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Currency Problems in Southeastern Europe

J. Herbert Furth

Monetary conditions in Soviet-controlled areas of Europe are apparently worse than in the territories liberated by the Western Allies. In the latter area, including Greece and Italy, where inflation has been rampant since the days of the German occupation, the situation is not altogether hopeless, and the measures taken by the Governments with the cooperation of the Allies are proving effective or may be expected to do so in the not too distant future. In contrast, the region occupied by the Soviet armies seems to be in the grip of hyper-inflation. This difference may be explained on practical and theoretical grounds. Governments in Eastern Europe--whether or not controlled by the Soviets--are, in general, weaker and less efficient than those in Western countries, and therefore less willing and able to impose high taxes and to execute other difficult and unpopular measures needed for restoring monetary equilibrium. The borders of most Eastern European states were substantially altered under German rule and a great many new changes, apart from the undoing of most of those brought about by the Germans, were made after liberation. The confusion accompanying the redistribution of territories and the exchange of populations increased the difficulties created everywhere in Europe by occupation and liberation. In addition, the Soviet Union is less able than the Western Allies to combat inflation by increased shipments of supplies. Finally, the ideology of communism may be less opposed to inflation than Western economic throught since inflation means the expropriation of capitalists deriving their income from rent or interest and a shift in income within the working classes from bourgeois salary earners to the proletarian wage earners.

In Austria, an efficient financial policy has been made all but impossible by the delay in setting up the Allied Control Commission. The country is divided into American, British, French, and Russian zones of occupation. The Russian zone includes the financial center of the country, the city of Vienna, control of which is indispensable for efficient administration of currency and credit matters. The Russian-sponsored Provisional Government, which has not been officially recognized by the Allies, apparently has no power to issue money. Means of payment in circulation include German currency, denominated in reichsmarks, and Allied Military notes, denominated in Austrian schillings. The old Austrian currency, issued prior to the German occupation, has been revalidated, but is unlikely to be found in actual circulation because it was withdrawn by the Germans shortly after the annexation of Austria in March 1938. It is not known whether any precautions have been taken to prevent German currency from being smuggled out of Germany into Austria. The Allied currency is being issued at the rate of 1 schilling equal to 1 reichsmark or 10 United States cents, as against an exchange rate of 1 schilling equal to 0.49 reichsmark or 19 cents before the German occupation. No information is available as to the amount in circulation, but experience in other occupied areas permits the assumption that the Western Allied armies are issuing money at a less rapid rate than the Russians. According to newspaper reports from the Russian-occupied zone (New York Times, June 26, 1945), prices have risen to such an extent that on the basis of the official parity a cigarette would cost about one dollar, and a restaurant meal more than 80 dollars. This situation may have serious political as well as economic consequences. A repetition of the experience of 1919-1922, when the Austrian economy was ruined by hyper-inflation, certainly would make the Austrian people lose faith in the value of their restored independence and democracy.

In Czechoslovakia, the former Protectorate crown and the former Slovak crown are circulating side by side with money issued by the new Government and the Russian army of occupation. The Government has declared invalid the German currency circulating in the former Sudetenland and also the Allied Military notes denominated in marks; it may be assumed that the Western Allies are now using currency supplied by the Czechoslovak Government. The reichsmark currency apparently has been withdrawn without compensation. Such a procedure would deviate from that used in most other European countries, but would conform to the expressed Government policy of expropriating all residents of the country who in the census of 1929 (sic) stated German to be their mother tongue, i.e., not only Nazis and Nazi sympathizers, but also German-speaking anti-Nazis and Jews. In territories recovered from Hungary, the pengő was exchanged at the rate of 2 crowns, as against a rate of 7 crowns established by the Hungarians in 1938-1939. No information as to currency circulation is available at the moment, but prices for non-rationed goods are reported to be at 20 to 100 times the pre-war level.

In Yugoslavia, the exchange of new dinar notes for the variety of currencies circulating at the time of liberation[1] is being completed. According to an official announcement of June 9, 1945, the receipts given to holders of old money equal to more than 5,000 new dinars are being redeemed from June 15 on, with deductions ranging from 10 per cent for the first 5,000 dinars up to 70 per cent for sums exceeding 250,000 dinars. Business enterprises and farmers will be favored by lower deductions, ranging from 5 to 50 per cent. According to newspaper reports (Baltimore Sun, June 28, 1945), the redemption will be spread over many years because not more than 5,000 new dinars will be issued to any one holder within one three-month period. The dollar value of the new dinar, which is equal to 20 old dinars, has been fixed at 2 United States cents, about 10 per cent less than the (more or less fictitious) pre-war parity of the old dinar, but almost 3-1/2 times as high as the current black market quotation and reportedly higher than would correspond to the domestic purchasing power of the dinar. Wages and salaries, however, have been fixed at very low levels, with hourly wage rates ranging from 6.50 to 11 dinars (13 to 22 cents) and monthly salaries from 1,900 to 6,000 dinars (30 to 120 dollars). A peculiar feature of the Yugoslav currency exchange is the fixing of different conversion rates in the various parts of the country. Thus the Italian lira is being exchanged at the rate of 1 new dinar for 3-1/3 lire in Serbia and Croatia, but at a preferential rate of 1 dinar for 2-1/2 lire in Slovenia. The Croat kuna is being exchanged at the rate of 40 kunas per new dinar in Serbia, but at only 143 kunas in Croatia; it is apparently not being exchanged at all in Slovenia. The reichsmark is being exchanged at the rate of 1-2/3 reichsmarks per new dinar in Slovenia, but apparently not at all in Serbia and Croatia. The method follows the example set by the former Yugoslav regime at the time of the exchange of the Austro-Hungarian crown after the first World War. The rates set for lira and kuna are low, but not unreasonably so; the reichsmark rate is obviously confiscatory, corresponding to about 4 per cent of the pre-war parity.

The Bulgarian bank note circulation was reported at 50 billion leva in February 1945, as against 4.2 billion in 1938. The amount has been growing steadily since in recent months the budget deficit has reached the sum of 6 billion leva per month, and has been financed mainly by central bank credit. In order to counteract the inflationary tendencies, the Government has issued a semi-compulsory loan, subscriptions to which reached 24.8 billion leva. If these subscriptions came from the public rather than from banking institutions, the increase in money in circulation may be checked for some time to come. In order to combat the underlying inflationary forces, however, far more drastic action will be necessary.

1/ See Review of Foreign Developments, April 30, 1945, p. 7.

The Albanian National Bank has fixed the dollar value of the Albanian franc at 0.7 of a United States cent (143 francs to the dollar), as against a pre-war value of 32.88 cents. This means a devaluation of almost 98 per cent. It also has fixed the price of the gold "napoleon" (piece of 20 gold francs) at 615 Albanian francs; this price is about one-third below the dollar-gold cross-rate although in most Balkan countries gold has been traded at prices substantially above the dollar-gold cross-rate. At the same time, the Bank has been granted the exclusive right of trading in gold and foreign exchange, and severe penalties have been imposed upon black-market activities. No other anti-inflationary measures have been announced, and therefore the effectiveness of the "stabilization" of the currency remains very much in doubt.

News from Hungary1/ and Rumania2/ is even scantier than that from other countries. The Rumanian National Bank has republished its foreign exchange regulations, and maintains officially the foreign exchange rates established in 1941, which gave the leu a value of about 0.5 of a United States cent. This rate is purely fictitious and many times higher than the official valuation of the leu on the basis of either the leu-ruble-dollar cross-rate (1 leu equal to 0.01 ruble or 0.2 cent) or the leu-gold-dollar cross-rate (1 leu equal to 0.0013 gold franc or 0.04 cent). The lack of commercial relations between Soviet-controlled Europe and the Western countries make the dollar values of the currencies of that region almost meaningless, however, except as a symptom of their depreciation in terms of purchasing power.

In summing up the available information, it may be stated that the purchasing power of the currencies of southeastern Europe has probably dropped everywhere to less than one-tenth, and in some cases to less than one-hundredth, of the pre-war level, and that the end of the movement is nowhere in sight.

1/ See Review of Foreign Developments, June 23, 1945, p. 4.
2/ See Review of Foreign Developments, April 30, 1945, p. 6.

Devaluation of the Finnish Markka H.J.D.

Devaluation of the Finnish currency, which had been expected for some time, was recently announced. The dollar rate was raised beginning May 31 from 49.35 markka to 86.30 markka, the devaluation amounting to almost 43 per cent.

During the two wars which Finland waged between November 30, 1939, and September 19, 1944, the country underwent considerable inflation, as may be seen from the following table. Wholesale prices at the end of 1944 stood at 277 (first half of 1939 = 100), while the note circulation was almost seven times that of August 1939.

Moreover, prices rose very much more in Finland than in the other Scandinavian countries.[1/]

	Wholesale index, end of 1944 (First half of 1939 = 100)	Index of note circulation, end of 1944 (Aug. 1939 = 100)
Finland	277	692
Norway	182	554
Denmark	199	366
Sweden	179	221

As a result of these developments, Finland's foreign trade was seriously handicapped, a situation which led to export subsidies on the one hand and to high tariffs on imported goods on the other. In order to curtail imports, Finnish tariffs were raised in 1945 by 200 per cent; exports to Sweden have been fostered through payment of a 40 per cent export subsidy. The devaluation of the Finnish markka is therefore to be commended since it may make such measures superfluous.

The Finnish markka was devalued considerably more than the Norwegian and the Danish krone, which were adjusted when those two countries were liberated. The devaluation of the Finnish markka by 42.8 per cent compares with a devaluation of the Norwegian and the Danish krone by 13.2 and 17.4 per cent, respectively. The greater decrease in the value of Finland's currency is in line with the relatively higher degree of inflation in that country. Whether or not the present exchange value of the markka can be maintained will depend primarily, according to a statement by the Bank of Finland, on successful stabilization of the wage level. Finnish labor is quite naturally strongly opposed to any lowering of its standard of living but such a development may prove inevitable in view of the reparations payments which that country must meet. The Bank of Finland makes the following statement regarding the wage situation:

> "Whereas at the beginning of the war the unbalanced government budget was the greatest danger threatening the value of the currency the greatest danger now comes from the wage front. For this reason the settlement of the wage problem demands exceptional measures since otherwise the value of the markka will confront the danger of being entirely dissipated in the vicious circle of alternating wage and price increases."

1/ For the developments in the other Scandinavian countries, see Review of Foreign Developments, June 23, 1945, "Scandinavian Exchange Rates."

Financial Conditions in Belgium J.H.F.

The Minister of Finance of Belgium, M. Eyskens, reviewed the present financial situation in a speech delivered at the opening of the current session of the Senate on June 5. He declared that Belgium had suffered war damages of 195 billion francs. This sum obviously includes the payment of occupation costs and clearing advances to Germany in the amount of 140 billion. In view of the devaluation of the Belgian currency in September 1944, the present value of the war damage figure was put at 250 billion current francs. M. Eyskens stated that the monetary measures taken in October 1944 reduced the means of payment in circulation (currency and free bank deposits) from 185 billion to 73 billion francs, but that by the end of April 1945 the total had risen again to 107 billion. At that time, the blocked means of payment amounted to 101 billion, of which 37 billion were "temporarily unavailable" and 64 billion permanently frozen and destined to be converted into a compulsory long-term government loan at low rates of interest. The Government has decided to unblock the "temporarily unavailable" part of holdings that totalled not more than 15,000 francs each and, in connection with the reopening of the stock exchange, to release the same portion of accounts of stock brokers. A similar policy will be pursued in relation to other enterprises whenever they are able to resume full operation. The Minister expected all "temporarily unavailable" holdings to be unblocked within one year, but rejected a motion asking for immediate unblocking. Meanwhile, the legislature is continuing discussion of revenue measures providing for an almost confiscatory tax upon war profits. The Government expects these measures to reduce the deficit, which at present is estimated at about 2 billion francs per month. The government debt increased between September 1944 and March 1945 from 165 to 196 billion francs, and has certainly exceeded the 200 billion mark since that time.

As compared with the situation in the fall of 1939, means of payment in circulation (excluding the "temporarily unavailable" balances) have increased by about 70 per cent; if the "temporarily unavailable" accounts are included, the rise would amount to 125 per cent. The public debt has gone up by about 200 per cent. Both these figures are far smaller than the corresponding increases in the United States and the United Kingdom, and they appear even more moderate if the devaluation of the Belgian franc by 32 per cent in terms of dollars is taken into account. The financial difficulties of Belgium are therefore fore caused less by the absolute increase in circulation and indebtedness than by the disproportion between the monetary supply and the production of commodities. As soon as the Belgian economy is able to operate at full capacity, the disequilibrium between the flow of money and of goods may well disappear without further disturbances of the price level and perhaps even without necessitating a further devaluation of the currency.

The Pound Sterling - Dollar Ratio

Hans J. Dernburg

The sterling-dollar rate of about 4 dollars to the pound, which has prevailed since early September 1939, establishes contact between two major foreign exchange areas, the sterling area on the one hand and the more loosely defined dollar area. The stability of this ratio during the war (except for certain fluctuations in the so-called free sterling rate) was a reassuring fixed point in a changed and changing world. No wonder, then, that the ratio has been discussed but little in the Allied camp, and that such discussion as has occurred has been conducted very discreetly.

The British White Paper on Mutual Aid of November 1943 gave the first official comment regarding the dollar-sterling parity that should be used for converting the war expenditures of the two countries into real terms. The White Paper pointed out that lend-lease and reverse lend-lease are valued independently by the two Governments, and suggested that any comparison, unless made with circumspection, would lead to serious underestimation of the British contribution. The paper continued as follows:

> "The price-levels in the United States of the labor and materials most in question are substantially higher than ours. Thus American book costs probably exceed similar British costs by more than 50 per cent. This is not an accurate guide to relative efficiency, after allowing for differences of wage-levels, since the costs in the two countries are computed on bases which are widely different in several respects. But they do afford an approximately accurate corrective for the book-costs as entered up for the present purpose."

This statement of the British Treasury implied that a rate for the pound considerably higher than the official parity would result in a more accurate estimate of the respective contributions of the two countries. In its second report on Mutual Aid, published in November 1944, the British Treasury resumed the discussion and gave the following examples to show the differences between United Kingdom and United States prices "of certain closely comparable items" which the British "both receive on Lend-Lease and give on Reciprocal Aid:"

	Unit	Price in dollars. 1/ Supplied by		U.S.A. prices. (U.K. prices = 100)
		U.K.	U.S.A.	
Anti-tank Gun H.E.Shell	each	7.8	8.5	109
Trench Mortar Bomb	each	2.9	4.0	138
3 Ton Lorry	each	1,531.4	3,256.2	213
Parachute	each	135.2	165.2	122
Dinghy	each	106.4	129.0	121
Aircraft Tyre	each	159.6	350.6	220
Wireless Set	each	419.1	648.8	155
Cable	per mile	23.6	34.9	148
Field Clothing - Jacket and Trousers	set	10.7	9.8	92
Heavy Wool Jersey	each	2.3	2.6	113

1/ Pound sterling prices converted at official middle rate $4.03 = £1.

If the more extreme cases are eliminated, it appears that prices for these selected items are on the average about 40 per cent higher in the United States than in the United Kingdom. There is other evidence pointing in the same direction: shipbuilding costs are known to be between 60 and 100 per cent higher in the United States than in the United Kingdom; weekly American money wages in June 1944 were almost 90 per cent above British wages; a comparison of prices for a standard food basket in October 1943, recently published by the International Labour Office, shows that American food prices were at that time 63 per cent above those in the United Kingdom. The effect of food subsidies cannot be isolated in this comparison.

On the basis of similar evidence, A. J. Brown, in a study on the economic war effort in the United Kingdom and in the United States,1/ suggested that the various portions of the United States national income for the first half of 1943 should be converted into sterling at the following rates per pound sterling:

Consumers' durable goods and services	$6.5
Consumers' non-durable goods	5.9
National defense goods and non-defense goods and services bought by the Government	6.5
National defense services	10.0
Investment and disinvestment	5.5
Consumers' non-durable goods and services	6.1
Consumers' durable goods	5.0

The weighted average of these various rates--with weights derived from official statistics of national income--is 6.40 dollars to the pound.

The situation as presented so far may be puzzling to the American reader. There appears to be no large area of production in which the British do not have lower costs on the basis of existing exchange rates. A very thorough investigation into actual American and British cost and price conditions should be made to determine the facts of the situation. To return to the comparative prices of reciprocal aid goods, it seems surprising that a 3 ton truck produced in the United States should cost more than twice as much as a similar "lorry" produced in the United Kingdom, and it is paradoxical that the only item in which American production is cheaper should be a textile good, since exports of textile products have long constituted an important item in British foreign trade. The British White Paper stated, however, that Government accounting methods differ and that the items "cannot necessarily be regarded as representative of the whole field" since it is the exception rather than the rule that the two countries give and receive the same or an equivalent item on Mutual Aid. One may argue, moreover, that war materials alone provide too narrow a base for comparison of general costs and prices in the two countries. Many goods (such as petroleum products and tobacco) are known to be very much cheaper in the United States than in the British internal

1/ Bulletin of International News, December 25, 1943, "Economic War Efforts. 1. The U.K. and U.S.A."

market, and no evidence has been brought forward to show that American goods of the kinds which enter into normal international trade are more expensive than comparable goods produced in the United Kingdom. A comparison of the development of American and British unit prices for exported goods does not indicate that American ability to compete with Britain has been impaired during the war:

	Index Numbers of Unit Prices or Average Values of Exports	
	U.S.A.	U.K.
1938	100	100
1942	137	157
1943	151	171
1944	171	178

It should not be overlooked, however, that the figures on which the index numbers are based include lend-lease exports, a fact which lessens their value for a forecast of possible post-war developments.

In contrast to most of the data so far adduced, which indicate that a relatively low exchange rate has been maintained for the pound sterling, evidence may be drawn from other sources which would apparently lead to the opposite conclusion. This evidence will be presented with a minimum of critical appraisal but concluding paragraphs will attempt to resolve the paradox presented.

Although the official dollar-sterling rate remained practically unchanged after September 1939,1/ important markets for trading in "free sterling" continued in New York and Zürich until February-March 1943. Sterling sold in these markets at rates considerably lower than official quotation and reached a record low of 3.27 dollars to the pound at the time of the great German offensive in May 1940. Britain decided at that time to eliminate the free market and, through various financial measures, the free market rate was gradually forced up toward the official rate, which it reached in August-September 1940; in March 1943, free sterling ceased to be quoted in New York.

After the free rate had lost its significance as a barometer, there were still two markets from which some approximation of a "free sterling rate" could be derived. These were the market for sterling securities in New York and the markets for British and other bank notes in various financial centers. On the New York Curb Exchange, such sterling securities as British War Loan, British-American Tobacco, and other important industrial shares have been quoted. Prices were at times (February 1943) about half the London prices if the corresponding sterling quotations in London are converted into dollars at the official middle rate of $4.03 to the pound sterling. On this evidence, the

1/ After foreign exchange control was introduced on September 4, 1939, empowering the Bank of England to establish official exchange rates, the Bank on September 5 fixed against the dollar a buying rate of $4.06 and a selling rate of $4.02; in the middle of September the buying rate was changed to $4.04, and on January 8, 1940, the buying rate was set at $4.035 and the selling rate at $4.025.

"free rate" would at times have been about two dollars to the pound. Such a figure, however, is not representative since it expresses a conversion ratio in which there are many factors apart from the exchange rate. A somewhat better standard of measurement, although one also subject to many non-economic distortions, is the quotation for British bank notes in various European markets. The following table shows the dollar-pound sterling cross-rate as derived from the quotations (e.g., in Swiss francs in Zürich) for dollar notes and sterling notes, respectively:

Date	Market	Cross-rate (Dollars to the pound)
June 11, 1943	Zürich	2.94
Oct. 21, 1943	"	2.98
Dec. 20, 1943	"	2.89
March 8, 1944	"	2.94
June 30, 1944	"	3.31
July 1944	Istanbul	3.50
November 1944	Paris	2.10
January 1945	"	2.73
March 1945	Istanbul	3.04
Apr.14-30, 1945	Budapest	1.95-2.22
May 2-7, 1945	"	2.30-2.47

These rates show great deviations, in some cases up to 50 per cent, from the official rate. In evaluating the discrepancy, it should be realized that repatriation of both dollar and pound sterling notes has been restricted by the respective governments. The importation of Bank of England notes into the United Kingdom is limited to 10 pounds per person and only bona fide holders are entitled to this privilege, which excludes seamen and others who in the course of their normal occupation make frequent journeys between the United Kingdom and neutral ports. Most buying in these markets, accordingly, is being made for investment purposes.

What is the explanation of this paradoxical situation in which admittedly incomplete data indicate on the one hand that British costs are lower than American costs, and on the other hand, that the official rate of the British pound is being maintained at an unduly high level? The explanation may be found in the fact that persons dealing in the exchange and investment markets are attempting to assess the future balance of payments position of the United Kingdom. In this process, they apparently discount the possible effect of any moderate advantage which might accrue to British exports in the matter of comparative prices, on the assumption that heavy import demands and unfavorable developments affecting non-trade items in the British balance of payments after the war will more than offset any increase in exports.

In 1938, the British excess of imports over exports totaled about 390 million pounds; this was partly offset by 200 million pounds net income from overseas investments, 100 million pounds net income from national shipping, and 35 million pounds net receipts from commissions, insurance, etc. But these items were not sufficient to balance completely the excess of imports over exports, and it was therefore necessary to liquidate foreign exchange assets acquired in earlier years to the value of 55 million pounds. Thus, even in the pre-war period, Britain failed to balance her current accounts, but was able to meet the deficit from an adequate supply of gold and foreign exchange assets. Such reserves have been largely liquidated during the war and Britain, if unable to balance its current accounts, will have to rely on the moderate international credits which she may secure from the International Fund (if established), or on other loans. The pressure to balance her current accounts will therefore be very great indeed. This will be extremely difficult to do, however, since practically all items with which Britain formerly balanced her unfavorable merchandise account have been adversely affected during the war. Interest receipts have decreased as a result of the liquidation of foreign assets, while interest payments have increased due to the new indebtedness built up during the war. Income from shipping, insurance, and financial services will have suffered deterioration. If Britain is to maintain her imports, she will have to increase her exports sufficiently to compensate for the loss in service incomes. The British Government has stated that an expansion of Britain's export trade to at least 50 per cent above the volume of 1938 will be absolutely necessary if the United Kingdom is to balance international accounts. The magnitude of the task may be gathered from the statistics on Britain's war trade, recently published by the Board of Trade, which indicate that in 1943 the volume of exports amounted to only about 30 per cent of the volume in the last pre-war year.

Future balance of payments prospects for the United States, on the other hand, are more favorable. An exceedingly strong demand will exist for supplies and equipment necessary for reconstruction of devastated areas in Europe and Asia, as well as for replacement goods and development projects in all parts of the world. In the early post-war years, the United States may prove to be one of the few countries whose productive capacity will permit a substantial excess of exports to satisfy these demands. Under these conditions, it may be safely assumed that American exports will not be unduly handicapped even if United States prices should prove considerably higher than, for instance, those of the United Kingdom.

The United Nations Organization and Bretton Woods M.J.P.R.

The charter of the international security organization, to be known as the United Nations, drafted at the United Nations Conference in San Francisco, discloses in general terms the proposed relationship between the United Nations and such specialized intergovernmental agencies as the International Monetary Fund and the International Bank for Reconstruction and Development. Although the charter grants the new Organization power to make recommendations to and to receive regular reports from these intergovernmental agencies, it appears that the latter will in fact retain a large degree of independence in their special fields.

The charter of the United Nations provides that responsibility for discharging the functions of the United Nations Organization relative to international economic and social cooperation shall be vested in the General Assembly of the United Nations and, under the authority of the General Assembly, in the Economic and Social Council. The General Assembly will consist of all members of the United Nations while the Economic and Social Council will consist of eighteen members elected by a two-thirds vote of the General Assembly. The charter authorizes the United Nations Organization through the General Assembly to make recommendations for the "coordination of the policies and activities" of specialized intergovernmental agencies having wide responsibilities in the economic, social, or related fields. The International Monetary Fund and the International Bank for Reconstruction and Development, if adopted, will be among these specialized agencies. The charter specifically provides that the Economic and Social Council "may coordinate the activities" of these agencies through consultation with or recommendations to the agencies themselves, or through recommendations to the General Assembly or to the members of the United Nations. Omission of specific authorization to the Council to make recommendation regarding coordination of policy points to a possible distinction between the powers of the Assembly and the Council in this respect. This distinction is blurred, however, by the provision that the Council may initiate studies and prepare reports with respect to <u>all</u> international economic, social, and related matters and may make recommendations on such problems to the specialized agencies, to the Assembly, or to the member nations. Such general authority would appear to include scope for recommendations of policy and of policy coordination as well.

The charter of the United Nations also provides that these intergovernmental agencies shall be brought into relationship with the United Nations by means of agreements negotiated by the Economic and Social Council with the individual agencies; no mention is made of the terms these agreements might contain. In order to keep informed regarding the activities of the specialized agencies, the Council may arrange to receive regular reports from the latter and, in addition, to receive special reports on steps taken to effectuate Council recommendations. For this same purpose, the Council may make arrangements to participate in the deliberations of the specialized agencies and reciprocally for representatives of the agencies to participate in the deliberations of the Council. In the case of the International Monetary Fund and the International Bank, these arrangements might provide for representatives of the Council to be present at meetings of the Boards of Governors or Executive Directors of these agencies. Presumably the Council's representatives would act simply as observers.

The General Assembly is given the additional power of approving any financial or budgetary arrangements concluded with specialized intergovernmental agencies. A more important provision, in relation to the International Monetary Fund and International Bank, which /presumably/ will not receive funds from the Organization, is that the Assembly shall examine the administrative budgets of intergovernmental agencies with a view to making recommendations thereon to the agencies concerned.