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PRELIMINARY DRAFT OUTLINE OF A PROPOSAL FOR
AN INTERNATIONAL STABILIZATION FUND
OF THE
UNITED AND ASSOCIATED NATIONS

I. Preamble

1. There is a growing recognition that progress toward establishment of a functioning democratic world in the postwar period will depend on the ability of free peoples to work together in solving their economic problems. Not the least of these is the problem of how to prevent a widespread breakdown of currencies with resultant international economic disorder. We must assure a troubled world that the free countries will solve these perplexing problems, and that they will not resort to competitive exchange depreciation, multiple currency practices, discriminatory bilateral clearing, or other destructive foreign exchange devices.

2. These are not transitory problems of the immediate postwar period affecting only a few countries. The history of the past two decades shows that they are continuing problems of vital interest to all countries. There must be a general realization that world prosperity, like world peace, is indivisible. Nations must act together to restore multilateral international trade, and to provide orderly procedure for the maintenance of balanced economic growth. Only through international cooperation will it be possible for countries successfully to apply measures directed toward attaining and maintaining a high level of employment and income which must be the primary objective of economic policy.

3. The International Stabilization Fund of the United and Associated Nations is proposed as a permanent institution for international monetary cooperation. The resources of this Fund would be available under adequate safeguards to maintain currency stability, while giving member countries time to correct maladjustments in their balance of payments without resorting to extreme measures destructive of international prosperity. The resources of the Fund would not be used to prolong a basically unbalanced international position. On the contrary, the Fund would be influential in inducing countries to pursue policies making for an orderly return to equilibrium.

4. The Fund would deal only with member governments and their fiscal agents, and would not intrude in the customary channels for conducting international commerce and finance. The Fund is intended to provide supplemental facilities for the successful functioning of the established foreign exchange institutions and to free international commerce from harmful restrictions.

5. The success of the Fund must ultimately depend upon the willingness of nations to act together on their common problems. International monetary cooperation should not be regarded as a matter of generosity. All countries have a vital interest in the maintenance of international monetary stability, and in the balanced growth of multilateral international trade.

II. 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 promote exchange stability, to maintain orderly arrangements among member currencies, and to avoid competitive exchange depreciation.

2. To assure multilateral payment facilities on current transactions among member countries, and to foster 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 reduce the use of such foreign exchange restrictions, bilateral clearing arrangements, multiple currency devices and discriminatory foreign exchange practices as hamper world trade and the international flow of productive capital.

5. To give confidence to member countries in taking measures to attain these purposes by the provision of actual and potential support.

III. Composition of the Fund

1. Each member country shall subscribe in gold and in its national currency an amount, to be called its quota, determined by an appropriate formula. Aggregate quotas for all of the United and Associated Nations will amount to about $8 billion on the basis of the formula.

2. Each member country shall meet its quota contribution in full on or before the date set by the Board of Directors for the Fund's operations to begin.

a. The obligatory gold subscription of a member country shall be fixed at 25 percent of its quota or 10 percent of its gold and free foreign exchange holdings, whichever is the smaller.

A member country may include in the legal reserve account and in the published statement of the reserves of gold and foreign exchange in its Treasury or Central Bank, an amount not to exceed its gold contribution to the Fund, minus its net purchases of foreign exchange from the Fund paid for with local currency.

b. A member country shall pay the remainder of its quota in national currency except that a member country may substitute government securities, payable at par on demand, for national currency up to 60 percent of its quota.

3. The quota for each member country shall be computed by an agreed formula which gives due weight to the important relevant factors, e.g., a country's holdings of gold and free foreign exchange, the magnitude and the fluctuations of its balance of international payments, its national income, etc.

Before computing individual quotas on the basis of the agreed formula, there shall be reserved an amount equal to 10 percent of aggregate quotas to be used as a special allotment for the equitable adjustment of quotas. Where the initial quota of a member country as computed by the formula is clearly inequitable, the quota may be increased from this special allotment.

4. Quotas shall be adjusted on the basis of the most recent data 3 years after the establishment of the Fund, and at intervals of 5 years thereafter, in accordance with the agreed formula. In the period between adjustment of quotas, the Fund may increase the quota of a country, where it is clearly inequitable, out of the special allotment reserved for the equitable adjustment of quotas.

5. Any changes in the formula by which the quotas of member countries are determined shall be made only with the approval of a four-fifths vote of the Board.

6. No increase shall be made in the quota of a member country under III-3, 4 or 5 without the consent of the representative of the country concerned.

IV. Par Values of Member Currencies

1. The par value of a member's currencies shall be agreed with the Fund when it is admitted to membership and shall be expressed in terms of gold. The initial parities shall be determined as follows:

a. For any country which becomes a member prior to the date on which the Fund's operations begin, the initial parity shall be based upon the value of the currency in terms of United States dollars which prevailed on July 1, 1943.

If, in the judgment of either the member country or the Fund, this is clearly inappropriate, the initial parity shall be determined by consultation between the member country and the Fund. No operations in a currency shall be undertaken by the Fund until a parity has been established which has the approval of the Fund and of the member country in question.

b. For any member country which has been occupied by the enemy, the Fund shall use the parity fixed by the government of the liberated country in consultation with the Fund and acceptable to the Fund. Prior to the fixing of a definitive parity, operations in the currency may be undertaken by the Fund at a tentative parity fixed by the member country in consultation with the Fund. No operations shall be continued under this provision when the currency holdings of the Fund exceed the quota of the country, except that under special circumstances the amount of such operations may be extended by the Fund.

2. All transactions between the Fund and members, and all transactions in member currencies shall be at rates within an agreed percentage of parity.

3. The Fund shall not come into operation until agreement has been reached on the parities of currencies of countries representing a majority of the aggregate quotas. No country shall be committed to joining the Fund until it is satisfied that the pattern of parities thus determined is appropriate.

4. 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 in the parity of their currency unless they consider it appropriate to the correction of fundamental disequilibrium.

5. Changes in the par value of a currency shall be made only with the approval of the Fund subject to provision 6 below. The Fund shall approve a requested change in the par value of a member's currency only if it is essential to the correction of a fundamental disequilibrium.

In considering a requested change, the Fund shall take into consideration the extreme uncertainties prevailing at the time the parities of member currencies were initially agreed upon. 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 the par value of its currency.

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

V. Powers and Operations of the Fund

1. The operations of the Fund shall be conducted within the limitations prescribed below:

   a. The Fund shall deal with member countries only through their Treasury, Central Bank, or other fiscal agencies.

   b. Operations on the Fund's account will be limited to transactions for the purpose of supplying a member country on a member's initiative with a desired and "available" currency from the Fund in exchange for its own "acceptable" currency or for gold

   c. With the view to keeping a particular member currency "available" the Fund may:

      i. Borrow its currency from a member country;
      ii. Offer gold to a member country in exchange for its currency.

2. A currency is "available" so long as the Fund holds any of that currency, provided, however, that if the Fund has given notice that its holdings of a currency have become scarce, that currency may then be available in the Fund only in accordance with the special provisions of V-9 below:

3. A currency is "acceptable" to the Fund if at the time the currency is tendered to the Fund the member country represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund.

Unless the conditions are waived, the currency ceases to be acceptable:

a. If the Fund's total holdings of the currency exceed 200 percent of the quota.

b. If the Fund's total holdings of the currency have increased by more than 25 percent of the quota during the previous 12 months.

The Fund's holdings of the currency of a country include its holdings of the Government securities of the country.

4. When a member country is using the resources of the Fund in a manner that clearly has the effect of preventing or unduly delaying the establishment of a sound balance in its international accounts, the Fund shall render a report to a member country indicating the effect of its excessive use of the Fund's resources.

a. The Fund may also give notice of not less than one year that it will not, thereafter, sell foreign exchange for the currency of a member country, but during the period of notice the Fund shall sell foreign exchange to the member country for its currency up to the extent of 25 percent of its quota.

b. However, when the currency holdings of the Fund exceed 125 percent of the member's quota the Fund may reduce the period of notice to not less than six months during which period the Fund will sell foreign exchange for the currency of a member country to the extent of not less than 12-1/2 percent of its quota.

5. The Fund may waive any of the conditions of acceptability in V-3 and 4 above only with the specific approval of the Executive Committee and provided that at least one of the following two conditions is met:

a. In the judgment of the Fund satisfactory measures are being or will be taken by the country whose currency is acquired by the Fund, to correct the disequilibrium in the country's balance of payments; or

b. It is believed that the balance of payments of the country whose currency is acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

The Fund may also require the member country to deposit collateral in accordance with regulations prescribed by the Board. Such collateral shall take the form of gold, foreign or domestic currency or Government bonds, or other suitable collateral within the capacity of the member country.

6. The operations of the Fund shall provide the member countries with facilities for multilateral clearing in accordance with these principles:

a. A member country agrees to buy back its currency from any other member with that member's currency or with gold, so long as its own currency is acceptable to the Fund and the other member's currency is available in the Fund. This provision shall apply only to currency tendered free of exchange restrictions.

b. So long as a member's currency is acceptable, it is entitled to acquire any available currency in the Fund, provided that when a member country's holdings of gold and free foreign exchange exceed its quota, the Fund in selling foreign exchange to that country shall require that one-half of such exchange shall be paid for with gold or foreign exchange at the option of the Fund.

c. A member country desiring to obtain directly or indirectly the currency of another member country for gold is expected, provided it can do so with equal advantage, to acquire an available currency by the sale of gold to the Fund.

d. The local currency holdings of the Fund shall be fully transferable to any member country, subject to V-1-b and the provisions of the plan.

7. In order to strengthen the Fund, member countries will repurchase their local currencies from the Fund under the following provisions:

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

b. If at the end of stated periods, a member's official holdings of gold and free foreign exchange have increased and those holdings are in excess of its quota, the Fund may require that half of that part of any increase which exceeds a member country's quota be used to repurchase part of the Fund's holdings of its currency. This provision shall become inoperative for any member country when the Fund's holdings of its currency are less than 50 percent of its quota.

8. 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 controls to prevent such use of the resources of the Fund.

a. This provision is not intended to prevent the use of the Fund for capital transactions of reasonable amount required to meet ordinary trade and banking obligations, nor is it intended to prevent capital movements in moderate amounts which are made out of member countries' own resources of gold and foreign exchange.

b. A member country may not use its control of capital movement to restrict payments for current transactions consistent with the provisions of the plan or to delay unduly the transfer of funds in settlement of commitments.

9. The Fund may declare a currency scarce when it becomes evident to the Fund that the anticipated demand for a currency may soon exhaust the Fund's holdings of that currency.

a. When a currency is thus declared scarce, the Fund shall so inform member countries and propose an equitable method of apportioning the scarce currency. The Fund shall also issue a report embodying the causes of the scarcity and containing recommendations designed to bring it to an end.

b. 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 among its nationals the member country shall have complete jurisdiction.

10. The Fund shall make provision for meeting its expenses, as follows:

a. The Fund may make a service charge on all gold and exchange transactions.

b. The Fund shall levy a charge uniform to all countries, at a rate not less than 1 percent per annum, payable in gold, against any country on the amount of its currency held by the Fund in excess of the quota of that country. An additional charge, payable in gold, shall be levied on the Fund's holdings of its currency in excess of 200 percent of the quota of that country.

c. In case the Fund finds it necessary to borrow currency to meet the demands of its members, an additional charge, payable in gold, shall be made by the Fund sufficient to cover the cost of the borrowing.

d. The Fund may levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed one-tenth percent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses.

VI. Accounts of the Fund

1. The monetary unit of the Fund shall be 13-5/7 grains of fine gold, equal to the present gold content of the United States dollar. The Fund shall record and publish its accounts in terms of this unit.

2. No change in the par value of the currency of a member country shall be permitted to alter the gold value of the assets of the Fund. Whenever the currency of a member country has depreciated to a significant extent, that country must deliver to the Fund an amount of its currency or securities equal to the resulting decrease in the gold value of the Fund's holdings of its currency and securities. Likewise, whenever the currency of a member country has appreciated to a significant extent, the Fund must return to that country an amount of currency or securities equal to the resulting increase in the gold value of the Fund's holdings of its currency and securities.

3. The Fund's account in the currency of a member country shall be kept at the Central Bank of that country.

VII. Management

1. The administration of the Fund shall be vested in a Board of Directors and in an Executive Committee representing member countries.

a. Each government shall appoint a director and an alternate in a manner determined by it who shall serve for a period of five years, subject to the pleasure of their governments. Directors and alternates may be reappointed.

b. The Board of Directors shall appoint from among its members, in a manner to be agreed upon, an Executive Committee of not less than 11 members. The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority specifically provided herein or delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate as a director shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

2. In all voting by the Board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes.

The distribution of basic votes shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of basic voting power would seem to be the following: Each country shall have 100 votes, plus 1 vote for the equivalent of each $1 million of its quota.

No country shall be entitled to cast more than one-fifth of the aggregate basic votes, regardless of its quota.

Voting in the Executive Committee shall be according to a method to be agreed.

3. All matters shall be settled by a majority vote except where specifically provided otherwise. Voting shall be according to basic votes except as follows:

a. In voting on proposals to authorize the sale of foreign exchange, each country shall cast a number of votes modified from its basic vote:

i. By the addition of one vote for each $2 million of net sales of its currency by the Fund (adjusted for its net transactions in gold), and
ii. By the subtraction of one vote for each $2 million of its net purchases of foreign exchange from the Fund (adjusted for its net transactions in gold).

b. In voting on proposals to suspend or restore membership, each member country shall cast one vote, as provided in VII-8 below.

4. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an ex officio member of the Board and shall be chief of the operating staff of the Fund. The operating staff shall be selected in accordance with regulations established by the Board of Directors.

The Bord of Directors may appoint such committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.

5. The Executive Committee may at any meeting authorize any officers or committees of the Fund to exercise any specified powers of the Fund not requiring more than a majority vote.

The Board of Directors may delegate any authority to the Executive Committee, provided that the delegation of powers requiring more than a majority of the member votes can be authorized only by a majority (of the Board) of the same size as specified, and can be exercised by the Executive Committee only by like majority.

Delegated powers shall be exercised only until the next meeting of the Executive Committee, or in the case of powers delegated to the Executive Committee until the next meeting of the Board, and in a manner consistent with the general policies and practices of the Fund.

6. The Executive Committee may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.

7. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. The annual meeting shall be held in places designated by the Executive Committee, but not more than one annual meeting in any 5-year period shall be held within the same member country.

On request of member countries casting one-fourth of the votes, the Chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

8. A country failing to meet its obligations to the Fund may be suspended from membership provided a majority of the member countries so decides. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of 1 year

the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member countries.

A member country may withdraw from the Fund by giving notice in writing and its withdrawal will take effect immediately.

A country which is dropped or which withdraws from the Fund shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum owed by that country to the Fund. Any losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. Local currency holdings of the Fund in excess of the above shall be repurchased by that country with gold or foreign exchange at the option of the Fund.

When a country is dropped from membership or withdraws from membership, the reciprocal obligations of the Fund and the country are to be liquidated within a reasonable time.

After a member country has been dropped or has withdrawn from membership, the Fund may not sell the currency of that country if the Fund's holdings are less than the unliquidated portion of the country's quota nor buy the currency of that country if the Fund's holdings are more than the unliquidated portion of a country's quota. After a country has been dropped or has withdrawn from membership, its right to utilize the resources of the Fund is subject to the approval of the Fund.

9. Net profits earned by the Fund shall be distributed in the following manner:

a. Fifty percent to reserves until the reserves are equal to 10 percent of the aggregate quotas of the Fund.

b. Fifty percent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in gold at the discretion of the Fund.

VIII. Policies of Member Countries

Each member country shall determine for itself the appropriateness of the measures it takes to implement the purposes and the provisions of the Fund, except in such matters as relate to the purchase or sale of exchange. However, the Fund may recommend to member countries such action as it regards as appropriate with respect to the purposes and provisions of the Fund, and each member country shall give consideration to such recommendations.

Each member country undertakes the following:

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 between its currency and the currencies of other members at rates outside a prescribed range based on the agreed parities.

3. To abandon as soon as possible, when the member country decides that conditions permit, all restrictions on payments for current international transactions with other member countries (other than those involving capital transfers), and not to impose any additional restrictions (except upon capital transfers, or in accordance with 10 above) without the approval of the Fund. The Fund may make representations that conditions are favorable to the abandonment of restrictions.

4. Not to engage in discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

5. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken, such as:

a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital except with the permission of the government of that country and the Fund;

b. To make available to the Fund or to the government of any member country such information as the Fund considers necessary on property in the form of deposits, securities and investments of the nationals of the member country imposing the restrictions.

6. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

7. To furnish the Fund with all information it needs for its operations and to furnish such reports as the Fund may require in the form and at the times requested by the Fund.