C O P Y

Mr. Eccles -

March 8, 1944

To: Board of Governors

From: E. A. Goldenweiser

Subject: International Monetary Fund.

Attached are a preliminary draft of the proposed Joint Statement by experts of the United and Associated Nations for the establishment of an International Monetary Fund; my original summary of the Treasury plan revised in conformity with the proposed Joint Statement; and Mr. Gardner's memorandum of February 2 to Governor Szymczak with regard to the status of the Fund discussions.

I believe that these documents will bring you up to date on the Fund proposal, in preparation for the meeting next Monday morning. If there are any points which you would like to discuss further with the staff before the Monday meeting, we shall be glad to be of such assistance as we can.

(Signed) E. A. G.

Attachments.

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February 22, 1943

PRELIMINARY DRAFT

Joint Statement by Experts of the United and Associated Nations on the Establishment of an International Monetary Fund

(American Version as of Feb. 3, 1944)

Sufficient discussion of the problems of international monetary cooperation has taken place at the technical level to justify a statement of principles. The experts of the United and Associated Nations, who have participated in these discussions, are of the opinion that the most practical method of assuring international monetary cooperation is through the establishment of an International Monetary Fund. They have set forth below the principles which they believe should be the basis for this Fund. Governments are not asked to give final approval to these principles until they have been embodied in the form of definite proposals by the delegates of the United and Associated Nations meeting in a formal conference.

1. Preamble

The International Monetary Fund is designed as a permanent institution for international monetary cooperation. The Fund is intended to facilitate the balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment. The Fund is expected to provide the machinery for consultation on international monetary problems. The resources of the Fund would be available under adequate safeguards to help member countries to maintain exchange stability while giving them time to correct maladjustments in their balance of payments without resorting to extreme measures destructive to national or international prosperity.

2. Purposes of the Fund

(1) To promote exchange stability, to maintain orderly exchange arrangements among member countries, and to avoid competitive exchange depreciation.

(2) To assure multilateral payments facilities on current transactions among member countries and to help eliminate foreign exchange restrictions that hamper the growth of world trade.

(3) To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

(4) To give confidence to member countries by the provision of actual and potential support for the attainment of these purposes.

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3. Subscription to the Fund

(1) Member countries shall subscribe in gold and in their local funds the amounts (quotas) determined by a formula to be agreed, which will amount altogether to about 8 billion dollars if all the United and Associated Nations subscribe to the Fund (corresponding to about 10 billion dollars for the world as a whole).

(2) The obligatory gold subscription of a member country shall be fixed at 25 per cent of its subscription (quota) or 10 per cent of its holdings of gold and gold convertible exchange whichever is smaller.

4. Transactions with the Fund

(1) Member countries shall deal with the Fund only through their Treasury, Central Bank, Stabilization Fund or other fiscal agencies. The Fund's account in a member's currency shall be kept at the Central Bank of the member country.

(2) A member shall be entitled to buy another member's currency from the Fund in exchange for its own currency provided that:

(a) The member represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund.

(b) The Fund has not given notice that its holdings of the currency demanded have become scarce in which case the provisions of 7 below come into force.

(c) The Fund's total holdings of the currency offered have not increased by more than 25 per cent of the member's quota during the previous twelve months, and do not exceed 200 per cent of the quota.

(d) The Fund has not previously given appropriate notice that the member is suspended from making further use of the Fund's resources on the ground that it is making use of them in a manner contrary to the purposes and policy of the Fund.

(e) The Fund in its discretion and on conditions which safeguard its interests waive any of the conditions above.

4-(3) Subject to (4) below, the operations on the Fund's account will be limited to transactions for the purpose of supplying a member country, on the member's initiative and subject to the provisions of (2) above, with another member's currency in exchange for its own currency or for gold.

(4) The Fund will be entitled at its option with a view to preventing a particular member's currency from becoming "scarce":

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(a) To borrow its currency from a member country;

(b) To offer gold to a member country in exchange for its currency.

(5) So long as a member country is entitled to buy another member's currency from the Fund in exchange for its own currency, it shall be prepared to buy its own currency from that member with that member's currency or with gold. This shall not apply to currency subject to restrictions in conformity with 10(3) below or to holdings of currency which have accumulated as a result of transactions of a current account nature effected before the removal by the member country of restrictions on multilateral clearing maintained or imposed under 11(2) below.

(6) A member country desiring to obtain directly or indirectly the currency of another member country for gold is expected, provided that it can do so with equal advantage, to acquire the currency by the sale of gold to the Fund. This shall not preclude the sale of newly-mined gold by a gold-producing country on any market.

(7) A member country may repurchase from the Fund for gold any part of the latter's holdings of its currency.

(8) (a) So long as a member's holdings of gold and gold convertible exchange exceed its quota, the Fund in selling foreign exchange to that country shall require that one half of such exchange be paid for with gold.

(b) If at the end of the Fund's financial year a member's holdings of gold and gold convertible exchange have increased, the Fund may require up to one half of the increase to be used to repurchase part of the Fund's holdings of its currency so long as this does not reduce the Fund's holdings of a country's currency below 75 per cent of its quota or the member's holdings of gold and gold convertible exchange below its quota.

5. Par Values of Member Currencies

(1) The par value of a member's currency shall be agreed with the Fund when it is admitted to membership and shall be expressed in terms of gold. All transactions between the Fund and members shall be at par subject to a fixed charge payable by the member making application to the Fund; and all transactions in member currencies shall be at rates within an agreed percentage of parity.

5-(2) Subject to (5) below no change in the par value of a member's currency shall be made by the Fund without the country's approval. Member countries agree not to propose a change of parity of their currency unless they consider it appropriate to correct a fundamental disequilibrium. Changes shall be made only with the approval of the Fund subject to the provisions below.

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(3) The Fund shall approve a requested change in the par value of a member's currency if it is essential to correct a fundamental disequilibrium. In particular, the Fund shall not reject a requested change necessary to restore equilibrium because of domestic social or political policies of the country applying for a change. In considering a requested change, the Fund shall take into consideration the extreme uncertainties prevailing at the time the parities of the currencies of the member countries were initially agreed upon.

(4) After consluting the Fund a member country may change the established parity of its currency provided the proposed change inclusive of any previous change since the establishment of the Fund does not exceed 10 per cent. In the case of application for a further change not covered by the above and not exceeding 10 per cent, the Fund shall give its decision within two days of receiving the application if the applicant so requests.

(5) Provision shall be made for an agreed uniform change of the gold value of currencies. Notwithstanding 8(3) below such a change shall require the approval of all member countries with 10 per cent or more of the aggregate quotas.

6. Capital Transactions

(1) A member country may not use the Fund's resources to meet a large or sustained outflow of capital and the Fund may require a member country to exercise control to prevent such use of the resources of the Fund. This provision is not intended to prevent the use of the Fund's resources for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking and other business. Nor is it intended to prevent capital movements which are met out of a member country's own resources of gold and foreign exchange, provided such capital movements are in accordance with the purposes of the Fund.

(2) Subject to 7 below a member country may not use its control of capital movements to restrict payments for current transactions or to delay unduly the transfer of funds in settlement of commitments.

7. Apportionment of Scarce Currencies

(1) When it becomes evident to the Fund that the demand for a member country's currency may soon exhaust the Fund's holdings of that currency, the Fund shall so inform member countries and propose an equitable method of apportioning the scarce currency. When a currency is thus declared scarce, the Fund shall issue a report embodying the causes of the scarcity and containing recommendations designed to bring it to an end.

(2) A decision by the Fund to apportion a scarce currency shall operate as an authorization to a member country, after consultation with the Fund, temporarily to restrict the freedom of exchange operations in the affected currency and in determining the manner of restricting the demand and rationing the limited supply amongst its nationals, the member country shall have complete jurisdiction.

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8. Management

(1) The Fund shall be managed by a Board of Directors and Executive Committee representing the members.

(2) The distribution of basic voting power shall be closely related to the quotas, but no member shall be entitled to cast more than one-fifth of the aggregate votes.

(3) All matters shall be settled by a majority except that a change in the basis for determining the quotas shall require a four-fifths vote and no member's quota may be changed without its assent.

9. Withdrawal

(1) A member country may withdraw from the Fund by giving notice in writing.

(2) The reciprocal obligations of the Fund and the country are to be liquidated within a reasonable time.

(3) After a member country has given notice in writing of its withdrawal from the Fund, the Fund may not dispose of its holdings of the country's currency except in accordance with arrangements made under (2) above. After a country has given notice of withdrawal its right to utilize the resources of the Fund is subject to the approval of the Fund.

10. The Obligations of Member Countries

(1) Not to buy gold at a price above the parity of its currency nor to sell gold at a price below the parity of its currency.

(2) Not to allow exchange transactions in its market in currencies of other members at rates outside a prescribed range based on the agreed parities.

(3) Not to impose restrictions on payments for current international transactions with other member countries (other than those involving capital transfers or in accordance with 7 above) or to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

11. Transitional Arrangements

(1) Since the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war, the agreement of a member country to provisions 4 (5) and 10 (3) above shall not become operative until it is satisfied as to the arrangements at its disposal to facilitate the settlement of the balance of payments differences during the early post-war transition period of three years by means which will not unduly encumber its facilities with the Fund.

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(2) During this transition period member countries may maintain and adapt to changing circumstances exchange regulations of the character which have been in operation during the war, but they shall undertake to withdraw as soon as possible by progressive stages any restrictions which impede multilateral clearing on current account. In their exchange policy they shall pay continuous regard to the principles and objectives of the Fund; and they shall take all possible measures to develop commercial and financial relations with other member countries which will facilitate international payments and the maintenance of exchange stability.

(3) The Fund may make representations to any member that conditions are favorable to withdraw particular restrictions or for the general abandonment of restrictions inconsistent with 10(3) above. Not later than three years from the coming into force of the Fund any member still retaining any restrictions inconsistent with 10(3) shall consult the Fund as to their further retention.

(4) In its relations with member countries the Fund shall recognize that the transition period is one of change and adjustment and in deciding on requests presented by members it shall give the member country the benefit of any reasonable doubt.

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February 3, 1944

REVISION OF MR. GOLDENWEISER'S MEMORANDUM OF AUGUST 18, 1943
ON "CURRENCY STABILIZATION"
IN THE LIGHT OF THE BRITISH-AMERICAN DISCUSSIONS

Stabilization of currencies and the provision of a mechanism for international short-term lending cannot by itself achieve international monetary stability, but it can provide a working basis for the reestablishment of world trade, facilitate the adoption of other more fundamental programs, and contribute to the maintenance of continuous international monetary stability.

TREASURY PLAN
(Omitting provisions to which British have not agreed)

The plan provides for: (1) An international agreement to determine and stabilize the rates of exchange between national currencies. (2) A definite relationship of these currencies to a gold unit. (3) The establishment of an international loan fund out of which countries which are not selling enough abroad to pay for their imports can temporarily obtain international means of payments. Such loans are intended to provide a breathing spell during which the countries can take steps to adjust their international position. (4) The exercise of influence for the adoption of measures to bring about equilibrium in the international balance of payments of countries that are borrowing from the Fund and to a less extent of other countries with unbalanced accounts.

Under the headings below are set out the principal features of the Treasury proposal.

1. Contributions to the Fund

Each country agrees to contribute a stated amount, the contributions being partly in gold and partly in local currencies and securities. The proportion to be contributed in gold is graduated in accordance with each country's gold holdings. The total contributions of individual countries are determined by a formula to be agreed. Total contributions will amount to about $8 billion for the United and Associated Nations or $10 billion for the world as a whole. The United States will contribute about $3 billion and the United Kingdom about $1.3 billion.

2. Voting Power

The distribution of basic voting power is closely related to contributions but no country is entitled to more than one-fifth of the total voting power. The United States will have about one-fifth of the vote, England about one-tenth, and the British Empire as a whole - one-fifth.

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3. Lending Obligations of Member Countries

Each country is in effect committed to lend through the Fund up to the amount of its own contribution and no more. If, for example, foreign countries obtain from the Fund dollars contributed by the United States, what this amounts to is that they are borrowing from the United States through the Fund dollars with which to purchase goods in the United States. The only way the Fund can obtain dollars in excess of the United States contribution is by selling foreign gold to the United States or borrowing here. The Fund cannot borrow here without our consent.

4. Borrowing Privileges of Member Countries

Each member country has the privilege of borrowing foreign currencies from the Fund provided the Fund is satisfied that the member country's borrowing is not contrary to the purposes and policy of the Fund. It can borrow up to the amount of its contribution in ordinary circumstances and beyond this amount under special conditions and by a special vote. A country is thus able temporarily to maintain its purchases abroad without being forced to lose gold, adopt deflationary policies, control foreign exchange transactions, or allow its currency to depreciate. Since the Fund may at any time refuse further loans, it can bring pressure to bear upon a borrowing country to balance purchases abroad with its sales.

5. Possible Demand for Dollars

On the basis of a 10 billion dollar Fund the total demand for dollars without a special vote could reach a theoretical maximum of 8 billions. To meet that demand for 8 billion dollars the Fund would have 4 billion dollars of gold (3 billions contributed by the United States and 1 billion by others) which it could exchange for dollars. The difference between the 4 billions and the 8 billions could be raised by borrowing in the American market or from the Federal Reserve Banks, provided the United States was willing to authorize such borrowing. If it was not willing to authorize it, the amount of dollars available would fall short of the demand, and dollars in the Fund would have to be rationed. It should be remembered, however, that these are only possibilities, and that it is not at all likely that all of the demands of all of the countries would concentrate on any one country.

6. Influence of Fund on Policies of Member Countries

The Fund, as a condition of extending further loans to a country, may require it to take steps to adjust its position. The more gold and free foreign exchange there is contributed to the Fund, the sooner members will find it necessary to resort to the Fund to meet an adverse balance of international trade, thus subjecting themselves to such conditions as the Fund may wish to impose. While most of the world's gold and foreign exchange holdings will remain outside the Fund, it may make recommendations to countries which are not borrowing from it, but which are in part responsible for international disequilibria.

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7. Exchange Rates

Initial exchange rates are to be established in accordance with the relative values of the member currencies on July 1, 1943, unless either the member country or the Fund considers that rate inappropriate. In such case the rate will be determined by consultation between the member country and the Fund. All member countries agree to maintain the exchange rates established. A member country may alter its rate by 10 per cent after consultation with the Fund in order to maintain a balanced position for that country. Further changes require the approval of a majority vote of the Fund. Changes in rates shall be approved when necessary for the correction of a fundamental disequilibrium.

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.

8. International Capital Movements

Large movements of short-term funds from one country to another for speculative reasons or because of a loss of confidence in the monetary system of a particular country have been a disturbing element in international monetary relations. In the plan any country is allowed to control capital movements into or out of the country. Furthermore, a country borrowing from the Fund may be required to control a large or sustained outflow of capital as a condition of obtaining further aid from the Fund.

9. Exchange Controls

Another disturbing element has been the rapid growth of restrictions of all sorts on foreign exchange transactions. In the plan 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 engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

10. Possible Effect on Gold Flow to the United States

As far as the United States is concerned the plan adds about 3 billions (depending on what contribution is determined) to the theoretical maximum of gold that may come to this country. This theoretical maximum, counting the 12 billions of gold held abroad plus 3 billions contributed to the Fund by the United States, aggregates 15 billion dollars to which should be added a billion dollars of newly mined gold every year. The proposal, however, creates a stabilizing mechanism which, if it is successful, may result in reducing the concentration of the demand for goods and services on this country and the consequent flow of gold to the United States. It may be said that the degree of the plan's success could be measured by the extent to which it will make unnecessary and, therefore, will avoid further concentration of gold in the United States.

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BOARD OF GOVERNORS
OF THE
FEDERAL RESERVE SYSTEM

OFFICE CORRESPONDENCE

February 2, 1944

To Governor Szymczak

From Walter R. Gardner

Subject: Status of White Fund discussions -- possible Board action

The technical discussions on the international Fund appear to be nearing their end. As a result of cables between the Americans and the British the area of disagreement between them is being eliminated; and it is possible that a cable which is now being prepared by the Treasury as an aftermath of a meeting of the American technicians the day before yesterday will be accepted almost in toto by the British.

Meanwhile the five-man Russian delegation is here. An initial meeting to determine procedure with them has already been held and discussions will get under way in earnest this Thursday. The procedure will be to discuss first the joint statement of principles, on which we are now nearly in full agreement with the British. Next the detailed American plan for a Stabilization Fund will be considered. Then the investment bank proposal will be discussed. The Russians have been told that we would like to get their comments all along the line; but it is apparent that the pressure at the moment is on the joint statement of principles. If full agreement on this can be reached among the key countries, the statement will be sent to all the United and Associated Nations and about a week given to them to indicate their reactions. Thereafter it will be published as a Joint Statement of the technical experts of the United and Associated Nations. The public reception to this statement -- particularly the attitudes of the various legislatures -- will determine whether it is appropriate to go forward with a formal conference. It may be that at this stage further changes will be proposed in the plan. Adoption of any of them would involve more negotiation; for it is understood that there must be full agreement at the executive level among the key countries on the instructions to the drafting committee before such a committee is set up and a conference called.

The point at which the Board will be called upon to state its position will apparently be reached when the question of publication of the joint statement arises, although the moment may come somewhat earlier after agreement with the British and Russians has been reached and before the statement is taken up with the remaining countries. In either case the Board is likely to be called upon to state its position within the next month or two.

Although nominally the discussions have all proceeded at the technical level and the Board is free to take any position it wishes, it is apparent that at this late stage of the negotiations there is very little room for change in the plan agreed upon. Insistence upon any major change now would be received with amazement by other departments of this Government and by other countries, who would want to know

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why the suggestion had not been made much earlier when it would not destroy the fruit of many months of arduous negotiations. Should the Board consider, however, that the plan is fundamentally wrong, it is free to take this very serious step and withhold its support until such defects as it may see in the plan have been remedied.

Fund has a useful purpose

There appears to be no occasion for such action. The proposed Fund is essentially a device for giving countries a longer period in which to make their international adjustments and for putting pressure on them at an early stage to take advantage of this longer period to bring into play measures that will be effective internationally and yet prove consistent with the maintenance of full production economies at home. The longer period for adjustment would be provided by the resources of the Fund. Countries would be enabled to meet deficits in their balance of payments by drawing on the Fund in addition to utilizing such reserves of gold and foreign exchange as they may possess. Foreign countries now have about 15 billion dollars of gold and dollar exchange and the Fund would add another 3 billion of gold and dollars as well as a mixture of foreign currencies. Furthermore, the Fund's resources would be pooled resources which could be concentrated at any particular point of strain. Dollar for dollar they would be more effective than the 15 billion dollars of independent reserves scattered unequally among the various foreign countries. Hence the period over which individual countries could stand a deficit in their balance of payments without taking violent counter measures such as exchange depreciation or the imposition of direct controls or deflation of the domestic economy could be considerably lengthened by Fund action. If this period was properly employed to effect a gradual readjustment, the whole process would prove to be more orderly and more conducive to the maintenance of world prosperity than the helter-skelter action of the 1930's.

But would the longer breathing spell be so used? Or would it merely permit an unbalanced situation to become more seriously unbalanced with a greater collapse at the end? If it did, it would be worse for the country and for the Federal Reserve System in particular. We would have failed to solve the problem of the gold flow to this country -- we would merely have intensified the problem by adding to the 15 billion dollars of foreign gold and dollar exchange our own 3 billion dollar contribution to the Fund, thereby increasing the potential flow of international means of payment to the United States.

Its direct power to deal with international unbalance and the gold flow is slight

It must be admitted that the Fund as set up does very little directly to meet the problem of the gold flow. Most of the foreign reserves remain entirely outside the Fund, where they can be freely used to finance international unbalance whether the Fund approves or not. We have been able to persuade foreign countries to pool in the Fund only 1 billion of the 15 billion dollars of gold and dollar exchange that

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they possess. The 14 billion dollar difference is the measure of their freedom to do as they please. But whenever reserves outside the Fund prove insufficient and countries are forced to draw upon the Fund's resources to meet an international deficit, direct pressure can be brought to bear to correct the situation. They can be required to introduce control over capital exports if these are causing the trouble; or, if the cause is a chronic adverse balance of trade, they can be required to eliminate it by any measures they choose to adopt. If all else fails, they may have to resort to exchange control in this sphere, too; for if a country has exhausted its independent reserves and the Fund withholds aid, the country's international transactions must balance.

These are the direct measures of control to which the British are gradually resigning themselves although they have tried hard to get them removed. They apply only when a country has to draw upon the Fund; they do not touch a country that can finance its deficit out of its independent reserves. And they apply only if a majority of the Fund's management votes for their application. The United States cannot have more than a 20 per cent vote in the Fund's management; and the other votes will have to come from countries which will have very little at stake in the form of gold and dollar resources pooled in the Fund. It is a question just how far foreign members will go in helping us to see that deficit countries do not make a chronic use of the gold and dollar resources that have been largely contributed by the United States. But the powers are there to protect the resources of the Fund if they are properly used.

But its moral influence may be considerable

While the Fund will have direct powers over the gold movement to this country only so far as its own resources are concerned, it will be in position to exert a very considerable moral influence over the whole range of international transactions. In this respect it will be similar to the Bank for International Settlements which derived its main significance not from its banking transactions but from the fact that it brought the monetary authorities of the world together in the presence of a staff which was continuously working on international problems. As compared with the B. I. S. the Fund will represent an evolution and an advance. Instead of confining itself to central bankers, it will bring together the monetary authorities of today -- the direct representatives of the respective governments. And its staff will undoubtedly be larger and more purposeful than that of the B. I. S. Its recommendations will carry greater weight unless they are offset by the modern tendency of countries to put their emphasis on freedom to pursue domestic expansion programs irrespective of their effects in the international field.

And its power over exchange rates and controls is clearly established

Furthermore, the Fund's direct powers with regard to exchange rates and exchange control are far more comprehensive than its power to enforce international balance. They are not limited in their application to countries that are using the Fund's resources. They apply to all members at all times. No country can alter its exchange rate by more than

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10 per cent or introduce exchange control over the proceeds of trade without permission of the Fund. This will give the Fund an operating position that carries far beyond that of the B. I. S. Countries must consult it in these matters and while it is passing upon their requests in this sphere it can advise them with considerable force on their entire international policy.

Fund's exchange policy, however, may intensify the gold flow

This power in the exchange field should contribute to the orderly development of international commercial relations and help to avoid many of the disturbances to international trade and investment that shifting exchange rates and direct controls created in the 1930's. Particularly will that be true if other forms of trade control and discrimination can be held in check by broad commercial policy agreements such as are now being fostered by the State Department. Nevertheless, it must be recognized that the strong presumption in the plans against exchange rate shifts and exchange control may actually make it more difficult to achieve international balance. If Fund permission to act in the exchange field is refused -- and it will be hard to get a majority of the members to approve lowering of a competitor's exchange rate or the introduction of exchange control by a customer -- then the only recourse left may be for a country to permit its unbalanced position to continue. It will be driven to use its gold and its right to draw upon the Fund to meet the continuing deficit in its international transactions. The moral authority of the Fund may prove quite futile under these circumstances.

A suggestion as to possible action by the Board

Yet with all its weaknesses the Fund remains a definite advance over the B. I. S. both in powers and in its prospective general influence. It is part of the machinery needed for the post-war period. Its shortcomings, when measured against the problem of international balance, do not mean that it should be rejected. Rather they suggest three things: 1) that as much pressure as possible should be lifted from the Fund by securing the adoption of other international measures on a really adequate scale -- measures such as relief, international investment and liberal commercial policies; 2) that in agreeing to support the plan the Board should obtain the Treasury's agreement to work for enabling legislation under which the Board will share in the selection and control of the United States representative on the Fund; and 3) that the Federal Reserve System should prepare now to request from Congress the powers necessary to offset a very large inflow of foreign gold both from independent reserves abroad and from the resources that we ourselves will contribute to the Fund.

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