A

Meeting of Board & others June 6

CONFIDENTIAL

June 5, 1944

Outline of Principal Points To Be Covered in
Discussion of International Monetary Fund
and
International Bank for Reconstruction and
Development

A. Status of the two plans

I. Fund. Joint statement on fundamental points in the Fund agreed upon by experts of the United States, England, Russia, and other countries. No Government is formally committed. In practice, the Governments are committed, except that Congress can refuse to ratify.

II. Bank. Some discussion of draft with the British, Russians, and others. No agreements.

B. Substance of plan for International Monetary Fund

I. Purpose. To contribute to the restoration of international trade as an essential part of world economic recovery and of achievement and maintenance of full employment.

II. General method

(a) Establishment of machinery for international cooperation in maintaining stability of exchange rates, with opportunity for orderly adjustments without deflation or harmful restriction of trade. Creation of a reservoir of various currencies available for settling balances.

(b) Fund not in any way to interfere with general exchange market but only to deal with central authorities at their initiative.

III. Source of funds

Contributions by member countries aggregating about $8 billion for the United Nations and the nations associated with them, $10 billions for entire world.

IV. Form of funds

Gold and local currencies. Gold to be 25 per cent of quota or 10 per cent of holdings of gold and gold-convertible exchange, whichever is the smaller.

V. Size of quotas

Details to be worked out at conference. The United States Treasury recommendation is that the formula take into consideration national income, international reserves, foreign trade, and variations in exports.

VI. Rights of countries to use of Fund

They are entitled to draw up to their quotas plus their gold contributions. More, with approval of Fund.

Limitations - not in excess of 25 per cent of quota a year and subject also to such limitations as are indicated in subsequent paragraphs. (See VII, VIII, IX, and XIII.)

VII. Fund's powers to influence policies of members

(a) Fund can serve notice that it will not permit further drafts after an indicated period if a member is using the resources of the Fund in a manner contrary to the purposes of the Fund. Before giving notice the Fund must issue to the country a report explaining the reasons.

(b) Fund exercises wide control over exchange rate adjustments and exchange controls. (See X and XII.)

(c) Fund may require capital movements to be controlled. (See VIII.)

VIII. Current trade vs capital movements

The Fund is for the purpose of facilitating current trade, not to finance capital movements. It has real power to regulate substantial capital movements from a country using the Fund for that purpose. Only general moral suasion if capital exports are met out of other resources.

IX. Scarce currencies

When the supply of a given currency becomes low the Fund can declare it to be scarce and can apportion its supply among member countries. Members can then ration the scarce currency among their nationals.

X. Exchange rates

(a) To be agreed upon between member countries and the Fund.

(b) Fund cannot change a country's rate without its consent. (See XI.)

(c) Member can change by 10 per cent without Fund's permission, other changes only with permission, Fund may be asked to make decision in two days if further change requested does not exceed 10 per cent. Fund is expected to permit a change when it is essential to the correction of a fundamental disequilibrium. Fund shall not reject a requested change necessary to restore equilibrium because of the domestic social or political policies of the country applying for a change.

(d) Fund expected to be more willing to approve changes during post-war reconstruction period.

(e) It is understood (though not stated explicitly) that a country which depreciates its currency must make up the resultant loss to Fund.

XI. Gold value of currencies

Value of currencies to be expressed in gold.
Fund can change gold value of all currencies at once (which would not change exchange rates), provided all countries with 10 per cent of vote agree.

XII. Exchange controls

Exchange controls to be removed by each member as soon as possible, except in respect to capital movements. No new controls or special currency arrangements to be made without approval of the Fund.

XIII. Other gold features

(a) Countries with gold contributions of less than 25 per cent of quota must bring it to that level when their gold and foreign exchange resources increase above the amount of their quota.

(b) Countries with gold and foreign exchange reserves equal to their quota must pay for half the foreign exchange they obtain from the Fund with gold.

(c) Countries acquiring gold and foreign exchange beyond the amount of their quotas must use half of it to repay the Fund for exchange they have obtained from the Fund.

(d) Countries must sell gold through Fund, if they can do so as advantageously as otherwise, except newly-mined.

(e) Countries' obligations to buy or sell gold not stated, but rather implied in undertaking to maintain exchange rate. Should it be spelled out?

XIV. Management

Votes in Board and in executive committee closely related to quotas. Most action by majority vote.

Four-fifths vote (including vote of member concerned) on change of quota.

Executive committee of at least nine members.

XV. Right of withdrawal

Upon notice, withdrawing country obliged to meet its obligations to Fund in a reasonable time.

XVI. Matters of special concern to Federal Reserve System

(a) General interest in economic stability to which the Fund should contribute.

(b) Regularization of gold flows. If the plan is successful the United States will get less gold than if no plan ~~was~~ were adopted. If it fails, the United States is not likely to get any more than it would have received without the plan, or is it?

(c) System has an interest in the initial exchange rates to be established. (The higher the pound is, for instance, the more export surplus we are likely to have.)

(d) Specific points to watch:

(1) Manner of paying in United States contribution.
(2) Participation in management through membership on a committee to help select and guide American director.
(3) Additional powers to absorb member bank reserves. Do we need them, and when?
(4) In preparation of plan System might favor: (a) imposition of an interest rate on funds drawn from Fund above country's gold contribution; (b) some method to regulate period for which funds are kept; (c) more explicit and effective provisions for preventing speculative capital movements; (d) explicit statement that the Fund can make a report to any member country, whether it is using the Fund or not, indicating that its actions are contrary to common purposes.

C. Substance of Bank plan

(a) Capital - $10 billions - 20 per cent in first year and no more than 20 per cent a year. Small part in gold - rest in currency.

(b) Operations

Loans and guarantees of loans for purpose of productive enterprises - Governments or central banks to guarantee repayment.

No loans to be made or guaranteed by Bank without approval of country in whose currency loan is made.

Query: Must country also agree as to where money is to be spent?

(c) No loans to be made or guaranteed, unless private funds are not otherwise available on reasonable terms.

(d) Management

Governing board and executive committee.

Votes in relation to capital contributions.

- Should deposits of foreign govts be in FR banks - & operations in open market be regulated.

B.-

INTERNATIONAL MONETARY FUND

Chief Points of Agreement in Joint Statement

I. Subscriptions to Fund

A Fund of $8-10 billion subscribed to by member countries according to agreed quotas.

A member subscribes 25% of its quota or 10% of its gold and gold-convertible exchange, whichever is smaller, in gold, and the rest in local funds.

Changes in quotas possible only with 4/5 vote and approval of member countries concerned.

II. Limitations on Fund's Operations

Can deal with member countries only through Treasuries, Central Banks, Stabilization Funds, or other fiscal agencies.

Operations limited to lending to member countries as outlined under III, gold operations as outlined in VI, borrowing from member countries, and offering gold to member countries in exchange for their currencies.

Fund's account in a member country to be kept at the Central Bank of the member country.

III. Borrowing Privileges of Member Countries

In general a member country is entitled to get foreign exchange from the Fund in exchange for its own currency up to the amount of its quota plus its gold contribution provided that the foreign exchange is currently needed for making payments in that currency, that the country can get no more than 25% of its quota in foreign exchange in any 12 month period, that the currency needed has not been declared scarce, and that the Fund has not given previous notice that the member is suspended from making further use of the Fund's resources on the grounds that it is using them in a manner contrary to the purposes and policies of the Fund.

The Fund may waive any of the conditions above.

A member may not use the Fund's resources to finance a large or sustained outflow of capital.

IV. Scarce Currencies

The Fund may declare a member country's currency to be scarce in the Fund, and may apportion its supply among member countries.

When a currency has thus been declared scarce all member countries are authorized to ration their supplies of the currency among their nationals.

The Fund must issue a report analyzing the causes of the scarcity and containing recommendations designed to bring it to an end.

V. Par Values of Currencies

Initially established in terms of gold by agreement with member countries.

Members not to buy gold at a price which exceeds the agreed parity by more than a prescribed margin, nor to sell gold at a price which falls below the agreed parity by more than a prescribed margin.

A member may alter the par value of its currency by 10% without the approval of the Fund.

All further changes are subject to the approval of the Fund, but a member requesting a change of a further 10% may request the Fund to act on it in two days.

The Fund shall approve a change when it is essential to the correction of a fundamental disequilibrium.

There may be a uniform change in the par values of all currencies provided all countries with 10% or more of the votes approve.

VI. Special Gold Provisions

Members are expected to sell gold through the Fund if it is equally advantageous to them, except for newly mined gold.

Members with gold and gold-convertible exchange equal to their quota must pay for half the exchange obtained from the Fund with gold.

Members acquiring gold and gold-convertible exchange beyond the amount of their quotas must use half of it to repay the Fund for exchange obtained from the Fund, and, in addition, to build up their original gold contribution to 25% of their quota provided it was less than that.

VII. Exchange Controls

Members agree to abandon exchange controls on current account transactions as soon as they consider it possible.

Members cannot impose new controls on current transactions without the approval of the Fund.

VIII. Management

A board representing all members.

An executive committee of nine members including the representatives of the five countries with the largest quotas.

Distribution of voting power on both the board and the executive committee closely related to quotas.

All matters settled by majority vote except for changes in quotas and decision to make uniform change in the gold values of all currencies.

IX. Withdrawal

On giving notice.

Reciprocal obligations to be liquidated within reasonable time.

C.

INTERNATIONAL MONETARY FUND

Chief Points Which Must Be Settled At The Conference and Other Points Which May Be Discussed

I. Subscriptions to Fund

The formula for determining quotas must be settled. The leading formula is the Treasury one which takes account of national income, gold and gold-convertible exchange holdings, and foreign trade.

The formula for gold contributions may be further discussed.

The definition of gold and gold-convertible exchange holdings must be agreed on.

The arrangements for payment of subscriptions must be settled, particularly the way in which local funds may be subscribed.

The time at which the Fund begins operations must be determined.

II. Limitations on the Fund's Operations

None

III. Borrowing Privileges of Member Countries

Provision should be made for levying a small interest charge on a member's net indebtedness to the Fund.

Provision should perhaps be made for requiring a member to reduce or eliminate its indebtedness to the Fund over a specified period of time, provided (say) that its indebtedness exceeds 1/4 of its quota on the average of a three months period.

The notice provision must be carefully worked out. Presumably a member should be allowed to continue drawing on the Fund for a limited period of time after notice has been given and up to a specified maximum. Perhaps the period of notice and the specified maximum should depend on the extent of the member's indebtedness to the Fund.

The conditions under which the Fund may give notice may be further spelled out.

The conditions under which the Fund can waive the quantitative limits on a member's right to obtain foreign exchange from the Fund may be further spelled out.

IV. Scarce Currencies

These provisions may be further discussed. Possibly countries adequately supplied with gold or the scarce currency should not be allowed to ration the scarce currency simply because the Fund's supply is becoming exhausted.

V. Par Values of Currencies

The provisions concerning 10% changes must be spelled out. It is not absolutely clear on what base the 10% will be calculated, for example, if a change has been made and approved by the Fund since the establishment of the initial rates.

The way in which initial par values will be determined must be further discussed.

There may be further discussion of the conditions under which the Fund shall approve a change in par values.

VI. Special Gold Provisions

The provision which says members are expected to sell gold through the Fund will not in practice force them to do so. It is possible that this provision could be tightened up.

VII. Exchange Controls

The provisions governing the relaxation of exchange controls after the war are very loose. No member can be forced to abolish controls at any time. These provisions should perhaps be tightened up.

There is no requirement that members control disturbing or speculative capital movements.

VIII. Management

The formula for the distribution of voting power must be agreed on. A formula similar to the one in the Revised White Plan would appear to be reasonable. The distribution of voting power in the Executive Committee will presumably have to be based on the assumption that certain members of the Executive Committee will represent members which are not directly represented on the Executive Committee.

IX. Withdrawal

The arrangements for reciprocal liquidation of obligations must be worked out.