Treasury Department
Division of Monetary Research

Date..............................19

To:

From:

Say the statement will not be ready for distribution until tomorrow morning

Please show this to no one else since White indicated that it should not be distributed until he came back. I'm sure, however, he would want you to have a copy if he knew you wanted it. Irv

#8

STRICTLY CONFIDENTIAL

MEMORANDUM

A Stabilization Fund
of the
United and Associated Nations

It is still too soon to know the precise form and magnitude of post-war monetary problems. But it is certain that we shall be confronted with the task of dealing with three inseparable monetary problems: to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such a formidable task can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable post-war monetary problems should not be postponed until the end of hostilities. It would be ill-advised if not dangerous to leave ourselves unprepared at the end of the war for the difficult task of international monetary cooperation. We should begin now to devise an international monetary agency, for the task is certain to take many months at least. Specific and practical proposals must be formulated by the experts and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in gathering personnel and in establishing an organization before an international institution for monetary cooperation can begin effective work.

There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. That assurance should be given now. The people in all of the United Nations must be encouraged to feel themselves on solid ground. They must be given to understand that a victory of the United Nations will not usher in another two decades of widespread economic disruption. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability and to facilitate the restoration and balanced growth of international trade. A proposal drafted by American technical experts is appended. The draft presents only the essential elements of an international stabilization fund. The provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views. Obviously, there are many details that have been omitted and that can be better formulated after there is agreement on the general principles.

It is recognized that an international stabilization fund is only one of the instrumentalities which may be needed in the field of international economic cooperation. Other agencies are also needed to provide capital for post-war reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong temptation to embrace within a single international agency the responsibility for dealing with these and other international economic problems. We believe, however, that international economic institutions can operate more effectively if they are not burdened with important but extraneous duties for which they have not been devised and for which they are unsuited. For example, the highly specialized nature of international monetary stabilization and the provision of long-term capital would seem to call for separate institutions each designed to deal with its distinct problems.

It should be emphasized that the appended draft deals only with an international stabilization fund. It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development. It is hoped that the appended draft will call forth from the experts of the United Nations, critical comment and constructive suggestions. It is our belief that a workable and acceptable plan can emerge only from the joint efforts of the United Nations.

Washington, D. C.
January, 1943.

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U. S. Treasury Department
January, 1943

Preliminary Draft Summary of
Proposal for a United and Associated Nations
Stabilization Fund

I. Purposes of the Fund

1. To stabilize the foreign exchange rates of the currencies of the United and Associated Nations.

2. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

3. To help create conditions under which the smooth flow of foreign trade and of productive capital among the United and Associated Nations will be fostered.

4. To facilitate the effective utilization of the abnormal foreign balances accumulating in some countries as a consequence of the war situation.

5. To reduce the use of foreign exchange controls such as interfere with world trade and the international flow of productive capital.

6. To help eliminate bi-lateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices.

II. Composition of the Fund

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments.

2. Each of the member countries shall subscribe a specified amount which will be called its quota. The aggregate of quotas of the member countries shall be the equivalent of at least $5 billion.

. The quota for each member country shall be determined by an agreed upon formula. The formula should give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

3. Each member country shall provide the Fund with 50 percent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each country (consisting of 50 percent of its quota) shall be 12.5 percent of its quota in gold, 12.5 percent in local currency, and 25 percent in its own (i.e., government) securities. However, any country having less than $300 million in gold need provide initially only 7.5 percent of its quota in gold, and any country having less than $100 million in gold need provide initially only 5 percent of its quota in gold, the contributions of local currency being increased correspondingly. A country may, at its option, substitute gold for its local currency or securities in meeting its quota requirement.

5. The member countries of the Fund may be called upon to make further provision toward meeting their quotas at such times, in such amounts, and in such form as the Board of Directors of the Fund may determine, provided that the proportion of gold called for shall not exceed the proportions indicated in II-4 above, provided that all countries shall meet their quotas pro rata, and provided that a four-fifths vote of the Board shall be required for subsequent calls to meet quotas.

6. Any changes in the quotas of member countries shall be made only with the approval of a four-fifths vote of the Board.

III. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government securities of member countries; to accept deposits and to earmark gold; to issue its own obligations and discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

   All member countries agree that all of the local currency holdings shall be free from any restrictions as to their use. This provision does not apply to abnormal war balances acquired in accordance with the provisions of III-9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be considered only when essential to correction of a fundamental disequilibrium and be permitted only with the approval of fourth-fifths of member votes.

3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund currency of any member country which the Fund holds, provided that:

   a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.

   b. The net acquisition by the Fund of the currency of any member country shall not exceed during the first year of the operation of the Fund, the quota of that country; it shall not exceed during the first two years 150 percent of such quota; and thereafter it shall not exceed 200 percent of such quota; except that upon approval by the Board of Directors, the Fund may purchase any local currency in excess of these limits, provided that at least one of the following two conditions is met:

i. The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or

ii. It is believed that the balances of payments of the country whose currency is being 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.

c. When the Fund's net acquisition of any local currency exceeds the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors.

d. A charge at the rate of 1 percent per annum payable in gold shall be levied against any member country on the amount of its currency held by the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund shall not be included in the computed balance of local currency used as a basis for this charge.

e. When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country the Fund shall resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.

4. The right of a member country to purchase foreign exchange from the Fund with its local currency to the amount of its quota for the purpose of meeting an adverse balance of payments on current account is recognized, subject to the limitation in III-3 above and III-7 below.

5. With the approval of four-fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country for its local currency to facilitate transfer of capital, or repayment or adjustment of foreign debt (including a debt already in default), when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation.

6. When the Fund's holdings of any particular currency drop below 15 percent of the quota of that country, and after the Fund has used for additional purchases of that currency,

a. Gold in an amount equal to the country's contribution of gold to the Fund, and

b. The country's obligations originally contributed, the Fund has the authority and the duty to render a report to the country embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The Board member of the country in question should be a member of the Fund committee appointed to draft the report. This report should be sent to all member countries and, if deemed desirable, made public.

Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the demand for any particular currency is such that it gives promise of exhaustion of the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the holdings of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under appropriate conditions which are acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Board of Directors shall determine the apportionment of sales of such scarce currency, and in such apportionment it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation, and it shall consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed after joining the Fund. For the purpose of this provision including computations, free foreign exchange only is considered interchangeable with gold. The Fund may accept or reject the offer.

To effectuate this objective each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the governments of member countries, abnormal war balances held in other countries, provided all the following conditions are met:

   a. The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member government on date of its becoming a member.

   b. The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to purchase back from the Fund 40 percent of them with gold or such free currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than 3 years after the date of transfer.

   c. The country in which the abnormal war balances are held agrees to transfer to the Fund these balances described in b above, and to purchase back from the Fund 40 percent of them with gold or such currencies as the Fund may wish to accept, at the rate of 2 percent a year beginning not later than 3 years after the date of transfer.

   d. A charge of 1 percent, in each case payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 percent payable in gold shall be levied annually against each of them on the amount of such balances remaining to be repurchased.

   e. If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold or the accumulation of foreign balances or other capital transactions.

   f. Either country may, at its option, increase the amount it repurchases annually. But, in the case of the country which sold abnormal war balances to the Fund, not more than 2 percent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.

   g. The Fund has the privilege of disposing of any of its holdings of abnormal war balances in the form of free funds after the 23 year period is passed, or sooner, provided

      i. its holdings of the free funds of the country in which the balances are being held fall below 15 percent of its quota; or

      ii. the approval is obtained of the country in which the balances are held.

h. The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the installments of the 40 percent portion gradually to be repurchased by the country which sold the balances to the Fund.

i. The Fund on its part agrees not to sell the abnormal war balances acquired under the above authority, except with the permission, or at the request of the country in which the balances are being held, but the Fund can invest these balances in regular or special government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing government is first obtained.

j. The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it can afford to take over under this provision.

Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of non-member countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.

11. To borrow, at such rates as the Fund may recommend, the currency of any country, provided four-fifths of the member votes approve the terms of such borrowing.

12. To sell member-country obligations owned by the Fund provided that the Board representative of the country in which the securities are to be sold approves.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in "short-term" securities -- commercial or government -- of the country of that currency provided four-fifths of the member votes approve, and provided further that the Board representative of the country in which the investment is to be made approves.

14. To lend to any member country local currency from the Fund for one year or less up to 75 percent of the currency of that country held by the Fund provided such loan is approved by four-fifths of the member votes. A country borrowing such funds shall pay interest to the Fund at a rate to be determined by the Board.

15. To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed .1 percent per annum of the quota of each country. The levy may be made only when the earnings of the Fund are inadequate to meet its current expenses and only with the approval of four-fifths of the member votes, and only to the extent necessary to meet its current expenses.

The Fund shall make a service charge of 1/4 percent or more on all exchange and gold transactions.

16. The Fund shall deal only with or through

a. The governments of member countries;

b. The central banks or fiscal agencies of these countries (and then only with the consent of the member of the Board representing the country in question); and

c. Any international banks owned predominantly by member governments.

An exception to the above limitation is that the Fund may, with the approval of the member of the Board representing the government of the country concerned, sell its own securities, or securities it holds, to the public or to institutions of member countries.

IV. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) consisting of 137 1/7 grains of fine gold (equivalent to $10 U.S.). The accounts of the Fund shall be kept and published in terms of Unitas.

2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or the Unitas and may not be altered by any member country without the approval of four-fifths of the member votes.

3. Deposits in terms of Unitas may be accepted by the Fund from member countries only upon the delivery of gold to the Fund and shall be transferable and redeemable in gold or in the currency of any member country at the rate established by the Fund. The Fund shall maintain a 100 percent reserve in gold against all Unitas deposits.

4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Thus if the Fund approves a reduction in the value of the currency of a member country (in terms of gold or the Unitas) or if, in the opinion of the Board, the currency of a member country has depreciated to a significant extent, that country must deliver to the Fund an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency

of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or the Unitas value of the Fund's holdings. The same provisions shall also apply to the securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under III-9 (abnormal war balances).

V. <u>Management</u>

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their government. Directors and alternates may be reappointed.

   In all voting by the Board, the director or alternate of each member country shall be entitled to cast a number of votes to be agreed upon. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of 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.

   Notwithstanding the approved formula for distributing voting power, no representative shall cast more than one-fourth of the aggregate votes regardless of the quota of his country. All decisions, except where specifically provided otherwise, shall be made by a majority of the member votes.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become ex officio a member of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for reelection, and may be removed for cause at any time by the Board.

   The Managing Director of the Fund shall select the operating staff in accordance with regulations established by the Board of Directors. Members of the staff shall be available upon request of member countries for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be ex officio a member of the Executive Committee.

   The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

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

5. The Board may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. Such powers shall be exercised only until the next meeting of the Board and shall be exercised in a manner consistent with the general policies and practices of the Board.

   The Board of Directors may not delegate, except to the Executive Committee, any authority which can be exercised only by a four-fifths vote.

6. The Board may establish regulations governing the operations of the Fund, except where a four-fifths vote is required, and the officers and committees of the Fund shall be bound by such regulations.

7. The Board shall hold one annual meeting and such other meetings as it may be desirable to convene. 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 provided a majority of the member votes so decide. 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 two years the country shall be automatically dropped from membership unless it has been restored to good standing by a majority vote of the Fund members.

   Any country may withdraw from the Fund by giving notice and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

   A country which is dropped, or which withdraws, from membership 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 due from that country to the Fund. Any realized losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country dropped or withdrawing from membership. The Fund shall have five years in which to liquidate its obligation to such country. When any country withdraws or is dropped from the Fund, the rights of the Fund shall be fully safeguarded.

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

   a. 50 percent to reserves until the reserves are equal to 10 percent of the aggregate contributed quotas of the Fund.

b. 50 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 Unitas at the discretion of the Fund.

VI. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose additional restrictions without the approval of the Fund.

   The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to the representations of the Fund.

3. 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:

   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 full information on all property in the form of deposits, securities and investments of the nationals of that member country; and

   c. Such other measures as the Fund shall recommend.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements, nor engage in multiple currency practices, except with the approval of the Fund.

5. 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.

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

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.