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STABILIZATION - International

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

8-19-43

HIGHLIGHTS OF THE TENTATIVE PROPOSAL FOR AN INTERNATIONAL STABILIZATION FUND

The proposed plan providing for the stabilization of currencies and establishing a mechanism for supplying needed exchange under safeguards cannot by itself achieve monetary stability. It can, however, provide a working basis for the recovery of world trade, facilitate the restoration of international economic equilibrium, and contribute to the maintenance of world monetary stability.

The plan provides in general for:

(1) An international agreement to help stabilize foreign exchange rates and avoid competitive currency depreciation.

(2) Resources from which countries can buy needed foreign exchange under appropriate safeguards while taking timely steps to adjust their international position.

(3) Encouragement for the adoption of measures to bring about equilibrium in the international balance of payments of member countries.

(4) Policies designed to eliminate exchange controls and discriminatory currency practices which interfere with the balanced growth of international trade.

More specifically, the principal features of the tentative proposal are:

Membership: All of the United Nations and the countries associated with them would establish the International Stabilization Fund as an institution for international monetary cooperation. Other countries may be permitted to join later. A country may withdraw from membership by giving one year's notice. A country may be suspended from membership if it does not meet its obligations to the Fund.

Capital of the Fund: Each country agrees to contribute to the Fund a stated amount (referred to as its quota) partly in gold and partly in local currencies and securities. The gold portion of each country's quota is graduated in accordance with the size of its gold holdings, up to a maximum of 50 percent of the quota. The quota of each country is determined by a formula which takes account of its gold holdings, national income, the amount of its exports and fluctuations in its net balance of trade. Aggregate quotas shall amount to at least $5 billion.

No country can be called on to contribute more than its quota. For example, any dollars in addition to the United States contribution can be obtained by the Fund only by selling gold to the United States or by borrowing. The Fund cannot borrow here without our consent.

Voting Power: A country's share in the voting power and management of the Fund is determined as follows: each country has 100 votes plus 1 vote for every million dollars contributed to the Fund. No country is entitled to more than one-fifth of the total voting power. In voting on the use of the Fund's resources, the votes of countries whose currencies in the Fund are being depleted are increased and those of countries whose currencies in the Fund are growing are decreased.

Foreign Exchange Sales to Member Countries: Each member country may, under safeguarding provisions, purchase foreign exchange from the Fund for the purpose of meeting deficits in international balances of payments arising from the purchase of goods and services. The Fund may refuse to sell foreign exchange to a member country that is using the resources of the Fund to prevent or unduly delay the correction of a maladjustment in its international position. The Fund may also require a country to take steps to adjust its position as a condition for providing additional exchange.

The Fund may purchase blocked foreign balances held by member countries under repurchase provisions. Such purchases are limited to 10 percent of aggregate quotas in the first 2 years of the Fund's operations. At the end of 2 years the Fund will report a plan for gradual further liquidation of blocked balances.

Exchange Rates: Initial exchange rates are to be established at the dollar quotation for member currencies on July 1, 1943, unless either the member country or the Fund considers the rate inappropriate. In such case the rate is to be determined by consultation between the member country and the Fund. All member countries agree to maintain the exchange rates established.

Because of the uncertainty of postwar conditions, during the first 3 years a member country may alter its rate by 10 percent after consultation with the Fund in order to maintain a balanced position for that country. Further changes in the first three years require the approval of a majority vote of the Fund.

After the first three years changes in rates can be made only when necessary for the correction of a fundamental disequilibrium and with the approval of a 3/4 vote of the Fund.

Although the Fund contemplates relative stability of exchange rates it does not contemplate absolute rigidity. The Fund may recommend changes in exchange rates as a means of restoring balance in an individual country's foreign exchange transactions in those exceptional cases where such action is deemed in the general interest.

Capital Movements: Large movements of short-term funds from one country to another for speculative reasons or because of a loss of a confidence in the monetary systems of a particular country have been a disturbing element in international monetary relations. Under the

proposal, any country is allowed to control capital movements into or out of the country and all countries agree to cooperate with other countries which have imposed controls on the export of capital with the approval of the Fund. Furthermore, a country buying exchange from the Fund may be required, if deemed essential, to control an outflow of capital as a condition of obtaining further aid from the Fund.

Exchange Controls: Another disturbing element has been the rapid growth of restrictions of all sorts on foreign exchange transactions. Under the proposal, member countries agree to abandon all restrictions on foreign exchange transactions as soon as they feel that they are in a position to do so, except for the restrictions which are imposed as a means of controlling capital movements. All countries agree not to impose any new restrictions without the approval of the Fund except those required to control capital movements. More specifically, member countries agree not to enter into any new bilateral clearing arrangements nor to have different exchange rates for different purposes if, in the judgment of the Fund, these arrangements retard the growth of world trade or the international flow of productive capital.

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