

AUTHORITY

OFD Mr. Ness  
OFD Mr. Young

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OFD Mr. Mikesell

The attached formula was developed in Treasury in June 1943. Numerous questions had been asked by foreign representatives concerning the possible size of the quotas and this formula was devised as a basis for discussions. The estimate of the relative weights assigned to the different economic components was solely a matter of finding an objective formula which would give the U.S. about \$3 billion, followed by U.K. at something under half this amount, \$1.3 billion, closely followed by U.S.S.R., then China at about half the U.S.S.R. figure, and France less than China. (Even this formula did not solve the problem of making France less than China, so France was arbitrarily given a lower quota.

Nothing further was done in the way of developing a formula until the Bretton Woods Conference. (I myself was away in the Middle East in the interim). At Bretton Woods a tentative list of quotas was prepared on the basis of the above formula less 10 percent. Some countries had heard of the formula and had brought data for computation of their quota with them. Then began the process of bargaining. In most cases we started bargaining at a figure substantially below the calculated quota and moved upward when forced to. Once the size of a particular country's quota was determined by this bargaining process, that figure became the basis of determining the quota of another country with which it might be compared on general economic grounds. The political standing of the country frequently played an important part in the bargaining process. France was an obvious case, but there were others. In June the formula did not play a role in the actual determination of quotas sufficient to warrant its use for purposes of revising existing quotas or for the establishing of quotas for new countries.

I strongly recommend that we develop a new formula on the grounds that (1) a more economically defensible one could be devised and (2) we should break with the present unfortunate method of calculating quotas in order to forestall further requests for revision of the Bretton Woods quotas on the grounds that the members were cheated in terms of the formula.

OFD:RM:mf  
Attachment.

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AUTHORITY: *Barry J. Jensen*

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A SUGGESTED FORMULA FOR THE DETERMINATION OF MEMBER  
COUNTRY QUOTAS

The size of a member country's quota determines the amount of the contribution which that country makes to the resources of the Fund and is an approximate measure of the right of that country to purchase foreign exchange from the Fund. The size of the quota is also one of the factors which determines the relative voice of that country in the management of the Fund. The aggregate size of the quotas will determine the total resources of the Fund.

In view of the functions of the quotas, it would seem that the formula for the determination of relative quotas for member countries should take into account the following factors:

- (a) The ability of a country to contribute resources to the Fund. This might be measured by the amount of gold plus foreign exchange freely convertible into gold which a country possesses, and its national income.
- (b) The probable need of a country for the use of the resources of the Fund. A reasonable indication of this need is the magnitude of a country's imports. More significant possibly is the maximum variation in the exports which a country is likely to experience. Since it is impossible to forecast these items for any of the countries, past figures have to be used even though in some cases the situation which will prevail after the war may prove to be greatly different.
- (c) The importance of foreign trade in the economy of a member country. A reasonable measure of this factor would be the ratio of total trade to national income, or the ratio of exports alone to the national income. Here again it will be necessary to resort to existing data rather than a forecast of future trade and national income patterns.
- (d) The relative economic and political significance of a member country. International institutions can best function with the active support and cooperation of the major world powers. Because of the wide discrepancies in some cases between the generally recognized economic and political significance of a power and its foreign trade it might be desirable to give additional weight to an important nation even though it has had a relatively small amount of foreign trade. This is particularly true in view of the fact that the trade picture in the future might be quite different than in the past.

No single or combination of economic data is without disadvantage as a measure of a country's general importance in international affairs. Of those available a country's national income seems to be subject to the least criticism.

In order to take account of the above factors, the following formula for the determination of a member country's quota is suggested:

- (a) 2 percent of the national income
- (b) 5 percent of gold plus dollar balances
- (c) 10 percent of average imports
- (d) 10 percent of maximum variation in exports
- (e) The sum of (a), (b), (c), (d) increased by the percentage ratio of average exports to national income.