BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

Office Correspondence

Date August 17, 1943

To Chairman Eccles

Subject:

From Mr. Goldenweiser

Attached is a memorandum summarizing in nontechnical language the substance of the Treasury proposal for currency stabilization.

I believe that there are three points on which you will want to make your position clear:

1. Currency stabilization is worth undertaking only if it is a part of a broad program, including relief, rehabilitation, long-term investment, commodity corporations, etc. Without these, currency stabilization is not feasible and the effort to organize the machinery will be largely wasted.

2. The Board should have a place in the proposed organization. Presumably a plan could be worked out by which the Departments of State and Treasury and the Board would cooperate in selecting the American director and in supervising his activities. This was proposed in the Inter-American Bank.

3. The Board should have the assurance of the Administration's support for additional powers over reserve requirements in order to be able to offset additional gold imports.

Attachment

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TREASURY DEPARTMENT
Washington

Summary of the Principal Provisions of
the Revised Draft of the Proposal for
An International Stabilization Fund

I. Purposes of the Fund

The United Nations and the countries associated with them recognize, as declared in the Atlantic Charter, the need for the fullest cooperation among nations with the object of securing economic advancement and rising standards of living for all. They believe that attainment of these objectives will be facilitated by international monetary cooperation. Therefore, it is proposed that there be established an International Stabilization Fund with the following purposes:

1. To help stabilize the foreign exchange rates of the currencies of member countries.

2. To reduce the use of such foreign exchange restrictions and discriminatory foreign exchange practices as hamper world trade.

3. To help create conditions under which the smooth flow of foreign trade and of productive capital will be fostered.

II. Composition of the Fund

1. The Fund shall amount to at least $5 billion contributed on the basis of quotas determined by an appropriate formula. The quota of a country cannot be increased without its consent.

2. Each country shall pay in gold 50 percent of its quota and the remainder in local currency. A country with inadequate gold holdings may have its gold contribution reduced and a country may substitute some government securities (redeemable at par) for local currency.

3. The resources of the Fund shall be used exclusively for the benefit of the member countries.

III. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the unitas (UN) equal in value to 137-1/7 grains of fine gold (equivalent to $10). No change in the gold value of the unitas shall be made except with the approval of 85 percent of the member votes.

2. The accounts of the Fund shall be kept and published in terms of unitas. No change in exchange rates shall be permitted to alter the value of the assets of the Fund.

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IV. Exchange Rates

1. Initial rates of exchange for member currencies shall be based upon their value in dollars on July 1, 1943. If such a rate is clearly inappropriate, the initial rate shall be determined by consultation between the country and the Fund.

2. When essential to the correction of fundamental disequilibrium, exchange rates may be changed only with the approval of three-fourths of the member votes including the countries concerned. Because of the extreme uncertainties of the immediate postwar period, special provision is made for adjusting exchange rates during the first three years.

V. Powers and Operations

1. The Fund may sell to any member country foreign exchange required to meet an adverse balance of payments predominantly on current account. One-half of such exchange shall be paid for with gold or acceptable foreign exchange.

2. The Fund's total holdings of the currency of any member country shall not exceed its quota by more than 100 percent, except with the specific approval of the Board of Directors, and provided satisfactory measures are being taken to correct the disequilibrium.

3. When a member country is preventing or unduly delaying a sound balance in its international accounts, the Fund may place conditions upon additional sales of foreign exchange to that country. The Fund may also require the country to deposit gold or other suitable collateral.

4. When the Fund's holdings of the currency of a member country become excessively small, the Fund shall render a report to that country. The Fund shall also inform member countries of the probable supply of the currency and of a proposed method for its equitable distribution.

5. Each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign exchange which it needs, one-half of the gold and foreign exchange it acquires in excess of its official holdings at the time it became a member of the Fund.

6. During the first 2 years, the Fund may buy from the governments of member countries, blocked balances held in other member countries, not exceeding in the aggregate 10 percent of the quotas. At the end of 2 years, the Fund shall propose a plan for the gradual further liquidation of blocked balances.

7. The Fund may levy a charge on the amount of currency held by the Fund in excess of the quota of a country. If the Fund finds it necessary to borrow currency to meet the demands of members, an additional charge shall be made sufficient to cover the costs of borrowing.

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8. The Fund shall deal only with member governments and their fiscal agents and not intrude in the customary channels for conducting international commerce and finance.

VI. Management

1. The administration of the Fund shall be vested in a Board of Directors consisting of one director and alternate appointed by each member government. The Board shall appoint an Executive Committee of not less than eleven of its members.

2. Each country shall have 100 votes plus one vote for each million dollars of its quota. No country shall cast more than one-fifth of the aggregate basic votes.

3. In voting on the sale of foreign exchange, the votes of creditor countries shall be increased and those of debtor countries decreased. In voting on proposals to suspend or restore members, each country shall cast one vote.

4. Any country may withdraw from the Fund by giving notice of 1 year. A country failing to meet its obligations to the Fund may be suspended by a majority of the member countries.

VII. Policies of Member Countries

Each member country of the Fund undertakes:

1. To maintain by appropriate action exchange rates established by the Fund and not to alter exchange rates except as provided above.

2. To abandon restrictions (except on capital transfers) over foreign exchange transactions with other member countries, and not to impose additional restrictions without the approval of the Fund.

3. Not to enter upon any new bilateral clearing arrangements or engage in multiple currency practices which retard the growth of world trade or the international flow of productive capital.

4. To give consideration to the views of the Fund on any monetary or economic policy, the effect of which would be to bring about a serious dis-equilibrium in the balance of payments of other countries.

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HIGHLIGHTS OF THE TENTATIVE PROPOSAL FOR AN INTERNATIONAL STABILIZATION FUND

The proposed plan providing for the stabilization of currencies and establishing a mechanism for supplying needed exchange under safeguards cannot by itself achieve monetary stability. It can, however, provide a working basis for the recovery of world trade, facilitate the restoration of international economic equilibrium, and contribute to the maintenance of world monetary stability.

The plan provides in general for:

(1) An international agreement to help stabilize foreign exchange rates and avoid competitive currency depreciation.

(2) Resources from which countries can buy needed foreign exchange under appropriate safeguards while taking timely steps to adjust their international position.

(3) Encouragement for the adoption of measures to bring about equilibrium in the international balance of payments of member countries.

(4) Policies designed to eliminate exchange controls and discriminatory currency practices which interfere with the balanced growth of international trade.

More specifically, the principal features of the tentative proposal are:

Membership: All of the United Nations and the countries associated with them would establish the International Stabilization Fund as an institution for international monetary cooperation. Other countries may be permitted to join later. A country may withdraw from membership by giving one year's notice. A country may be suspended from membership if it does not meet its obligations to the Fund.

Capital of the Fund: Each country agrees to contribute to the Fund a stated amount (referred to as its quota) partly in gold and partly in local currencies and securities. The gold portion of each country's quota is graduated in accordance with the size of its gold holdings, up to a maximum of 50 percent of the quota. The quota of each country is determined by a formula which takes account of its gold holdings, national income, the amount of its exports and fluctuations in its net balance of trade. Aggregate quotas shall amount to at least $5 billion.

No country can be called on to contribute more than its quota. For example, any dollars in addition to the United States contribution can be obtained by the Fund only by selling gold to the United States or by borrowing. The Fund cannot borrow here without our consent.

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Voting Power: A country's share in the voting power and management of the Fund is determined as follows: each country has 100 votes plus 1 vote for every million dollars contributed to the Fund. No country is entitled to more than one-fifth of the total voting power. In voting on the use of the Fund's resources, the votes of countries whose currencies in the Fund are being depleted are increased and those of countries whose currencies in the Fund are growing are decreased.

Foreign Exchange Sales to Member Countries: Each member country may, under safeguarding provisions, purchase foreign exchange from the Fund for the purpose of meeting deficits in international balances of payments arising from the purchase of goods and services. The Fund may refuse to sell foreign exchange to a member country that is using the resources of the Fund to prevent or unduly delay the correction of a maladjustment in its international position. The Fund may also require a country to take steps to adjust its position as a condition for providing additional exchange.

The Fund may purchase blocked foreign balances held by member countries under repurchase provisions. Such purchases are limited to 10 percent of aggregate quotas in the first 2 years of the Fund's operations. At the end of 2 years the Fund will report a plan for gradual further liquidation of blocked balances.

Exchange Rates: Initial exchange rates are to be established at the dollar quotation for member currencies on July 1, 1943, unless either the member country or the Fund considers the rate inappropriate. In such case the rate is to be determined by consultation between the member country and the Fund. All member countries agree to maintain the exchange rates established.

Because of the uncertainty of postwar conditions, during the first 3 years a member country may alter its rate by 10 percent after consultation with the Fund in order to maintain a balanced position for that country. Further changes in the first three years require the approval of a majority vote of the Fund.

After the first three years changes in rates can be made only when necessary for the correction of a fundamental disequilibrium and with the approval of a 3/4 vote of the Fund.

Although the Fund contemplates relative stability of exchange rates it does not contemplate absolute rigidity. The Fund may recommend changes in exchange rates as a means of restoring balance in an individual country's foreign exchange transactions in those exceptional cases where such action is deemed in the general interest.

Capital Movements: Large movements of short-term funds from one country to another for speculative reasons or because of a loss of a confidence in the monetary systems of a particular country have been a disturbing element in international monetary relations. Under the

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proposal, any country is allowed to control capital movements into or out of the country and all countries agree to cooperate with other countries which have imposed controls on the export of capital with the approval of the Fund. Furthermore, a country buying exchange from the Fund may be required, if deemed essential, to control an outflow of capital as a condition of obtaining further aid from the Fund.

Exchange Controls: Another disturbing element has been the rapid growth of restrictions of all sorts on foreign exchange transactions. Under the proposal, member countries agree to abandon all restrictions on foreign exchange transactions as soon as they feel that they are in a position to do so, except for the restrictions which are imposed as a means of controlling capital movements. All countries agree not to impose any new restrictions without the approval of the Fund except those required to control capital movements. More specifically, member countries agree not to enter into any new bilateral clearing arrangements nor to have different exchange rates for different purposes if, in the judgment of the Fund, these arrangements retard the growth of world trade or the international flow of productive capital.

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