STABILIZATION - International

Memoranda

PROVISIONS OF THE TENTATIVE PROPOSAL

II. Composition of the Fund

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 country shall pay in gold not less than an amount determined as follows. If its gold and free foreign exchange holdings are:

In excess of three times its quota, it shall pay in gold 50 percent of its quota.

More than two but less than three times its quota, it shall pay in gold 40 percent of its quota plus 10 percent of its holdings in excess of twice its quota.

More than its quota but less than twice its quota, it shall pay in gold 30 percent of its quota plus 10 percent of its holdings in excess of its quota.

Less than its quota, it shall pay in gold 30 percent of its holdings.

The gold payment required of a member country substantial parts of whose home areas have been wholly or partly occupied by the enemy, shall be only three-fourths of the above.

III. Monetary Unit of the Fund

The monetary unit of the Fund shall be the unitas (UN) equal in value to 137-1/7 grains of fine gold (equivalent to $10). No change in the gold value of the unitas shall be made except with the approval of 85 percent of the member votes. When such change is made, the gain or loss sustained by the Fund on its holdings of gold shall be distributed equitably among the members of the Fund.

The accounts of the Fund shall be kept and published in terms of unitas.

IV. Exchange Rates

Changes in the exchange value of the currency of a member country shall be considered only when essential to the correction of fundamental disequilibrium in its balance of payments, and shall be made only with the approval of three-fourths of the member votes including the representative of the country concerned.

Because of the extreme uncertainities of the immediate post-war period, the following exceptional provisions may be used during the first 3 years of the Fund's operations:

When the existing rate of exchange of a member country is clearly inconsistent with the maintenance of a balanced international payments position for that country, changes from the established rate may be made at the special request of the country and with the approval of a majority of the member votes.

A member country may change the established rate for its currency by not more than 10 percent provided that the member country shall notify the Fund of its intention and shall consult with the Fund on the advisability of the action.

REVISIONS RECOMMENDED BY THE BRITISH EXPERTS

II. Composition of the Fund

A member shall make a subscription to the Fund, equal to its quota, of which not less than 12-1/2 percent shall be in gold and the balance in securities carrying 1/2 percent interest payable in unitas, receiving in return a corresponding balance expressed in unitas on the books of the Fund; and shall be entitled subsequently to subscribe up to a further 50 percent of its quota on the same terms. The aggregate of the quotas of the member countries shall be the equivalent of at least $8 billion.

A member country may subscribe further gold in redemption of its securities at any time. If at the end of any year a member has a stock of gold and currencies freely convertible into gold in excess of its quota, it shall redeem its securities with gold to an amount equal to 2 percent of its quota so long as any of its securities remain outstanding. The gold and securities initially subscribed and any gold subsequently subscribed under this clause shall remain as a pledge with the Fund, which may not part with it except when the member redeems it or withdraws from the Fund or on the Fund's liquidation. Gold so held shall be called fixed gold. See also Provisions for Multilateral Clearing (V-1 below).

III. Monetary Unit of the Fund

(The British recommended orally a change in the unitas should require the approval of 80 percent of the member votes, or alternatively, the approval of the member votes including all countries with 10 percent or more of aggregate quotas).

IV. Exchange Rates

Members shall agree not to propose changes in the exchange value of their currency unless they consider it essential to the correction of fundamental disequilibrium in their balance of payments, and changes shall be made only with the approval of the Fund subject to the qualifications below.

The Fund shall not withhold its approval if the proposed change inclusive of any previous changes since the establishment of the Fund does not exceed 10 percent within the last ten years.

A country which has exhausted its facilities under 2, and desires a further change in the par value of its currency in terms of unitas shall, if possible, explain its reasons to the Fund beforehand and seek the Fund's prior approval. The Fund, in giving or withholding approval, shall act in accordance with the following principles:-

> It shall take account of changes in the relative money costs of production in the country making the application and shall allow an appropriate change if it appears that the increase in relative costs has led to an over-valuation of the currency.

REVISIONS PROPOSED BY UNITED STATES EXPERTS

II. Composition of the Fund

A country shall pay in gold an amount not less than 25 percent of its quota provided, however, that:

A country whose official gold and free foreign exchange holdings are less than 4 times its quota may reduce its payment in gold by 5 percent of the amount by which its official holdings fall short of 4 times its quota;

No country shall pay in gold more than 10 percent of its official holdings of gold and free foreign exchange.

III. Monetary Unit of the Fund

The monetary unit of the Fund shall be the unitas (~~UN~~) equal in value to 137-1/7 grains of fine gold (equivalent to $10). No change in the gold value of the unitas shall be made except with the approval of a majority of the member votes including the representatives of all member countries holding 10 percent or more of the aggregate quotas. When such a change is made, the gain or loss sustained by the Fund on its holdings of gold shall be distributed equitably among the members of the Fund.

The accounts of the Fund shall be kept and published in terms of unitas.

IV Exchange Rates

A change in an established exchange rate may be made only upon the request of the member country and only after approval by the Fund and the representative of the country concerned.

The Executive Committee, acting for the Fund, shall authorize a change in an exchange rate only when essential to the correction of a fundamental disequilibrium. In considering the advisability of a requested change in an exchange rate, the Executive Committee shall take account of changes in relative costs of production, changes in the balance of payments position of the country, its reserve position and other relevant factors, and the probable effects of the requested change in the exchange rate.

In order to assure the prompt consideration of a requested change in an exchange rate, the Executive Committee shall notify a member country, within two business days after the filing of the request by its representative with the Managing Director, that the requested change has been accepted, rejected, or held for further consideration.

V. Powers and Operations

The Fund shall have the power to buy, sell and hold gold, currencies, and government securities of member countries; to earmark and transfer gold; to issue its own obligations, and to offer them for discount or sale in member countries.

The Fund shall purchase for local currency or needed foreign exchange any member currency in good standing acquired by another member country in settlement of a balance of payments on current account, where such currency cannot be disposed of in the foreign exchange markets within the range established by the Fund.

The Fund may sell to the Treasury of any member country (or Stabilization Fund or Central Bank acting as its agent) at the accepted rate of exchange, currency of any member country which the Fund holds, provided that:

> The foreign exchange demanded from the Fund is required to meet an adverse balance of payments predominantly on current account with any member country. (Cf. V-3, for capital transfers.)

The Fund may sell foreign exchange to a member country, under conditions prescribed by the Fund, to facilitate a transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation, provided the fund's holdings of the currency and securities of the member country do not exceed 150 percent of the quota of that country. When the Fund's holdings of the local currency and securities of a member country exceed 150 percent of the quota of that country, the Fund may, in exceptional circumstances, sell foreign exchange to the member country for the above purposes with the approval of three-fourths of the member votes. (Cf. V-2-a, above;

IV. Exchange Rates (continued)

It shall also take into account the balance of payments of the country making the application with the rest of the world and shall allow an appropriate change if the balance on current account, together with inward long-term capital transactions, has (measured as a percentage of its foreign trade) been seriously adverse over a period, or if the country's remaining holding of liquid reserves (measured as a percentage of its quota) is inadequate; provided always that the proposed alteration in the exchange seems likely to improve the position.

Application by a member to appreciate its exchanges shall be similarly considered mutatis mutandis.

The Fund shall not be entitled to refuse a change on the ground of the social or political policies which may have led to the situation and shall approve a change which in the de facto situation would tend to restore equilibrium.

If the circumstances are such that it is not practicable to obtain the Fund's prior approval to a change, a member shall be entitled if necessary, after consulting the Chairman, to make a change not exceeding 10 percent without seeking the Fund's prior approval, in which case it shall immediately seek the Fund's confirming approval. If the Fund is unable to approve the change by a majority vote, the country shall have the option of reversing it and of conforming to the views of the Fund, or shall withdraw from membership without further notice given.

V. Powers and Operations

Provisions for Multilateral Clearing

A member shall undertake to sell its currency to another member in exchange for a transfer of unitas at parity on the books of the Fund unless it has given notice under 5 below.

A member shall undertake to buy its currency from another member in exchange for a transfer of unitas at parity on the books of the Fund so long as it has a balance of unitas or is in a position to obtain more unitas on the same terms as its original subscription.

Provisions on Capital Transfers

Within three months after the end of each quarter a member country shall furnish the Fund with material for an analysis of its balance of payments for the previous twelve months under the headings of current income items, investment items and credit items.

If and so long as a member country uses the facilities of the Fund it will be expected to exercise control of external payments so as to prevent outward movements of capital for the purchase of foreign balances or securities dealt in on foreign stock exchanges or for speculative purposes and shall forbid the issue of long-term foreign loans without the approval of its Control. This provision is not intended to interfere with transactions which do not involve a substantial requirement of foreign exchange or are met out of the member country's own quick reserves outside the Fund, or with transactions approved by the member country's Control as being required in the ordinary course of trade, banking and other business, or for the expansion of exports.

IV. Exchange Rates (continued)

The Executive Committee may not hold for further consideration a request for an alteration in exchange rates not in excess of 10 percent of the established rate, and the Executive Committee may act on such a request by a majority of its votes. The aggregate changes under this provision shall not exceed 10 percent of the initially established rate, regardless of the direction of the changes.

Because of the uncertainties of the appropriateness of the initial rates determined during and immediately after the war, a member country may change the established rate of exchange for its currency up to 10 percent of the initially established rate, provided that the member country shall notify the Fund of its intention and shall consult with the Fund on the advisability of its action; but the aggregate changes under this provision shall not exceed 10 percent of the initially established rate, regardless of the direction of the changes.

V. Powers and Operations

The Fund shall have the power to buy, sell and hold gold, currencies, and government securities of member countries; to earmark and transfer gold; to issue its own obligations, and to offer them for discount or sale in member countries.

The Fund shall purchase for local currency or needed foreign exchange any member currency, for which it is authorized to sell foreign exchange under V-2, 3, acquired by other member countries in settlement of a balance of payments predominantly on current account where such currency cannot be disposed of within the range established by the Fund.

The Fund may sell to the Government of any member country (or Central Bank or Stabilization Fund acting as its agent) at the accepted rate of exchange, currency of any member country which the Fund holds, provided that

The foreign exchange demanded from the Fund is intended to meet an adverse balance of payments predominantly on current account with any member country. (Cf. V-3, for capital transfers.)

V-3 would remain unchanged.

V. Powers and Operations (continued)

When the gold and free foreign exchange holdings of a member country exceed 50 percent of its quota, the Fund in selling foreign exchange to such member country shall require that one-half of such exchange shall be paid for with gold or foreign exchange acceptable to the Fund.

Provided further, that when the Fund's holdings of the currency of any member country or countries fall below 20 percent of their respective quotas, the sale of such currencies shall also require the approval of the representatives of these countries.

The Fund's total holdings of the currency and securities of any member country shall not exceed the quota of such country by more than 50 percent during the first year of operation of the Fund, and thereafter shall not exceed such quota by more than 100 percent (except as otherwise provided below). The total holdings thus permitted are termed the permissible quota of a country. When the Fund's holdings of local currency and securities are equal to the permissible quota of a country, the Fund may sell foreign exchange for such additional local currency only with the specific approval of the Board of Directors (cf. VI-3-a, below), and provided that at least one of the following two conditions is met:

When, in the judgment of the Fund, a member country, whose currency and securities held by the Fund exceed its quota, is exhausting its permissible quota more rapidly than is warranted, or is using its permissible quota 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 may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Fund.

To facilitate appropriate adjustment in the balance of payments position of member countries, and to help correct the distortions in the pattern of trade balances, the Fund shall apportion its sales of such scarce currency. 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. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

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 the member country needs, one-half of the foreign exchange resources and gold it acquires in excess of its official holdings at the time it became a member of the Fund, but no country need sell gold or foreign exchange under this provision unless its official holdings (i.e., Treasury, Central Bank, Stabilization Fund, etc.) are in excess of 25 percent of its quota. For the purpose of this provision, only free and liquid foreign exchange resources and gold shall be considered. The Fund may accept or reject the offer.

V. Powers and Operations (continued)

A member country shall not exhaust its permissible quota by more than 25 percent in any year without the approval of the Fund, which may make its approval subject to such conditions as it deems to be in the general interest of the Fund.

(The British have proposed orally that a country be required to pay for one-half of its foreign exchange purchases with gold only so long as its official gold and free foreign exchange holdings exceed three times its quota).

Limitation on a Commitment
(continuation of V-1, above)

A member whose holding of unitas has reached 120 percent of its quota shall be entitled to apply further receipts of unitas to redeeming its original subscription, -- first the securities and then the gold. At any time after it has thus redeemed at least 80 percent of its original subscription, it shall be entitled to give notice that it will only accept further unitas to the extent of 20 percent of its quota. A member which has redeemed all or part of its original subscription for unitas shall be entitled to reverse its action at any time (on payment of the interest which it has saved.) [e.g. If the U.S. quota is 2-1/2 billion its maximum commitment is 3 billion.]

(The British have stated orally that they object to the right of the Fund to terminate sales of foreign exchange for local currency of member countries. They regard the revised provision V-2-b as giving adequate safeguard since the local currency holdings of the Fund can rise cumulatively after the quota has been reached by only 25 percent a year. However, the British would agree that the Fund might be permitted to raise conditions upon the sale of foreign exchange to a member country after the Fund's holdings have reached 1-2/3 times the quota. On elucidation of the principle of giving notice, Lord Keynes thought that there might be some promise in this approach.)

(The British have said orally that they would like elucidation as to the right of a member country to support exchange rates against a scarce currency by rationing.)

The Fund may buy gold from a member at its par value in exchange for a balance of unitas, the gold so acquired being free gold. A member may not buy gold at a price in excess of the par value of its currency. A member desiring to sell gold is expected to offer it to the Fund, directly or through another member, if this will serve its purpose in selling the gold equally well. The Fund may at its option, and with the approval of the member concerned, employ free gold to redeem any portion of a member's balance of unitas in excess of its quota.

If at the end of the year ending at any quarter a member, whose balance of unitas is less than its outstanding subscription, has increased its stocks of gold and currencies freely convertible into gold and has reduced its balance of unitas during the period, it shall use this increase to replenish its stock of unitas.

V. Powers and Operations (continued)

The Fund's total holdings of the currency and securities of any member country shall not exceed the quota of such country by more than 25 percent during the first year of operation of the Fund, by more than 50 percent during the second year, by more than 75 percent during the third year, and thereafter shall not exceed such quota by more than 100 percent (except as otherwise provided below). The total holdings thus permitted are termed the permissible quota of a country. When the Fund's holdings of local currency and securities are equal to the permissible quota of a country, the Fund may sell foreign exchange for such additional local currency only with the specific approval of the Board of Directors (cf. VI-3-a, below), and provided that at least one of the following two conditions is met:

When a member country is exhausting its quota more rapidly than is warranted or persists in using its permissible quota in a flagrant 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 the member country indicating the effects of its excessive use of the Fund's resources. The Fund may also give notice of not less than one year that it will not thereafter sell foreign exchange for the local currency of the member country, but during the period of notice the Fund shall sell foreign exchange to the member country for its local currency up to the extent of 25 percent of its quota. However, when the local currency holdings of the Fund exceed 125 percent of the member country'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 local currency of the member country to the extent of not less than 12-1/2 percent of its quota. After the expiration of the period of notice, the Fund may place such conditions upon additional sales of foreign exchange for the local currency of that member country as it deems to be in the general interest.

To facilitate appropriate adjustment in the balance of payments position of member countries, and to help correct the distortions in the pattern of trade balances, the Fund shall apportion its sales of such scarce currency. 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. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

When the Fund apportions its sales of scarce currency, a member country may adopt measures for the rationing of a scarce currency within its own country after consultation with the Fund.

In order to promote the most effective use of the available and accumulating supply of gold and foreign exchange resources, each member country agrees that it will offer to sell to the Fund for its local currency, or for foreign currencies which the member country needs, one-half of the gold it acquires in excess of its official holdings at the time it became a member of the Fund; but no country need sell gold under this provision unless its official gold holdings (i.e., Treasury, Central Bank, Stabilization Fund, etc.) are in excess of 25 percent of its quota.

Each member country shall report to the Fund its official foreign exchange holdings at the time it becomes a member of the Fund and periodically thereafter. The Fund at its option may require any member country to sell to the Fund one-half of the foreign exchange it acquires in excess of its official holdings at the time it became a member of the Fund; but no country need sell foreign exchange under this provision unless its official foreign exchange holdings are in excess of 25 percent of its quota.

VI. Management

Any country may withdraw from the Fund by giving notice and its withdrawal will take effect 1 year 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 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 acceptable to the Fund.

When any country is dropped or withdraws from membership, the rights of the Fund shall be fully safeguarded. The obligations of a country to the Fund shall become due at the time it is dropped or withdraws from membership; but the Fund shall have 5 years within which to liquidate its obligations to such country.

VII. Policies of Member Countries

(No specific statement).

VI. Management

(British request right to withdraw without notice for refusal to approve a change in exchange rates).

VII. Policies of Member Countries

(British request clarification of what appropriate action is required).

VI. Management

Any country may withdraw from the Fund by informing the Fund of its withdrawal. The Fund shall not thereafter sell the local currency or securities of that country unless the Fund's holdings exceed the quota of the country.

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 acceptable to the Fund within a reasonable time. When the Fund's holdings of local currency are less than its obligation to the country, the Fund shall liquidate its obligations with gold or foreign exchange acceptable to the country within a reasonable time.

VII. 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 by the Fund. 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:

8-19-43

TREASURY DEPARTMENT
Washington

Summary of the Principal Provisions of the Revised Draft of the Proposal for An International Stabilization Fund

I. 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 help stabilize the foreign exchange rates of the currencies of member countries.

2. To reduce the use of such foreign exchange restrictions and discriminatory foreign exchange practices as hamper world trade.

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

II. Composition of the Fund

1. The Fund shall amount to at least $5 billion contributed on the basis of quotas determined by an appropriate formula. The quota of a country cannot be increased without its consent.

2. Each country shall pay in gold 50 percent of its quota and the remainder in local currency. A country with inadequate gold holdings may have its gold contribution reduced and a country may substitute some government securities (redeemable at par) for local currency.

3. The resources of the Fund shall be used exclusively for the benefit of the member countries.

III. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the unitas (U̶N̶) equal in value to 137-1/7 grains of fine gold (equivalent to $10). No change in the gold value of the unitas shall be made except with the approval of 85 percent of the member votes.

2. The accounts of the Fund shall be kept and published in terms of unitas. No change in exchange rates shall be permitted to alter the value of the assets of the Fund.

IV. Exchange Rates

1. Initial rates of exchange for member currencies shall be based upon their value in dollars on July 1, 1943. If such a rate is clearly inappropriate, the initial rate shall be determined by consultation between the country and the Fund.

2. When essential to the correction of fundamental disequilibrium, exchange rates may be changed only with the approval of three-fourths of the member votes including the countries concerned. Because of the extreme uncertainties of the immediate postwar period, special provision is made for adjusting exchange rates during the first three years.

V. Powers and Operations

1. The Fund may sell to any member country foreign exchange required to meet an adverse balance of payments predominantly on current account. One-half of such exchange shall be paid for with gold or acceptable foreign exchange.

2. The Fund's total holdings of the currency of any member country shall not exceed its quota by more than 100 percent, except with the specific approval of the Board of Directors, and provided satisfactory measures are being taken to correct the disequilibrium.

3. When a member country is preventing or unduly delaying a sound balance in its international accounts, the Fund may place conditions upon additional sales of foreign exchange to that country. The Fund may also require the country to deposit gold or other suitable collateral.

4. When the Fund's holdings of the currency of a member country become excessively small, the Fund shall render a report to that country. The Fund shall also inform member countries of the probable supply of the currency and of a proposed method for its equitable distribution.

5. Each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign exchange which it needs, one-half of the gold and foreign exchange it acquires in excess of its official holdings at the time it became a member of the Fund.

6. During the first 2 years, the Fund may buy from the governments of member countries, blocked balances held in other member countries, not exceeding in the aggregate 10 percent of the quotas. At the end of 2 years, the Fund shall propose a plan for the gradual further liquidation of blocked balances.

7. The Fund may levy a charge on the amount of currency held by the Fund in excess of the quota of a country. If the Fund finds it necessary to borrow currency to meet the demands of members, an additional charge shall be made sufficient to cover the costs of borrowing.

8. The Fund shall deal only with member governments and their fiscal agents and not intrude in the customary channels for conducting international commerce and finance.

VI. Management

1. The administration of the Fund shall be vested in a Board of Directors consisting of one director and alternate appointed by each member government. The Board shall appoint an Executive Committee of not less than eleven of its members.

2. Each country shall have 100 votes plus one vote for each million dollars of its quota. No country shall cast more than one-fifth of the aggregate basic votes.

3. In voting on the sale of foreign exchange, the votes of creditor countries shall be increased and those of debtor countries decreased. In voting on proposals to suspend or restore members, each country shall cast one vote.

4. Any country may withdraw from the Fund by giving notice of 1 year. A country failing to meet its obligations to the Fund may be suspended by a majority of the member countries.

VII. Policies of Member Countries

Each member country of the Fund undertakes:

1. To maintain by appropriate action exchange rates established by the Fund and not to alter exchange rates except as provided above.

2. To abandon restrictions (except on capital transfers) over foreign exchange transactions with other member countries, and not to impose additional restrictions without the approval of the Fund.

3. Not to enter upon any new bilateral clearing arrangements or engage in multiple currency practices which retard the growth of world trade or the international flow of productive capital.

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

August 19, 1943.