Report of Commission I on the International Monetary Fund (20 July 1944)

Report of Commission I (International Monetary Fund) to the Executive Plenary Session (July 20, 1944)

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MR. PRESIDENT:

I have the honor to report to the Conference on the work of Commission I, which was set up by the Conference at its second plenary session on July 3 to consider proposals for the establishment of an International Monetary Fund. The Commission has ended its work with complete success. It held nine sessions under the distinguished chairmanship of Dr. Harry D. White (delegate of the United States of America) whose firm guidance helped bring the Commission safely around all difficult corners. I know that I am voicing the unanimous and sincere feeling of all members of the Commission when I express to Dr. White our deep appreciation of the manner in which he conducted our deliberations.

The Commission carried on a large part of its business through four standing committees, dealing respectively with the Purposes, Policies, and Quotas of the Fund, with the Operations of the Fund, with the Organization and Management of the Fund, and with the Form and Status of the Fund. In all, these standing committees held 26 meetings, and each of them established several subcommittees. In addition, the Commission set up *ad hoc* committees on Uniform Changes in Par Values of Currencies, Exchange Controls on Current Payments, Depositories, Relations with Non-Member Countries, Special Problems of Liberated Areas, Voting Arrangements and Executive Directors, Quotas and, toward the end of its deliberations, a Special Committee on Unsettled Problems. The task of recording the decisions of Commission I was entrusted to a Drafting Committee.

At its final session on July 19, 1944, the Commission adopted the Articles of Agreement of the International Monetary Fund. It is my privilege to transmit to the Conference these Articles of Agreement; they are annexed to this report and form part thereof.

l am certain that all members of the Conference will share my view that it has been no small achievement for the representatives of 44 countries to have reached agreement on the desirability of establishing an International Monetary Fund and on the conditions which should govern its operations. The subject is a highly technical and complicated one; and the view and bold vision it embodies might have been expected to render agreement difficult to attain.

I think that there are two main reasons why it has been possible for the Commission, in the short time which has elapsed since it held its first meeting on July 3, to achieve this result. In the first place the technical preparation of this Conference was admirable. The preparation went on steadily for about 18 months before the Conference convened. As has happened so often in the history of ideas, a brilliant concept was developed simultaneously and independently in different parts of the world. In April 1943, the Clearing Union proposal, which will always remain associated with the great name of Lord Keynes, was published in the United Kingdom, and the original American plan for a Stabilization Fund of the United and Associated Nations, the work of Dr. White and his able collaborators, was published in this country. Before and after publication, informal discussions took place between the authors of these proposals and the representatives of interested countries. Like the more formal proceedings of this Conference, these conversations were noncommittal in character and did not bind governments to agree to or support the proposals discussed.

After the United States Treasury officials had held a series of bilateral talks with officials of other governments, they thought it well to organize a more general exchange of views, which took place among the representatives of some 20 countries at Washington in June 1943. After that, bilateral and group talks continued in Washington, in London, and elsewhere, and the officials of certain other countries, including France and Canada, put forward proposals along the same general lines as the British and the American.

As a result of these discussions, the area of agreement on principles was found to be very wide, and this having been ascertained, there was no great difficulty in reaching a satisfactory accommodation as regards the secondary questions relating to techniques and amounts. This accommodation was embodied in the Joint Statement by Experts on the Establishment of an International Monetary Fund of the United and Associated Nations, which was published simultaneously in many of the world's capitals in April 1944 and which constituted the main working paper of Commission I.

The final stage of preparation for the work of this Conference was the informal pre-conference discussions which took place at Atlantic City from June 15 to June 30, 1944. This meeting provided a useful opportunity for a preliminary exchange of views and it helped materially to shorten and focus the discussions here.

So much for the preparatory work. I repeat that the technical preparation of the Conference was excellent and was largely responsible for the results that have been achieved. I am sure that the Conference has every reason to be grateful to those who gave so unstintingly of their time and effort in the preliminary stages of this work.

But no amount of technical preparation would have been adequate if there had not been in all delegations a single-minded determination to accomplish positive results at Bretton Woods. I have said earlier that at a relatively early stage in the preliminary discussions there was found to be general agreement on major points of principle. These major points of principle I conceive to be three in number: First, that an exchange rate in its very nature is a two-ended thing, and that changes in exchange rates are therefore properly matters of international concern; second, that the peace and prosperity of all will be served by countries agreeing to avoid not only competitive devaluations of their currencies but also exchange restrictions on their current international transactions and bilateralist currency practices of a discriminatory nature; and finally, that means must be found to increase the international liquidity of all countries, to give them assurance that temporary deficits in their international balances of payments can be met without resorting either to deflationary measures which reduce real income and employment at home, the maintenance of which is, in the words of the document I am transmitting to you, one of the "primary objectives of economic policy," or alternatively, to internationally anti-social measures, such as excessive tariffs and other import restrictions.

I wish to pause here for a moment to comment on these last two objectives. The Commission, in asking governments to assume the obligation to make their currencies freely convertible, so that each country can count on using the proceeds of its exports to any part of the world to pay for imports from any part of the world, has been sufficiently realistic to recognize that certain countries will not be able to assume this obligation at once. There are some countries, notably the United Kingdom, who have without calculation or hesitation thrown all they had, including their foreign assets, into the common struggle against our enemies, with the result that they will emerge from the war as heavy debtors on international account. It would be quite unreasonable to ask such countries to assume at once the burden of making their currencies convertible; and in the report I am transmitting to you, arrangements are provided under which this obligation is deferred, without the countries concerned being in any sense in default of the general obligations they would assume in becoming parties to the Fund Agreement. They do, however, undertake to withdraw exchange restrictions, except on capital transactions, as soon as practicable and to consult with the Fund regarding any which may be maintained after a relatively short period of years.

My second comment relates to the provisions of the Agreement under which members of the Fund may, on specified terms and conditions, purchase foreign exchange for their own currencies in specified amounts. These provisions have given rise to considerable misunderstanding and I think it right to state that the Fund is not regarded, and should not be regarded, as an institution for the provision of long-term capital requirements. The quota of each country should be regarded as an extra reserve to give it confidence to face the uncertain future and not as the primary source of foreign exchange to meet its international commitments. Long-term financing through the Fund must not be practiced, and the Fund Agreement contains provisions designed to this end. A perfect balance will, of course, not be achieved and it would be idle to pretend that there may not, especially in the first few years of the Fund's operations, be some tendency toward meeting other than purely temporary requirements through the Fund. But the Agreement itself makes it clear that "the Fund is not intended to provide facilities for relief or reconstruction". It is intended "to provide members with an opportunity to correct maladjustments in their balance of payments" and "to shorten the duration and lessen the degree" of such maladjustments. In this connection, the

Agreement recognizes that creditor as well as debtor countries may be responsible for balance-of-payments difficulties.

I have already said, and repeated, that a wide measure of agreement was found on the three general principles I enunciated. In spite of this, there developed in the deliberations of Commission I, a considerable difference of opinion on detailed provisions. Let me take as an example the important question of exchange stability. There is universal agreement that one of the main purposes of the Fund is “to promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation”. The precise provisions to give effect to this purpose were, however, the subject of considerable debate. There were some who attached so much importance to exchange stability that they desired to give the Fund great authority to prevent changes in exchange rates; while others started from the position that this was a matter of sovereign right and that there should be no suggestion of interference on the part of the Fund. In the end a text was developed and incorporated in the Articles of Agreement which steers a course between these two extreme views. All were willing to accept this middle course. In the text which was developed there is preserved intact the principle that changes in exchange rates are matters of international concern.

And similarly with other important provisions of the Agreement. In passing from the joint statement, which consisted of 39 paragraphs, to the Articles of Agreement, over 130 alternatives were formally submitted and considered; for some provisions as many as 11 alternatives were put forward. In the end, one single text was agreed on for each of the 80 sections and 5 lengthy schedules of the Agreement.

I mention these facts not on account of any interest in the figures themselves but to place clearly on record that the various delegations have been animated by a spirit of accommodation and adjustment, of mutual give-and-take. It is not irrelevant to raise here the question why this should have been so, why the national groups should have been willing to give up positions originally taken on certain issues.

The answer, I believe, lies in the fact that the delegates in the Commission worked with the realization that what was being given up on particular points was small as compared with what might be accomplished, for the general good, through the establishment of a permanent institution for consultation and collaboration on international monetary matters.

I think, too, that the success of the work of Commission I can partly be ascribed to the fact that the delegations have conducted their work with a vivid recollection of the various international economic conferences which took place between the two great wars. There was a general determination to avoid the fate which befell most of these conferences, and to pass from generalizations and exhortations to action. “Too little and too late” has cost us all so much that there was no disposition on the part of any group to fall again into this calamitous error.

The Commission is well aware that timidity still exists in certain quarters and that even now there are those who say “Why take risks?” and who urge us to go back to some monetary arrangements more familiar than those embodied in the report I am transmitting to you. No one would for a moment deny that there are risks involved in the proposals of the Commission, as there are risks inherent in any extension of credit or in any partnership arrangement. But the realistic course is to appraise the risks of any course of action by determining what are the risks of any alternative course of action or, for that matter, of inaction. On this basis, the risks involved in the present proposals are, in my view, not excessive, nor are they risks we should be afraid to assume. They might, at first sight, appear to be greatest for countries which have a surplus in their current account balance of payments. But I venture to submit that it must be borne in mind that if the creditor countries extend credit through the Fund it will in effect be goods and not money they will be lending; and that it will be open to them, through their own policies, to obtain the return flow of goods to pay off the loans. It is on the basis of pure national self-interest, of an enlightened and far-sighted kind, that these proposals must be presented in the creditor countries. It is not an act of charity to enable one’s customers to maintain their purchases in periods when their foreign-exchange resources are temporarily reduced, especially when in the process of doing this one provides opportunities for employment for one’s own people.

As for the exhortations to return to the past, the plain and simple answer to that is that, in the matter of monetary arrangements, the recent past is not good enough to go back to and there would be few countries able or willing to do so. We cannot go back. We must go forward.

I thought it right, Sir, in transmitting this report to you, to make these general observations in order to acquaint the Conference as a whole with the spirit which actuated the work of Commission I. In sum, this spirit was one of determination not to repeat the mistakes of the past but to be reasonably and realistically courageous in breaking new ground.

Before concluding, I should like to express appreciation of the great assistance the Commission and its Committees have received from the Secretariat. The Secretaries of the committees and their assistants have discharged their duties with unfailing efficiency and skill. I wish particularly to express my own thanks to Mr. Leroy Stinebower, who served as Secretary of Commission I and as Secretary of the Drafting Committee. He never tired or failed in his efforts to further the work entrusted to him; and the Commission as a whole, as well as I personally, must feel greatly in his debt.

I should like to say one final word. No one in Commission I thinks that if the International Monetary Fund is established, the world's economic problems will have been solved. We have made only a beginning toward accomplishing the objectives set out in the Atlantic Charter and in article VII of the mutual-aid agreements between the United States and many of the countries here represented. But we feel that we have made a good beginning and that what we have done here should clear the way for similar progress in other related fields. Let us hope that the action in these other fields will be as realistic and constructive as the action we have taken at this Conference.