

Executive Board
Memorandum No. 71
Revision 1

INTERNATIONAL MONETARY FUND

May 28, 1947

TO: Members of the Executive Board
FROM: The Secretary
SUBJECT: Operations.

Attached is the revised text of the statement on operations made by the Chairman at the meeting of the Executive Board on May 20, 1947.

Att: (1)

Other Distribution:
Department Heads

Gentlemen:

You have seen, in the weekly statements of this week and last week, our first two operations. Had I been here, I would have invited you to rejoice at this beginning of the Fund's actual activities, for what has been done for the last twelve months was only preparation and organization - which could have been very tedious and tiring and was, on the contrary, most interesting and inspiring, thanks to your good will and hard work. But the Fund has been set up with two main activities: one is to be a guide, a help, an adviser to the members: the second is to sell them foreign exchange in conformity with the Fund Agreement and this activity has now begun.

Dollars have been purchased by France to the amount of 25 millions; dollars have been purchased by Holland to the amount of 6 millions and pounds for an equivalent of 6 million dollars. The requests made did not reach 5% of the quota of either member; they are the type of ordinary operations of the Fund; on the other hand it appeared quite clearly in both cases that they were made in accordance with the purposes of the Fund. I am distributing to you two memoranda relating to the balance of payments of those two countries and which bear out this view.

I have thought it useful to mention this because, in the future, requests could be made which might not seem to me to be in accordance with the purposes of the Fund, or about which at least I might have some doubts. In those cases, my intention would be to consult with you and I would do it unhesitatingly, whether they represent 5%, or 10%, or 2% of the quota. In such cases the figure is immaterial; it is the substance which counts, and, despite my desire not to burden the Board with too many matters, I think you will agree with me that such a matter would be an essential one calling for the Board's consideration.

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During my journey abroad, many questions were put to me regarding operations, and, by and by, the subject crystallized in my mind. I was glad to see that, at the same time, in the discussion raised by the words "represent" and "presently needed", you had directed your attention to the same subject and had practically come to the same conclusions. And now that we are entering the second phase of the work of the Fund I think it would be convenient for me to sum them up. I shall do it without attaching too much importance to words like "automatically", (which I mention because I am afraid I was originally responsible for it,) or even "represent" or "presently needed", for the purposes of the Fund are very clear in our minds, and it is those purposes which really have to dictate an attitude.

We must pursue a policy which will both safeguard the interests and the purposes of the Fund, and be as practical as possible for each member.

In other words, every member, when trying to gauge, to assess its near future, should know as exactly as possible how it stands vis-a-vis the Fund, to what extent it can count on help from the Fund's resources. On the other hand, I was glad to read in the May Monthly Letter of the

National City Bank a paragraph ending as follows: "That the Fund regards itself as having a choice, and as not being under compulsion to lend, brightens very much the outlook for the future." That the Fund has to choose, e.g. that the Fund can only act in conformity with its purposes, has been evident for all of us from the beginning: it is gratifying to know that it has become evident to Wall Street too. - And I think those two elements: necessity for the members to know about how they stand with the Fund; right for the Fund to know the full situation of each member and to decide accordingly, have to guide us and will enable us to find rather easily the proper course which we have to steer.

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A. Well, the requests we receive must evidently, to be granted, ask for resources to be used in accordance with the purposes of the Fund. What does this mean?

1. These resources must be presently needed for payments in the currency requested. In short, the Fund cannot be used to increase a member's reserves.

2. These resources must be used, in general, for current account transactions - they cannot, for instance, be used for large and sustained capital movements, nor specifically for relief or reconstruction.

3. These resources cannot be used, either, by a member who is clearly not going to be in a position to repay the Fund.

4. Similarly, when a member has a fundamental disequilibrium, aid to meet continuing balance of payments deficits, without prospects of a return to equilibrium, would be contrary to the Fund's purposes.

This is, I think, quite clear and undisputed, and it is quite clear that the Fund must be concerned to see that its resources are used in accordance with those purposes. It must be in a position to know that the representations made by members are entirely correct and reflect a proper understanding of the Fund Agreement. In fact, this can best be done by keeping the Fund fully informed at all times of developments in each member country. The Fund thus should know the position of a member before, rather than after it applies for the purchase of foreign exchange. The Fund thus could judge for itself that the aid it is asked to extend will not be used specifically to finance a capital flight, will not be used for relief or reconstruction, that it is given for a reasonably limited period, and that that loan will be repaid.

In every possible case, the Fund should know, from the information it receives and from discussion and contact with the members, the present and prospective position of the member and the use it may be expected to make of the Fund. Thus the Fund should know in advance what its attitude will be towards use of its resources by a member.

I have insisted on this point with all the responsible people I met in the seven countries which I visited. I am glad to say their understanding was perfect, and I am sure we can rely upon their full cooperation.

B. Once the Fund has made up its mind as to the position of a member and has granted its first request, the underlying assumption should be that, unless and until the member is informed to the contrary, normal purchases of exchange will be carried through promptly by the Fund. In that way a member can have the benefit of counting access to the Fund's resources as a second line of reserves. It would be undesirable to require a member to submit an extensive application to be considered at length in connection with each purchase of exchange.

This is not, of course, the application of any single provision of the Fund Agreement. It is the translation into practice of the Fund Agreement itself. It is the practical process by which the Fund can carry out its operations.

C. As I said, it may happen, at the outset, that the Fund's opinion is that a member is not in a position to draw on the Fund. The same thing may happen -- although more exceptionally -- in the course of later operations.

As a general principle, the Fund should give as early notice as possible to a member that, in the view of the Fund, that member ought to have no or only limited access to the Fund's resources. In every instance, to my mind, this should be done on an informal basis. The sanction of declaring a member ineligible should be used only in extreme cases when no other means of securing cooperation is forthcoming.

But there is no reason to believe that prior discussion with a member, in such cases where a limitation on use of the Fund's resources is necessary, will fail to bring about the desired result. Indeed I would say that normally the liaison between the Fund and its members should grow so close that members would follow policies which would render unnecessary drastic action by the Fund.

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I have made this statement, first, because I wanted to crystallize what I thought to be our common thoughts. I had a second reason for doing it. I must call this week - and better tomorrow than the day after - a Press Conference and mention the two first operations made by the Fund. Nothing has leaked so far from them, but it would inevitably leak sooner or later, and it is much better for us to take the lead. I am quite likely to be asked, at this Press Conference, some questions about operations, and, without going into all the details I gave you, many of which are for internal use only, it might be convenient to make, in reply to those questions, a brief statement indicating the Fund's attitude.