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EXCHANGE TRANSFERS UNDER THE INTERNATIONAL MONETARY FUND

I. Exchange Policy under the Fund

1. The Fund is intended to help establish a common international monetary policy.
2. Members of the Fund agree to maintain stable and orderly exchange arrangements and to provide freedom in exchange transactions in settlement of current obligations.
3. Such policies can be maintained only if countries want and are willing to use monetary reserves for these purposes.
4. The desire for liquidity in monetary reserves will be enormously large after the war because of the uncertainties of the postwar economic situation.
5. The Fund by providing additional resources will help countries in carrying out such a policy.
6. There is danger that countries will attempt to insulate their economy from what they may regard as external forces of disturbance.
7. The role of the Fund is to help countries adjust themselves to a common international monetary policy.

II. Alternative Methods Functioning by the Fund

1. Clearing all transactions through the Fund or at least all net balances through the Fund.
2. The Clearing Union would have done this in part largely by the technique of bancor.
3. Countries could not have avoided clearing net transactions through the Fund or they might have found themselves accumulating bancor while paying with gold.

4. There is an inherent difficulty in the use of bancor when their use by a country is limited and the obligation of a country to accept them is limited.

5. How bancor would have been used. Is credit creation inherent in bancor?

6. The concept of control by the Fund.

7. The Fund would have been in a position to force its concept of monetary policy on members by keeping their aggregate exchange resources to a limited amount.

8. This would have been impossible in the case of countries like the United States having relatively large resources.

9. As a practical matter it is inconceivable that countries would have been willing to subject themselves to such a degree of control.

10. The Fund is conceived as providing supplementary resources for use by countries in carrying out the purposes of the Fund.

11. A country must use its own resources along with the Fund's. It has a quantitative limit to its use and the Fund can terminate the use of its resources when they are used contrary to its purposes. Countries with a surplus in their international accounts are required to help finance the balance of payments with them to use part of their resources to increase the liquidity of the Fund. Their obligation to provide resources for the purpose, however, is limited.

12. The Fund itself does not engage in ordinary exchange transactions. International payments are made in national currencies and credit creation is a matter for each country.

13. Actual exchange transactions take place outside the Fund and never through the Fund. The Fund deals only with monetary authorities and only in direct transactions with them. It does not participate directly in transactions between them.

14. The Fund is passive.

III. The Organization of the Exchange Markets

1. Freedom of exchange transactions not inconsistent with supervision of exchange transactions.

2. Some countries will have exchange markets in which there is no government intervention e.g. the United States.

3. Even with such an exchange market the monetary authorities might limit their dealings with individuals.

   (Note the United States policy on gold sales practically compels other countries to accumulate dollars during the period of surplus in their balance of payments.)

4. The organization of markets through authorized dealers.

5. The use of goverhment exchange office.

IV. Conditions for Use of the Fund

1. The use of the Fund is intended primarily for non-capital purposes. This is in conformity with he general principle that monetary reserves should not be dissipated for facilitating a capital flight.

2. Capital transfers that are an intricate part of business transactions are permitted.

3. The Fund would be concerned with the balance of payments of a country to see that the Fund's resources are not used for a large or sustained outflow of capital. One of the main considerations of the

Fund on capital transfers is to see that its balance of payments does not deteriorate as a result of capital transfers.

4. Exchange purchased by a member from the Fund must be presently needed and a country buying exchange from the Fund would warrant that the exchange is to be used for the purposes of the Fund.

5. The Fund would not sell exchange to cover commitments on forward exchange transactions. The Fund would provide resources to meet such commitmants as they become due.

6. The Fund is intended to encourage normal banking transactions including interest arbitrage and would have no objection to forward exchange transactions which are not used to undermine the spot rates. (Note on forward exchange rates)

7. A country would buy exchange prior to need. The Fund would presumably arrange with the country on its expected purchases.

8. Sales of exchange might be made from the Fund to a member country.

9. A country would not be wise to overpurchase exchange from the Fund even when needed for current transactions since a country must use its own resources along with those of the Fund.

10. The charge for exchange transactions is of such a large size that a country that overpurchased and had to repurchase would be a heavey loser.

11. The exchange charge is designed to exceed in general the cost of moving gold.

12. Quantitative limitation upon the use of the Fund.

13. Qualitative limitations.

14. Does a country have an automatic right?

15. The problem of credit worthiness.

16. The technique of exchange stabilization funds involves prior commitment to sell.