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PRELIMINARY DRAFT CONFIDENTIAL

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

[The technical experts of the United Kingdom propose that the agency be designated as an International Monetary Union.]

Sufficient discussion of the problems of international monetary co-operation 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 co-operation is through the establishment of an International Stabilization Fund. They have set forth below the principles which they believe should be the basis for this Fund. The 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 Stabilization Fund is designed as a permanent institution for international monetary co-operation. 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 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.

Given to Russian experts 1/11/44

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 Nations and countries associated with them subscribe to the Fund (corresponding to about 10 billion dollars for the world as a whole).

U. S. Statement

(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 official holdings of gold and gold-convertible exchange whichever is smaller.

[U. K. experts propose that the gold subscription be based on net holdings of gold and gold-convertible exchange.]

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 currency offered

(i) Have not increased by more than 25 per cent of the member's quota during the previous twelve months, and

(ii) 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.

U. S. Addition

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

U. S. Addition

When a member's official holdings of gold and gold-convertible exchange exceed its quota, the Fund, in selling foreign exchange to that member country, shall require that one-half of such exchange be paid for with gold.

(3) 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, and other transactions authorized in this section.

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

(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.

(6) A member country desiring to obtain the currency of another member country for gold is expected, provided that it can do so with equal advantage, to acquire the currency by sale of gold (directly or through another member) to the Fund.

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

U. S. Statement

(8) If a member's official holdings of gold and gold-convertible exchange have increased and are in excess of its quota, the Fund may require up to half of the increase to be used to repurchase part of the Fund's holdings of its currency, provided that this does not reduce the country's official holdings of gold and gold-convertible exchange below its quota or reduce the Fund's holdings of a member's currency below 75 per cent of its quota.

[U. K. experts propose that the provision apply only when a member's <u>net</u> holdings of gold and gold-convertible exchange exceed its quota, and that the provision become inoperative as soon as the Fund's holdings of a member's currency are less than its quota.]

5. Par Values of Member Currencies

U. S. Statement

(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 and all transactions in member currencies shall be at rates within an agreed percentage of parity.

[U. K. experts propose that transactions between the Fund and members be at par.]

(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.

(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 currencies of member countries were initially agreed upon.

(4) After consulting 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.

U. S. Statement

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 required to meet obligations 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 and do not impair a member's ability to meet its obligations to the Fund.

U. K. Statement

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, approved by a member country's control as being required in the ordinary course of trade, banking and other business or for the expansion of exports. Nor is it intended to prevent capital movements which are met out of a member country's own resources of gold and foreign exchange.

(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.

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 quota 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 resources of the Fund is subject to approval of 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) and not to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

11. Transitional Arrangements

U. S. Statement

(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 the provisions of 10(3) above shall be subject to its being satisfied as to arrangements at its disposal to facilitate the settlement of the balance of payment differences during the early post-war transition period by means which will not unduly encumber its facilities with the Fund.

[U. K. experts propose that this provision apply to the agreement to all provisions of the Fund proposal.]

U.S. Statement

(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 member countries 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 maintenance of exchange stability.

U. K. Statement

Notwithstanding the above clauses members shall be free during this transitional period to maintain and to adapt as changing circumstances may require exchange regulations of 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 framing and managing 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 monetary relations with other member countries which will facilitate clearing payments and maintenance of exchange stability.

(3) The Fund may make representations to any member that conditions are favorable to withdraw particular restrictions or for 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.

U. S. Statement

(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.

U. K. Statement

During this period the Union shall recognize that there may be need for many changes and adjustments in the rates of exchange and in deciding on its attitude to the proposed changes shall give the benefit of any reasonable doubt to a country requesting a change in its rate.