the President, upon the request of a Congressional committee with proper jurisdiction, to transmit promptly to such committee any "appropriate" information furnished to any United States department or agency by any international financial institution or economic organization of which the United States is a member. The quoted word was an amendment to Senator Percy's amendment and carries special significance as later noted.

The Committee believes that this amendment will improve Congressional oversight with regard to United States participation in the international monetary system. More effective oversight is required by the change to floating exchange rates. In the past, under the system of par values or set rates, exchange management was carried out by

means of controls over trade, financial flows, offset payments, and other activities requiring Congressional approval. The move to floating rates has eliminated many such oversight tools, however, while at the same time increasing the need for reliable information on how well the new system is functioning. Growing economic interdependence has added to that need.

The provision also strengthens Congressional oversight over United States foreign economic policy. The staffs and secretariats of the international economic institutions and organizations produce significant economic research on national economies and international ecoomic issues which they distribute to their members. This information is available to the Executive Branch and it is the opinion of the Committee that it should be available to the appropriate legislative committees of Congress.

The provision should not create constitutional difficulties. It requires the transmittal only of "appropriate" information. It would not require the transmittal of confidential communications between departments or agencies of the Executive Branch. Rather, it relates to information furnished the Executive Branch by external sources. In this regard, it is roughly analogous, constitutionally, to the "Case Act", which requires the transmittal to the Congress of international agreements to which the United States is a party.

The Committee recognizes that there will be cases where the appropriate information involved may be sensitive. But it notes that such information is now disseminated to 20 directors of the IMF representing over 100 countries. Access to such information, most Committee members believe, is essential for the proper performance of legislative functions. Nothing in this provision is to be construed as limiting any Committee's subpoena power.

A portion of Senator Percy's proposal which would have imposed criminal penalties for unauthorized disclosure of sensitive information was dropped because of uncertainty regarding its effect on activities protected by the Speech or Debate Clause, Article I, Section 6, clause 1 of the Constitution. Such action was taken, however, without prejudice to consideration of a penalties provision on the Senate floor.

During its consideration of this amendment, the Committee heard the testimony of Mr. Sam Y. Cross, U.S. Executive Director of the IMF. Mr. Cross expressed concern over the amendment, especially the transfer of highly sensitive economic information to Congress.

Thereafter, the Committee by voice vote and without dissent on August 3 passed H.R. 13955 as amended and ordered it reported favorably to the Senate.

Section by Section Analysis of H.R. 13955, as Amended

H.R. 13955 passed the House of Representatives on July 27, 1976, and was referred to the Senate on July 28, 1976. The bill—which replaces S. 3454—as amended in the House and by the Committee on Foreign Relations, has ten sections. The first five sections of H.R. 13955 amend the Bretton Woods Agreements Act, the next four sections amend other relevant legislation, and the last section deals with the date the amendment will become effective.

The first section of H.R. 13955 amends the Bretton Woods Agreements Act by adding Sections 24, 25 and 26 to the Act. Section 24 is the key section. It authorizes the U.S. Governor of the International Monetary Fund, the Secretary of the Treasury, to accept the amendments to the Articles of Agreement of the Fund. These amendments to to Articles are contained in the IMF Board of Governors resolution 31–4. It is this document that contains the provisions that move the exchange rate system from a fixed rate system to a floating rate system, substantially reduce the role of gold in the international monetary system, expand the quotas of the Fund by 33.6 percent, establish a Trust Fund and more lenient access to the Fund's resources, and modernize the operations of the Fund to include authority to create a Fund Council. The Council would be composed of finance ministers and would replace the current Interim Committee.

Section 25 specifically authorizes the increase in the U.S. quota in the IMF. The increase is 1,705 million Special Drawing Rights (SDR) or approximately $2 billion. The SDR value is based on an average daily value of 16 international currencies and fluctuates daily. Presently, the U.S. quota is SDR 6,700 or approximately $8 billion. The U.S. quota expansion is less than the general one-third expansion of the Fund's resources, therefore the U.S. percentage in the Fund drops from 22.93 percent to 21.53 percent. Roughly every five years since 1958–59, the Fund's resources have been increased to keep in step with the growth of international monetary resources and trade. This one-third increase is the fourth expansion.

Section 26 was added on the floor of the House of Representatives. It instructs the U.S. Governor to the IMF to vote against the formation of the new IMF Council if the Council will not follow the practice of weighted voting. Weighted voting provisions of the Fund are stated in Article XII, Section 5, They apply to all organs of the Fund and all votes. The addition of Article 26 has the effect of expressing the sentiment of the Congress that weighted voting in the Council is desirable.

Section 2 of H.R. 13955 was inserted by House Committee action and amends Section 3 of the Bretton Woods Agreements Act. Section 3 deals with the "Appointment of Governors, Executive Directors, and Alternates." The amendment anticipates the formation of the IMF Council by stipulating that if the Council is formed, the U.S. Governor of the Fund will serve as Councilor and have the authority to designate an alternate and associates. The second part of the amendments prohibits the Councilor, his alternate or associates from receiving salary or other compensation from the U.S. Government. This is standard language for all U.S. legislation on international financial institutions. The U.S. Secretary of the Treasury receives no compensation for representing the United States. The other positions are paid by the institution. The provision prohibits double salary payments.

The third section is a House provision which amends Section 5 of the original Act. Section 5 prohibits specific acts of the Executive Branch without prior Congressional authorization. H.R. 13955 amends Section 5 by adding part (g). Part (g) will prohibit the U.S. Governor to vote for the establishment of any new trust funds at the IMF without the prior approval of the Congress. The amendment reflects House sentiment that the Trust Fund, with its concessional lending to specified poor members, is an economic aid mechanism and past U.S. Executive support for such a fund without the consent of Congress has been seen as a circumvention of Congressional authority. Similar concerns have been expressed in the U.S. Senate. The Committee on Foreign Relations amended the House amendment, inserting a technical phrase allowing the U.S. Governor to vote without Congressional authority on trust funds that might be managed by the IMF but would not include financial resources of the Fund. This initiative is explained fully in the section of this report titled Committee Action.

The Committee amended H.R. 13955 to insert a new Section 4 and consecutively renumbered House sections 4 through 9 to 5 through 10. Section 4 amends Section 14 of the Bretton Woods Agreements Act by designating the present language of Section 14 as paragraph "(a)" and adding a new paragraph lettered "(b)". The new paragraph provides legislative authority for the committees of Congress with legislative jurisdiction over international financial institutions or economic organizations to request from the President that he furnish any appropriate information provided by these institutions or organizations to any department or agency of the United States Government. The intent of the Committee in amending the legislation in this manner is explained in the section of this report entitled "Committee Action."

Section 5 of the bill, reflecting House Committee action, amends Section 17(a) of the Bretton Woods Agreements Act. The section deals with U.S. obligations under the 1962 General Agreements to Borrow. The amendment changes the IMF Article reference to the appropriate paragraph in the new IMF Articles. It also deletes the last sentence of 17(a) which stated that any loan must take into consideration the U.S. balance of payments and reserve position. This provision was logically consistent with a fixed exchange rate system where reserves were needed to defend the par value of the dollar. Under a floating rate system, the reserves play a much smaller role in the adjustment mechanism.

Section 6, dealing with amendments to the Special Drawing Rights Act, and Section 7, dealing with the par Value Modification Act, contain a series of technical amendments that change appropriate references from the old IMF Articles of Agreement to the new amended Articles, or delete language that is inconsistent with the new Articles.

Sections 8 and 9 reflect House amendments to the Gold Reserve Act of 1934. These are technical amendments, with the exception of the amendment of Section 10(a). Section 10(a) of the present Act authorizes the Secretary of the Treasury to use the resources of the Exchange Stabilization Fund (ESF) "for the purposes of stabilizing the exchange value of the dollar." The amendment deletes this language since under the amended IMF Articles of Agreement there is no obligation to stabilize the dollar at a par value. The new language directs the Secretary of the Treasury to use the ESF "as he may deem necessary to and consistent with the United States obligations in the International Monetary Fund."

Section 10 of the bill states that the amendments made in Section 2, 3, 5, 6, 7, and 8 of the bill will become effective upon entry into force of the amendments to the IMF Articles of Agreement.

Implications of the Amendments to the Bretton Woods Agreements Act

The amended Bretton Woods Agreements Act authorizes the United States Governor of the IMF to accept the amended IMF Articles of Agreement and authorizes the expansion of the U.S. IMF quota. Authorizing these two actions will have a broad impact in five major areas of the international monetary system: the exchange rate system, the role of gold in the system, the expansion of IMF quotas, the expansion of access to IMF resources, and the formation of the IMF Council. In discussing these five areas, it is important to realize that the amendments of the IMF Articles and the expansion of quotas were negotiated as one package. The compromises which made this package a reality took place over a two-year period. They were achieved among the industrial nations, as well as between the industrial nations and the developing countries. The package is the result of both economic and political craftsmanship. It is the opinion of the Committee that the basic U.S. negotiating objectives were achieved and U.S. national interests protected.

Exchange Rate System

Of all the changes in the Fund, the agreement sanctioning the floating exchange rate system is the most significant. Moving to a floating exchange rate for international commerce means that private enterprises and not the central governments bear the risk of currency fluctuations. It also means that trade restrictions such as fixed tariff schedules are of less importance, since the exchange rate should compensate to a degree for these impediments. Variable tariffs and non-tariff barriers will remain as effective impediments to trade. It is also felt by some that floating rates will complicate domestic monetary policy because interest rate changes may affect international capital flows which, in turn, will affect exchange rate levels.

The negotiations on the exchange rate structure centered on how the system would be managed, not whether the system would be managed. A fixed rate system is managed by direct government involvement in the money markets, as well as by controlling certain items in the balance of payments that affect the demand and supply of a currency on foreign currency markets. A floating system is managed by individuals in the market responding to economic stimuli that influence decisions to buy or sell foreign currency. These incentives register themselves through price or interest rates. In the first case, the central government provides guidance to the market. In the second case, this guidance is provided by forces in the market which encourage or inhibit economic activity. Adjustment takes place in the exchange rate and the national economy rather than through government regulation of trade or capital flows. Governments enter the foreign exchange market only to stabilize the market in cases of erratic fluctuations.

The exchange rate decision that is incorporated in the amendment to Article IV of the IMF charter is not a straightforward declaration. The article in fact allows for the simultaneous existence of numerous systems of exchange rates. It does not state that a floating system is authorized but implicitly states that the system presently in force is sanctioned. It also states that on the vote of 85 percent of the members' quotas, the IMF can return to a fixed exchange system. The agreement allows coordinated floats such as the European "snake", as well as tied floats where one currency is fixed to another that is floating. For example, Mexico could affix its currency to the dollar. Its exchange rate with the dollar would remain constant while its exchange rate with other major currencies would float as these currencies floated against the dollar. The wording very effectively allows all parties in the proceeding to save face. Its central importance for the U.S. position is that the present floating system is sanctioned and the U.S. has veto power over any move to adopt another system.

To help assure that governments do not secretly enter the foreign exchange market to influence the exchange rate of national currencies, the IMF members have accepted the following obligations. First, all nations commit themselves to foster domestic economic policies which assure reasonable price stability and which assure a monetary system reasonably free of erratic disruptions. Secondly, all nations pledge not to manipulate exchange rates other than short-term market action to stabilize market disruptions. The success of the effort will rely on the integrity of the countries involved to live by the spirit of the agreement.

The Role of Gold

The compromise on the future role of gold in the monetary system was reached, except for some decisions on beneficiaries of distributions, at the August 1975, IMF Interim Committee meeting. The decision was to remove gold from the international monetary system. It has long been reasoned that gold is not a good "numeraire" for the system. There are many long dissertations on this issue, but the basic argument is that the supply of gold is determined by factors outside the monetary system. Liquidity in relation to the needs of the system is critical for its stable operation. In the past, gold supply has not kept pace with the need for international liquidity. Furthermore, the use of gold as a central part of the system favors those nations with large reserves, mainly South Africa and the Soviet Union. Finally, there are competing uses for gold as a commodity, the demand for which influences the structure of the monetary system—an influence that is not seen as productive.

To remove gold from the international monetary system necessitated a decision on how to remove from the IMF its store of 150 million troy ounces which had been contributed to it by member countries as part of their quota obligations. The decision was to sell this gold. However, it was realized that any massive sale of gold would collapse the world gold market. The first two sections of the accord set up a procedure for the IMF to divest itself of one-third of its goal leaving two-thirds of the gold to be handled at some later date at the discretion of the IMF.

The gold at the IMF is officially valued at SDR 35 or approximately $42 per ounce. The present world price of gold is near $120 per ounce. It was decided that in any distribution or sale of gold, the Fund would keep the figure of SDR 35 per ounce so that the IMF's assets would not be depleted. The benefits to members from the redistribution of IMF assets (described below) made the gold arrangement acceptable to promote a larger consensus.

The first part of the compromise is the restitution of one-sixth of the IMF gold holdings to IMF members on the basis of their quotas in the Fund. The main beneficiaries of the restitution are the developed countries who hold the major portion of the Fund's quotas. This restitution to the developed countries was seen as a quid pro quo to France which has opposed for a long time the removal of gold from the monetary system. The countries will pay the IMF the official price for the gold, $42.00, in an exchange of assets. Should these countries wish to sell this gold on the open market, they would realize the profits.

The second part of the compromise deals with the sale on the world market of the second one-sixth of the IMF gold, the profits from this sale to benefit the less developed countries. Sales of this gold have already commenced and will continue over the next four years. The profits generated are to be placed in a Trust Fund which will provide concessional lending to less developed countries who need loans for balance of payments support. Although Treasury officials deny that a five-year grace period and five years to repay. Those countries with a loan program that will provide loans at one-half of one percent with a five-year grace period and five years to repay. Those countries with a per capita income of less than SDR 300 or approximately $350 will be eligible to use the Trust Fund. The Trust Fund is to make about $750 million available each year for the next four years. This figure will vary depending on the world market price of gold.

Another aspect of the sale of the second sixth of gold is referred to as the "direct access" question. A number of Fund members which consider themselves less developed countries do not wish the profits from the sale of their gold in the Fund given to other less developed countries (LDC). Of the 25,000 troy ounces to be sold, 7,000 or 28 percent is LDC gold. As part of the agreement on the second one-sixth sale, seven twenty-fifths of the profit will be given by quota share directly to the less developed countries as their share of the profits of the sale. Only eighteen twenty-fifths or 72 percent of the profit will go into the Trust Fund. This hidden restitution benefits the more wealthy LDCs who have larger quota shares.

The third aspect of the gold compromise deals with the role of gold within the structure of the international monetary system. The agreement eliminates the official price for gold and the obligation of central banks to use gold in transactions between central banks or between central banks and the Fund. To insure that no central bank moves to hoard gold sold on the open market, it is still illegal for a central bank to purchase gold at more than SDR 35 per ounce. Furthermore, the G–10 [1] adopted a set of rules to minimize the possibility of any central bank not adhering to the agreement.

While it is the expressed intent of the IMF to move gold out of the international monetary system, there are vast numbers of legal and psychological mechanisms still in evidence in the system that will

[1] Members of the G–10 are: Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, U.K., and U.S., with Switzerland as an associate member in attendance.

perpetuate some role for gold. By ending the practice of having a percentage of IMF quotas paid in gold and eliminating gold transactions between the Fund and central banks, the Fund has taken direct actions to eliminate gold from the system. However, as with most institutional acts, it is the concurrence and sincerity of the daily actions of members which will determine the success of the effort.

The Expansion of Quotas

The expansion of the IMF quotas was agreed upon at the annual IMF meeting in Washington in August, 1975. Quotas are the actual exchanges of monetary assets by member states with the IMF. These assets represent the capitalization of the Fund. The U.S. has a claim to its quota should the IMF ever be liquidated. These assets are "purchased" from the IMF by member states for short-term balance of payment needs. Present interest rates on these "purchases" are 4 to 6 percent with maturities of 3 to 5 years.

As a result of the agreement on expended quotas, assets held by the IMF will increase by $12 billion over the next two years. This represents an increase by one-third in the Fund's resources. The actual figures are denominated in SDRs: SDR 29.2 billion rising to SDR 39 billion. This change will be reflected in an increase in quotas of almost all members of the Fund. The U.S. quota will rise from SDR 6.7 billion to SDR 8.405 billion. However, on a relative basis, some countries will expend their percentage of the IMF's total assets more than others. The major shift will be an increase in the OPEC nation quotas from 5 percent of the Fund to 10 percent. The United States and the OECD countries will reduce their relative share to allow this expansion. The U.S. quota will be reduced from 22.93 to 21.53 percent.

This relative change in percentage of the total assets will shift national voting power in the Fund. Votes in the Fund are weighted in relation to quotas as a percentage of total assets. Each member receives 250 votes plus one vote for each 100,000 SDR of its quota. The drop in U.S. quota relative to the total assets will reduce the U.S. voting share from 20.75 percent to 19.96 percent.

By controlling 19.96 percent of the vote, the United States has veto power over the important decisions in the Fund. In the past, important decisions of the Fund required an 80 percent majority. In the amended Articles of Agreement, this percentage has been raised to 85 percent. This change will allow the United States a continuation of its veto power even if there are more relative shifts in the voting power among Fund members.

Expansion of Access to IMF Resources

As part of the broader compromise in the negotiation, it was agreed to temporarily expand each of the four available credit tranches from 25 percent to 36.25 percent of the quota. This expansion is designed to allow temporarily more access to the Fund's resources. With four expanded tranches, a country can now "purchase" 145 percent of its quota. This temporary expansion will be in effect until the new IMF quotas are ratified. The conditions on each succeeding credit tranche remains as they have been in the past. In a system that is already replete with liquidity this agreement adds some inflationary pressure to the total system. However, the $3 billion of new liquidity created is only 1.5 percent of something more than $200 billion plus in official international reserves held by Fund members.

The liberalization of the Compensatory Financing Facility (CFF) of the IMF is another measure designed to provide more access to the Fund's resources. This was agreed upon in December, 1974, and is already operational. The Facility is for the use of members "facing balance of payments difficulties arising from temporary shortfalls in export receipts resulting from circumstances beyond their control." The liberalization expands the use of the CFF from 25 percent of quota to 50 percent of quota in a 12-month period. The formula for calculating shortfalls was also changed in a manner that provides for larger sums to be made available. "Purchases" from the CFF carry the same interest rate and maturities as regular credit tranche "purchases", but do not affect the members' access to other facilities of the IMF. It is estimated that this liberalization will provide an extra $1 billion for those qualifying.

The IMF Council

There are numerous technical changes in the amendments to the IMF Articles designed to improve the operation of the IMF. The only major institutional change included in the amendments is an enabling provision which would permit the Board of Governors, by an 85 percent majority vote, to create an IMF Council. The Council would be a new, permanent organ of the IMF composed of members of ministerial or equivalent rank. The Council is seen as a successor to the Interim Committee. It would provide the Fund with a deliberative forum whose members would have the political authority to make the decisions necessary to supervise and adopt the international monetary system to changing circumstances. The authority to make these decisions would be delegated by the Board of Governors.

Summary

In summary, the new quotas and the amended Articles of Agreement are a pragmatic reform of the Bretton Woods Agreement of 1944. The amendments, for the most part, sanction what already is being practiced. They authorized three major systemic reforms: a monetary adjustment process based on a floating exchange rate, the elimination of gold, and a one-third expansion in IMF quotas. They created for the less developed countries some $3 to $4 billion in new credits through liberalization of the Compensatory Financing Facility, the Trust Fund and a temporary expansion of drawing rights from the Fund.

The agreements do not guarantee a trouble-free system. Numerous problem areas still remain. There must be close oversight of the system to guarantee national obligations are being fulfilled on exchange rate performance as well as the role of gold. Control of international liquidity has yet to be dealt with effectively. Distribution of international reserves is badly skewed, causing a growth of international indebtedness and critical problems in access to international credit. Economic interdependence, fostered by an effective international monetary system, will bring new problems for domestic and international economic policy determinations. Finally, there is a great need to view the monetary system as an integral part of a larger whole, an international system of political economy. These are all issues in which Congress must play an important part in its oversight role in respect to United States foreign economic policy.

Committee Comments

The Committee believes that it will be difficult for the United States Government to know whether the amended Articles of the IMF are being adhered to by other members. Both of the key aspects of the amended Articles of Agreement, the floating exchange rate and the elimination of gold, depend on the good faith of other nations to operate within the accepted commitments. Congress, not being directly involved in daily decisionmaking, will have an even more difficult time carrying out its assessment of the new system and U.S. policy toward the system. Furthermore, the move from fixed to floating rates has placed a much heavier emphasis on personal, monetary diplomacy. The understandings reached through these diplomatic contacts will help determine the short-term objectives of international monetary management. These short-term decisions will come to define longer-term goals which will encompass, by necessity, political and economic considerations.

Therefore, the Committee expresses a strong desire to improve formal and informal consultations on international monetary issues with the Department of Treasury and other departments and agencies. Senator Clifford Case emphasized that such consultations must be initiated, in many instances, by the Executive Branch, since Congress cannot know of all major decisions facing the Administration. It is the opinion of the Committee that the Executive Branch must be more forthcoming in its provision of information to Congress on the issues and policy choices facing the United States in international monetary policy. Without effective consultation and cooperation of this sort, there can be little meaningful oversight by Congress in this critical policy area. For this reason, the Committee supports Senator Percy's amendment, Section 4 of H.R. 13955, which provides legislative authority for the request of information provided to the Executive Branch by international financial institutions and economic organizations.

One area that remains poorly defined is the role of the Federal Reserve in international monetary policy formation and implementation. The Committee informally asked the Federal Reserve Board to send a Member to testify during the Committee's hearings. The Board deferred to Treasury and did not appear. Yet Under Secretary of Treasury Edwin Yeo, during his testimony on June 22, 1976, did state that there is a recognized role for central banks outlined in the Rambouillet agreement. It is the Committee's intention to carry out its oversight role in relation to the total operation of the international monetary system and it will not limit its interests to one department or agency, or a limited number of more public forums.

The Committee strongly recommends the passage of this legislation to legalize the status quo, to provide a new set of agreed operating procedures, to institute a degree of flexibility in the international monetary system, and to promote world-wide economic growth and interdependence. However, the Committee wishes to express caution on the underlying assumption of the Administration that since a little economic interdependence is good, a lot will be much better. Interdependence has placed all the industrial democracies on the same business cycle. The last major recession was deepened by this new phenomenon. While the Committee recognizes the benefits of economic integration, it also recognizes the difficulties in overseeing a system that is as large and as complex as that now being created. It suggests that thought be given to what limits the United States wishes to promote economic integration and that analyses be done as to the potential costs and returns to the United States associated with various degrees of commitment to this concept.

Changes in Existing Law

In compliance with paragraph 4 of Rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

BRETTON WOODS AGREEMENTS ACT

* * * * * * *

APPOINTMENT OF GOVERNORS, EXECUTIVE DIRECTORS, AND ALTERNATES

SEC. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund who shall also serve as governor of the Bank, and an executive director of the Fund and an executive director of the Bank. The executive directors so appointed shall also serve as provisional executive directors of the Fund and the Bank for the purposes of the respective Articles of Agreement. The term of office for the governor of the Fund and of the Bank shall be five years. The term of office for the executive directors shall be two years, but the executive directors shall remain in office until their successors have been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for the governor of the Fund and an alternate for the governor of the Bank. The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the executive directors. The alternate for each executive director shall be appointed from among individuals recommended to the President by the executive director. The terms of office for alternates for the governor and the executive directors shall be the same as the terms specified in subsection (a) for the governor and executive directors.

[(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.]

(c) Should the provisions of Schedule D of the Articles of Agreement of the Fund apply, the governor of the Fund shall also serve as councillor, shall designate an alternate for the councillor, and may designate associates.

(d) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, councillor, alternate, or associate.

* * * * * * *

CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

SEC. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United

States (a) request or content to any change in the quota of the United States under article III, section 2(*a*), of the Articles of Agreement of the Fund; (b) propose [or agree to any change in the par value of the United States dollar under article IV, section 5, or article XX, section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under article IV, section 7; (c) subscribe to additional shares of stock under article II, section 3 of the Articles of Agreement of the Bank; (d) accept any amendment under article XVII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (e) make any loan to the Fund or the Bank.] *a par value for the United States dollar under paragraph 2, paragraph 4, or paragraph 10 of schedule C of the Articles of Agreement of the Fund; (c) propose any change in the par value of the United States dollar under paragraph 6 of schedule C of the Articles of Agreement of the Fund, or approve any general change in par values under paragraph 11 of schedule C; (d) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (e) accept any amendment under article XXVIII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (f) make any loan to the Fund or the Bank; (g) approve the establishment of any additional trust fund, whereby resources of the International Monetary Fund would be used for the special benefit of a single member, or of a particular segment of the membership, of the Fund. Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank, if such increase involves an increased subscription on the part of the United States.*

* * * * * * *

FURTHER PROMOTION OF INTERNATIONAL ECONOMIC RELATIONS

SEC. 14. (*a*) In the realization that additional measures of international economic coöperation are necessary to facilitate the expansion and balanced growth of international trade and render most effective the operations of the Fund and the Bank, it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations. In considering the policies of the United States in foreign lending and the policies of the Fund and the Bank, particularly in conducting exchange transactions, the Council and the United States representatives on the Fund and the Bank shall give careful consideration to the progress which has been made in achieving such agreement and cooperation.

(b) The President shall, upon the request of any committee of the Congress with legislative jurisdiction over an international financial institution or economic organization of which the United States is a member, transmit promptly to such committee any appropriate information furnished to any department or agency of the United States by such institution or organization.

* * * * * * *

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)] *1(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. 24. The United States Governor of the Fund is authorized to accept the amendments to the Articles of Agreement of the Fund approved in resolution numbered 31–4 of the Board of Governors of the Fund.

SEC. 25. The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 1,705 million Special Drawing Rights.

SPECIAL DRAWING RIGHTS ACT

AN ACT To provide for United States participation in the facility based on Special Drawing Rights in the International Monetary Fund, and for other purposes

* * * * * * *

SEC. 3. (a) Special Drawing Rights allocated to the United States pursuant to article [XXIV] *XVIII* of the Articles of Agreement of the Fund, and Special Drawing Rights otherwise acquired by the United States, shall be credited to the account of, and administered as part of, the Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

(b) The proceeds resulting from the use of Special Drawing Rights by the United States, and payments of interest to the United States pursuant to [article XXVI, article XXX, and article XXXI] *article XX, article XXIV, and article XXV* of the Articles of Agreement of the Fund, shall be deposited in the Exchange Stabilization Fund. Currency payments by the United States in return for Special Drawing Rights, and payments of charges or assessments pursuant to [article XXVI, article XXX, and article XXXI] *article XX, article XXIV, and article XXV* of the Articles of Agreement of the Fund, shall be made from the resources of the Exchange Stabilization Fund.

* * * * * * *

SEC. 6. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States vote to allocate in each basic period Special Drawing Rights under article [XXIV] *XVIII*, sections 2 and 3, of the Articles of Agreement of the Fund so that allocations to the United States in that period exceed an amount equal to the United States quota in the Fund as authorized under the Bretton Woods Agreements Act.

SEC. 7. The provisions of article [XXVII(b)] *XXI(b)* of the Articles of Agreement of the Fund shall have full force and effect in the United States and its territories and possessions when the United States becomes a participant in the special drawing account.

PAR VALUE MODIFICATION ACT

AN ACT To provide for a modification in the par value of the dollar, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Par Value Modification Act".

[SEC. 2. The Secretary of the Treasury is hereby authorized and directed to take the steps necessary to establish a new par value of the dollar of $1 equals one thirty-eighth of a fine troy ounce of gold. When established such par value shall be the legal standard for defining the relationship of the dollar to gold for the purpose of issuing gold certificates pursuant to section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b).]

SEC. 3. The Secretary of the Treasury is authorized and directed to maintain the value in terms of gold of the holdings of United States dollars of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the International Development Association, and the Asian Development Bank to the extent provided in the articles of agreement of such institutions. There is hereby authorized to be appropriated, to remain available until expended, such amounts as may be necessary to provide for such maintenance of value.

SEC. 4. The increase in the value of the gold held by the United States (including the gold held as security for gold certificates) resulting from the change in the par value of the dollar authorized by section 2 of this Act shall be covered into the Treasury as a miscellaneous receipt.

SEC. 5. It is the sense of the Congress that the President shall take all appropriate action to expedite realization of the international monetary reform noted at the Smithsonian on December 18, 1971.

GOLD RESERVE ACT OF 1934

AN ACT To protect the currency of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes

* * * * * * *

SEC. 10. (a) [For the purpose of stabilizing the exchange value of the dollar, the] *The* Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to [carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President] *and consistent with the United States obligations in the International Monetary Fund. The Secretary of the Treasury shall annually make a report on the operations of the fund to the President and to the Congress.*

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

* * * * * * *

SEC. 14. (a) * * *

* * * * * * *

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the [Treasurer of the] United States *Treasury*. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard *provided in section 2 of the Par Value Modification Act (31 U.S.C. 449) on the date of enactment of this amendment*, of the gold so held against gold certificates.

O

Calendar No. 1230

94TH CONGRESS *2d Session*	SENATE	REPORT No. 94–1295

AMENDMENT OF THE BRETTON WOODS AGREEMENTS ACT AND OTHER INTERNATIONAL MONETARY MATTERS

REPORT

OF THE

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS UNITED STATES SENATE

TO ACCOMPANY

H.R. 13955

TOGETHER WITH

SUPPLEMENTAL VIEWS

SEPTEMBER 22, 1976.—Ordered to be printed

U.S. GOVERNMENT PRINTING OFFICE
WASHINGTON : 1976

57–010

COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

WILLIAM PROXMIRE, Wisconsin, *Chairman*

JOHN SPARKMAN, Alabama
HARRISON A. WILLIAMS, Jr., New Jersey
THOMAS J. McINTYRE, New Hampshire
ALAN CRANSTON, California
ADLAI E. STEVENSON, Illinois
JOSEPH R. BIDEN, Jr., Delaware
ROBERT MORGAN, North Carolina

JOHN TOWER, Texas
EDWARD W. BROOKE, Massachusetts
BOB PACKWOOD, Oregon
JESSE HELMS, North Carolina
JAKE GARN, Utah

KENNETH A. McLEAN, *Staff Director*
ANTHONY T. CLUFF, *Minority Staff Director*

SUBCOMMITEE ON INTERNATIONAL FINANCE

ADLAI E. STEVENSON, Illinois, *Chairman*

WILLIAM PROXMIRE, Wisconsin
HARRISON, A. WILLIAMS, Jr., New Jersey
THOMAS J. McINTYRE, New Hampshire
ALAN CRANSTON, California
JOSEPH R. BIDEN, Jr., Delaware

BOB PACKWOOD, Oregon
JOHN TOWER, Texas
JESSE HELMS, North Carolina
JAKE GARN, Utah

STANLEY J. MARCUSS, *Counsel*

CONTENTS

Calendar No. 1230

94TH CONGRESS } SENATE { REPORT
2d Session } { No. 94–1295

AMENDMENT OF THE BRETTON WOODS AGREEMENTS ACT AND OTHER INTERNATIONAL MONETARY MATTERS

SEPTEMBER 22, 1976.—Ordered to be printed

Mr. STEVENSON, from the Committee on Banking, Housing, and Urban Affairs, submitted the following

REPORT

together with

SUPPLEMENTAL VIEWS

[To accompany H.R. 13955]

The Committee on Banking, Housing, and Urban Affairs, to which was referred H.R. 13955, a bill to amend the Bretton Woods Agreements Act and for other purposes, having considered the same, reports favorably thereon with amendments.

HISTORY OF THE BILL

H.R. 13955 passed the House of Representatives on July 27, 1976 and was referred to the Senate on July 28, 1976. It was thereupon referred to the Committee on Foreign Relations where hearings had been held on a similar measure, S. 3454, on June 22 and June 29, 1976. By voice vote the Foreign Relations Committee approved H.R. 13955 with amendments on August 3, 1976, and ordered it reported favorably to the Senate. On August 26, H.R. 13955, as amended, was referred to this Committee where hearings were held by the Subcommittee on International Finance on August 27, 1976.

The International Finance Subcommittee heard testimony from Senator Charles Percy, Congressman Thomas Rees, Congressman Ron Paul and Undersecretary of the Treasury for Monetary Affairs, Edwin H. Yeo, III. Testimony was also taken from a panel of private witnesses: Eugene A. Birnbaum, Vice President and Chief Economist, First National Bank of Chicago; Robert V. Roosa, Partner, Brown Brothers Harriman & Co.; Jack F. Bennett, Senior Vice President and Director, Exxon Corporation; Walter S. Salant, Senior Fellow, Brookings Institute; Robert Z. Aliber, Professor of International Trade and Finance, Graduate School of Business Administration, University of Chicago; and Sidney Brown, Vice President and Economist, Deak & Co., Inc.

The Committee agreed by poll as of September 22 to report the legislation favorably to the Senate with amendments proposed by Senator Stevenson.

The amendments agreed to by the Committee would do the following:

(1) Insure that the Congressional committees having oversight jurisdiction over monetary policy and international financial institutions to which the United States belongs receive all appropriate information furnished to the Executive Branch by such institutions;

(2) Make it clear that the Exchange Stabilization Fund is to be used only in a manner consistent with U.S. obligations in the IMF regarding orderly exchange arrangements and a stable system of exchange rates;

(3) Require that no loan or credit to a foreign government or entity be extended through the Exchange Stabilization Fund for more than six months in any twelve month period unless the President provides a written determination to the Congress that unique or exigent circumstances make a longer-term credit necessary.

(4) Make a technical change in the Gold Reserve Act of 1934 to reflect the changed purposes of the Exchange Stabilization Fund; and

(5) Insure that the United States does not vote to dispose of any IMF gold for the benefit of a limited segment of IMF membership beyond the 25 million ounces already agreed to be sold for the benefit of the Trust Fund for LDC's established on May 6, 1976, unless Congress expressly authorizes such action by law.

In addition, the bill contains all the provisions approved by the Senate Foreign Relations Committee and the House of Representatives.

Purpose of the Bill

The purpose of the bill is to amend the Bretton Woods Agreements Act in order to authorize the United States, as a member of the International Monetary Fund ("IMF"), to accept amendments to the IMF Articles of Agreement approved by the Fund's Board of Governors earlier this year. The bill would also authorize the United States to accept the approximate $2 billion increase in its IMF quota also approved by the Board of Governors earlier this year. In addition, the bill would make related changes in other U.S. laws pertaining to U.S. participation in the international monetary system and U.S. intervention in the foreign exchange markets. And, finally, the bill would provide for enhanced Congressional access to the information necessary for effective oversight of U.S. international monetary and economic policy.

Under the proposed amendments to the IMF Articles of Agreements, fixed exchange rates in terms of gold would be abolished. Instead, members would be permitted to choose any other exchange arrangement, fixed or floating, subject to a general obligation to avoid exchange rate manipulation, promote orderly economic, financial, and monetary conditions, and foster orderly economic growth with reasonable price stability. In addition, the official price of gold would be abolished; all requirements for the use of gold in transactions with the Fund, including quota subscriptions, would be ended; and the Fund would be authorized to dispose of its present holdings of gold. Other provisions would liberalize the use of Special Drawing Rights, facilitate IMF use of member country currencies, and authorize creation of a new twenty-member Council to replace the existing Interim Committee which negotiated the Jamaica agreements.

The increase in the United States IMF quota is part of an overall one third increase in total Fund quotas. The purpose of the quota increase is to keep IMF resources in line with growing balance of payments financing needs. The share of quotas held by oil exporting nations would be doubled (from 5 to 10 percent) and the shares of developed countries, reduced. The United States quota would fall to 21.53 percent of the total from its present 22.93 percent, and its voting share would fall to 19.96 percent of the total from its present 20.75 percent. However, the effective U.S. veto over amendments to the IMF Articles and over certain fundamental IMF decisions would be preserved, since the amended Articles would increase the majority required for these decisions from 80 to 85 percent.

Increased quotas for all IMF members, as well as the proposed amendments to the Articles of Agreement, reflect agreements reached in Jamaica in January of this year after extensive negotiations to reform the international monetary system. Taken together, they would legitimatize floating exchange rates, reduce the role of gold in the Fund and, possibly, the international monetary system as a whole, increase the Fund's useable resources, and provide an opportunity for continued evolution of the international monetary system toward greater economic cooperation, growth, and stability among all the nations of the world.

Need For the Leglislation

This legislation is needed in order to bring the Jamaica agreements to fruition. Without U.S. approval, neither the U.S. quota increase nor the amended Articles of Agreement can become effective.

Under present rules, no individual quota increase can become effective until the member concerned has consented. Moreover, none of the new quotas can become effective until the amended Articles of Agreement enter into force. The amended Articles cannot become effective until three-fifths of the members having four-fifths of the voting power approve. The United States, with more than one-fifth of the voting power, thus occupies a pivotal position in the achievement of the international monetary reforms which it has long sought and are now embodied in the proposed new Articles of Agreement.

HISTORY OF NEGOTIATIONS TO REFORM THE INTERNATIONAL MONETARY SYSTEM

The Jamaica agreements are the product of negotiations which began formally in 1972 but which had their origins in the early 1960's in discussions of international liquidity shortages and the inherent instability of an international monetary system dependent on the convertibility of U.S. dollars into gold. Both the world's gold supply and the availability of dollars depend upon factors which have little to do with the needs of world trade and international finance.

The United States took the initiative in these early discussions. Proposals were soon advanced to establish an artificially-created international reserve asset to replace both gold and national currencies.

Agreement was reached in 1969 on the creation of the Special Drawing Right ("SDR") as the new international reserve asset, and allocations of SDRs to IMF member countries were made in 1970, 1971 and 1972.

Events moved swiftly, however, so that by 1971 the central problem in the international monetary system was not so much the insufficiency of monetary reserves, but the failure of the balance of payments adjustment process. Under the Bretton Woods system created immediately after World War II, exchange rates were fixed and based on currency par values expressed in terms of gold. Exchange rate adjustments were infrequent. They were to be made only to correct a "fundamental disequalibrium" in a country's balance of payments.

Despite changes in underlying economic conditions, countries were reluctant to adjust the value of their currencies. Surplus countries feared revaluation because of the resulting adverse impact of higher export prices on export potential and domestic employment. Deficit countries such as the United Kingdom, France, and the United States feared devaluation because of the resulting loss of confidence and prestige. Moreover, among countries heavily dependent on trade, devaluation meant an increase in the cost of imports and resulting domestic inflationary pressures. In addition, because the dollar had become the major reserve asset of many countries of the world, the United States could not devalue without wreaking havoc on a substantial bloc of countries. And because the dollar was used for market intervention purposes by all major countries, U.S. devaluation could be offset by corresponding devaluations by countries holding substantial reserves of gold. The result would be a string of destructive worldwide devaluations greatly impairing world trade, investment, and economic activity.

In 1971, the United States experienced its first trade deficit in decades, and in the face of rising domestic inflation and other economic problems, President Nixon announced on August 15 a series of measures to reverse the trade balance and cope with mounting domestic economic problems. Among them was suspension of the gold convertibility of the dollar, which meant that the U.S. Treasury would no longer redeem foreign official holdings of dollars with gold. The objective was to force a general readjustment of exchange rates vis-a-vis the dollar.

After a period of confrontation and negotiation, a realignment of exchange rates was finally agreed to by the Group of Ten industrialized countries at the Smithsonian Institution in December 1971. The effect was to produce a long overdue devaluation of the dollar. One of the points upon which the United States insisted at the time was that Smithsonian be followed by further negotiations on general reform of the international monetary system.

Reform negotiations began in July of 1972 in a specially appointed Ministerial Committee on Reform of the International Monetary System, composed of twenty persons representing the same groups of countries which are entitled to appoint or elect the twenty Executive Directors of the IMF. This "Committee of Twenty" (C–20) struggled to reach agreement, but succeeded only in producing an "Outline of Reform" and a recommendation for continued negotiations on amendments to the IMF Articles of Agreement.

In part, C–20 was overtaken by events. After a hastily negotiated realignment of exchange rates in February 1973, speculative pressures failed to subside in the exchange markets. As a result, from March 1973 onward, most exchange rates were cut loose from stated par values and allowed to float with varying degrees of official intervention.

With a de facto floating rate system in effect, much of the work done by C–20 on adjustment under a pegged rate system became obsolete. Subsequently, the quadrupling of oil prices in 1973 and 1974 diverted C–20's attention to the more immediate problem of the staggering balance of payments deficits arising from the oil price increases.

When C–20 was disbanded in June 1974, it recommended that an oil facility be established in the IMF to help countries meet oil-related payments deficits and that a Development Committee of the Fund and World Bank (International Bank for Reconstruction and Development) be formed. C–20 also recommended that SDRs henceforth be valued in terms of a basket of major currencies rather than in terms of gold, since the gold value of the SDR had ceased to have meaning in a floating rate system. In addition, C–20 recommended that the IMF adopt guidelines for members to follow under floating exchange rates.

The responsibility for negotiating general reform of the international monetary system then passed from C–20 to another specially formed body, an Interim Committee of the Board of Governors. The Interim Committee began work in October 1974 but became bogged down over the two principal issues which had held up agreement all along: the question of fixed versus flexible exchange rates, and the question of gold versus SDRs as the primary international reserve asset.

The impass over the future exchange rate regime was finally broken with a compromise reached at the Rambouillet Conference in November 1975. France, the principal advocate of fixed exchange rates, and the United States, the main supporter of floating rates, agreed to work toward greater stability in rates through concentration on achieving underlying economic and financial stability among member countries, leaving countries free to choose either pegged or floating rates. The compromise was subsequently drafted into an amendment to the IMF Articles of Agreement.

On the question of reserve assets, the crux of the dispute was the future role of gold. The U.S. goal was to reduce, if not eliminate, the role of gold in the system. France and certain other European countries, on the other hand, had long advocated retention of a central role for gold in the international monetary system. The agreement concluded at Jamaica to eliminate the official price of gold in the IMF and to eliminate all requirements to use gold in transactions with the Fund, together with the decision to dispose of one-third of the Fund's gold holdings, go a long way toward eliminating the role of gold in the Fund.

The compromises achieved on the exchange rate system and on gold enabled the Interim Committee to conclude its negotiations at Jamaica in January and to recommend amendments to the Fund Articles of Agreement as well as an increase in Fund quotas.

THE JAMAICA AGREEMENTS

The agreements concluded at Jamaica included: (1) amendments to the IMF Articles of Agreement; (2) an agreement on gold among the Group of Ten industrial countries; and (3) a general increase in Fund quotas.

(1) *Principal Amendments to the IMF Articles of Agreement*

Exchange Rates.—The existing Articles require each member to set a par value (a fixed exchange rate) for its currency in terms of gold and to retain that par value unless a change is necessary to "correct a fundamental disequilibrium" in its balance of payments. Exchange rate changes greater than 10 percent of par value require Fund approval.

The amended Articles would permit members to choose any exchange rate arrangement (fixed or floating rates) except a rate fixed in terms of gold. However, under Article IV of the new Articles, each member would be under a general obligation "to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates." In particular, each member would be required under Article IV to:

(i) endeavor to direct its economic and financial policies toward the objective of fostering orderly economic growth with reasonable price stability, with due regard to its circumstances;

(ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions;

(iii) avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

To insure that members observe these obligations, the Fund would be required under Article IV, section 3, to "exercise firm surveillance over the exchange rate policies of members, and . . . adopt specific principles for the guidance of all members with respect to those policies."

Gold.—The proposed amendments would abolish the official price of gold and delete most references to gold in the Articles of Agreement. All requirements for the use of gold in transactions with the Fund, including quota subscriptions, would be abolished. In addition, the Fund would be authorized to dispose of its present gold holdings in a variety of ways, all of which would require approval by an 85 percent majority vote (the United States, with a 19.96 percent voting share in the Fund, could veto any proposal requiring an 85 percent majority vote). Moreover, the Fund would be barred from acquiring any gold without the approval of an 85 percent majority.

Special Drawing Rights (SDR's).—The basic provisions of the existing Articles with respect to SDR's would remain unchanged, although the proposed amendments would modestly liberalize the use of SDR's. For example, members would be free to exchange SDR's without Fund approval and without having to establish a balance of payments need. The majorities required to change most Fund policies on the use of SDR's woulld be reduced to 70 percent, although allocations of SDR's and other fundamental decisions would require an 85 percent majority vote.

A new Council for the fund.—The Board of Governors would be empowered to create a twenty member ministerial level "Council" replacing the existing Interim Committee. The Council would be authorized to consider any future amendments to the Articles. In addition, it would be authorized to supervise the management and adaption of the international monetary system, including the continuing operation of the adjustment process and developments in global liquidity. In this connection, it would also be authorized to review developments in the transfer of real resources to developing countries.

Usable National currencies in the Fund.—An ambiguity in the existing Articles has permitted some member countries to deny the Fund use of its holdings of their currency subscriptions. The amendments would expressly require each member to take the steps necessary to make its currency usable by the Fund and would close a loophole which allowed some members to evade their responsibilities in the past.

(2) *The Group of Ten Agreement on Gold*

In August of 1975, the Group of Ten countries (the United States, Japan, Canada, the United Kingdom, Germany, France, Italy, the Netherlands, Belgium and Sweden) negotiated, and later reaffirmed at Jamaica, an agreement with respect to gold. The purpose of these agreements is to restrict the use of gold as a reserve asset by the principal gold-holding members of the IMF. The most important features are pledges not to peg the price of gold and not to increase the total stock of gold held by the Fund and the Group of Ten countries. The agreement, however, will expire in two years. Thereafter any member may drop out even if the agreement is extended.

(3) *The Increase in IMF Quotas*

The Articles require that the Fund review its quotas at least every five years. No member's quota can be changed without its consent. The Bretton Woods Agreements Act requires that any increase in the U.S. quota must be authorized by the Congress.

Fund quotas were increased by 50 percent in 1958, by 25 percent in 1965 and by 35 percent in 1970 in order to keep pace with growing balance of payments financing needs. The Jamaica package includes a 33.6 percent increase in total Fund quotas with an approximate 25 percent increase in the U.S. quota.

The quota increases have usually included adjustments in the relative quotas of member states to take account of changes in relative economic position. The share of total quotas held by oil exporting countries is to be doubled, and in order to accommodate that change, the shares of developed (but not developing) countries are to be reduced. The U.S. share would be reduced to 21.5 percent of the total from its present 22.93 percent, and its voting share would decline from its present 20.75 percent of the total to 19.96 percent.

SPECIAL FACILITIES FOR LESS DEVELOPED AND DEVELOPING COUNTRIES

Not part of the proposed new Articles, but of relevance to future IMF activities and to certain provisions of the reported legislation are a number of special credit facilities established by the IMF in recent years to meet the problems faced by less developed and developing countries. Acting under existing authority, the Interim Committee agreed in August 1975 to dispose of about one-third of the IMF's gold holdings (50 million ounces), selling one-sixth to members in proportion to their quotas at the official price of 35 SDR per ounce, and selling the other one-sixth at public auction at market prices. The proceeds from the public sale of the latter one-sixth (25 million ounces) are to be used to benefit developing countries. A portion of the profits is to be transferred directly to developing countries in proportion to their quotas; the remainder is to be placed in a "Trust Fund" to provide balance of payments assistance on concessionary terms to the poorest developing country members (those with average per capita incomes of less than SDR 300).

In addition, the IMF has established a number of special credit facilities in the past few years which are open to all but are most heavily used by developing countries.

A "Compensatory Financing Facility" to help primary product producing countries meet temporary shortfalls in their export receipts was established in 1963 and liberalized in 1966 and 1975. A country may draw up to 75 percent of its quota through this facility.

A "Buffer Stock Facility" was established in 1969 to help members contribute to certain international commodity buffer stock arrangements. A country may draw up to 50 percent of its quota for this purpose. The only buffer stock arrangements to qualify to date are tin and cocoa.

An "Extended Fund Facility" was started in late 1974 to permit countries to draw up to 140 percent of their quotas to meet balance of payments needs arising from "structural" problems in their economies. To be eligible, the country must present a program of structural reform acceptable to the IMF.

OUTSTANDING ISSUES AND FUTURE DIRECTIONS

The Jamaica agreements represent a major step forward for international monetary reform. They are the culmination of international monetary reform objectives which the United States has pursued for years.

The old system of fixed par values helped bring order out of the chaos following World War II. Fixed exchange rates played a significant role in restoring confidence and stability to the international trading system. By reducing the exchange risks of foreign trade and investment, they were a major factor in sustaining the post-war economic recovery.

However, the system of fixed exchange rates contained within it rigidities and imperfections which could not be supported in the vastly changed circumstances of the late sixties and early seventies. As the war-torn economies strengthened and matured, their price and balance of payments conditions diverged, necessitating increasingly frequent changes in par values to reflect changes in underlying conditions. But countries were reluctant to alter their economic policies in order to maintain their exchange rates, and they were unwilling to adjust exchange rates in order to reflect changing economic conditions.

The result was a crisis-prone system, one in which pressures for changes in exchange rates gradually built to irresistable levels. Speculative movements against currencies being supported at unrealistic exchange rates added to the pressures. From time to time the system went through periodic convulsions as finance ministers huddled in the dead of night to prepare for devaluation the next day.

As the dollar came to occupy an increasingly central position in the world monetary system, the stability of the entire system came to depend on the strength or weakness of the dollar. U.S. economic and monetary policies became a dominating factor in world trade, investment, and economic activity. The dominance of the dollar added to the pressure to perpetuate par values for the dollar long after they ceased to reflect the true value of the currency.

Unrealistic exchange rates tended to distort the structure of world trade and investment. Massive investments by U.S. corporations in Europe during the sixties were undoubtedly caused in part by the overvaluation of the dollar. Likewise the dramatic expansion in German and Japanese exports to the United States during the same period was aided by the undervaluation of the mark and the yen. These distortions had serious economic and political ramifications, not easily perceived as attributable in significant part to artificially maintained exchange rates.

As time went on, fixed par values also tended to foster inflation among the industrialized countries. Deficit countries, for a variety of reasons, were unwilling to exert the domestic economic and monetary discipline needed to bring the true value of their currencies into line with their artificially pegged exchange rates. Inflows of foreign exchange into surplus countries resulted in an expansion of the monetary base. In effect, the deficit countries were exporting their inflation.

For these and other reasons, perpetuation of the old Bretton Woods system became impossible, and its breakdown was inevitable. However, what will eventually replace it is far from finally resolved.

The Jamaica agreements are not the final word in a new international monetary system. They are only the beginning. They reflect the reality that Bretton Woods is dead, and that more than three years ago it was replaced with a system of flexible exchange rates, one in which some countries allow their currencies to float freely, others peg their currencies to the dollar, the SDR, or some other basket of currencies, and still others maintain fixed exchange rate relationships among themselves within a narrow margin and float their currencies jointly as a bloc against other currencies.

So what now exists is an evolving, and inevitably changing, mixed exchange rate system, one which will see shifts in policies and attitudes among member countries as time goes on and social, political, and economic objectives change. Interdependence here, as elsewhere, will grow, and as it does, the obligations assumed under the amended Articles Agreement will assume increasing significance.

Left unanswered is what specific meaning will be given to these general obligations over time. While the amended Articles call on the Fund to exercise "firm surveillance" over the exchange rate policies of its members and to adopt "specific principles for the guidance of all members with respect to those policies," there is little consensus at present regarding what those "specific principles" should be.

Those "specific principles" are intended to give flesh to the general obligation to direct economic and financial policies toward "orderly economic growth with reasonable price stability" and "to promote stability by fostering orderly economic and financial conditions." But what is meant by "orderly economic growth," "reasonable price stability," and "orderly economic and financial conditions?"

There is hardly any consensus in the United States about the meaning of those goals, about the relative burdens of inflation and unemployment and, hence, about the direction of economic policy. How, then, is the IMF to determine, in light of necessarily divergent views on matters of this significance, whether a country is fostering orderly economic growth with reasonable price stability, and, hence, meeting its obligations under the Articles of Agreement.

In response, Under Secretary of the Treasury Edwin H. Yeo III has correctly pointed out that "there can be no single simple definition of 'orderly economic growth' or 'reasonable price stability' which would cover all nations and all time periods;" that "assessments must be on a case by case basis taking full account of the individual country's situation;" and that "(s)uch assessments will reflect the judgment of the IMF—through its Executive Board and perhaps other IMF bodies based on case study, and thorough examination of all circumstances." [1]

It is, thus, clear that there are, and of necessity will continue to be, major unresolved questions regarding exchange rate policies of member countries. What the amended Articles establish is a commitment and a process, but as the principles emerge, it will be all the more important for the United States to scrutinize the evolution of the system to insure that countries do not avoid the discipline of floating by exchange market intervention, foreign exchange loans, and other devices and, that the system as a whole is able to discern and counter disorderly exchange markets without forestalling necessary changes in underlying economic conditions.

In this connection, and in the course of considering this legislation, United States to stabilize the exchange value of the dollar, the ESF close scrutiny. Originally created for purposes of permitting the United States to stabilize the exchange value of the dollar, the ESF

[1] Letter from Edwin H. Yeo to Adlai E. Stevenson, Sept. 1, 1976.

has grown to some $4 billion in assets and is a major potential vehicle for bilateral assistance to other nations for foreign exchange purposes outside the IMF.

For example, the ESF was recently used in cooperation with other Group of Ten countries to provide $5.3 billion in standby short-term credits to the United Kingdom. The ESF provided approximately $1 billion of the total.

To the extent that such assistance permits a country to avoid necessary changes in its economic policies, it undermines the IMF's goal of inducing necessary adjustments in policy to promote orderly economic growth and stability. In order to insure that ESF operations are not inconsistent with the goals of the IMF, the Committe has adopted an amendment emphasizing the intended short-term nature of ESF lending. The goal is for the United States to place primary reliance on the IMF and to confine foreign exchange lending operations outside the IMF to short-term operations.

Under the amendment, the ESF would be barred from extending loans to a foreign government for more than six months in any twelve month period or extending an outstanding loan beyond a six month period unless the President provides a written determination to the Congress that unique or exigent circumstances make a longer-term loan or credit, or extension of an outstanding loan or credit, necessary. Such a provision is perfectly consistent with present U.S. policy. For an example, according to Treasury, the recent ESF credit to the United Kingdom was extended "with a clear understanding that the credit would not be extended for a longer period [than six months] and that the United Kingdom, if necessary, draw from the IMF for longer-term financing where appropriate policy conditions would be applied." [3]

The Committee recognizes that there may be circumstances where longer-term ESF credits may be necessary, and the amendment provides for that possibility. But the Committee intends, and the amendment expressly provides, that such longer-term financing be provided only where there are unique or exigent circumstances. As indicated by Treasury, these would include natural disasters, trade embargoes, unforeseen economic developments abroad, political assassinations, or other catastrophic events.[4] In none of these cases should the ESF compete with the IMF, however, and every effort should be made to bring all medium and longer-term financing within the framework of the IMF or other appropriate multilateral facilities. The requirement that the President report to the Congress on any such longer-term financing will provide the Congress with an opportunity to scrutinize such longer-term ESF credits and take appropriate steps to insure that they are consistent with U.S. interests and U.S. obligations under the IMF.

Further opportunity for close scrutiny of the ESF will be provided through a new commitment by the Treasury to establish a system of continuous interchange between the Treasury and the oversight Committees of the Congress regarding the operations of the ESF. That commitment was undertaken in response to a concern

[2] *Ibid.*
[3] *Ibid.*
[4] *Ibid.*

that the Committee did not have access to the information necessary to adequate oversight of the ESF and the international monetary system.

Treasury's commitment is welcomed. It will permit the Congress to fulfill its oversight responsibilities in this area more adequately than in the past without jeopardizing the ability of the ESF to perform its sensitive and often necessarily confidential monetary transactions with foreign governments.

The letter evidencing Treasury's commitment follows:

THE SECRETARY OF THE TREASURY,
Washington, D.C., September 20, 1975.

Hon. WILLIAM PROXMIRE,
Chairman, Committee on Banking, Housing and Urban Affairs, U.S. Senate, Washington, D.C.

Hon. ADLAI E. STEVENSON III,
U.S. Senate, Washington, D.C.

DEAR SENATOR PROXMIRE AND SENATOR STEVENSON: I recognize and fully share the expressed desire of the Committee on Banking, Housing and Urban Affairs that there be effective Congressional oversight in the international monetary area, and, in particular, of the operations of the Exchange Stabilization Fund. It is essential to the successful implementation of U.S. international monetary policy, as reflected in H.R. 13955, that close contacts and good relations continue between Congress and the Treasury, and that necessary information be provided to the Committee on a prompt and continuing basis.

To achieve our mutual objective, the Treasury Department is prepared to work closely with your Committee to develop a system of effective oversight along the following lines:

1. Consultations by the Secretary of the Treasury and the Under Secretary for Monetary Affairs with interested members of the Committee will take place on a quarterly basis to discuss systemic developments, with more frequent discussions as necessary on extraordinary developments or problem areas.

2. There will be continuing contact between Committee and Treasury staff in order to keep the Committee abreast of any extraordinary or unusual developments, problem areas, and the overall evolution of the system.

3. The Secretary of the Treasury will transmit to the Committee the following:

a. The quarterly reports prepared by the N.Y. Federal Reserve Bank on Treasury and Federal Reserve foreign exchange operations;

b. All international agreements entered into for the account of the ESF;

c. Confidential monthly reports on U.S. foreign exchange operations;

d. The Annual Report of the Secretary of the Treasury on the ESF which includes a report on the Treasury's financial audit of the ESF; and

e. Reports on particular problem areas as necessary.

4. The Secretary of the Treasury or the Under Secretary for Monetary Affairs will brief interested members of the Committee regarding extensions of credit from the ESF.

5. Oversight hearings would be held on a regular basis—for example, annually—for which the Secretary of the Treasury would prepare a report assessing the operation of the international monetary system during the previous 12-month period, including the following items:

a. The world balance of payments situation;

b. Official balance of payments financing provided bilaterally by the U.S. and through multilateral channels by any government to the full extent that information is available to the United States;

c. Exchange market intervention by the U.S.;

d. Movements in exchange rates;

e. Comparative rates of growth and inflation in the U.S. and foreign economies; and

f. Changes in exchange controls and trade restrictions imposed by IMF member countries.

I am hopeful we can begin to establish a program of oversight along these lines in the near future.

Sincerely yours,

WILLIAM E. SIMON.

In addition to the unanswered questions regarding exchange rate policy and the ESF, there are also unanswered questions regarding gold, international liquidity, and the needs of the less developed and developing countries.

While the agreements on gold go a long way toward reducing the role of gold in the Fund, there are major uncertainties regarding the future role of gold in the international monetary system as a whole. Elimination of the official price of gold in the Fund will have the effect of removing the existing prohibition on purchases of gold by central banks at a price other than the official price. Because the free market price for gold has far exceeded the official price of gold for the past several years, the present prohibition has been an effective barrier to central bank gold purchases.

Some believe that the elimination of the official price may actually enhance the role of gold in the transactions and reserves of important member countries. To alleviate this concern, the countries of the Group of Ten accepted an arrangement—wholly outside the Fund—to limit their holdings of gold and not to attempt to peg the price of gold in the private market. This agreement took effect in February 1976, will be reviewed in two years, and then extended, modified, or terminated. Whether it has the intended effect will bear continued close scrutiny. What happens upon expiration of the Group of Ten agreement as well as what happens in the interim will have an important bearing on the future role of gold in the system.

On the question of international liquidity, a major unanswered question is the relationship between floating exchange rates and controls on monetary expansion. The problem of international liquidity and its control were a major topic of discusion in the C–20 from

1972 to 1974. But the issue went unresolved partly because of its complexity and partly because of its controversial nature.

Theoretically, problems of international liquidity should be minimal in a floating exchange rate system. But, as pointed out above, the present system is a mixed system, with both short and longer term exchange market intervention necessitating access to reserve credit. The international money markets are now a major source of reserve credit outside the IMF for purposes of market intervention. How and whether they can be controlled and coordinated with IMF reserve resources has not been resolved. Because of the dangers of uncontrolled monetary expansion in the Eurocurrency markets and resulting worldwide inflation, the problem demands continued priority attention.

On the question of assistance to the less developed and developing countries, a major continuing question will be the role of concessionary financing in IMF operations. The creation of such special facilities as the Trust Fund, the Compensatory Financing Facility, the Buffer Stock Facility, and the Extended Fund Facility, have raised the question of whether the IMF is assuming an inappropriate role as an aid-giving agency.

It is, of course, true that except for the Trust Fund, none of the IMF's special facilities provide concessional financing and that theoretically, at least, they are available to all IMF members. But beyond that, there is little question that recent shocks to the system caused in part by oil price increases have had a severe impact on the less developed and developing countries and that without special assistance many would be in desperate straits.

The payments problems of the less developed and developing world inescapability effect the health of the entire international economic system. The unresolved question is how to define a proper role for the IMF in this area of extreme political sensitivity.

These and other issues present complex problems. Jamaica provides a vehicle and a context for continued dialogue and cooperation. Amendments made by this legislation will assist Congressional participation in the process. Progress has been made in this sensitive and complex area. Because of its central significance to the health of the international economic system, continued progress should be nurtured and encouraged.

Section-by-Section Analysis of the Bill

ACCEPTANCE OF AMENDED ARTICLES OF AGREEMENT

Section 1 of the bill would amend the Bretton Woods Agreements Act by adding a new section 24 authorizing the United States Governor of the International Monetary Fund to accept the amended Articles of Agreement of the IMF approved by the IMF Board of Governors in April of 1976.

INCREASE IN U.S. IMF QUOTA

Section 1 of the bill would also amend the Bretton Woods Agreements Act by adding a new section 25 authorizing the U.S. Governor of the IMF to consent to an increase in the U.S. quota equivalent to 1,705 million SDR's or approximately $2 billion dollars (at 1SDR=$1.16 U.S.). This represents an approximate 25 percent increase in the present U.S. quota and would leave the United States with 21.5 percent of total IMF quotas as compared to 22.93 percent at present. As a result of the change, the U.S. voting share will fall slightly from 20.75 percent of the total to 19.96 percent of the total.

IMF COUNCIL OF GOVERNORS

Section 1 of the bill would further amend the Bretton Woods Agreements Act to direct the U.S. Governor to vote against establishing a new IMF Council of Governors if the U.S. vote in the Council would be less than its weighted vote in the Fund. This provision was added on the floor of the House of Representatives.

U.S. REPRESENTATIVE TO IMF COUNCIL OF GOVERNORS

Section 2 of the bill would amend section 3(c) of the Bretton Woods Agreements Act to provide that if an IMF Council of Governors is formed, the U.S. Governor of the Fund, the Secretary of the Treasury, shall serve as councillor and designate an alternate and may designate associates. Section 2 of the bill would add a new subsection 3(d) to the Bretton Woods Agreements Act to prohibit payment of any salary or other compensation to the U.S. councillor to the Fund or his alternate or associates.

Subsection 3(d) was added by the House Banking Committee for the purpose of insuring that the Councillor, his alternate, and his associates would be treated the same as the other U.S. representatives to the IMF with respect to compensation by the United States.

PAR VALUES AND IMF TRUST FUNDS

Section 3 of the bill would amend section 5 of the Bretton Woods Agreements Act to prohibit U.S. representatives to the IMF from proposing a par value for the U.S. dollar and from voting to approve the establishment of any additional trust fund whereby resources of the International Monetary Fund would be used for the special benefit of a single member, or of a particular segment of the membership of the Fund unless Congress authorizes such action by law. This provision was added in the House of Representatives.

In order to clarify the intent of the House amendment, the amendment added by this Committee also provides that the U.S. representative to the IMF may not approve the disposition of more than the 25 million ounces of Fund gold already agreed to be sold for the benefit of the Trust Fund established by the IMF on May 6, 1976, unless Congress authorizes such action by law. The purpose of this amendment is to make it clear that neither additional IMF gold resources beyond those already agreed to be sold for the benefit of the existing Trust Fund nor the creation of any additional trust funds for the benefit of a limited number of IMF members may be approved by the U.S. representative to the IMF unless authorized by Congress.

ACCESS TO INTERNATIONAL ECONOMIC INFORMATION

Section 4 of the bill would redesignate section 14 of the Bretton Woods Agreement Act as subsection 14(a) and add a new subsection 14(b) to require the President to provide "any appropriate information" furnished to the executive branch by the IMF or any other international financial or economic organization, "upon the request of any committee of the Congress with legislative jurisdiction" over such organization. This provision was added by the Senate Foreign Relations Committee to enable it to obtain IMF economic analyses and other information helpful in overseeing U.S. participation in the international monetary system and United States foreign economic policy.

This Committee amended the Foreign Relations Committee amendment to require that the designated information also be made available upon request to any Congressional Committee having legislative or oversight jurisdiction over monetary policy. The purpose of this amendment is to insure that the Senate Banking Committee and any other Committee having oversight or legislative jurisdiction over monetary policy or international financial institutions of which the United States is a member have access to the designated information.

The purpose of these amendments is to improve Congressional oversight of U.S. participation in the international monetary system and U.S. foreign economic policy. They will facilitate access to information in United States department or agency files that is necessary for the exercise of a Committee's legislative and oversight functions. They are not intended to change the present constitutional balance between the Executive and legislative branches nor to compel the Executive Branch to take actions inconsistent with U.S. membership obligations in international institutions.

The Treasury Department has expressed its concern with regard to the preservation of the confidentiality of sensitive materials that may be made available to Congressional committee. The Committee believes that the confidentiality of such information can be preserved and that such information should be handled on the same basis as

classified information obtained from the Executive Branch which is not publicly disclosed until its release has been cleared by the Executive Branch. Thus, sensitive information, such as future economic programs of a member country and confidential financial information, is expected to be made available under appropriate safeguards.

CROSS-REFERENCES

Section 5 of the bill would amend the first sentence of section 17(a) of the Bretton Woods Agreements Act to reflect the renumbering of the proposed new IMF Articles of Agreement.

Section 6 of the bill would amend the Special Drawing Rights Act to make appropriate references to the proposed new IMF Articles of Agreement.

PAR VALUE OF THE DOLLAR

Section 7 of the bill would repeal section 2 of the Par Value Modification Act. Section 2 of that Act requires the Secretary of Treasury to set a par value for the dollar equal to one thirty-eighth of a fine troy ounce of gold.

PURPOSES OF THE EXCHANGE STABILIZATION FUND

Section 8(a) of the bill would amend section 10(a) of the Gold Reserve Act of 1934 to delete the present description of the purposes of the Exchange Stabilization Fund *viz.*, to stabilize the exchange value of the dollar. Instead use of the ESF would be authorized only for purposes consistent with United States obligations in the IMF regarding orderly exchange arrangements and a stable system of exchange rates. The bill referred to the Committee would have deleted any reference to the ESF's purpose. The amendment adopted by the Committee makes it clear that the ESF is to be used only for purposes consistent with U.S. obligations in the IMF.

In addition, the Committee adopted an amendment to require that no loan or credit to a foreign government or entity shall be extended by or through the Exchange Stabilization Fund for more than six months in any twelve month period, nor shall any outstanding credit be extended beyond a six month period, unless the President provides a written determination to the Congress that unique or exigent circumstances make a longer term loan or credit necessary.

This amendment would help insure that the Exchange Stabilization Fund is not used for long-term loans to foreign countries unless there are unique or exigent circumstances. The purpose of the Exchange Stabilization Fund is to provide short-term credit to foreign countries to counter exchange market instability. The IMF should be the principal source for longer term credits, particularly in light of the expansion in IMF resources which the proposed quota increases will produce and the orderly exchange arrangement and anti-manipulation responsibilities made explicit in the proposed amendments to the IMF articles. This amendment would not bar the United States from making longer-term credits to foreign countries for exchange market intervention, but it would insure that such longer-term credits are not extended unless the President finds that unique or exigent circumstances exist, such as the unavailability of IMF or other international financial resources for that purpose. By helping to keep ESF financing short-term in nature, the amendment would help insure consistency between use of the ESF and U.S. obligations as a member of the IMF.

Section 8(b) of the bill, which was added by the Committee, would amend section 10(b) of the Gold Reserve Act of 1934 to delete a reference therein to use of the ESF for purposes of stabilizing the exchange value of the dollar and substitute instead a general reference to the purposes prescribed by section 10 of the Gold Reserve Act, *viz.*, for purposes consistent with U.S. obligations in the IMF regarding orderly exchange arrangements and a stable system of exchange rates.

ISSUANCE OF GOLD CERTIFICATES

The only domestic purpose for which it is necessary to define a fixed relationship between the dollar and gold is the issuance of gold certificates. Section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b) provides that the amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard, of the gold so held against gold certificates. The legal standard presently applicable to all gold certificates is the par value of the dollar as prescribed in Section 2 of the Par Value Modification Act. Section 9 of the bill would provide that this legal standard will continue to apply for purposes of Section 14(c) of the Gold Reserve Act.

Section 9 of the bill would also delete the reference in Section 14(c) of the Gold Reserve Act to the "Treasurer of the United States" and substitute therefor the "United States Treasury". This substitution reflects Reorganization Plan No. 26 of 1950 (31 U.S.C. 1001, note) and a reorganization within the Fiscal Service of the Treasury Department, effective February 1, 1974. All accounts of the "Treasurer of the United States", including accounts relating to gold held against outstanding gold certificates, now are accounts of the "United States Treasury". The Department of the Treasury proposes to amend or repeal other statutes, as and when appropriate, to make similar substitutions in the law.

EFFECTIVE DATE

Section 10 of the bill would provide that the amendments made by sections 2, 3, 5, 6, and 7 of the bill take effect when the amendments to the IMF Articles of Agreement take effect.

FISCAL IMPACT STATEMENT

In accordance with section 252(a) of the Legislative Reorganization Act of 1970, the Committee estimates that the bill will have no budgetary impact.

Changes in Existing Law

In compliance with paragraph 4 of Rule XXIX of the Standing Rules of the Senate, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

BRETTON WOODS AGREEMENTS ACT

* * * * * * *

APPOINTMENT OF GOVERNORS, EXECUTIVE DIRECTORS, AND ALTERNATES

Sec. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund who shall also serve as governor of the Bank, and an executive director of the Fund and an executive director of the Bank. The executive directors so appointed shall also serve as provisional executive directors of the Fund and the Bank for the purposes of the respective Articles of Agreement. The term of office for the governor of the Fund and of the Bank shall be five years. The term of office for the executive directors shall be two years, but the executive directors shall remain in office until their successors have been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for the governor of the Fund and an alternate for the governor of the Bank. The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the executive directors. The alternate for each executive director shall be appointed from among individuals recommended to the President by the executive director. The terms of office for alternates for the governor and the executive directors shall be the same as the terms specified in subsection (a) for the governor and executive directors.

[(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.]

(c) Should the provisions of Schedule D of the Articles of Agreement of the Fund apply, the governor of the Fund shall also serve as councillor, shall designate an alternate for the councillor, and may designate associates.

(d) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, councillor, alternate, or associate.

* * * * * * *

CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

Sec. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or consent to any change in the quota of the United States under article III, section 2(*a*), of the Articles of Agreement of the Fund; (b) propose [or agree to any change in the par value of the United States dollar under article IV, section 5, or article XX, section 4, of the Articles of agreement of the Fund, or approve any general change in par values under article IV, section 7; (c) subscribe to additional shares of stock under article II, section 3 of the Articles of Agreement of the Bank; (d) accept any amendment under article XVII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (e) make any loan to the Fund or the Bank. Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank, if such increase involves an increased subscription on the part of the United States.] *a par value for the United States dollar under paragraph 2, paragraph 4, or paragraph 10 of schedule C of the Articles of Agreement of the Fund; (c) propose any change in the par value of the United States dollar under paragraph 6 of schedule C of the Articles of Agreement of the Fund, or approve any general change in par values under paragraph 11 of schedule C; (d) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (e) accept any amendment under articleXXVIII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (f) make any loan to the Fund or the Bank; or (g) approve either the disposition of more than 25 million ounces of Fund gold for the benefit of the Trust Fund established by the Fund on May 6, 1976, or the establishment of any additional trust fund whereby resources of the International Monetary Fund would be used for the special benefit of a single member, or of a particular segment of the membership, of the Fund."*

* * * * * * *

FURTHER PROMOTION OF INTERNATIONAL ECONOMIC RELATIONS

Sec. 14. (*a*) In the realization that additional measures of international economic cooperation are necessary to facilitate the expansion and balanced growth of international trade and render most effective the operations of the Fund and the Bank, it is hereby declared to be the policy of the United States to seek to bring about further agreement and cooperation among nations and international bodies, as soon as possible, on ways and means which will best reduce obstacles to and restrictions upon international trade, eliminate unfair trade practices, promote mutually advantageous commercial relations, and otherwise facilitate the expansion and balanced growth of international trade and promote the stability of international economic relations. In considering the policies of the United States in foreign lending and the policies of the Fund and the Bank, particularly in conducting exchange transactions, the Council and the United States representatives on the Fund and the Bank shall give careful consideration to the progress which has been made in achieving such agreement and cooperation.

(*b*) *The President shall, upon the request of any committee of the Congress with legislative or oversight jurisdiction over monetary policy or an international financial institution or economic organization of which the United States is a member, transmit promptly to such committee any appropriate information furnished to any department or agency of the United States by such institution or organization.*

* * * * * * *

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)] *1(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. 24. The United States Governor of the Fund is authorized to accept the amendments to the Articles of Agreement of the Fund approved in resolution numbered 31–4 of the Board of Governors of the Fund.

SEC. 25. The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 1,705 million Special Drawing Rights.

SPECIAL DRAWING RIGHTS ACT

AN ACT To provide for United States participation in the facility based on Special Drawing Rights in the International Monetary Fund, and for other purposes

* * * * * * *

SEC. 3. (a) Special Drawing Rights allocated to the United States pursuant to article [XXIV] *XVIII* of the Articles of Agreement of the Fund, and Special Drawing Rights otherwise acquired by the United States, shall be credited to the account of, and administered as part of, the Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

(b) The proceeds resulting from the use of Special Drawing Rights by the United States, and payments of interest to the United States pursuant to [article XXVI, article XXX, and article XXXI] *article XX, article XXIV, and article XXV* of the Articles of Agreement of the Fund, shall be deposited in the Exchange Stabilization Fund. Currency payments by the United States in return for Special Drawing Rights, and payments of charges or assessments pursuant to [article XXVI, article XXX, and article XXXI] *article XX, article XXIV, and article XXV* of the Articles of Agreement of the Fund, shall be made from the resources of the Exchange Stabilization Fund.

* * * * * * *

SEC. 6. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States vote to allocate in each basic period Special Drawing Rights under article [XXIV] *XVIII*, sections 2 and 3, of the Articles of Agreement of the Fund so that allocations to the United States in that period exceed an amount equal to the United States quota in the Fund as authorized under the Bretton Woods Agreements Act.

SEC. 7. The provisions of article [XXVII(b)] *XXI(b)* of the Articles of Agreement of the Fund shall have full force and effect in the United States and its territories and possessions when the United States becomes a participant in the special drawing account.

PAR VALUE MODIFICATION ACT

AN ACT To provide for a modification in the par value of the dollar, and for other purposes

Be it enacted by the Senate and House of Representative of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Par Value Modification Act".

[SEC. 2. The Secretary of the Treasury is hereby authorized and directed to take the steps necessary to establish a new par value of the dollar of $1 equals 0.828948 Special Drawing Right or, the equivalent in terms of gold, of forty-two and two-ninths dollars per fine troy ounce of gold. When established such par value shall be the legal standard for defining the relationship of the dollar to gold for the purpose of issuing gold certificates pursuant to section 405b of this title.]

SEC. 3. The Secretary of the Treasury is authorized and directed to maintain the value in terms of gold of the holdings of United States dollars of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the International Development Association, and the Asian

Development Bank to the extent provided in the articles of agreement of such institutions. There is hereby authorized to be appropriated, to remain available until expended, such amounts as may be necessary to provide for such maintenance of value.

SEC. 4. The increase in the value of the gold held by the United States (including the gold held as security for gold certificates) resulting from the change in the par value of the dollar authorized by section 2 of this Act shall be covered into the Treasury as a miscellaneous receipt.

SEC. 5. It is the sense of the Congress that the President shall take all appropriate action to expedite realization of the international monetary reform noted at the Smithsonian on December 18, 1971.

GOLD RESERVE ACT OF 1934

AN ACT To protect the currency of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes

* * * * * * *

SEC. 10. (a) [For the purpose of stabilizing the exchange value of the dollar, the] *The* Secretary of the treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary [to carry out the purpose of this section.], *consistent with the United States obligations in the International Monetary Fund regarding orderly exchange arrangements and a stable system of exchange rates: Provided, however, That no loan or credit to a foreign government or entity shall be extended by or through such Fund for more than six months in any twelve-month period unless the President provides a written determination to the Congress that unique or exigent circumstances make such loan or credit necessary for a term greater than six months.* The Secretary of the Treasury shall annually make a report on the operations of the fund to the President and to the Congress.".

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is appropriated, out of the receipts which are directed to be covered into the Treasury under section 408b of this title, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter caller the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. Subject to the foregoing provisions the administrative expenses of the fund shall be audited by the General Accounting Office at such times and in such manner as the Comptroller General of the United States may by regulation prescribe for the purpose of ascertaining that administrative funds are properly accounted for and that fully adequate accounting procedures and systems for control of such funds have been established. Except for information determined by the Secretary to be of an internationally significant nature, there shall be furnished to the Comptroller General such information on the administrative expenses of the fund as is necessary to conduct the audit, and the Comptroller General or any of his representatives shall, for the purpose of securing this information, have access to all books, accounts, records, reports, files, and all other papers, things, or property belonging to or in use by the United States Government (other than records, reports, files, or other papers or things containing or revealing information determined by the Secretary of the Treasury to be of an internationally significant nature). The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for [stabilizing the exchange value of the dollar.] *the purposes prescribed by this section.* Such fund shall not be used in any manner whereby direct control and custody thereof pass from the President and the Secretary of the Treasury. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

* * * * * * *

SEC. 14. (a) * * *

* * * * * * *

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the [Treasurer of the] United States *Treasury.* The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard *provided in section 2 of the Par Value Modification Act (31 U.S.C. 449) on the date of enactment of this amendment*, of the gold so held against gold certificates.

SUPPLEMENTAL VIEWS OF SENATOR JESSE HELMS

The Senate Banking Committee is required under Senate Rules to send the bill, H.R. 13955, to the Floor after not more than thirty days, for primary jurisdiction for this bill is given to the Senate Foreign Relations Committee. The Senate Committee on Banking, Housing and Urban Development held one day of hearings on the bill and chose to send the measure to the Senate without a formal mark-up session.

I know the Chairman of our Subcommittee on International Finance and the Chairman of the full Committee are both concerned about this bill and the possible effects it may have. I share many of their particular concerns, and they have agreed that it will be best to offer amendments to the bill on the Floor of the Senate.

I have serious reservations about the bill's overall merits and I oppose the bill as it is reported out of Committee.

Before discussing this legislation, there are three observations I would like to share with my colleagues:

1. There is no easy way to understand international monetary economics. Indeed, I get the uneasy feeling that even those who work in the field daily are unsure of its mechanics.
2. There has been entirely too little Congressional attention paid to our nation's role and responsibilities to international monetary organizations.
3. Number "2" probably results from number "1."

General Observations

The present system of floating exchange rates, institutionalized in the legislation before the Senate, is not a remedy—it is a symptom. The bill embodying the provisions of the Jamaica Agreement may make the patient feel a litle better. It doesn't treat the illness.

The Treasury Department has been advocating positions which may represent the unanimous views of Treasury Department economists, but they do not represent the unanimous views of the U.S. Congress. Indeed, it is dobutful that any but a tiny minority in Congress knew what positions the Treasury was advocating in the important negotiations that preceeded the Jamaica Agreement.

The Jamaica Agreement contains only a small bow to the fight against instability in pledging to "promote a stable system of exchange rates"—language which was inserted at French insistence. And it mentions not at all the greatest danger to Western economies: inflation. A special "Council" to be established would consider "developments in global liquidity," as if the issue of world liquidity changes was something that had to be considered in the distant future.

Perhaps the bill should have humble aspirations, for it proposes no solutions to world inflation. It will, in fact, help maintain conditions much as they are. It will provide for the creation of added liquidity, and new programs of loans for nations that are over-indebted already.

The Treasury Department has stated that the Agreement, in eliminating gold from international monetary transactions is a step in the right direction. Gold exchanges were, of course, practical under a system of fixed exchange rates, and these, in turn, were only practical when international price levels reflected zero or minimum inflation. It is inflation that has made gold impractical for monetary transactions and simultaneously the elimination of gold, as a stable store of value, eliminates direct penalties for inflation. The elimination of gold from use in international monetary transactions, simultaneously reduces the potential real costs of inflation and obscures one of the most telling indicators of inflation. If gold values rose in nation-to-nation exchanges, it would dramatize the impact and rate of inflation.

Discontinuation of the IMF, and its $45.6 billion (SDR 39 billion) credit supply, would mean that private credit and the discipline imposed by private markets would have to be enlisted. Each currency would rise and fall on its own merits and would not have readily available IMF resources (including almost $10 billion of U.S. assets) to fall back upon.

Currencies, whose revaluation is now postponed by the IMF would adjust and inflation could not be exported to other nations.

The inability and unwillingness of nations to agree on policies that would reduce inflation, and the transformation of the IMF into a means of facilitating inflation, has resulted in a shift of "legitimate" IMF functions to the area of foreign aid. Inflation itself rewards the debtor by cutting the real value of the debt to be repaid, but the IMF has also begun more obviously foreign aid schemes. Most notable is the Trust Fund, for less developed countries, financed by sales of IMF gold, a third of which was donated by the United States.

The Jamaica Agreement and H.R. 13955

The amendments to the Bretton Woods Agreement would allow the IMF to extend credit to more nations in greater amounts. It would give official recognition to a system of international monetary exchanges which depends on market forces acting on the relative values of the various currencies. IMF loans would be made ostensibly to "provide temporary financing while adjustment takes place."

However, the agreement specifically allows nations to "float" their currencies, peg their currencies to another, peg their currencies to a group of currencies or in other ways do just about what they want. These actions are "orderly exchange arrangements" and they are permissible. However, the agreement prohibits "manipulation" of currency values. No one will define these terms, and clearly one man's orderly arrangements will turn out to be another's manipulation.

With regard to gold, a side agreement of major nations pledges no effort to peg the price of gold or to add to their gold stocks. Additionally, gold will not be used in international balance of payments transactions.

Additional provisions of the bill would continue an authorization for the Secretary of the Treasury to loan the IMF $2 billion for purposes "of forestalling of coping with an impairment of the international monetary system." But, the description of the "International monetary system" in the bill before the Senate is filled with ambiguous, undefined terms.

Another provision revises the Secretary of the Treasury's authority to use the Exchange Stabilization Fund, a $3 billion pool of dollars that was initially used to maintain our former, fixed exchange rates. It now will be used, as the Secretary wishes, "consistent with United States obligations in the International Monetary Fund;" obligations, which are at best unclear, and, at worst, contradictory. Presumably, the $3 billion could be used to influence the market price of currencies of nations that "manipulate" values. However, we don't know what "manipulate" means.

The proposed Amendments of the Articles of Agreement contains a paragraph requiring the IMF to exercise "firm surveillance" of exchange rates in order to ensure the effective operation of the system. "Firm surveillance" is a term which remains to be defined. Members are to have specific obligations to pursue economic growth and "reasonable" price stability policies. Only if all members apply economic criteria and disregard the domestic political consequences of playing according to the rules of the new ball game, would the system have a chance of working. If, however, it does not suit a member, particularly an economically powerful one, to play according to the rules of the book for whatever reason, there would seem to be little to look forward to in the form of stability in the world monetary sphere. That, of course, is the most likely scenario. If one adds to this view the practical certainty of rising rates of inflation throughout the world from a much higher base than in any recent economic cycle, it stands to reason that a serious look would make anyone skeptical about the results of paper rules which have not yet withstood the test of time.

Even if one assumes monetary decisions are taken by monetary authorities on purely economic grounds, that all other factors are ignored, the Fund would have a nearly unmanageable task in surveilling the system. However, in the real world of today the position if far from ideal and as a result the abandonment of a system based on real penalties and resources—such as gold—and the substitution of it with one based only on paper and credits, is like abandoning a weathered house, built on rock and moving into one built on sand.

The IMF and Inflation

It has been reported that President Kennedy was both flippant and unknowledgeable about monetary matters. President Nixon told an aide not to bother him with the devaluation business; just go do it. A recent book on the subject of the 1971–1973 dollar crisis contends that the then Undersecretary for Monetary Affairs, Paul Volcker, did not even acknowledge reports from the New York Federal Reserve Bank that the dollar was under severe attack, and would soon collapse. The present head of the New York Fed is, of course, Paul Volcker.

The author, Charles A. Coombs, former head of the New York bank's foreign operations, states that the neglect of this situation was "an appalling miscalculation of the role and functioning of foreign exchange markets, which are an indispensable guide, but a very poor master of national policy."

The fallout from such neglect is the system that has evolved and which we are being asked to embrace.

Neglect from the Nixon administration is not the only cause of the present situation. Indeed, it is probably a small one. The chief cause of international monetary chaos is domestic economic mismanagement. In many respects, the fault lies with the United States, and the Bretton Woods system. During the 1960's, Lyndon Johnson's Great Society Programs resulted in vast overspending, vast deficits, and vast creations of money. The dollar, under the fixed exchange rate system was overvalued, and the dollar began to flow abroad. Nations were forced to accept it, under the old system, and their domestic money supplies were subsequently increased. Thus, the United States "exported" inflation to our trading partners. Finally, the sum became too great and speculation rose against the dollar.

The United States was forced to devalue and by 1973 the international monetary system was well on its way to evolving into what we have today.

Without domestic discipline among major nations, no system of fixed exchange rates can long last. It can provide certain penalties to foolish economic policies, but it cannot survive the kind of beating the United States gave the Bretton Woods system in the 1960's and early 70's—particularly since the United States and inflating nations were unwilling to adjust the price of gold to more realistic levels.

In international terms, as in domestic terms, inflation is caused by artificially created demand. Such demand is caused by an increase in available credit. The IMF is acting as a facilitator of artificially created demand in two ways. It is providing credit to continue consumption of importing nations beyond their means, and it is artificially holding up the values of the currencies of these nations so that they can continue to purchase more. Nations can postpone needed economic decisions and can continue to consume. At the same time, added supplies of money come into the world market, and all prices are bid up. When the price of American exports are bid up, this means that American consumers must pay the higher price. Under the IMF Agreement we must accept added supplies of money. This has the same effect of an addition to our domestic supply of money. In fact, under the bill, the Federal Reserve System, the domestic money mill, will provide the needed funds for the expansion of the U.S. quota to the IMF, which will in turn provide for the added expansion of credit to IMF supplicants.

Under the present system of floating exchange rates, such money supply fluctuations are automatic. Basic to the floating exchange rate system is the creation and free availability of credit.

The IMF and Foreign Aid

The IMF's function to grease the wheels of inflation is tied inextricably to its emerging role as the newest unwanted international foreign aid agency.

In January, the "Economist" said that the IMF is not of much use for purposes of monetary stabilization. However, "it can intervene to make rich countries collectively help poor countries in a way that no one of the rich, looking into its own national advantage, would willingly do on its own."

The "Economist" meant that the IMF, by expanding liquidity was, in fact, making more real resources available to the less developed countries. The editorial continued, "It is not easy loans but grant aid that most poorer countries need. Many have already borrowed to the hilt. It would be better if the IMF's twin, the World Bank, made the running by negotiating a rich countries' fund to relieve poorer countries of some of their existing debt burden. But that would involve too explicit a sacrifice by the rich countries; and raising money among the rich for the World Bank's soft loan agency, the International Development Association, has been exacting work recently, particularly in America. This is perhaps why aid must still be dressed up as a reform of the world money system."

Even the Fund's gold sales are intended to finance the Trust Fund with profits in order to make available low interest rate loans to the poorest of the LDC's. The question that arises is whether many of the LDC's will be able to redeem these loans in future (consider the latest UNCTAD resolutions which for at least 10 LDC's urges renegotiation of debt burdens at this stage already). Defaults could in the future become a serious problem to the detriment of their creditworthiness and thus the inflow of private capital into those countries. In this way the original purpose of the exercise will be completely negated.

The rhetoric of the Third World idealogue is this: loans are a "right" of nations. Indeed, it is "imperialism" to put conditions on loans, and it is "imperialism" to insist on the repayment rather than "rescheduling" of loans.

It is interesting to note the line of the Italian Communist Party and of leftist Italian press: the refusal of loans to help maintain the Lire is interference with the domestic affairs of Italy: yes, *domestic* affairs of that nation. It is as if the credit worthiness of a loan recipient were of no business to the makers of the loan.

Conclusions and Recommendations

Under the system of floating exchange rates endorsed by this bill, the U.S. dollar is again being held by other nations and will be exposed to more trials and tribulations as an even more important reserve currency. This is in large part due to the fact that the dollar is filling the gap left by the U.S.-advocated elimination of gold from the monetary system. The dollar will be subjected to severe, though often irrational and illogical yet very real bouts of speculation. The case of sterling serves as an example: The Bank of England was not able to check the fall of the pound sterling due to the existence of excessive sterling balances in the hands of non-residents. Great Britain is now gathering the bitter fruit of the policy of financing deficits and investments abroad by systematically attracting sterling deposits from foreign countries. In the same way the uncontrolled Eurodollar market and large dollar reserves abroad are potential allies in any attack by speculators on the dollar. Because of the drive to push gold out of the monetary system and replace it with a growing supply of paper credits, the dollar is bound to become even more prone to such speculative attacks.

The massive overhang of credit owed by the LDCs is obviously a threat to major American banks and some might accuse the United

States of endorsing IMF liquidity expansion as a means of aiding these creditors. But the expansion of the IMF might—just might—enable orderly adjustments to be made by the debtors. More likely, the U.S. Treasury endorsement of more expansion of world credit will give encouragement to financial officials to provide even more loans. Thus, we may not be helping the adjustment of other nations. More likely, we are merely postponing the day of reckoning.

The IMF policies with regard to gold may well be myopic. The U.S. advocacy of gold policies adopted by the IMF may in fact hurt allies of the United States more than it will help the intended recipients. The questionable legality of IMF gold sales further hurts the credibility of an organization with little credibility left.

It would have been far better and economically more defensible if in an effort to divest the IMF of its gold, such gold is returned to its members proportionately in the form of bullion and then left it to each member to do with it what he liked.

In the case of the U.S.A., such gold returns could be offered for sale by auction or otherwise over a period of time, most probably at a much higher overall revenue to the U.S. Treasury.

The Treasury Department is not asking for a mere "accounting procedure" to provide for a credit at the Federal Reserve Bank of $1.7 billion Special Drawing Rights. It is requesting $2 billion worth of purchasing power to channel through the IMF. But in addition to that, it is asking for continued authority to loan the IMF $2 billion for unclear purposes under an old borrowing agreement, and continued authority to use $3 billion in the Exchange Stabilization Fund for unclear purposes. That's $7 billion in this little four page bill. That's $7 billion in a bill that was given less than one day of hearings.

The Administration forecasts the elimination of federal deficits in three years. That would permit the stabilization of the growth of the U.S. money supply and the elimination of domestic inflation. If our representatives thought that U.S. leadership in the fight against inflation was credible, they did not reflect it. The package we are asked to endorse seems to embody inflation for the foreseeable future. It is difficult to see how technical changes in the bill before the Senate can remedy this situation.

Even if one accepts the premise on which the bill is based, there are many needed changes.

Some changes are necessary if Congress is at least going to keep closer tabs on the happenings of America's activities in the international monetary arena.

Senator Stevenson is advocating the inclusion of the Exchange Stabilization Fund in the budget. And, he advocates careful scrutiny of their procedures. I agree.

I also favor the inclusion of the IMF itself in the budget. I do not think an addition to the IMF quota is necessary, but if one is approved, it certainly should be considered as part of the budget process. Past increases in the U.S. quota were appropriated until 1968, and the present proposed increase should be considered as an appropriation as well.

The U.S. representative to the Fund should not be allowed to vote to dispose of additional IMF gold or other resources to help any specific nation or group of nations without specific Congressional approval. I

believe, however, that the U.S. Representative should vote to return the IMF gold to the nations that originally provided it to the IMF.

The Treasury Department should be instructed to enter into negotiations with our major trading partners to attempt to impose limits on the creation of international liquidity and provide for progress toward a system of stable exchange rates and the necessary economic conditions to facilitate it. Such a system, with disincentives for inflation such as the loss of gold reserves would provide the economic framework for a prosperous western world economy. Indeed, with continued inflation, parliamentary democracies cannot survive.

The importance of international monetary matters is not only the prosperity of the Western trading nations. We are hurt by inflation, and the American people are rightly beginning to equate inflation with economic stagnation, recession and unemployment. Internationally, inflation has these economic effects, but it has the effect of undermining free governments. It particularly undermines parliamentary democracies, and even non-economist Henry Kissinger has said that democratic nations "could not survive" continued inflation of the rate we experienced in 1973–74. The steady-as-she-goes policies contained in the bill before the Senate will make such inflation nearly inevitable.

JESSE HELMS.

YEO-HELMS CORRESPONDENCE

The following is a letter I sent to Under Secretary Yeo after hearings on H.R. 13955. I include his response, the answers to my questions, and my comments on those answers.

JESSE HELMS.

U.S. SENATE,
Washington, D.C., August 31, 1976.

Hon. EDWIN H. YEO III,
Under Secretary for Monetary Affairs, Department of the Treasury, Washington, D.C.

DEAR MR. YEO: I regret being unable to hear your testimony before our Subcommittee. I have reviewed the transcript and I would greatly appreciate having your response to a number of questions.

First, if there is a system of floating, adjusting exchange rates, do the loans made by the IMF simply postpone needed adjustments? Particularly, are the longer-term loans of the Trust Fund postponing the adjustments in currency values that should be made under the new system?

If IMF quotas are looked upon as bank deposits, a resource available to the U.S., shouldn't it be included in the normal budget process just as other Federal loan programs? I note that the $2 billion loan authority for the Secretary is for funds already appropriated. Is it not inconsistent that these IMF loan funds would be appropriated and the quota increase be exempt from this process?

I am aware of the question of the legality of the IMF establishment of the Trust Fund, but would you provide for the record your analysis of this matter? Would you agree that the Board of Governors of the IMF is the final determiner of what is "legal" under the Articles of Agreement?

I understand that the U.S. position at the Jamaica meeting favored the establishment of the Trust Fund. Could you explain the justification behind this position? Would the Treasury, in its efforts to remove gold from its role in international monetary matters, favor a simple restitution of gold to the members of the IMF, in accordance with the provision in the Jamaica agreement to dispose of one-sixth of the IMF gold?

Would you explain the rationale behind the recent procedure change in the IMF gold auctions?

Mr. Aliber addressed the question of the instability in world gold markets. He said, "It is extremely important to many countries. Many of these countries are friends and allies. No U.S. interest is served by the large instability that we have had in the gold market. No great costs would be imposed on the United States in participating (in) arrangements in limiting gold price movements." Would you address this question; and would you comment on the U.S. position on any delay in the IMF gold auctions to allow the price to stabilize?

Would the Treasury Department favor a set date to restore the freedom of Americans to use gold clause contracts? Would the Treasury favor an amendment of this kind on the IMF legislation?

What is the purpose of the $2 billion loan authority requested in the bill? How will Congress be notified of the time and reasons behind any exercise of this authority?

Why does the bill call for IMF compensation to the U.S. representative, rather than U.S. compensation? What is the difference in benefit levels?

There has been some press attention to the salary levels of IMF staff. Would you provide an analysis of this situation and a report on U.S. actions in this regard? How do IMF staff salaries differ from those of comparable Federal Government employees?

Under the Percy amendment, or under present procedures, what access is there to records of how the U.S. representative votes on various loans? Are the votes of the U.S. representative always consistent with American policy objectives as they apply to foreign aid programs?

International liquidity is at an extremely high level. Can you say that additions to the IMF quotas and the subsequent added loans IMF will make will not be inflationary? Would you refer to the arguments made in Mr. Robert Heller's article in the "IMF Staff Papers" of March 1976?

Congressman Paul expressed concern with the newly established Executive Council. Would you comment on the points he raised? Would you comment on the powers and responsibilities of this new body?

Would you comment on what sort of measures the Fund would take against nations that "manipulate" their currencies? Would you define "manipulation?" I realize that this may be difficult, but does not the definition of this term determine the nature of one of the most important aspects of this legislation?

Mr. Sidney Brown commented on the need to postpone passage of this legislation. Would you comment on what real changes might result in the international economic situation if the U.S. doesn't hurriedly pass this bill?

Thank you for your assistance; and kindest regards.

Sincerely,

JESSE HELMS.

THE UNDER SECRETARY OF THE TREASURY
FOR MONETARY AFFAIRS,
Washington, D.C., September 7, 1976.

Hon. JESSE HELMS,
U.S. Senate,
Washington, D.C.

DEAR SENATOR HELMS: I am enclosing with this letter my responses to the questions raised about the IMF legislation in your letter of August 21.

Please let me know if we can be of any further assistance.

With best regards.

Sincerely,

EDWIN H. YEO III.

Enclosures.

Question. If there is a system of floating, adjusting exchange rates, do the loans made by the IMF simply postpone needed adjustments? Particularly, are the longer-term loans of the Trust Fund postponing the adjustments in currency values that should be made under the new system?

Answer. Widespread floating of currencies does not eliminate all balance of payments problems and does not eliminate all need for official balance of payments financing. Of course, the currencies of most countries at present are not floating but are pegged to one or more other currencies. Moreover, those countries whose currencies are floating (the large industrial countries for the most part) do not allow them to float freely, but intervene in varying degrees. The purpose of IMF credit is not to avoid adjustment, but rather to provide temporary financing while adjustment takes place. Thus IMF drawings are conditional, and ordinarily tied to the introduction of an adjustment program designed to correct the balance of payments problem which caused the need for the financing. Trust Fund financing is of the same character—provided in each case only if there is a finding of balance of payments need, and if the borrowing country adopts appropriate adjustment measures. Thus IMF financing facilitates balance of payments adjustment rather than postponing it.

COMMENT

The key phrase here is "The purpose of IMF credit is not to *avoid* adjustment, but rather to provide temporary financing while adjustment takes place." The answer to the question, "do IMF loans postpone adjustments?" seems to be "yes."

IMF loans are "conditional," but all loans are conditional. Some loans are more "conditional" than others—carrying higher interest rates, requiring collateral, etc. However, IMF loans are at rates equal to about the cost of money to the U.S. Treasury: about the best in the world. Supplicant nations must balance the "cost" of IMF conditions against the "cost" of capital in other markets.

Question. If IMF quotas are looked upon as bank deposits, a resource available to the U.S., shouldn't it be included in the normal budget process just as other Federal loan programs? I note that the $2 billion loan authority for the Secretary is for funds already appropirated. It is not inconsistent that these IMF loan funds would be appropriated and the quota increase be exempt from this process?

Answer. It is because IMF quota subscriptions are similar to bank deposits that they should *not* be treated the same as Federal loan programs. Payment of an IMF quota subscription is an exchange of assets—we provide dollars and receive drawing rights, which we can use in case of need. Under Federal loan programs we do not receive such a drawing right. This treatment of the IMF quota subscriptions was introduced following recommendations from the President's Commission on Budget Concepts in 1967. It differs from the technique followed in earlier quota increases, and for U.S. loans to the IMF under the General Arrangements to Borrow, authorized before the adoption of the concept proposed by the Commission.

COMMENT

If "payment of an IMF quota subscription is an exchange of assets," there is all the more reason to require normal budget procedures. In exchange for assets like office buildings, the federal government appropriates funds. Particularly, since our "assets" in the IMF are depreciating at a rather rapid rate, due to inflation, Congress should go through the appropriations process. Since the IMF finances the transfer of real resources from one nation to another, under the banner of "balance of payments financing," appropriations should be required.

Question. I am aware of the question of the legality of the IMF establishment of the Trust Fund, but would you provide for the record your analysis of this matter? Would you agree that the Board of Governors of the IMF is the final determiner of what is "legal" under the Articles of Agreement?

Answer. The IMF Trust Fund was established by the entire IMF membership and without objection, by an Executive Board decision on May 5, following the agreement in Jamaica in January that action should be taken both to start without delay establishment of the Trust Fund financed largely through profits on the sale of 1/6 of the IMF's gold, and to "restitute" 1/6 of the IMF's gold to all members in proportion to quota. Gold sales to finance the Trust Fund, as well as the agreed restitution, will be conducted over a period of 4 years.

Establishment of the Trust Fund and its financing through gold sales is legally authorized under the present IMF Articles of Agreement. The IMF will replenish its holdings of usable currencies through sales of gold to members at the current "official price" (about $42 an ounce). The IMF has often replenished its currency holdings pursuant to Article VII, Section 2 in this way, and the gold held by the IMF was, from the outset, intended to be used precisely for this purpose. The IMF needs these usable currencies to finance its rapidly expanding balance of payments financing operations. These members will then resell, at the same price, the gold received to the Trust Fund. The Trust Fund will auction the gold and use the profits to provide balance of payments financing on terms appropriate to the needs of developing members in the immediate period.

This financing of the Trust Fund is an appropriate use of the IMF's gold. The secondary result of the IMF's replenishment operation—*i.e.*, financing the Trust Fund, is fully consistent with the IMF's purposes, including the objectives of promoting international monetary cooperation, maintaining orderly exchange arrangements among members, and providing balance of payment financing to members.

On the question of determining what is "legal" under the IMF Articles of Agreement, Article XVIII provides that any question of interpretation of the provisions of the Fund Articles raised by an IMF member, in the first instance shall be submitted to the Executive Directors for their decision. Any member of the Fund may appeal a decision of the Executive Directors to the Board of Governors, whose decision is final. This procedure is in accordance with the procedure established by the charters of most international financial organizations; and, it is wholly appropriate for the IMF members to determine the scope and manner in which they intend to be bound by their acceptance of the IMF Articles of Agreement.

COMMENT

In response to the question, "Would you agree that the Board of Governors of the IMF is the final determiner of what is legal under the Articles of Agreement?" the answer seems to be, "Any member of the Fund may appeal a decision of the Executive Directors to the Board of Governors, whose decision is final."

Question. I understand that the U.S. position at the Jamaica meeting favored the establishment of the Trust Fund. Could you explain the justification behind this position? Would the Treasury, in its efforts to remove gold from its role in international monetary matters, favor a simple restitution of gold to the members of the IMF, in accordance with the provision in the Jamaica agreement to dispose of one-sixth of the IMF gold?

Answer. The U.S. favored the establishment of the Trust Fund on the basis that it would help to meet two long-held U.S. objectives. First, it facilitated an orderly balance of payments adjustment process, by providing badly needed balance of payments financing for the poorest developing countries at a time when those countries were faced with particularly severe needs resulting from the sharp increase in oil prices, severe world inflation and deep recession. Second, it promoted in a meaningful way phasing down the role of gold in the monetary system by transferring gold from monetary reserves to private hands through the sale of gold for usable currencies.

The U.S. did not initiate proposals for "restitution" of gold to members, but accepted a compromise in which 1/6 of the IMF's gold would be sold through the Trust Fund and 1/6 sold to members for "restitution." From the point of view of a large number of IMF members, "restitution" has the disadvantage that it takes an asset owned by the IMF—gold—and uses it in a way that an overwhelming share of the benefit—the profits on such IMF gold sales—accrues to a small number of the large industrial countries.

COMMENT

With regard to the establishment of the Trust fund, are these "long-held U.S. objectives": helping LDC's balance of payments problems and phasing down international gold role? And, if they are, does the establishment of the Trust Fund help achieve them in an efficient or proper manner? Innovating methods of helping other nations is properly a function of American foreign aid and as such should require Congressional attention and Congressional debate. Additional loans to the LDCs does not necessarily help these nations. They are overburdened by debt. Extending them credit *does* postpone needed adjustments.

If the U.S. objective of phasing down the international role of gold is legitimate, the gold in the IMF should be returned to original donors. The Library of Congress reports that the legislative history of U.S. gold donations to the IMF does not include any reference to foreign aid schemes or balance of payments aid for specific groups of nations. Congress is the proper agency to decide the use to which these resources should be put.

The Congress provided the IMF the gold for purposes for maintaining the Bretton Woods system of par values and fixed exchange rates. In large part, because the IMF itself decides what is "legal," can these resources be used for this new purpose?

Question. Would you explain the rationale behind the recent procedure change in the IMF gold auctions?

Answer. Since opinions among the 128 IMF member countries differed on the technical question of what is the best procedure to be followed in IMF gold auctions, and there is little empirical evidence available as a guide, it has been agreed that there should be some experimentation with alternative techniques. Thus the first two gold auctions utilized the procedure of "common price"—that is, all successful bidders received gold at the lowest price accepted from any such bidder. The third auction will utilize the procedure of "bid price"—that is, each bidder will pay the particular price he bids and will not receive gold at a common price. With experience it may be possible to reach a consensus as to whether one procedure or the other yields the best return.

Question. Mr. Aliber addressed the question of the instability in world gold markets. He said, "It is extremely important to many countries. Many of these countries are friends and allies. No U.S. interest is served by the large instability that we have had in the gold market. No great costs would be imposed on the United States in participating (in) arrangements in limiting gold price movements." Would you address this question, and would you comment on the U.S. position on any delay in the IMF gold auctions to allow the price to stabilize?

Answer. The U.S. has agreed with the other members of the Group of Ten that "there be no action to peg the price of gold." Pegging the price would be contrary to the agreed decision to phase down the international monetary role of gold. In the proposed amendment of the IMF Articles, both the Fund and members agreed "to avoid the management of the price, or the establishment of a fixed price" of gold.

It should be noted that the U.S. has no objectives with respect to the price of gold, and has not sought to depress the price or introduce instability into the gold market. The aim of the U.S. and of the IMF is to dispose of the agreed amounts of IMF gold in an orderly manner. The best way of accomplishing that objective is in our view to provide for regularly-scheduled auctions of moderate size. In that way, the market will know what to expect and can accommodate itself to the IMF sales. On some occasions the price received by the IMF may be relatively high and on other occasions relatively low, but over the whole four year period the Fund will receive a fair price as determined by the market. In our view, to introduce uncertainty into this market by arrangements under which the IMF might delay, accelerate or change the scheduled auctions would be a destablishing factor and would hurt rather than help the gold market.

COMMENT

No response is made to the question. If our allies believe they are being hurt by our actions, should we not consider their views? Delaying sales is not "pegging" price. Indeed, if the Trust Fund is to help LDCs, delaying gold sales may mean that higher prices will be received for the IMF gold already committed to help the recipient nations.

Question. Would the Treasury Department favor a set date to restore the freedom of Americans to use gold clause contracts? Would the Treasury favor an amendment of this kind on the IMF legislation?

Answer. As Secretary Simon stated in his letter to you on May 6, the Gold Clause Joint Resolution, by making unenforceable contract provisions for the payment of the obligation in gold or in an amount of dollars measured in gold, helps to assure that gold will not again assume a monetary role through widespread use in private transactions. Secretary Simon, at that time, also expresesd concern that the emergence of gold clauses which might result from repeal of the Joint Resolution, could call into question the strength of the dollar and undermine our efforts to control inflation and maintain confidence in our currency. For these reasons, the Joint Resolution appears to us to have a substantial and important rationale and its repeal at this time would be unwise.

In our view, careful and thoughtful consideration should be given to the bill you introduced on June 14 to repeal the Gold Clause Resolution. However, because of its importance and our concerns regarding its repeal, it should not be handed hastily in the context of the Bretton Woods legislation. Rather, the Gold Clause Resolution can and should be considered on its merits. At an appropriate time, officials from this Department would be happy to participate in full, frank, and open discussions on this matter and to examine our concerns in light of all the points of view expressed in those hearings.

Question. What is the purpose of the $2 billion loan authority requested in the bill? How will Congress be notified of the time and reasons behind any exercise of this authority?

Answer. This question refers to the existing authority in present law for $2 billion which can be made available to the IMF under the General Arrangements to Borrow together with funds from other IMF members for the purpose of forestalling or coping with an impairment of the international monetary system. This authority has existed for 14 years and no change in this authority is proposed in the present legislation. The statutory change that appears in H.R. 13955 is merely a technical change resulting from a renumbering of the IMF Articles as they are proposed to be amended.

Any activation of the GAB and U.S. participation in such loans to the IMF would be announced publicly.

COMMENT

Although we are only concerned with "technical changes" here, $2 billion is a lot of money and "forestalling or coping with an impairment of the International monetary system" is a nebulous purpose. Particularly, since the $2 billion was provided when we had par values, and stable exchange rates. Now we have no par values and floating exchnge rates. This is $2 billion that should have a lot of strings attached. If we are committed by a previous international agreement, consideration should be given to renegotiation in highest of contemporary circumstances.

Question. Why does the bill call for IMF compensation to the U.S. representative, rather than U.S. compensation? What is the difference in benefit levels?

Answer. The IMF Articles as originally approved in the Bretton Woods Act envisage that Executive Directors, while representing the governments appointing or electing them, would be IMF employees and paid by the Fund. The Articles provide that the Board of Governors will determine the compensation to be paid Executive Directors. The Articles also provide that Governors will not be compensated by the IMF—other than meeting reasonable expenses for attending annual meetings—since the position of Governor is not a full time position. The provision in Section 2 of H.R. 13955 relating to salaries of U.S. representatives to the IMF merely extends the present statutory provision (Section 3 of the Bretton Woods Agreements Act) to the U.S. councilor and alternate should the IMF Council be established. The amended Articles do not provide for remuneration being paid by the Fund to Councilors and alternates. (A comparison of IMF and U.S. Government compensation is covered in the response to following question.)

Question. There has been some press attention to the salary levels of IMF staff. Would you provide an analysis of this situation and a report on U.S. actions in this regard? How do IMF staff salaries differ from those of comparable Federal Government employees?

Answer. The IMF salaries (and those of other international institutions) are generally higher than U.S. Civil Service salaries, and the gap at the more senior levels has expanded during recent years when there has been a ceiling on senior U.S. Civil Service salaries. The U.S. Government has been concerned at the gorwth of salaries in the IMF and other international institutions, and has made strong efforts aimed at restraining salary increases, with some success. In 1975 the U.S. Government was successful in introducing tapering to increases in these senior salaries. In 1976 a vigorous U.S.-led campaign caused management's proposed increase in staff salaries to be defeated and a more moderate one to be adopted. In August 1976 another U.S.-led effort caused a proposed increase in the salaries of the Executive Directors to be voted down by a 2 to 1 margin. This is the second year in succession that proposed increases in Executive Directors' salaries were defeated by a Governors' vote.

COMMENT

The absence of specific statistics in this answer is conspicuous and telling. Unfortunately, I have not been able to obtain more information, but the Library of Congress was able to report to me that the U.S. executive director receives from the IMF a salary of $60,000 in accordance with Section 14 of the Rules and Regulations of the IMF. That is, of course, a far cry from the salary of the Deputy Assistant Secretary for Monetary Affairs, about $38,000.

Question. Under the Percy amendment, or under present procedures, what access is there to records of how the U.S. representative votes on various loans? Are the votes of the U.S. representative always consistent with American policy objectives as they apply to foreign aid programs?

Answer. Under IMF procedures, votes on individual issues are not made public. U.S. representatives are fully prepared to meet appropriate Congressional requests for information on U.S. votes. In the Executive Board, where decisions on individual IMF transactions are made, the U.S. Executive Director is instructed by the U.S. Governor of the Fund (the Secretary of the Treasury), with U.S. international financial and monetary policy coordinated by the National Advisory Council (NAC). The NAC, which includes in its membership the Secretary of State, the Assistant to the President for Economic Affairs, the Chairman of the Board of the Governors of the Federal Reserve System, and officials of other appropriate agencies, provides a mechanism for assuring that U.S. foreign policy and other considerations are taken into account in the determination of U.S. policy with respect to the IMF.

COMMENT

U.S. votes are not made public, but only "appropriate" information on votes will be provided to Congress. The Treasury Department decides what is and what is not "appropriate."

It is reassuring to know that "U.S. foreign policy and other considerations are taken into account," but this provides no answer to the question, "are the votes of the U.S. representative always consistent with American policy objectives as they apply to foreign aid programs?"

Question. International liquidity is at an extremely high level. Can you say that additions to the IMF quotas and the subsequent added loans IMF will make will not be inflationary? Would you refer to the arguments made in Mr. Robert Heller's article in the "IMF Staff Papers" of March 1976?

Answer. IMF quotas differ in character from other forms of international liquidity, in the IMF resources are available for *conditional* credit—that is, they are associated with programs of adjustment designed to correct, rather than add to, inflation and other economic problems. Moreover, the proposed increase in IMF quotas at 44.6%, only partially makes up for the decline in the size of quotas relative to levels of international trade. Since 1970, when the last general increase in IMF quotas occurred, world trade has almost tripled. Mr. Heller's article analyzes the effects of increases in unconditional liquidity on world inflation.

COMMENT

As noted in the Comment on the first question, there is no such thing as a loan that is not "conditional." But with regard to the question on the inflationary affects of added liquidity, the U.S. seems to be on both sides of the question. According to the "International Currency Review (Vol. 8, No. 1), "The Less Developed Countries . . . were unanimous in demanding a 50% increase in the volume of credit that member countries could obtain from the Fund. This dangerous and inflationary proposition was strenuously opposed by the United States and West Germany . . ." During negotiations a 50% increase was inflationary but now, it seems that 44.6% is not inflationary, according to the Treasury Department.

The issue of world liquidity is treated entirely too lightly by the Treasury Department. Trade declined 10% in 1976 while at the same time, liquidity was mushrooming.

Total world liquidity was about $90 billion in 1970, but has soared to over $230 billion by the end of 1976.

According to statistics compiled by the Organization for Economic Cooperation and Development, and outlined by Mr. Peter Fells in "International Currency Review," (Vol. 8, No. 1), "after the oil price rise at the end of 1973, liquidity creation has been largely achieved by the OPEC countries depositing funds in the eurodollar market, where they still count as those countries' reserves. The same funds are then borrowed by oil importing countries and used to pay their bills; so while the OPEC countries accumulate reserves, the oil-importing countries manage not to loose any . . . To put it crudely, and in a highly simplified fashion, the creation of liquidity during the late 1960's and early 1970's was largely a function of the size of the payment deficit which the United States required to finance; latterly it has been a function of the deficits which the financially weakest of the oil-importing countries have needed to cover."

What this means is that the great increase in international indebtedness is being carried by the Less Developed Countries. The response of the IMF is to make more loan money available. According to the

International Currency Review article, "Is the IMF a Supermarket," the new agreement is inflationary and "will, at best, provide little more than patchy relief," to the presently strained world monetary system.

Question. Congressman Paul expressed concern with the newly established Executive Council. Would you comment on the points he raised: Would you comment on the powers and responsibilities of this new body?

Answer. Concerns about possible establishment of a permanent IMF Council are not warranted. This is an administrative matter that is completely internal to the IMF. It does not involve an expansion of the IMF's powers—it does not mean a "supra-national Fed"—and it does not involve any diminution of the U.S. voice in the IMF. The Council, if established, would succeed the present IMF Interim Committee. The only difference is that it would have formal decision-making powers, to the extent the IMF Board of Governors chooses to delegate such powers to the Council, in contrast to the Interim Committee's advisory role. The experience of the past few years has indicated that it may be desirable to have a decision-making body in the IMF that involves senior policy officials from member governments, but which is more streamlined and manageable than the 128-member Board of Governors.

All important powers in the IMF are vested in the Board of Governors. The Board of Governors will be able to retain those powers, delegate certain powers to the Executive Board, as it does not, or to the Council, if that body is established. This is not an expansion of the IMF power but simply a question of distribution of authority *within* the IMF. The Board of Governors would make the decision to establish the Council—by an 85 percent majority vote—and would decide on the distribution of authority as among the Board of Governors, the Council, and the Executive Board.

The U.S. representative on the Council would be the Secretary of the Treasury, who is U.S. Governor of the Fund. Other countries would be represented at a comparable level. The U.S. vote would be precisely the same in the Council as it is in the Board of Governors and the Executive Board, and the votes required for various decisions are exactly the same. The fact that a question is decided by one IMF body or another does not change the voting structure or the majorities required for decisions.

Provision in the amended Articles for possible establishment of the Council is fully appropriate, involves an internal organizational matter, and fully protects the interests of the United States.

Question. Would you comment on what sort of measures the Fund would take against nations that "manipulate" their currencies? Would you define "manipulation?" I realize that this may be difficult, but does not the definition of this term determine the nature of one of the most important aspects of this legislation?

Answer. In the proposed amended Articles, each member country undertakes an obligation "to avoid manipulating exchange rates in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage." A finding that a country was in fact engaged in such a manipulative practice would be made in light of all the circumstances of the case—a judgment that the country was through its practices preventing adjustment or gaining an unfair advantage. It would be a mistake to try to define such situations in advance. Case history and experience will need to be developed in the IMF as a basis for determining whether this obligation is being fulfilled.

COMMENT

This is a key issue. The word "manipulate" is crucial to an understanding of the impact of the agreement. In fact, failure to define it means that the only good reason for having the agreement—forstalling beggar-thy-neighbor policies—doesn't exist. We refuse to define the biggest beggar-thy-neighbor device, currency manipulation.

Question. Mr. Sidney Brown commented on the need to postpone passage of this legislation. Would you comment on what real changes might result in the international economic situation if the U.S. doesn't hurriedly pass this bill?

Answer. The international monetary system is presently operating outside the law. It is important that we correct that situation, and restore a legal framework for international monetary cooperation and for encouraging countries to operate in an internationally responsible manner.

The process of ratification of amendments is a complicated one—60% of IMF member countries with 80% of the total vote must approve the amendments—and it may take 12–18 months even if the United States acts promptly. The United States played a leading role in the negotiations, and many nations await U.S. action before pressing ahead with their own legislative processes. If the United States does not enact the legislation in the present session, the whole process gets pushed back a year—and the amended Articles, and the needed quota increase, would not become effective for a long time. This would be contrary to fulfillment of U.S. objectives in the international monetary area and would be inconsistent with the posture of the U.S.—as formally expressed by Congress in 1973—to expedite realization of the much-needed reforms.

COMMENT

The response contains no answer to the question regarding "real changes" that might result if the Congress doesn't pass this bill.

O

94TH CONGRESS } HOUSE OF REPRESENTATIVES { REPORT
2d Session } { No. 94–1284

PROVIDING FOR AMENDMENT OF THE BRETTON WOODS AGREEMENTS ACT

JUNE 21, 1976.—Committed to the Committee of the Whole House on the State of the Union and ordered to be printed

Mr. REUSS, from the Committee on Banking, Currency and Housing, submitted the following

REPORT

together with

DISSENTING VIEWS

[To accompany H.R. 13955]

The Committee on Banking, Currency and Housing, to whom was referred the bill (H.R. 13955) to provide for amendment of the Bretton Woods Agreement Act, and for other purposes, having considered the same, report favorably thereon with amendments and recommend that the bill as amended do pass.

The amendments are as follows:

Page 2, after line 3, insert the following:

SEC. 2. Section 3 of the Bretton Woods Agreements Act (22 U.S.C. 286a) shall be amended as follows:

(1) section 3(c) shall be amended to read as follows:

"(c) Should the provisions of Schedule D of the Articles of Agreement of the Fund apply, the governor of the Fund shall also serve as councillor, shall designate an alternate for the councillor, and may designate associates."

(2) a new section 3(d) shall be added to read as follows:

"(d) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, councillor, alternate, or associate."

Page 2, line 4, strike out "SEC. 2" and insert "SEC. 3".

Page 2, beginning in line 11, strike out "paragraph 2" and insert "paragraph 2, paragraph 4,".

57–006

Page 2, line 22, strike out "Bank.'." and insert in lieu thereof the following:

Bank; (g) approve the establishment of any additional trust fund, for the special benefit of a single member, or of a particular segment of the membership, of the Fund.".

SEC. 4. The first sentence of section 17(a) of the Bretton Woods Agreements Act (22 U.S.C. 286e-2(a)) is amended to read as follows: "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 1(i), of the Articles of Agreement of the Fund.".

Page 2, line 23, strike out "SEC. 3" and insert "SEC. 5".
Page 3, line 11, strike out "SEC. 4" and insert "SEC. 6".
Page 3, after line 12, insert the following:

SEC. 7. Section 10(a) of the Gold Reserve Act of 1934 (31 U.S.C. 822a(a)) is amended to real as follows:

"SEC. 10. (a) The Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to and consistent with the United States obligations in the International Monetary Fund. The Secretary of the Treasury shall annually make a report on the operations of the fund to the President and to the Congress.".

Page 3, line 13, strike out "SEC. 5" and insert "SEC. 8".
Page 3, line 23, strike out "SEC. 6" and insert "SEC. 9".
Page 3, line 23, strike out "and 4," and insert "4, 5, 6, and 7".

HISTORY OF THE LEGISLATION

H.R. 13955 was introduced on May 21, 1976, and referred to the Committee on Banking, Currency and Housing, which referred it to the Subcommittee on International Trade, Investment and Monetary Policy. The Subcommittee heard testimony in support of the bill from the Secretary of the Treasury on June 1, 1976. Testimony from private witnesses was taken on June 3, 1976. The Subcommitte met on June 5, 1976, and voted unanimously to report the bill, with amendments, to the full committee, and to recommend its adoption. The Committee met in executive session on June 17, 1976, and, by a vote of 24 to 1, ordered the bill, as amended, to be favorably reported.

SUMMARY OF THE BILL

The major purposes of this bill are to authorize the United States to accept a package of proposed amendments to the Articles of Agreement of the International Monetary Fund (IMF), and to consent to an increase in the quota of the United States in the IMF. Increases in the U.S. quota in the Fund, as well as U.S. consent to any amendment

to the Articles of the Fund, require Congressional authorization. This bill grants such authorization. It also enacts several technical changes in U.S. statutes to bring them into line with the amendments to the Fund's Articles.

The Articles of Agreement of the International Monetary Fund define the formal structure of that organization, and the rights and obligations of its members. They establish a set of rules which define the formal framework of the international monetary system, and an institution to oversee its operation. Though the original Articles, which were adopted in 1944, have been previously amended, their basic structure has remained intact. This structure served the world economy well for many years, but persistent strains and disequilibria in international payments since the 1960's have demonstrated the need for some significant reform of the system. Formal negotiations on reform commenced in 1972. They finally led to an agreement, in January 1976, by the finance ministers of the major countries in the IMF to recommend a set of amendments to the Fund's Articles. The Board of Governors of the Fund has approved these amendments, and submitted them to the member governments for their acceptance. They will enter into force when accepted by three-fifths of the members having four-fifths of the total voting power of the Fund. Since the United States has, under the present Articles, 20.75 per cent of the total voting power, the amendments cannot enter into force without U.S. acceptance. The administration feels the amendments embody the most important policy objectives the United States has pursued throughout the negotiations on international monetary reform, and it strongly urges the Congress to authorize U.S. acceptance. This Committee concurs.

Exchange Rate Regime

The key element of the proposed set of amendments to the IMF Articles is the new Article IV. Under the existing Article IV, members are required to establish a par value for their currencies in terms of gold, and to maintain exchange rates for their currencies within a narrow margin around the parities defined by those par values. Changes in par values are permitted only to correct "fundamental disequilibrium" in a member's balance of payments.

At present, no IMF member is meeting its formal par value obligations under the existing Article IV. Since 1973 many members have permitted their exchange rates to "float" more freely, in response to market forces of supply and demand, than is permitted by Article IV. This abandonment of fixed, in favor of floating, exchange rates reflects a general recognition that, at least under present economic conditions, attempts to maintain fixed exchange rates are futile and counterproductive. A major objective of the United States in negotiating international monetary reform was the amendment of Article IV to permit greater flexibility of exchange rates. If for no other reason, this would be desirable in order to legitimatize a practice which has become, for the immediate future, virtually unavoidable for most major countries. But it was also sought for its own sake, as recognition and codification of the principle that floating exchange rates constitute a legitimate exchange rate system more effective in promoting balance of payments adjustment without resort to restrictions on trade or payments, and without sacrificing domestic employment, than a system of par values and fixed rates. This Committee has long supported this objective, and it welcomes the success of the administration in negotiating a new Article IV embodying this principle.

The new Article IV provides wide latitude for each member to adopt exchange arrangements of its choice. A floating exchange rate, with no par value, and no commitment to maintain exchange rates at any fixed level, is a perfectly legitimate choice, as is any other type of exchange rate practice consistent with the general obligations imposed on each member by this Article. A return to a system of "stable but adjustable par values" is not precluded. The Fund may determine, by an 85 per cent majority vote, that economic conditions permit the widespread adoption of such a system. Each country would, however, still be free to adopt the exchange rate practices it deems appropriate. In sum, the system is open to evolution in any direction, free of legal compulsion to institute any specific exchange rate practice.

The new Article IV prescribes not a particular exchange rate system, but some general obligations each member must honor in the conduct of its international monetary policy. Some are hortatory, requesting each member to "endeavor" to attain orderly growth and price stability, and to "seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions." This language is not empty, however, for it codifies the important principle, and adopts it as official Fund doctrine, that exchange rate instability is but the reflection of more fundamental economic disequilibria. Stability in exchange markets cannot be attained, over the longer term, in the face of persistent underlying disequilibria. The foremost obligation of Fund members should be to address their policies to the underlying economic conditions, not to the mechanisms of exchange rate management.

The danger inherent in this freedom is that, failing to achieve orderly growth or price stability, governments will seek competitive advantages by manipulating exchange rates. The most important and most explicit general obligation of the New Article IV is to:

> Avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

All members are obliged to collaborate with the Fund, and with other members, to promote respect for these principles. The Fund is given the role of overseeing the system, exercising "firm surveillance over the exchange rate policies of members," and adopting "specific principles for the guidance of all members with respect to those policies."

In sum, the New Article IV defines some principles, appoints an umpire, and lays down the outlines of an exchange rate system that is flexible and open to future evolution.

Gold

In 1971 the United States abolished the convertibility of the dollar into gold. Since then it has been the objective of the United States, with the support of this Committee, to hasten the demonetization of gold so as to reduce its role in the world monetary system. It became evident that, given the nature of modern economies, and the evolution

of international monetary relations, a system in which gold is an important reserve component, and in which major countries attempt to preserve the gold convertibility of their currencies at stable par values, is no longer viable. Such a system, under modern conditions, would be erratic, crisis prone, and unmanageable. To the extent that the international monetary system needs a reserve asset whose growth and management is under rational control, this Committee feels that Special Drawing Rights (SDR's) offer an alternative preferable to gold.

While the proposed amendments to the Articles do not directly affect future policy options on SDR's, they do move in the desired direction by demoting gold from its present official status. In particular, the amendments will abolish the Fund's official price for gold, repeal the obligation of members to define a par value in terms of gold, remove the requirement that a portion of quota subscriptions be payable in gold, and abolish the use of gold in other transactions between the Fund and members. Gold will no longer be the "numeraire" of the system, i.e., the standard of value in terms of which rights and obligations of members vis-a-vis the Fund are defined.

As a consequence of the abolition of the obligation of a Fund member to establish and maintain a par value for its currency, H.R. 13955 repeals the section of the Par Value Modification Act which defines the par value of the dollar.

The Fund presently owns a large stock of gold. It has decided, under existing authority to sell one-third of its gold stock over the next four years. One-half of this amount, or about one-sixth of the total, will be sold to Fund members at the present official price of 35 SDR (about $42) per ounce. The other one-sixth is being sold at public auctions for whatever price it will command. The profits from these public sales will be used to establish a Special Trust Fund to make concessionary lending, for balance of payments, to the poorest less developed countries. These transactions are preceding under the present Articles, independently of the proposed amendments. The amendments will, however, empower the Fund to dispose of its remaining gold holdings in a variety of ways, including sales to members at the present official price (35 SDR per ounce) in proportion to their quotas as of August 31, 1975, or sales to the private market at a market related price. Decisions on gold disposals under the amended Articles will require an 85 per cent majority vote, and thus be subject to a U.S. veto.

Profits generated by Fund gold sales under the amended Articles could be transferred into the Fund's general resources for use in operations authorized by the Articles. They could also be used for operations not expressly authorized by the Articles, but consistent with the purposes of the Fund, or they could be distributed to developing countries. An 85 per cent majority vote would be required for either of these latter two uses, thus subjecting them to a U.S. veto.

The Committee considers the amendments discussed above to be the major elements in the proposed changes in the International Monetary Fund. The amendments also implement several minor technical and organizational changes in the operations of the Fund. One item deserves note: the amended Articles include an enabling provision which will permit the Board of Governors by an 85 per cent majority to create a new organ of the Fund, called the "Council." This would replace the present Interim Committee, the advisory body within which the proposed amendments were negotiated. This Council would be a permanent organ of the Fund composed of persons of ministerial or comparable rank. It would have decision-making authority under powers delegated by the Board of Governors. Its general function would be the supervision and adaptation of the international monetary system.

It was conceived to meet the need for a permanent standing body, smaller than the Board of Governors, but empowered to act on matters of import that require decision at a higher level than the Executive Directors of the Fund. H.R. 13955 provides that the U.S. Governor of the Fund shall also serve as Councillor on this Council, and shall designate an Alternate, who will have full power to act in his absence. Decisions of the Council will be taken by weighted voting, with the United States casting 19.96 per cent of the total votes.

Increase in Quotas

Members' quotas in the IMF are reviewed every five years. On the basis of the latest review, a 33.6 per cent increase in quotas has been proposed. This will increase the total of quotas from 29 billion SDR to 39 billion SDR. The allocation of the total quota increase among the members depends, in part, on their share in world trade and GNP. As a consequence of oil price increases, the collective quota share of the major oil exporters is to be doubled. The quota share of others must, therefore, be reduced. H.R. 13955 authorizes the United States to consent to an increase in its quota of 1.705 billion SDR (about $2 billion), from 6.7 billion SDR to 8.405 billion SDR. This will represent a reduction in the U.S. share of the total from 22.93 per cent to 21.53 per cent. Voting power in the IMF is related to quotas. Each member receives 250 votes plus one vote for each 100,000 SDR of its quota. Thus voting power is affected by changes in quotas. The proposed quota increases of all IMF members will reduce the U.S. voting share from 20.75 per cent to 19.96 per cent. The effective U.S. veto power over amendments to the IMF Articles, and over certain other basic decisions within the IMF Articles, and over certain other basic decisions within the IMF, will be preserved, because the majority required for these decisions will be increased, under the amended Articles, from the present 80 to 85 per cent.

The increase in Fund quotas is justified by the inflation—induced decline in the real value of IMF resources over the past five years, by the major balance of payments financing needs caused by the rise in oil prices, and by the recent world-wide recession. Even under normal conditions, the tripling of world trade since 1970, when quotas were last increased, would indicate the need for an upward adjustment in the Fund's resources.

The increase in the U.S. quota will require no Congressional appropriation. It will not represent a budget expenditure, but an exchange of assets. The application of this concept to the U.S. quota in the IMF is further explained below, under Section 1 of the detailed analysis of the bill.

Sense of the Committee of Future Policy

In its consideration of this legislation, the Committee expressed its sense of the appropriate direction for policy on certain international monetary issues.

I. Exchange Rate Obligations

The Committee expects the administration to honor scrupulously the obligations of Article IV of the amended Articles, to collaborate with the Fund in the development of the "specific principles for the guidance of all members" mentioned in section 3(a), and to represent to other members, as appropriate, the importance we attach to the obligation of all members to

> Avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

The Committee expects the administration to keep it informed through timely consultation of its efforts to promote international cooperation and coordination of exchange rate policies and practices.

II. International Liquidity

The Committee urges the administration to give special attention to the task of managing the growth of international liquidity, in collaboration with the International Monetary Fund. It is the sense of this Committee that, as the role of gold declines, every effort should be made to promote the role of Special Drawing Rights as the primary reserve asset of the international monetary system. As SDR's move to the center of the system, it will be necessary to ensure that the creation and distribution of new SDR's are related to the growth of world trade and investment, and the evolution of the international payments system, in a manner that satisfies the need for liquidity without inducing inflation.

In the course of deliberations on H.R. 13955, the opinion was expressed that the development of a substitution account within the IMF, which would permit members to exchange other reserve assets for SDR's, might be a feasible approach to the objectives of SDR enhancement and the non-inflationary management of international liquidity. The Committee notes that consideration of this subject by the Executive Directors was recommended by the Interim Committee in its communique of January 8, 1976. It urges the administration to cooperate with the IMF in considering such an account for the purposes of promoting SDR's and controlling liquidity.

III. Treasury and Federal Reserve Coordination of Exchange Rate Policy

In the course of examining the fundamental reforms of the International Monetary system described above, your committee considered whether it would be appropriate to specify, by statute, the respective responsibilities of the Treasury and the Federal Reserve system in formulating, coordinating, implementing, and supervising the execution of the international financial policies of the United States. The committee understands that while, in practice, the Federal Reserve System, the Congress, and other Executive agencies contribute to the formulation of international monetary policy, the final executive responsibility for decision and implementation rests with the President and the Secretary of the Treasury.

The Federal Reserve System, through its ability to intervene in exchange markets, also plays an important role in implementing international financial policy. An Amendment to the Federal Reserve Act was offered to prohibit any Federal Reserve Bank from engaging in dealings in foreign exchange which are specifically disapproved by the Secretary of the Treasury. When asked for their opinions on this amendment, both the Board of Governors of the Federal Reserve System and the Treasury Department responded that, as a practical matter, the amendment was unnecessary. The Secretary of the Treasury responded that the amendment reflected "the fact that it is the responsibility of the Secretary of the Treasury as chief financial officer of the United States, U.S. Governor to the IMF and Chairman of the National Advisory Council on International Monetary and Financial Policies to direct and coordinate U.S. exchange market intervention policy."

In his response to Chairman Thomas M. Rees of the Subcommittee on International Trade, Investment and Monetary Policy, Chairman Arthur F. Burns of the Board of Governors of the Federal Reserve System said:

> Treasury and Federal Reserve officials work together very closely to insure that Federal Reserve dealing in foreign exchange are in furtherance of and at all times are consistent with the international financial policy of the United States.

Secretary of the Treasury William E. Simon responded in a letter to Representative J. William Stanton, ranking minority member of the Subcommittee, as follows:

> The officials of the Federal Reserve system have always worked in close collaboration with the Department of the Treasury to assure that System dealings in foreign exchange—whether through swap arrangements or direct foreign exchange intervention—are in furtherance of and consistent with the international financial policy of the United States, and would not run counter to any actions undertaken by the Secretary of the Treasury for the account of the Exchange Stabilization Fund.

This committee expects that the international financial transactions of the Federal Reserve System will continue to be fully consistent with the international financial policies of the United States as determined by the President and the Secretary of the Treasury.

To this end it is appropriate to call attention to and reaffirm certain comments made in Report No. 1484 offered to the House of Representatives on March 22, 1962, to accompany H.R. 10162.

Your committee expects that the System's arrangements with foreign reserve banks will be confined to normal banking transactions incidental to the establishment and use of reciprocal balances and will in no wise involve matters normally negotiated through Executive agreements.

In order to avoid the possibility of conflicts between System operations and the foreign financial policies of the United States, your

committee further expects (1) that the President and the Secretary of the Treasury will take full responsibility for defining the foreign financial policy of the United States as it relates to the conduct of foreign financial operations; (2) that if any instance should arise where the Federal System fails to conform its activities to the foreign financial policies of the United States as set forth by the President or the Secretary of the Treasury, the Secretary will inform the proper congressional committees; and (3) that the Secretary of the Treasury will inform the proper congressional committees concerning any significant "cooperative arrangements between Foreign Central and Reserve banks."

IV. CONSULTATION ON IMF GOLD

The Committee notes that the proposed amendments to the IMF Articles will empower the Fund to dispose of its remaining gold holdings in a variety of ways, including restitution to members, or sales to the private market. Decisions to dispose of gold holdings under the amended Articles will require an 85 per cent majority vote, and thus be subject to a veto by the United States. The Committee feels that the Congress should be consulted, prior to the casting of the United States vote, by the U.S. Governor of the Fund, and should have ample opportunity to register its views on the proposed disposition of IMF gold. Secretary of the Treasury William E. Simon, has given his assurance, in a letter to Chairman Reuss, dated June 17, 1976, that there will be ample consultations with the Congress on this issue. That letter reads, in part,

> I understand your concerns about possible future restitution and your desire that there be an opportunity for members of Congress to register their views prior to decisions to restitute any part of the IMF's gold beyond that already agreed. Accordingly, I want to assure you that, in the event the U.S. were to consider agreeing to further restitution, you and your colleagues would be given ample opportunity to consult with the Treasury and register your views on the proposal.

STATEMENTS REQUIRED IN ACCORDANCE WITH HOUSE RULES

In accordance with clauses 2(l)(2)(B), 2(l)(3), and 2(l)(4) of Rule XI and clause 7(a) of Rule XIII of the Rules of the House of Representatives, the following statements are made:

Committee Vote (Rule XI, clause 2(l)(2)(B)): H.R. 13955 was reported out of Committee by a rollcall vote on June 17, 1976, with 24 votes cast for and 1 vote cast against reporting the bill.

Oversight Findings (Rule XI, clause 2(l)(3)(A) and Rule X, clause 2(b)(1)): The Committee has held hearings on the subject matter contained in H.R. 13955 and based upon the evidence presented concludes that the provisions of H.R. 13955, as amended, are necessary to authorize the United States to accept amendments to the Articles of Agreement of the International Monetary Fund, to consent to an increase of the quota of the United States in the Fund, and to enact consequential changes in United States statutes:

Estimate of Costs to be Incurred (Rule XIII, clause 7(a)): The Committee estimates that enactment of H.R. 13955 will result in no additional budgetary expenditures.

Congressional Budget Office: No estimate or comparison has been prepared by the Director of the Congressional Budget Office relative to the provisions of H.R. 13955.

Inflationary Impact Statement (Rule XI, clause 2(l)(4)): The Committee has concluded that the enactment of H.R. 13955 will not result in any inflationary impact on prices and costs in the operation of the national economy.

Detailed Analysis of the Bill

SECTION 1. AMENDMENT OF THE BRETTON WOODS AGREEMENT ACT

Two basic purposes of H.R. 13955 are to authorize U.S. acceptance of a comprehensive set of amendments to the Articles of Agreement of the International Monetary Fund and to authorize U.S. consent to an increase in the United States quota in the Fund. The first section of H.R. 13955 provides for the necessary amendment of the Bretton Woods Agreements Act for these two purposes.

It adds a new Section 24 to the Bretton Woods Agreements Act which specifically authorizes the U.S. Governor of the Fund to accept the amendments of the IMF Articles recently approved by the Board of Governors of the Fund in resolution no. 31–4. The amendments are the culmination of over four years of negotiations. They affect members' exchange arrangements; reduction in the role of gold in the international monetary system; changes in the characteristics and uses of the special drawing right; and simplification and modernization of the Fund's financial operations and transactions.

H.R. 13955 also adds a new Section 25 to the Bretton Woods Agreements Act, authorizing the U.S. Governor of the Fund to consent to an increase of SDR 1,705 million in the quota of the United States. The quota increase for the U.S. is part of an overall increase in quotas in the IMF by 33.6 percent, resulting from the Fund's sixth general review of quotas.

Appropriations were sought to meet payments to the IMF on increases in the U.S. subscription in earlier years. Prior to 1968, subscription payments to the IMF were treated as budget expenditures in the same manner as capital subscriptions to other itnernational institutions, loans to private entities, and purchases of fixed assets. Consequently, payments to the IMF were subject to the regular appropriations process.

In 1968 this outlay treatment was changed based on recommendations by the President's Commission on Budget Concepts. The Commission viewed U.S. payments to the IMF not as investment outlays but as deposits with a bank. The IMF is a depositary in which Treasury funds are kept subject to withdrawal under the terms of the IMF Articles of Agreement. Therefore, a payment to the IMF of the proposed increase in the U.S. quota is not an outlay but an exchange of monetary assets—one monetary asset (dollars) decreases, and another (the U.S. account with the IMF) increases simultaneously.

Nor does payment by the United States on its maintenance of value obligations in the IMF result in a budgetary outlay. Accordingly, on the basis of this budgetary concept, no appropriation was provided to meet the U.S. maintenance of value obligations to the IMF which resulted from the reduction in the SDR value of the dollar during the IMF fiscal year ending April 30, 1975. Similarly, maintenance of value payments by the IMF to the United States arising from an appreciation of the dollar as against the Special Drawing Right (SDR), in which members' quotas are denominated, also have been treated as an exchange of monetary assets.

Just as U.S. payments to meet its maintenance of value obligations to the IMF are treated as an exchange of monetary assets and do not require an appropriation, so the payment of the increase in the U.S. quota in the IMF will not require an appropriation, and none is authorized by H.R. 13955.

SECTION 2. AMENDMENT OF SECTION 3 OF THE BRETTON WOODS AGREEMENTS ACT

Under Article XII, section 1 of the Fund Articles of Agreement as amended, the Board of Governors, by an eighty-five percent majority of the total voting power, could establish a Council, with decision-making power, to replace the present Interim Committee, which is an advisory body. The Council would be charged with supervising the management and adaptation of the international monetary system, including the continuing operation of the adjustment process, and development in global liquidity.

This section of the bill authorizes the U.S. governor of the Fund to also serve as councillor should the Council be established, just as the governor new serves as the U.S. representative to the Interim Committee. The governor also is auhorized by this provision of the bill to designate an alternate and associates in the Council.

Section 2 of the bill also provides that neither the councillor, alternate, nor associates could receive compensation from the United States for their services, a provision which presently applies to the U.S. Governor, executive director, and their alternatives.

SECTION 3. CONSEQUENTIAL AMENDMENT OF SECTION 5 OF THE BRETTON WOODS AGREEMENTS ACT

This section of H.R. 13955 amends Section 5 of the Bretton Woods Agreements Act to take account of several proposed amendments to the IMF Articles of Agreement.

Section 5(a). The Fund Articles of Agreement, under the proposed amendments, as at present, authorizes adjustments in the quotas of members either under a periodic general review of quotas or through selective increases in quotas. Under Section 5(a) of the Bretton Woods Agreements Act as it would be amended by section 3 of H.R. 13955, Congressional authorization will continue to be required prior to U.S. consent to an increase in the United States quota in the IMF under a general review of quotas and prior to any proposal of or consent to a selective increase in the U.S. quota.

Article III, section 2(b), of the IMF Articles of Agreement as amended would provide an additional way in which members' quotas can be increased. The Fund could propose, at any time, an increase in the quotas of those members of the Fund that were members on

August 31, 1975, in proportion to their quotas on that date, in an amount not to exceed amounts transferred from the proceeds of IMF gold sales to the general resources of the Fund. Unlike an increase in the U.S. quota under a general review of quotas or pursuant to a selective quota increase, no payment by the U.S. would be required to effect the increase in the U.S. quota resulting from this "capitalization" of proceeds of IMF gold sales. Consequently, H.R. 13955 does not require prior Congressional authorization for consent to an increase in the U.S. quota pursuant to article III, section 2(b).

Sections 5(b) and 5(c). Under the proposed amendment of article IV of the Fund's Articles of Agreement, no IMF member will be legally required to establish a par value for its currency. Thus the United States need not establish and maintain a par value for the U.S. dollar in order to fulfill its obligations in the IMF. Accordingly, Section 6 of H.R. 13955 repeals Section 2 of the Par Value Modification Act that established the par value of the dollar at 0.828948 Special Drawing Right, or forty-two and two-ninths dollars per fine troy ounce of gold. Should the United States in the future choose to establish a par value for the dollar under a generalized system of par values, prior Congressional authorization for proposal of the par value to the IMF will be required under Section 5(b) of the Bretten Woods Agreements Act. Any subsequent change in the par value of the dollar would also require prior Congressional authorization under Section 5(c) of that Act.

Section 5(e). This section of the Bretton Woods Agreements Act is being amended solely to take account of the reordering of the IMF Articles of Agreement occasioned by the proposed amendments.

Section 5(g). The Committee agreed to an amendment offered by Mr. Rousselot which amends section 5 of the Bretton Woods Agreement Act to provide that the creation of any additional trust funds by the IMF may not be approved on behalf of the United States unless Congress by law authorizes such approval.

The amendment was occasioned by the agreement on the part of the United States and other major developed nations to use the proceeds from the sale of one sixth of the IMF gold to create a trust fund to provide balance of payments assistance on concessional terms to countries whose annual per capita income was less than SDR 300. Both the IMF and the United States Treasury took the position that the trust fund could be created prior to Congressional approval of amendments to the IMF Articles of Agreement under existing authority claimed by the IMF.

Under the Committee amendment Congressional authorization would be required before the United States could vote for the establishment of any additional trust funds "for the special benefit of a single member, or of a particular segment of the membership of the Fund." This provision would apply to any additional trust fund by which benefits (such as concessional loans) are provided to a single member, or to a particular segment of the membership of the Fund (such as the poorest of the lesser developed countries). It would not apply to any of the existing IMF special facilities—the Compensatory Financing Facility, the Buffer Stock Facility, or the Extended Fund Facility—or to the creation of new facilities, access to which is open to the entire membership on nonconcessionary terms.

SECTION 4. CONSEQUENTIAL AMENDMENT OF SECTION 17 OF THE BRETTON WOODS AGREEMENTS ACT

This section of the Bretton Woods Agreements Act is being amended solely to take account of the reordering of the IMF Articles of Agrement occasioned by the proposed amendents.

SECTION 5. CONSEQUENTIAL AMENDMENT OF THE SPECIAL DRAWING RIGHTS ACT

The Special Drawing Rights Act (22 U.S.C. 286n-r) is being amended solely to take account of the reordering of the IMF Articles occasioned by the proposed amendments.

SECTION 6. CONSEQUENTIAL AMENDMENT OF THE PAR VALUE MODIFICATION ACT

Under the proposed amendments to the IMF Articles of Agreement, the U.S. will have no legal obligations to establish and maintain a par value for the dollar. Section 6 of H.R. 13955 repeals the legal definition of the par value of the dollar in terms of the Special Drawing Right and gold established by the Par Value Modification Act.

SECTION 7. CONSEQUENTIAL AMENDMENT OF GOLD RESERVE ACT OF 1934

The only domestic purpose for which it is necessary to define a fixed relationship between the dollar and gold is the issuance of gold certificates. Section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b) provides that the amount of gold certificates issued and outstanding shall at not time exceed the value, at the legal standard, of the gold so held against gold certificates. The legal standard presently applicable to all gold certificates is the par value of the dollar as prescribed in Section 2 of the Par Value Modification Act. Section 7 of H.R. 13955 provides that this legal standard will continue to apply for purposes of Section 14(c) of the Gold Reserve Act.

Section 7 of H.R. 13955 also deletes the reference in Section 14(c) of the Gold Reserve Act to the "Treasurer of the United States" and substitutes therefor the "United States Treasury". This substitution reflects Reorganization Plan No. 26 of 1950 (31 U.S.C. 1001, note) and a reorganization within the Fiscal Service of the Treasury Department, effective February 1, 1974. All accounts of the "Treasurer of the United States", including accounts relating to gold held against outstanding gold certificates, now are accounts of the "United States Treasury". The Department of the Treasury proposes to amend or repeal other statutes, as and when appropriate, to make similar substitutions in the law.

SECTION 8

This section of H.R. 13955 amends the section of the Gold Reserve Act (section 10(a)) which authorizes the Secretary of the Treasury to use the resources of the Exchange Stabilization Fund "for the purpose of stabilizing the exchange value of the dollar." Under the amended Articles, the United States has no obligation to stabilize the exchange value of the dollar at any par value, or fixed rate. The current policy of the United States, of which this Committee approves, is to permit a wide degree of fluctuation for the exchange value of the dollar, and to conduct exchange rate policy subject only to the obligations of the amended Articles. The Committee decided to expunge the anachronistic reference to "stabilizing the exchange value of the dollar" in the Gold Reserve Act, and to direct the Secretary of the Treasury to use the Exchange Stabilization Fund in accordance with the new obligations of the United States under the amended Articles of the International Monetary Fund.

SECTION 9. DATE OF EFFECTIVENESS

Section 9 of H.R. 13955 postpones the date upon which those provisions of the bill that are based upon or directly related to amendment of the IMF Articles of Agreement are to become effective. Those provisions—amendment of section 3, 5, and 17 of the Bretton Woods Agreements Act, amendment of the Special Drawing Rights Act, repeal of section 2 of the Par Value Modification Act, and amendment of the Gold Reserve Act—will take effect only upon the entry into force of the proposed amendments of the Articles of Agreement of the International Monetary Fund.

Changes in Existing Law Made by the Bill, as Reported

In compliance with clause 3 of Rule XIII of the Rules of the House of Representatives, changes in existing law made by the bill, as reported, are shown as follows (existing law proposed to be omitted is enclosed in black brackets, new matter is printed in italic, existing law in which no change is proposed is shown in roman):

BRETTON WOODS AGREEMENTS ACT

* * * * * * *

APPOINTMENT OF GOVERNORS, EXECUTIVE DIRECTORS, AND ALTERNATES

Sec. 3. (a) The President, by and with the advice and consent of the Senate, shall appoint a governor of the Fund who shall also serve as governor of the Bank, and an executive director of the Fund and an executive director of the Bank. The executive directors so appointed shall also serve as provisional executive directors of the Fund and the Bank for the purposes of the respective Articles of Agreement. The term of office for the governor of the Fund and of the Bank shall be five years. The term of office for the executive directors shall be two years, but the executive directors shall remain in office until their successors have been appointed.

(b) The President, by and with the advice and consent of the Senate, shall appoint an alternate for the governor of the Fund and an alternate for the governor of the Bank. The President, by and with the advice and consent of the Senate, shall appoint an alternate for each of the executive directors. The alternate for each executive director shall be appointed from among individuals recommended to the President by the executive director. The terms of office for alternates for the governor and the executive directors shall be the same as the terms specified in subsection (a) for the governor and executive directors.

[(c) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, or alternate.]

(c) Should the provisions of Schedule D of the Articles of Agreement of the Fund apply, the governor of the Fund shall also serve as councillor, shall designate an alternate for the councillor, and may designate associates.

(d) No person shall be entitled to receive any salary or other compensation from the United States for services as a governor, executive director, councillor, alternate, or associate.

* * * * * * *

CERTAIN ACTS NOT TO BE TAKEN WITHOUT AUTHORIZATION

Sec. 5. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or content to any change in the quota of the United States under article III, section 2(*a*), of the Articles of Agreement of the Fund; (b) propose [or agree to any change in the par value of the United States dollar under article IV, section 5, or article XX, section 4, of the Articles of Agreement of the Fund, or approve any general change in par values under article IV, section 7; (c) subscribe to additional shares of stock under article II, section 3 of the Articles of Agreement of the Bank; (d) accept any amendment under article XVII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (e) make any loan to the Fund or the Bank.] *a par value for the United States dollar under paragraph 2, paragraph 4, or paragraph 10 of schedule C of the Articles of Agreement of the Fund; (c) propose any change in the par value of the United States dollar under paragraph 6 of schedule C of the Articles of Agreement of the Fund, or approve any general change in par values under paragraph 11 of schedule C; (d) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (e) accept any amendment under article XXVIII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (f) make any loan to the Fund or the Bank; (g) approve the establishment of any additional trust fund, for the special benefit of a single member, or of a particular segment of the membership, of the Fund. Unless Congress by law authorizes such action, no governor or alternate appointed to represent the United States shall vote for an increase of capital stock of the Bank under article II, section 2, of the Articles of Agreement of the Bank, if such increase involves an increased subscription on the part of the United States.*

* * * * * * *

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)] *1(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. 24. The United States Governor of the Fund is authorized to accept the amendments to the Articles of Agreement of the Fund approved in resolution numbered 31–4 of the Board of Governors of the Fund.

SEC. 25. The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 1,705 million Special Drawing Rights.

SPECIAL DRAWING RIGHTS ACT

AN ACT To provide for United States participation in the facility based on Special Drawing Rights in the International Monetary Fund, and for other purposes

* * * * * * *

SEC. 3. (a) Special Drawing Rights allocated to the United States pursuant to article [XXIV] *XVIII* of the Articles of Agreement of the Fund, and Special Drawing Rights otherwise acquired by the United States, shall be credited to the account of, and administered as part of, the Exchange Stabilization Fund established by section 10 of the Gold Reserve Act of 1934, as amended (31 U.S.C. 822a).

(b) The proceeds resulting from the use of Special Drawing Rights by the United States, and payments of interest to the United States pursuant to [article XXVI, article XXX, and article XXXI] *article XX, article XXIV, and article XXV* of the Articles of Agreement of the Fund, shall be deposited in the Exchange Stabilization Fund. Currency payments by the United States in return for Special Drawing Rights, and payments of charges or assessments pursuant to [article XXVI, article XXX, and article XXXI] *article XX, article XXIV, and article XXV* of the Articles of Agreement of the Fund, shall be made from the resources of the Exchange Stabilization Fund.

* * * * * * *

SEC. 6. Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States vote to allocate in each basic period Special Drawing Rights under article [XXIV] *XVIII*, sections 2 and 3, of the Articles of Agreement of the Fund so that allocations to the United States in that period exceed an amount equal to the United States quota in the Fund as authorized under the Bretton Woods Agreements Act.

SEC. 7. The provisions of article [XXVII(b)] *XXI(b)* of the Articles of Agreement of the Fund shall have full force and effect in the United States and its territories and possessions when the United States becomes a participant in the special drawing account.

PAR VALUE MODIFICATION ACT

AN ACT To provide for a modification in the par value of the dollar, and for other purposes

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. This Act may be cited as the "Par Value Modification Act".

[SEC. 2. The Secrtary of the Treasury is hereby authorized and directed to take the steps necessary to establish a new par value of the dollar of $1 equals one thirty-eighth of a fine troy ounce of gold. When established such par value shall be the legal standard for defining the relationship of the dollar to gold for the purpose of issuing gold certificates pursuant to section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b).]

SEC. 3. The Secretary of the Treasury is authorized and directed to maintain the value in terms of gold of the holdings of United States dollars of the International Monetary Fund, the International Bank for Reconstruction and Development, the Inter-American Development Bank, the International Development Association, and the Asian Development Bank to the extent provided in the articles of agreement of such institutions. There is hereby authorized to be appropriated, to remain available until expended, such amounts as may be necessary to provide for such maintenance of value.

SEC. 4. The increase in the value of the gold held by the United States (including the gold held as security for gold certificates) resulting from the change in the par value of the dollar authorized by section 2 of this Act shall be covered into the Treasury as a miscellaneous receipt.

SEC. 5. It is the sense of the Congress that the President shall take all appropriate action to expedite realization of the international monetary reform noted at the Smithsonian on December 18, 1971.

GOLD RESERVE ACT OF 1934

AN ACT To protect the currency system of the United States, to provide for the better use of the monetary gold stock of the United States, and for other purposes

* * * * * * *

SEC. 10. (a) [For the purpose of stabilizing the exchange value of the dollar, the] *The* Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to [carry out the purpose of this section. An annual audit of such fund shall be made and a report thereof submitted to the President] *and consistent with the United States obligations in the International Monetary Fund. The Secretary of the Treasury shall annually make a report on the operations of the fund to the President and to the Congress.*

(b) To enable the Secretary of the Treasury to carry out the provisions of this section there is hereby appropriated, out of the receipts which are directed to be covered into the Treasury under section 7 hereof, the sum of $2,000,000,000, which sum when available shall be deposited with the Treasurer of the United States in a stabilization fund (hereinafter called the "fund") under the exclusive control of the Secretary of the Treasury, with the approval of the President, whose decisions shall be final and not be subject to review by any other officer of the United States. The fund shall be available for expenditure, under the direction of the Secretary of the Treasury and in his discretion, for any purpose in connection with carrying out the provisions of this section, including the investment and reinvestment in direct obligations of the United States of any portions of the fund which the Secretary of the Treasury, with the approval of the President, may from time to time determine are not currently required for stabilizing the exchange value of the dollar. The proceeds of all sales and investments and all earnings and interest accruing under the operations of this section shall be paid into the fund and shall be available for the purposes of the fund.

(c) All the powers conferred by this section shall expire two years after the date of enactment of this Act, unless the President shall sooner declare the existing emergency ended and the operation of the stabilization fund terminated; but the President may extend such period for not more than one additional year after such date by proclamation recognizing the continuance of such emergency.

* * * * * * *

SEC. 14. (a) * * *

* * * * * * *

(c) The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the [Treasurer of the] United States *Treasury*. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard *provided in section 2 of the Par Value Modification Act (31 U.S.C. 449) on the date of enactment of this amendment*, of the gold so held against gold certificates.

* * * * * * *

DISSENTING VIEWS OF THE HONORABLE RON PAUL

The case against the International Monetary Fund, and therefore against H.R. 13955, a bill which would amend the Bretton Woods Agreements (1944) that established the IMF, can be stated very simply: the organization is at best superfluous and at worst a contributing factor to the problems of international trade that it is supposedly intended to alleviate. With sufficient time, money, and staff, it would be possible to produce a massive indictment of the IMF's policies, complete with footnotes, graphs, equations, computer printouts, and references to the scholarly journals. But even if such resources were available, they would not result in the production of substantive arguments any better than this one: the reduction of government intervention in free markets, whether domestically or internationally, is the absolutely necessary foundation of any economic policy that seeks to reduce the problems of the world economy. The IMF is part of the problem, not part of the cure.

One of the chief difficulties in deciphering the proposed amendments to the IMF, which Congress has been asked to ratify in their entirety, is the enormous complexity of the IMF and the issues which the IMF hopes to deal with. Much of this complexity is unnecessary. Instead of starting with the conceptual problems of a world economy, we should begin with individual producers and consumers. If a man has produced a scarce economic resource and hopes to exchange it for another scarce resource, he attempts to find a buyer. If someone else wishes to enter into a voluntary exchange with the first man, and if both men believe they can profit from the exchange, they will trade. If they use a common medium of exchange, and others in their circle of acquaintances also use this same medium of exchange (money), the market is enlarged, the division of labor can be intensified, and the resulting specialization of production increases everyone's output. If there are two or more accepted forms of money, such as gold and silver, then the free market can adjust the exchange rates of the two forms of money in terms of the purchasing power of each of the two monetary units. This is the system known as the parallel standards. There is no need for the domestic government to fix the exchange rates between monetary units of one metal and another.

In fact, if the government does establish a fixed exchange rate between them, as in bimetalism, one or the other of the two money metals will wind up in private domestic hoards or exported, as the artificially overvalued currency drives the artificially undervalued currency out of circulation. What is true for the exchange rate between gold and silver is equally true of the exchange rates among all forms of money that are accepted in exchange transactions in the world markets. The so-called "crisis in international payments" is nothing more than the predictable, inevitable result of the creation of fiat money supplies in the various nations and the subsequent attempt of government officials, both in domestic governmental positions and in international organizations, to cover up the fiat nature of their inflationary monetary policies with price controls—in this case, price controls on the exchange rates among the various fiat currencies. Bad money (artificially overvalued by government decree) drives out of circulation good money (artificially undervalued by government decree).

The heart of the problem, therefore, is not any problem with the willingness of men to trade, whether inside a national border or across borders. The problem is basically a problem created by government officials who have imposed price controls in restraint of trade. As the late Ludwig von Mises wrote a quarter of a century ago:

> What those governments who complain about a scarcity of foreign exchange have in mind is, however, something different. It is the unavoidable outcome of their policy of price fixing. It means that at the price arbitrarily fixed by the government demand exceeds supply. If the government, having by means of inflation reduced the purchasing power of the domestic monetary unit against gold, foreign exchange, and commodities and services, abstains from any attempt at controlling foreign exchange rates, there cannot be any question of a scarcity in the sense in which the government uses this term. He who is ready to pay the market price would be in a position to buy as much foreign exchange as he wants.
>
> But the government is resolved not to tolerate any rise in foreign exchange rates (in terms of the inflated domestic currency). Relying upon its magistrates and constables, it prohibits any dealings in foreign exchange on terms different from the ordained maximum price.

Exchange Rates: Fixed or Flexible?

In an era of fiat currencies, when political leaders attempt to impose the invisible tax of inflation upon their constituents rather than calling forthrightly for increased taxes to cover increased expenditures, few economists and fewer politicians ask the right questions. The question of fixed vs. flexible exchange rates, while important, is far less important than the ultimate question: should governments have a legal monopoly over the control of money? Until this question is faced clearly, the "fixed vs. flexible rates" question will not be understood properly.

Governments have asserted a monopoly over money for about as long as governments have existed. The leaders cannot resist the temptation to clip the coins, debase the coins by adding cheaper metals, print up paper money that is unbacked by specie (gold or silver), and in modern times, create money by "monetizing debt," that is, create government certificates of indebtedness and then have the nation's "independent" central bank create sufficient credit to purchase these certificates. In short, governments enjoy spending new, fiat money into circulation to buy up the public's scarce economic resources at yesterday's (or this morning's) prices—prices based on a less expansionary money supply. Wealth is transferred to governments by means of monetary inflation. But monetary inflation leads to price inflation, and this is a politically

unpopular result. Governments are always tempted to impose price controls, and among these controls are controls over the exchange of money. The effects of such controls are shortages. As Mises wrote, the "shortage of foreign exchange" is a controls-induced phenomenon.

The traditional gold standard which operated in the half century prior to World War I did not rely upon any international organization such as the IMF to achieve the goals of expanding international trade and the liquidity necessary to finance net trade imbalances. On the contrary, it was understood that the free market, not some agency of international government, would serve as the disciplining power. Instead of fixing exchange rates between currencies by means of fiat government decree, political authorities in the gold standard nations imposed limits on the domestic money supply, and the most crucial of these self-imposed limits was the establishment of a fixed relationship between gold and the nation's currency. This limit, like all legal limits, was a paper limit. It could be broken by law. But when governments abided by their decision to allow free convertibility between paper and gold—a full gold coin standard—international trade could be far less expensive simply because exchange-rate stability was imposed by the market. Any nation which adopted policies of "taxation through inflation" found itself faced with the prospects of a "gold rush," a kind of bank run on the Treasury, and this could be initiated either by local citizens or foreigners. Any nation experiencing a "bank run" had very few options. First, it could "close the gold window" at the Treasury and abolish convertibility of currency into gold. This would have been seen as a declaration of insolvency—a violation of contract by the political authorities. Second, the authorities could devalue, declaring that in the future, less gold would be given out by the Treasury for each currency unit. This would have been seen as partial insolvency—a violation of contract. Third, the authorities could adopt a policy of monetary deflation, thereby reducing the number of paper bills (or quantity of credit) that serve as claims against gold. This would have been seen as the honorable policy—meeting one's contractual obligations.

The legal foundation of the gold standard was full convertibility of the domestic currency. The political pressure which impelled politicians to meet their monetary contracts, domestically and internationally, was based on a definite view of morality. All law is legislated morality, and the gold standard of the late nineteenth century and early twentieth century rested on a distinctly moral attitude toward contracts. It was that attitude which undergirded the free trade policies of those years, as well as the international gold standard which increased the stability of monetary exchange. When the First World War destroyed the moral, political, and economic foundations of that earlier period, the era of inflation and price controls arrived. Therefore, apart from shared moral principles among those who wish to trade, no piece of paper—a treaty among nations, articles of agreement among central banks, or a "gold certificate" dollar bill—can guarantee the stability of relationships over time. And it is our age which has seen the radical, disastrous decline of concern over the legal inviolability of contracts.

For free trade to flourish, domestically and internationally, we need policies of stable money. Internationally we need greated predictability of exchange rates. By reducing the uncertainty of monetary obligations between nations, all citizens in each trading nation can be benefitted, as the division of labor increases and men can specialize on those tasks that they do best and most efficiently. But we must recognize that the stability of exchange rates in the late nineteenth century was the product of two factors: (1) the self-restraint of contract-abiding governments in the sphere of monetary policy and (2) the international free market. Exchange rates were stable precisely because each gold standard nation defined its monetary unit in terms of a fixed weight and fineness of gold. The stability was therefore in theory an identity: gold vs. gold. It was the full convertibility of paper money into gold on both sides of any border that guaranteed exchange-rate stability between currencies. This was a free market-imposed stability, not the stability imposed by international agreements and agencies of international government. The market-imposed stability of the gold standard era required only one kind of agreement: a contract between a government and all holders of the government's currency, whether foreign or domestic, guaranteeing to redeem a specified quantity and quality of gold for each monetary unit. No international bureaucracy was required to enforce that contract, and no international agency can be designed to enforce such a contract without a terrifying loss of sovereignty by the contracting nations. Without an international government with the power—monopoly—of coercion over citizens and politicians of each nation, all contracts between men of different nations are self-enforced.

The system of fixed exchange rates imposed by the Bretton Woods Agreements was doomed from the beginning. Announced in 1944, ratified in 1945, and set up in 1947, the IMF was a stop-gap measure. It was a transitional institution in a transitional era. The First World War had been financed by "taxation through inflation," and the full gold coin standard died with the advent of the "new morality" of the post-War period. Fiat money is the money of wartime, and the old stability of exchange rates could not be restored without the necessary policies of monetary deflation and post-War economic recession. World War I destroyed the political and monetary institutions of that earlier era, for it destroyed much of the morality of that era. Contracts were no longer thought to be legally inviolable. Uncertainty in monetary affairs, like uncertainty in marital affairs, is the product of a moral system which takes contracts lightly.

The IMF served from 1947 to 1971 (or possibly to early 1973) as a kind of economic "marriage of convenience." It sought to impose stable exchange rates by fiat decree. The fiat currencies of each nation made a joke of the fiat stability of IMF-imposed fixed exchange rates. Between 1954 and 1971, there were over 500 full or partial devaluations in over 100 nations. The IMF's authority was ignored whenever convenient by the less developed nations, just as the stability of exchange rates and full convertibility of currency into gold were ignored by many nations in the era of the gold standard. What the gold standard established was stable (relatively fixed) exchange rates among national currencies whose governments abided by the rule of full convertibility. It never established stable exchange rates between the currency of two fiat-standard nations, nor between a gold standard nation and a fiat standard nation. Similarly, the IMF's authority was and

is limited by the willingness of participating nations to abide by IMF rules. In our era of loose attitudes toward contracts, it should not be surprising that IMF rules were ignored from the beginning by most of the participants. It was only when the major trading nations began to defect from the system—Canada was the first in 1970 to adopt floating exchange rates—that the weakness of the IMF was admitted by its previous defenders.

Stable exchange rates are highly desirable. Without the rediscovery of an older morality—one which affirms the validity of legally inviolable contracts—there can be no long-term stability of exchange rates. The IMF attempted to impose a fiat stability on a world trading community which is plagued with fiat instability of the domestic monetary policies of most Western nations. The IMF tried for a quarter of a century to mimic the more stable world of pre-1914. It tried to substitute price controls for convertible currencies, but it failed. The IMF was a sickly child from its birth; it died in 1971 or 1973, when floating exchange rates—the market's time bomb that had been ticking beneath the IMF for years—finally blew apart the Bretton Woods Agreements.

The Transformation of the IMF

The IMF is dead. This is announced by H.R. 13955. What the Congress is being asked to affirm is the creation of a wholly new organization with far different functions. Naturally, this new organization will be staffed by the same bureaucratic officials and clerks who failed to achieve the stated goals of the old organization. In other words, the Congress is being asked to ratify agreements that will permit the most important goal of the IMF's bureaucracy: survival. The bureaucrats are determined to survive, and they are asking the taxpayers of this nation to subsidize their very expensive survival. We are being asked to breathe new life into a dead corpse, and the employees of the IMF, like Dr. Frankenstein, assure us that this time the monster will behave.

The bureaucrats of the IMF have announced that the goal of fixed exchange rates between fiat currencies is no longer attainable. These high-paid experts do not call for a restoration of domestic gold standards, the only possible foundation of a successful restoration of exchange-rate stability. On the contrary, we are told that what the world needs is the abolition of anything resembling a gold standard and even greater monetary inflation. Indeed, the IMF's proposed amendments specifically call for greater monetary inflation:

> (a) In all its decisions with respect to the allocation and cancellation of special drawing rights the Fund shall seek to meet the long-term global need, as and when it arises, to supplement existing reserve assets in such manner as will promote the attainment of its purposes and will *avoid economic stagnation and deflation* as well as *excess demand and inflation in* the world.
>
> (b) The first decision to allocate special drawing rights shall take into acount, as special considerations, a *collective judgment that there is a global need to supplement reserves*,

and the attainment of a better *balance of payments equilibrium*, as well as the likelihood of a better working of the adjustment process in the future.—(Article XVIII, Sec. 1, emphasis added)

The underlying assumption of this woefully inaccurate policy is that the world needs more "reserves"—special drawing rights (SDR's) sometimes referred to as "paper gold"—in order to facilitate international trade. Even if this were correct, which it is not, it would only be true because governments will not permit monetary stability and its product, a steady, continuing decline of the price level within their borders. The concept of downward price flexibility is not taken seriously by contemporary economists. While most people would be able to understand that it is beneficial to the consumer to have color television that sell for $450 today instead of $1,600 in 1956—far superior products today and far less reliable dollars—or to have pocket calculators that sell for $10 rather than $100 in 1970, most voters, politicians, and economists cannot conceive of a similar decline in the prices of most commodities and services. This general decline in prices is so feared that the proposed IMF agreements actually state that one goal of the new IMF is to prevent "economic stagnation and deflation." Yet one of the most productive periods in American economic history was the period of the gold standard, 1870–1910, when prices declined by about 60%, the population doubled, and real output quadrupled.

There is never any "shortage of money." Very often there *is* a shortage of economic freedom, namely, the freedom to compete for jobs or sales by means of price competition. When unemployment of either men or resources occurs as a direct result of the loss of economic freedom—legal barriers to price competition create unemployed resources—modern economists, following the lead of John Maynard Keynes, advocate policies of monetary expansion. They believe that this will create price inflation, and in this they are usually correct; in the long run, it will always create price inflation. Price inflation lowers "real wages," meaning the purchasing power of incomes, and this supposedly can restore the economic boom and full employment. The foundation of modern economic growth theory is therefore the belief that deception is productive. Its corollary is that laborers and those selling other resources will not catch on and demand even higher wages or prices, thereby continuing the period of unemployment. So modern economists worry about the so-called shortage of money. They think the government needs this money in order to deceive its citizens and get them back to work.

The IMF is unnecessary. There is no shortage of international reserves or international liquidity. We do not need the IMF to create such liquidity. A decade ago, most of the so-called experts in the field of international trade were worried about the coming shortage of dollars (liquidity); now the world is drowning in dollars. The excess liquidity created by our own policies of monetary inflation from 1964 through 1973 created the strains that destroyed the IMF's program of fiat fixed exchange rates. The problem was not a shortage of international liquidity in 1965, and it is not a problem today. The problem is a lack of economic freedom.

Prof. Patrick Boarman, writing in *The Wall Street Journal* (May 10, 1965), made a point which the defenders of the IMF have not taken into consideration:

> The function of international reserves is NOT to consummate international transactions. These are, on the contrary, financed by ordinary commercial credit supplied either by exporters or importers, or in some cases by international institutions. Of such commercial credit there is in individual countries normally no shortage, or internal credit policy can be adjusted to make up for any untoward tightness of funds. In contrast, international reserves are required to finance only the inevitable net differences between the value of a country's total imports and its total exports; their purpose is not to finance trade itself, but net trade imbalances.

The underdeveloped nations, like the developed nations, have to face reality. There is no free lunch. An increase of international liquidity merely serves as another source of price inflation. It is true that recipient nations can buy goods and services in the international markets at yesterday's prices, thereby gaining in relationship to those who have not yet gained access to the fiat money, but this only can be paid for by those who must restrict their purchases in the face of higher prices. By creating added liquidity, the IMF can indeed redistribute wealth, but it cannot create new wealth. The net trade imbalances of the nations that import more than they export can be met by gifts of new liquidity of IMF reserves, at least for as long as such reserves are honored by the producing nations. But this is simply a giveaway program.

In effect, it steals resources from one group of citizens and gives them to another group. This is the true meaning of the IMF's phrase, "the need to supplement reserves, and the attainment of a better balance of payments equilibrium. . ." (Art. XVIII, Sect. 1 [b]). Thus, concludes Howard S. Piquet, senior specialist in international economics of the Legislative Reference Service of the Library of Congress, in his 1966 book, "The U.S. Balance of Payments and International Reserves:"

> The pressures that are being exerted for increased liquidity are particularly strong among those underdeveloped countries that have chronic deficits in their international accounts. In some of them interest indebtedness on existing foreign borrowing is already so large that it consumes funds that could otherwise be used to purchase imports.
>
> Additional international borrowing by such countries will aggravate their reserve problems more than it will solve them. Borrowed reserves will not result in additional owed reserves unless they help the borrowing countries make their economies viable.
>
> What most of the underdeveloped countries need is assistance in increasing the quantity and variety of their production. They need capital equipment from abroad, and they need training in agricultural and industrial skills. They need

better education, better government, and a better appreciation of the relationship between population growth and standards of living. Their primary problem is economic development, not international liquidity.

Simply to provide such countries with additional reserves, in the name of expanding international liquidity, would be to lend, or give funds to them with a vague hope that, somehow or other, fundamental economic weaknesses will be overcome. It has been amply demonstrated that merely pouring funds into an undeveloped country is not the way to bring about economic development. To be effective, development aid funds must be spent with extreme care, with emphasis on technical and administrative skills, and with genuine understanding of the economic, sociological, political, and other reasons why the economies of the countries in question have failed to generate productivity.

Under the proposed revisions of the IMF charter, the agency will become just one more bureaucracy in the field of foreign aid. The wealth of middle-class citizens of the nations of the West will wind up subsidizing the grossly inefficient programs of the elitist, socialist, envious, and bureaucratized Third World nations. The middle classes of the West will have to support the educated elite of the less developed nations. We will rob from the middle class to finance the powerful, only we will do it across borders.

What we have seen again and again during the past thirty years is that the guilt-ridden voters of the West—unnecessarily guilt-ridden—have allowed their governments to transfer their hard-earned resources to the state planning bureaucracies of the Third World. Government-to-government aid strengthens the economics of socialism. This kind of aid is nothing less than a weapon—a weapon used by Western-educated socialist bureaucrats in the Third World to suppress economic freedom in their own countries. The IMF now plans to enter this world of government-to-government foreign aid programs. Since the old IMF failed in its attempt to create international economic stability in a world of interventionist national programs of wealth redistribution—programs guaranteed to create economic instability—it is being redesigned to make it possible for IMF bureaucrats to finance the Third World in the latter's attempt to imitate Western socialism. If the IMF is successful in its proposed policies, we will see even greater disruption of international economic cooperation. The IMF may have failed in its attempt to create a world of price-controlled stability; it will not fail in its attempt to subsidize uncertainty-producing socialist regimes in the Third World. Why should the Congress ratify the provisions that will facilitate the IMF's new goals?

The Illegal Sales of Gold

The source of funds for the proposed Trust Funds that will be used to create "liquidity" for the IMF to redistribute will be the gold stored by the IMF. The proceeds from the sales of gold will be used to make low-interest loans to those nations that are least likely to repay them. If these nations were credit worthy, they could borrow

the funds necessary to finance short-term trade imbalances. Since these are the high-risk borrowers in the world's capital markets, the IMF intends to subsidize them in their policies of domestic socialism—the very economic policies that make them high-risk borrowers. Initially, 25 million ounces of gold stored by the IMF (or under the IMF's tag in the vault of the New York Federal Reserve Bank) will be sold at free market prices. This is supposed to take place every six weeks for the next four years. Initial sales have already begun, despite the fact that the rules by which the IMF has sold the gold have not yet been approved by the U.S. Congress. We are being asked to ratify a de facto policy, just as we are being asked to ratify the floating exchange rate system that is presently in direct violation of IMF rules. In short, the IMF does what it pleases, member nations do what they please, and the whole mess is called "the rule of international law." An additional 25 million ounces will be returned to the members who are not in deficit position to the IMF and who originally put their gold into the IMF. Finally, over 100 million ounces of gold are to be held by the IMF to be used as the IMF's hierarchy determine in the future. (Technically, the U.S. retains a veto over the IMF's use of the gold, but we have demonstrated repeatedly that we will go along with gold sales, trust funds, floating exchange rates, and almost anything else that will enhance the autonomy of the IMF.)

Treasury Secretary Simon, in his testimony before the Banking Committee, asked us to believe that "Establishment of the Trust Fund does not mean the IMF is becoming an 'aid agency'." For some reason apparent only to his speech writer, his next sentence was supposed to explain why the obvious isn't true: "The Trust Fund will be an entirely separate entity, in no way subjecting the IMF to liability, but controlled and managed by the IMF, thus taking advantage of the technical expertise and sound practices of the institution." We are asked to trust the experts of an institution which has finally announced its failure to achieve its goals of exchange-rate stability, an announcement which comes several years after the IMF's failure was obvious even to government economists. What has the expertise of the IMF's bureaucrats have to do with the question of whether or not the IMF is about to become a new foreign aid institution? There seems to be only one reasonable answer: the IMF has always been a foreign aid institution, passing along below-market loans to those nations that were unwilling to abandon their policies of domestic taxation through monetary inflation. Now, however, the primary beneficiaries are supposed to be the Third World nations. And the West's gold will finance it, or more accurately, money raised by selling gold which belongs to Western nations to citizens and (secretly and quietly) to those central banks that are run by directors who do not share Secretary Simon's opinions about the role of gold in domestic and international monetary affairs.

Contrary to the assurances of the IMF and the Administration, the sales of the gold stored by the IMF are illegal, even in terms of IMF rules. The IMF pays as little attention to its own by-laws as its member nations paid when they floated their currencies. A closely argued opinion from the American Law Division of the Library of Congress Research Service, which was sent to Rep. John Conlan on June 10, 1976, makes the illegal nature of the gold sales clear. The Governors of the IMF have sold the gold without seeking ratification of this decision from the member nations under their interpretation of Article VII(2)(ii) of the Bretton Woods Agreement. There is no evidence that indicates that such a sale was ever contemplated by the founding nations in 1944. While the research staff has not attempted to offer a definitive interpretation of the IMF's actions, nevertheless the basic outline presented by the staff provides the crucial arguments.

The sales are based on the so-called scarce currency clause of the IMF. Secretary Simon, in a letter to Congressman Reuss (Jan. 26, 1975), stated that "It is important to note, in this regard, that it is the IMF which has legal title to the gold to be sold." The research staff at the Library of Congress concludes the opposite:

> There is no authority, either directly or indirectly, outside of a scarce currency situation, for the IMF to sell gold on and for its own account under that clause. Particularly would this seem to be the case for the use of proceeds to set up a trust fund for the developing nation members. There are no provisions in the Articles of Agreement that draw a distinction between developed and developing countries, and there is a legal principle that governs the activities of the IMF known as the principle of uniformity.

It is this rule, among others, that is being violated by the very idea of a Trust Fund or Funds to be used to finance the Third World nations.

The IMF has never invoked the "scarce currency clause" to justify its sales of the gold. It simply sold the gold and plans to continue to sell the gold. The gold belongs to the member nations, and the profits from the sale of that gold should go into the treasuries of the member nations that own the gold. Instead, the profits from the sales (the market price of gold minus the official price of $42.22 per ounce multiplied by the number of ounces sold) will go to set up the Trust Fund or Funds, and these will be used to finance the high-risk loans to the underdeveloped nations—with "underdeveloped" left undefined, thereby allowing arbitrary decisions by IMF bureaucrats concerning the beneficiaries of the loans. The Congress is being asked by the Administration to ratify these illegal sales, thus making the whole operation politically acceptable.

Conclusion

Congress should reject any ratification of the IMF's proposed revisions in its Articles. The IMF operates autonomously anyway. It no longer can control exchange rates. It never could enforce its decisions on other nations. It can sell the gold belonging to the member nations only if those nations capitulate to the dictates of the IMF. The IMF is lawless. Congress should not sanction this lawlessness. The IMF has failed in its original tasks, however ill-conceived those tasks were. Congress should acknowledge its awareness of this massive, multi-billion-dollar failure by refusing to ratify the proposed Articles. The United States government should cease its subsidies to a bureaucratic international agency that has openly admitted its own failure.

Once the ratification is voted down, Congress should then pass legislation calling for the return of all gold held by the IMF to the contributing nations. Since the IMF's bureaucrats, in conjunction with the Administration, have decided that gold has no future in the international monetary system—at least in that system which government officials think they can control—then the gold should be sent back to the original owners, namely, the member governments. Then any future sales of gold to the free market will help to reduce the massive deficits of all the West's industrialized nations, or more accurately, the deficits of those nations' central governments. Or let these nations restore full gold convertibility of their currencies. But in any case, get the gold out of the IMF. If other nations refuse to follow our advice, then let us demand our gold and then permanently withdraw from the IMF. In short, we should take our money (gold) and run.

Should anyone believe that the United States needs the IMF to achieve its supposed goals of monetary reliability, price stability, and economic growth, let him consider this fact: Switzerland has never belonged to the IMF, does not suffer from price inflation, and did not contribute its gold reserves only to see its gold sold off to finance the financial follies of the Third World socialists. Switzerland, always skeptical about bureaucratic schemes to replace the free market in international monetary affairs, stayed out. Switzerland won; we lost. Let us cut our losses and get out.

Ron Paul.

○

94TH CONGRESS 2d Session } HOUSE OF REPRESENTATIVES { REPORT No. 94–1324

PROVIDING FOR THE CONSIDERATION OF H.R. 13955

JUNE 30, 1976.—Referred to the House Calendar and ordered to be printed

Mr. LONG of Louisiana, from the Committee on Rules, submitted the following

REPORT

[To accompany H. Res. 1394]

The Committee on Rules, having had under consideration House Resolution 1394, by a nonrecord vote, report the same to the House with the recommendation that the resolution do pass.

O

57–008

THE WHITE HOUSE

ACTION MEMORANDUM WASHINGTON LOG NO.:

Date: October 15 Time: 200pm

FOR ACTION: Paul Leach
Max Friedersdorf
Bobbie Kilberg
Bill Seidman

cc (for information): NSC
Hartmann
Jack Marsh
Ed Schmults
Steve McConahey
Mike Duval

FROM THE STAFF SECRETARY

DUE: Date: October 18 Time: 200pm

SUBJECT:

H.R.13955-Amendments to the Bretton Woods Agreements Act

ACTION REQUESTED:

____ For Necessary Action ____ For Your Recommendations

____ Prepare Agenda and Brief ____ Draft Reply

__x__ For Your Comments ____ Draft Remarks

REMARKS:

please return to judy johnston,ground floor west wing

PLEASE ATTACH THIS COPY TO MATERIAL SUBMITTED.

If you have any questions or if you anticipate a delay in submitting the required material, please telephone the Staff Secretary immediately.

K. R. COLE, JR.
For the President

THE DEPUTY SECRETARY OF THE TREASURY
WASHINGTON, D.C. 20220

OCT 8 1976

Director, Office of Management and Budget
Executive Office of the President
Washington, D.C. 20503

Attention: Assistant Director for Legislative Reference

Sir:

Reference is made to your request for views of this Department on the enrolled enactment of H.R. 13955, "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes."

The enrolled enactment would authorize the United States to accept the Proposed Second Amendment to the IMF Articles of Agreement and to consent to an increase in the United States' quota in the IMF (of 1,705 million Special Drawing Rights). This legislation is necessary because Section 5 of the Bretton Woods Agreements Act provides that Congressional authorization must be obtained for any person acting on behalf of the United States, to accept any amendment of the Articles of Agreement of the Fund and to consent to any change in the quota of the United States in the Fund.

Among other things, the Proposed Second Amendment to the IMF Articles of Agreement provides for more flexible international exchange rate arrangements, an increased role for the International Monetary Fund in maintaining surveillance over the exchange rate practices of its members, a reduction in the role of gold in the international monetary system, changes in the characteristics and uses of special drawing rights, and simplification and modernization of the Fund's financial operations and transactions. These changes, which are the product of over four years of negotiations, constitute essential reforms of the international monetary system and represent the achievement of key United States objectives in the international economic area.

In view of the foregoing, the Department strongly recommends that the President approve the enrolled enactment of H.R. 13955. A signing statement is enclosed.

Sincerely yours,

George H. Dixon

Enclosure

CORRECTED SHEET

H. R. 13955

Ninety-fourth Congress of the United States of America

AT THE SECOND SESSION

Begun and held at the City of Washington on Monday, the nineteenth day of January, one thousand nine hundred and seventy-six

An Act

To provide for amendment of the Bretton Woods Agreements Act, and for other purposes.

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 (22 U.S.C. 286–286k–2) is amended by adding at the end thereof the following new sections:

"SEC. 24. The United States Governor of the Fund is authorized to accept the amendments to the Articles of Agreement of the Fund approved in resolution numbered 31–4 of the Board of Governors of the Fund.

"SEC. 25. The United States Governor of the Fund is authorized to consent to an increase in the quota of the United States in the Fund equivalent to 1,705 million Special Drawing Rights.

"SEC. 26. The United States Governor of the Fund is directed to vote against the establishment of a Council authorized under Article XII, Section 1 of the Fund Articles of Agreement as amended, if under any circumstances the United States' vote in the Council would be less than its weighted vote in the Fund.".

SEC. 2. Section 3 of the Bretton Woods Agreements Act (22 U.S.C. 286a) shall be amended as follows:

(1) section 3(c) shall be amended to read as follows:

"(c) Should the provisions of Schedule D of the Articles of Agreement of the Fund apply, the Governor of the Fund shall also serve as councillor, shall designate an alternate for the councillor, and may designate associates.";

(2) a new section 3(d) shall be added to read as follows:

"(d) No person shall be entitled to receive any salary or other compensation from the United States for services as a Governor, executive director, councillor, alternate, or associate.".

SEC. 3. The first sentence of section 5 of the Bretton Woods Agreements Act (22 U.S.C. 286c) is amended to read as follows: "Unless Congress by law authorizes such action, neither the President nor any person or agency shall on behalf of the United States (a) request or consent to any change in the quota of the United States under article III, section 2(a), of the Articles of Agreement of the Fund; (b) propose a par value for the United States dollar under paragraph 2, paragraph 4, or paragraph 10 of schedule C of the Articles of Agreement of the Fund; (c) propose any change in the par value of the United States dollar under paragraph 6 of schedule C of the Articles of Agreement of the Fund, or approve any general change in par values under paragraph 11 of schedule C; (d) subscribe to additional shares of stock under article II, section 3, of the Articles of Agreement of the Bank; (e) accept any amendment under article XXVIII of the Articles of Agreement of the Fund or article VIII of the Articles of Agreement of the Bank; (f) make any loan to the Fund or the Bank; (g) approve the establishment of any additional trust fund, for the special benefit of a single member, or of a particular segment of the membership, of the Fund.".

SEC. 4. The first sentence of section 17(a) of the Bretton Woods Agreements Act (22 U.S.C. 286e–2(a)) is amended to read as follows: "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 1(i), of the Articles of Agreement of the Fund.".

SEC. 5. The Special Drawing Rights Act (22 U.S.C. 286n–r) is amended by:

(1) deleting "article XXIV" in section 3(a) and inserting in lieu thereof "article XVIII";

(2) deleting "article XXVI, article XXX, and article XXXI" in section 3(b), wherever it appears, and inserting in lieu thereof "article XX, article XXIV, and article XXV";

(3) deleting "article XXIV" in section 6 and inserting in lieu thereof "article XVIII";

(4) deleting "article XXVII(b)" in section 7 and inserting in lieu thereof "article XXI(b)".

SEC. 6. Section 2 of the Par Value Modification Act (31 U.S.C. 449) is hereby repealed.

SEC. 7. Section 10(a) of the Gold Reserve Act of 1934 (31 U.S.C. 822a(a)) is amended to read as follows:

"SEC. 10. (a) The Secretary of the Treasury, with the approval of the President, directly or through such agencies as he may designate, is authorized, for the account of the fund established in this section, to deal in gold and foreign exchange and such other instruments of credit and securities as he may deem necessary to and consistent with the United States obligations in the International Monetary Fund. The Secretary of the Treasury shall annually make a report on the operations of the fund to the President and to the Congress.".

SEC. 8. Section 14(c) of the Gold Reserve Act of 1934 (31 U.S.C. 405b) is amended to read as follows: "The Secretary of the Treasury is authorized to issue gold certificates in such form and in such denominations as he may determine, against any gold held by the United States Treasury. The amount of gold certificates issued and outstanding shall at no time exceed the value, at the legal standard provided in section 2 of the Par Value Modification Act (31 U.S.C. 449) on the date of enactment of this amendment, of the gold so held against gold certificates.".

SEC. 9. The amendments made by sections 2, 3, 4, 5, 6, and 7 of this Act shall become effective upon entry into force of the amendments to the Articles of Agreement of the International Monetary Fund approved in Resolution Numbered 31–4 of the Board of Governors of the Fund.

Speaker of the House of Representatives.

Vice President of the United States and
President of the Senate.

FOR IMMEDIATE RELEASE OCTOBER 21, 1976

Office of the White House Press Secretary

THE WHITE HOUSE

STATEMENT BY THE PRESIDENT

I have approved H.R. 13955, an Act "To provide for amendment of the Bretton Woods Agreements Act, and for other purposes." This legislation authorizes United States acceptance of amendments to the Articles of Agreement of the International Monetary Fund and United States consent to a proposed increase in its quota in the Fund.

The reforms of the international monetary system which the United States accepts through these amendments are the culmination of years of debate and negotiation following the breakdown of the Bretton Woods par value system in 1971. This new international monetary system recognizes that development of stable underlying economic and financial conditions is an essential prerequisite to the achievement of international monetary stability. At the same time, the new system will provide the increased flexibility, resilience, and reliance on market mechanisms which today's monetary relationships require, replacing the exchange rate rigidity and gold emphasis of the Bretton Woods system.

In the post-World War II era, we have increasingly recognized the importance of a smoothly-functioning international monetary system to American jobs, production and growth, and to the maintenance of a prosperous and stable world economy. The attainment of the international economic, as well as political and national security, objectives of the United States, depends in large measure on our success in maintaining a strong and healthy world economy -- and that in turn requires a sound, smoothly-functioning and equitable international monetary system.

For all these reasons, I am especially pleased to sign into law this Act to provide for amendment of the Bretton Woods Agreements Act.

# # #