

REPORT
OF
THE INDIAN DELEGATION
TO THE
UNITED NATIONS MONETARY & FINANCIAL
CONFERENCE
AT BRETTON WOODS
(July 1 to July 22, 1944)

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CHAPTER I.—INTRODUCTION

The discussion of post-war international monetary reconstruction came to the fore with the publication almost simultaneously in April 1943, of the British Treasury proposals for an International Clearing Union and the original United States Treasury plan for an International Stabilisation Fund, associated respectively with the names of Lord Keynes and Dr. Harry White. The publication of the two plans roused considerable general interest in the subject and was followed by continuous study and discussions in the economic and financial press and in personal meetings among official and other experts in Washington and London. The original American Plan underwent successive revisions, while a compromise Canadian Plan for an International Exchange Union was issued in August 1943. In November 1943 there was published by the United States Treasury the Preliminary Draft Outline of a Proposal for a United Nations Bank for Reconstruction and Development. In April 1944, the Joint Statement by Experts on the Establishment of an International Monetary Fund of the United and Associated Nations was issued and was subsequently published in many countries; this was a statement of principles representing the measure of agreement reached by the experts who had from time to time discussed the various proposals. Subsequently invitations were issued on behalf of the President of the United States to the Governments of the united and associated nations to send delegates to a formal monetary conference in the United States for the purpose of formulating definite proposals for an international monetary fund and possibly a bank for reconstruction and development. It was explicitly mentioned in the invitations that the delegates were not required to hold plenary powers and that the proposals formulated at the Conference would be referred to the respective Governments and authorities for their acceptance or rejection. The United Nations Monetary and Financial Conference composed of delegates from forty-four nations accordingly met at Bretton Woods, New Hampshire, on the 1st July 1944.

2. The Indian Delegation.—The Indian Delegation to the United Nations Monetary and Financial Conference was composed as follows:—

Sir Jeremy Raisman, K.C.S.I., C.I.E., I.C.S., Finance Member of the Governor-General's Council—*Chairman*.

Sir Chintaman D. Deshmukh, C.I.E., Governor, Reserve Bank of India.

Sir Theodore E. Gregory, D.Sc., Economic Adviser to the Government of India.

Sir Shanmukham Chetty, Formerly President of the Indian Legislative Assembly.

Mr. A. D. Shroff, Director, Tata Sons Ltd.

Dr. B. K. Madan, Director of Research, Reserve Bank of India.—*Secretary*.

Sir David Meek, Indian Trade Commissioner in London, was associated with the Delegation as Adviser.

Sir Jeremy Raisman was in the United Kingdom when the invitation to the Conference was received. Sir Theodore Gregory left India on the 15th June, two days before the rest of the Delegation, as he had been designated to attend a meeting of technical experts at Atlantic City for the preparation of a draft agenda to be submitted to the Conference. The other members of the Delegation with the Secretary left Karachi on the 17th June and arrived at New York on the 23rd June. Sir Jeremy Raisman had arrived there on the same day, having crossed from England by sea on the ship which brought the United Kingdom delegation and various representatives of the Governments of European countries then in London. The Delegation met for the first time at New York when the Leader, Sir Jeremy Raisman, apprised the other members of the Delegation of the nature of certain informal and preparatory discussions which had taken place on board the ship. It was decided at this meeting that Sir Jeremy Raisman and Sir Chintaman Deshmukh should go to Atlantic City with a view to ensuring that the questions in which we were particularly interested, especially the sterling balances, were included in the draft agenda

of the Conference, although it proved in the event that the fullest opportunity was given by the Conference authorities at all stages to all delegations to bring forth any amendments, which they desired to see incorporated in the draft Agreements. At Atlantic City, the Indian delegates present moved two amendments with the object of securing the inclusion among the purposes of the International Monetary Fund, of the following: 'To assist in the fuller utilisation of the resources of economically underdeveloped countries' and 'To promote and facilitate the settlement of abnormal indebtedness arising out of the war.' The course of discussions on these resolutions is reviewed later. The Delegation held continuous informal meetings and discussions during the intervals of the Conference sessions at Bretton Woods and returned to Washington after the Conference on the 24th July. On the 26th July they held a final meeting to consider the general form of the report to be submitted to Government on the subject of their mission to Bretton Woods.

3. General Survey of the Conference, Constitution, Commissions, Committees and Procedure.—The Conference held its opening Plenary Session on the afternoon of the 1st July, with the Honourable Henry Morgenthau, Jr., Secretary to the United States Treasury, designated as Temporary President of the Conference by President Roosevelt, in the Chair. It opened with a message from President Roosevelt welcoming the members of the Conference to Bretton Woods which *inter alia* contained the following observations: 'At Bretton Woods, you who come from many lands are meeting for the first time to talk over proposals for an enduring program of future economic co-operation and peaceful progress.

The program you are to discuss constitutes, of course, only one phase of the arrangements which must be made between nations to ensure an orderly, harmonious world.'

The Temporary President, Mr. Morgenthau, was thereafter elected Permanent President of the Conference and proceeded to deliver his presidential speech. In his speech Mr. Morgenthau pointed out that although the Agenda of the Conference was concerned specifically with the monetary and investment field, it should be viewed as part of a broader program of agreed action among nations to bring about the expansion of production, employment and trade contemplated in the Atlantic Charter and in Article VII of the Mutual Aid Agreements concluded by the United States with many of the United Nations.

4. The Second Plenary Session of the Conference met on the 3rd July forenoon. The Conference invited the Danish Delegate, in his personal capacity as Adviser, to attend the meetings of the Conference without the privilege of a vote and also invited various international organisations such as the International Labour Office, the United Nations Relief and Rehabilitation Administration, the Economic Section of the League of Nations and the United Nations Interim Commission on Food and Agriculture to send one observer each to attend the sessions of the Conference without the privilege of a vote.

The general organisation of the Conference had been determined in a meeting of the heads of the Delegation immediately preceding the opening session of the Conference. The Conference set up three Commissions—Commission I on the International Monetary Fund, Commission II on the Bank for Reconstruction and Development and Commission III on Other Means of International Financial Co-operation. Every delegation was represented on all the Commissions. The principal officers of these Commissions are listed below:—

COMMISSION I

INTERNATIONAL MONETARY FUND

Chairman: Harry D. White (United States of America)

Vice-Chairman: Rodolfo Rojas (Venezuela).

Reporting Delegate: L. Rasminsky (Canada).

COMMISSION II

BANK FOR RECONSTRUCTION AND DEVELOPMENT

Chairman: Lord Keynes (United Kingdom).

Vice-Chairman: Luis Alamos Barros (Chile).

Reporting Delegate: Georges Theunis (Belgium).

COMMISSION III

OTHER MEANS OF INTERNATIONAL FINANCIAL CO-OPERATION

Chairman: Eduardo Suarez (Mexico).

Vice-Chairman: Mahmoud Saleh El Malaky (Egypt).

Reporting Delegate: Alan G. B. Fisher (New Zealand).

Most of the work of Commission I and a large part of the work of Commission II was carried on through four standing committees as follows:—

COMMISSION I

Committee 1. Purposes, Policies and Quotas of the Fund.

Committee 2. Operations of the Fund.

Committee 3. Organisation and Management.

Committee 4. Form and Status of the Fund.

COMMISSION II

Committee 1. Purposes, Policies and Capital of the Bank.

Committee 2. Operations of the Bank.

Committee 3. Organisation and Management.

Committee 4. Form and Status of the Bank.

5. The Indian Delegation had decided that its members should not take up multifarious offices but should keep themselves as free as possible for effective participation in the deliberations of the Commissions and the various Committees. We were, however, invited to nominate and did nominate one of the delegates, Sir Chintaman D. Deshmukh, as Chairman of Committee 4 of Commission II on the Form and Status of the Bank. The meetings of the Commissions never overlapped and the Indian Delegation generally found it possible to attend and participate as a whole in the Commission meetings. But the meetings of Committees 3 and 4 of Commission I were often held simultaneously with those of Committees 1 and 2 of that Commission, and a large degree of specialised representation gradually developed, Sir Chintaman Deshmukh and Sir Theodore Gregory attending to the business of Committees 3 and 4 (relating to organisation and management and the form and status of the Fund). Towards the latter part of the Conference, moreover, the Committees of Commission II functioned at the same time as those of Commission I and it was found convenient to have Sir Chintaman Deshmukh represent the Indian Delegation on these Committees, while the rest of the Delegation attended to the business of Commission I.

6. After the second plenary session which set up the organisation, the Conference split up, for the purpose of conducting its business, into the respective Commissions and Committees. The Committees reported to the Commission at intervals of a few days each, whenever there was a sufficient accumulation of agreed conclusions or unresolved differences to report. The Commission either determined the issues or referred them back to the same or a different Committee with more specific instructions in the light of the fuller exchange of views which had taken place in the Commission itself. The Committees in turn set up, as a means of economising time and dealing more effectively with matters of substance, Drafting, Language or 'Asterisk' sub-committees of their own to report on matters of appropriate wording and proper legal expression. In addition, the Commissions set up *ad hoc* Committees to consider and report on specific questions.

7. Commission I set up special 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 and Quotas. India was represented on the Committee on Quotas, which was set up at a very late stage, by Sir Jeremy Raisman, who was unable to accept the conclusions of this Committee and entered a reservation on behalf of India (*vide* para. 31). At a later stage, moreover, the amount of subject matter left over by various Committees was such that it was considered an advantage to set up a Special Committee on Unsettled Problems to deal with all undecided questions. A Drafting Committee was entrusted with the task of recording the decisions of Commission I. This procedure proved helpful in bringing the work of the Commission to an early conclusion. It held nine sessions altogether and the standing committees held twenty-six meetings. At its final session on July 19, the Commission adopted the Articles of Agreement of the International Monetary Fund, and the report of Commission I was transmitted to the Executive Plenary Session of the Conference on July 20, 1944. After the report had been presented to the Executive Plenary Session for consideration, Lord Keynes, referring to the list of reservations which had been made by delegations from various countries (*cf.* Chapter III), suggested that the particular points of reservation mentioned by the delegations might be retained in the minutes of the Commission where they were already recorded and not be made part of the Final Act of the Conference, which was subject to a general reservation on the part of all delegations in the sense of 'the entire absence of commitment on the part of our Governments'. 'So far as the United Kingdom Delegation is concerned,' said Lord Keynes, 'we, in common with all other delegations, reserve the opinion of our Government on the document as a whole and on every part of it. The whole of the proceedings is *ad referendum* to our Governments who are at the present stage in no way committed to anything. We have gathered here to put our heads together to produce the most generally acceptable document we could frame. We do not even recommend our Governments to adopt the result. We merely submit it for what it is worth to the attention of the Governments and legislators concerned.' Lord Keynes's proposal was seconded by the Vice-Chairman of the Delegation of the United States, and on this understanding all the delegations which had made reservations either withdrew them or agreed to have them remain in the minutes of the Commission. The Indian Delegation took this course, among others, including France and the Union of Soviet Socialist Republics.

8. Commission II (International Bank for Reconstruction and Development) met nine times between July 3 and July 21, when its final session adopted the Articles of Agreement of the Bank for Reconstruction and Development. At its first meeting the Commission set up an Agenda Committee which subsequently became the Drafting Committee and on which the Indian Delegation was represented by Sir Chintaman Deshmukh. The Commission met again on July 11. As in Commission I, the detailed work was divided between four Committees; at the same time several *ad hoc* sub-committees were created to examine special points and matters such as membership, subscription, rates of capital employable, flat rate of commission, relationship of international agencies, management, suspension and withdrawals and taxation. There was, as in Commission I, a Special Committee on Unsettled Problems. Most of the sub-committees and *ad hoc* Committees were created directly by the Commission and reported directly to the Commission, thus expediting the despatch of business. The work of Commission II was simpler in some respects and more complicated in others than the work of Commission I. It was simpler because it was found possible to adopt or adapt many of the provisions relating to general organisation evolved in connection with the Fund to the problems of the Bank, and more complicated because of the smaller amount of preparatory work done before the Conference met. The report of Commission II was submitted to and approved by the Executive Plenary Session of the Conference on July 21, 1944.

9. A large number of proposals were submitted to Commission III (Other Means of International Financial Co-operation) and were referred to the Agenda Committee appointed at its first meeting on July 3, to consider the suggestions

received and make recommendations as to the problems which should be dealt with by the Commission. The Indian Delegation was represented on the Committee by Sir Theodore Gregory. The proposals related to three general fields: 'The Use of Silver for International Monetary Purposes,' 'Enemy Assets, Looted Property and related matters' and 'Recommendations on Economic and Financial Policy, the Exchange of Information and other means of Financial Co-operation.' The Commission held three sessions and its report entitled 'Other Measures of International Monetary and Financial Co-operation' was presented to the Executive Plenary Session on July 21, 1944.

10. The closing plenary session of the Conference was held at 9-45 p.m. on July 22, 1944, under the Chairmanship of the Honourable Mr. Henry Morgenthau. Lord Keynes moved the acceptance of the Final Act of the Conference to be submitted to the respective Governments for consideration. He concluded with the following words:

'We have perhaps accomplished here in Bretton Woods something more significant than what is embodied in this Final Act. We have shown that a concourse of forty-four nations are actually able to work together at a constructive task in amity and unbroken concord. Few believed it possible. If we can continue in a larger task as we have begun in this limited task, there is hope for the world.' The motion was supported by the Chairmen of the Delegations of France, Canada and the Union of Soviet Socialist Republics and was carried unanimously. The Chairman read a message from President Roosevelt conveying his heartiest congratulations to the representatives of the forty-four nations gathered at Bretton Woods on the successful completion of their difficult task. Mr. Henry Morgenthau thereupon delivered his address to the closing plenary session at 10-45 p.m. The Conference concluded about midnight with the heads of the Delegations appending their signatures to the Final Act. This was done in accordance with Article 92 of the Regulations of the Conference which provided that 'the conclusions at which the Conference may arrive shall be incorporated in a Final Act which shall be signed by the heads of the delegations at the final session'. The Final Act takes the form of a record of the accomplishments of the meeting including:—

- (1) A recital of the fact that the Conference assembled in Bretton Woods in response to an invitation of the Government of the United States;
- (2) A listing of the delegates;
- (3) A listing of the officers of the Conference as well as its technical Commissions and Committees; and
- (4) The conclusions at which the conference arrived.

The last section contains the texts of:—

- (a) The Articles of Agreement of the International Monetary Fund;
- (b) The Articles of Agreement of the Bank for Reconstruction and Development; and
- (c) Other declarations, recommendations, and resolutions which were agreed upon by the Conference.

This record was subscribed by the Heads of the respective delegations accredited to the Conference. The signature of the Final Act, therefore, was a simple attestation by those signing of the accuracy of the record presented.

11. **Scheme of the Remaining Report.**—The scheme of the report in the following pages is to give a general summary of the Articles of Agreement relating to the International Monetary Fund in the second Chapter, and to take up for fuller review in the third Chapter the discussions on aspects or questions relating to the Fund in which the Indian Delegation took particular interest or which received relatively greater attention in the Conference discussions. The questions which interested the Indian Delegation especially were two amendments to the purposes of the Fund and the quotas, more particularly in their bearing on India's place in the Executive Directorate. The fourth Chapter summarises the Articles of Agreement of the International Bank for Reconstruction and Development and includes some reference to the course of discussion in the Commission on a few of the more important provisions. The fifth and

last Chapter deals with the work of Commission III regarding other measures of economic and financial co-operation among nations.

CHAPTER II.—THE INTERNATIONAL MONETARY FUND: SUMMARY OF ARTICLES OF AGREEMENT

12. The Articles of Agreement of the International Monetary Fund contain twenty articles and five schedules. The Articles relate to or provide for such matters as purposes, membership, quotas and subscriptions, par values of currencies, transactions with the fund including capital transfers and scarce currencies, general obligations of members, relations of the Fund with other international organisations and with non-member countries, organisation and management, the transitional period etc.

13. **Purposes.**—The purposes of the International Monetary Fund are described to be to promote international monetary co-operation through a permanent institution, to facilitate the expansion and balanced growth of international trade, to promote exchange stability, maintain orderly exchange arrangements among members and avoid competitive exchange depreciation, to assist in the establishment of a multilateral system of payments (and trading), and to make the Fund's resources available to member countries to help them to correct maladjustments in their balances of payments in an orderly manner and without recourse to emergency measures under immediate pressure with destructive consequences to national or international prosperity.

The countries represented at the United Nations Monetary and Financial Conference whose governments accept membership before December 31, 1945, shall be original members of the Fund and other countries may be admitted later by the Fund.

14. **Quotas and Subscriptions.**—Each member shall be assigned a quota, the quotas of the original members being specified in a schedule to the Articles of Agreement. The aggregate of such quotas in term of dollars is 8,800 million and the fourteen largest quotas are, in order, those of the United States 2,750 million, the United Kingdom 1,300 million, the Union of Soviet Socialist Republics 1,200 million, China 550 million, France 450 million, India 400 million, Canada 300 million, Netherlands 275 million, Belgium 225 million, Australia 200 million, Brazil 150 million, Czechoslovakia and Poland 125 million each and the Union of South Africa 100 million. The quotas shall be subject to periodic or occasional review by the Fund but shall not be altered without a four-fifths majority and without the consent of the member concerned. The members' subscription shall equal their quota and shall be payable to the minimum extent of 25 per cent. of the quota or 10 per cent. of the member's net official holdings of gold and United States dollars, whichever be smaller, in gold, and the balance in a member's own currency or in securities.

15. **Par Values of Currencies.**—The par value of the members' currencies shall be expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944. Purchases and sales of gold by a member and transactions in exchange by a member shall not vary from parity by more than a fixed margin, which shall be one per cent. in the case of 'spot' exchange transactions. Each member shall collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members and to avoid competitive exchange alterations, in accordance with the purposes of the Fund referred to above. These objectives shall be attained by each member undertaking, through appropriate measures, to permit within its territories exchange transactions between its currency and the currencies of other members only within the prescribed limits. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund, shall be deemed to be fulfilling this undertaking.

A change in the par value of a member's currency shall be made only on the proposal of the member and after consultation with the Fund, to correct

a fundamental disequilibrium, without objection from the Fund up to 10 per cent. of the initial par value, but subject to concurrence or objection by the Fund if it exceeds 10 per cent. and does not exceed a further 10 per cent., within a period of seventy-two hours on a member requesting immediate decision. Proposed changes beyond this limit shall be subject to concurrence or objection by the Fund within a longer period. Having regard to the special conditions of the Union of Soviet Socialist Republics and in deference to its wishes a provision has been incorporated in the Agreement to the effect that a member may change the par value of its currency without the concurrence of the Fund, if the change does not affect the international transactions of members of the Fund. The Fund shall not object to a proposed change because of the domestic, social or political policies of the member proposing the change. In the event of unauthorised changes being made by a member, it shall be liable to be made ineligible to use the resources of the Fund and to compulsory withdrawal from membership in due course.

The Fund by a majority of the total voting power and the approval of all members with ten per cent. or more of the total quotas (the United States, the United Kingdom and Russia according to the present quotas) may make uniform proportionate changes in the par values of the currencies of all members, *i.e.* effect general depreciation or appreciation of all currencies in terms of gold. Any member, however, that does not wish the par value of its currency to be changed by such action may inform the Fund within seventy-two hours of its action and the par value of its currency shall not be changed under this provision.

The gold value of the Fund's assets shall be maintained notwithstanding changes in the par or foreign exchange value of the currency of any member, through the member paying to the Fund, or the Fund returning to the member, an amount of its currency equal to the reduction or the increase respectively in the gold value of its currency held by the Fund. Unless the Fund otherwise decides, the quotas of all members shall be uniformly and proportionately increased or decreased when a uniform proportionate reduction or increase (general 'depreciation' or 'appreciation') is made in the par values of the currencies of all members.*

16. Transactions with the Fund.—A member country's treasury, central bank, stabilisation fund or other similar fiscal agency shall be the agency for all dealings with the Fund.

The fund shall operate only for the purpose of supplying a member, on the member's initiative, with the currency of another member in exchange for gold or for the member's own currency. Purchases of foreign exchange from the Fund against a member's own currency shall be subject to the condition that the Fund's holdings of the currency of the member desiring to purchase foreign exchange have not increased, after having been brought above 75 per cent. of its quota if they had been below that amount, by more than 25 per cent. of its quota during the period of twelve months preceding the date of purchase, and do not exceed 200 per cent. of its quota. In other words, the full quota of permissible borrowing of foreign exchange assigned to a member can be drawn only in instalments over a period of not less than four years. The Fund may, however, waive this condition on terms which safeguard its interests, especially in the case of members with a record of avoiding large or continuous use of the Fund's resources and taking into consideration periodic or exceptional requirements of the member requesting the waiver. Collateral security in the form of gold, silver, securities or other acceptable assets may be required as a condition of the waiver.

* For instance, if the gold value of the dollar and of all other currencies is reduced by, say, 10 per cent., the total of all quotas (in terms of dollars) which is \$8,800 million at present, may (or may not) be increased to \$9,777-7/9 million, the measure of increase corresponding to a reduction of 10 per cent. being 11-1/9 per cent. *viz.* an increase to 10/9ths against a reduction to 9/10ths.

Any member using the resources of the Fund in a manner contrary to the purposes of the Fund may be declared ineligible to use the resources of the Fund.

Any member desiring to obtain the currency of another member for gold shall acquire it by the sale of gold to the Fund, provided that it can do so with equal advantage; no member shall, however, be precluded from selling in any market gold newly produced from mines located within its territories.

With a view to preventing the accumulation of reserves of foreign exchange by a member country making use of the borrowing facilities of the Fund instead of relying upon its own resources, a provision is made for the repurchase from the Fund with gold or convertible currencies of part of a member country's own currency, if the holdings of its currency with the Fund have increased, or if a country's monetary reserves have increased (beyond its quota) and the Fund's holdings of its currency are not below seventy-five per cent of its quota.

Charges on Borrowing from Fund.—Borrowing from the Fund (or buying the currency of another member from the Fund in exchange for a member's own currency) shall be subject to a service charge of three-fourths per cent., on all transactions, plus a scale of charges rising for period and amount of loan outstanding from one half per cent. per annum to a maximum of five per cent. The charges shall be payable in gold, but the gold payment may be reduced for members whose monetary reserves are less than one-half of their quota. It may be of interest to give the scale of charges here in tabular form (1) on the assumption that a member draws the amount permissible each year without availing itself of the provision regarding waiver, and (2) on the assumption that the 25 per cent. annual limit on the utilisation of the quota referred to above, is waived and a member is allowed to draw varying amounts upto the full amount of the quota in the first year.

Percentage Charges Payable by a Country on Fund's Holdings of its Currency in Excess of its Quota

I. Marginal Charges: assuming a member to draw the full amount permitted each year *without waiver* (after the Fund's holdings of its currency have reached 100 of its quota).

Amount of country's currency held by Fund as percentage of country's quota	Per cent. per annum payable on excess currency during									
	1st year	2nd year	3rd year	4th year	5th year	6th year	7th year	8th year	9th year	10th year
101—125 . . .	3/8†	1	1½	2	2½	3	3½	4*	4½	5
126—150 . . .	..	1	1½	2	2½	3	3½	4*	4½	5
151—175 . . .	..	..	1½	2	2½	3	3½	4*	4½	5
176—200 . . .	..	..	..	2	2½	3	3½	4*	4½	5

II. Marginal Charges

Amount of country's currency held by Fund as percentage of country's quota	Per cent. per annum payable on excess currency during									
	1st year	2nd year	3rd year	4th year	5th year	6th year	7th year	8th year	9th year	10th year
101—125 . . .	3/8†	1	1½	2	2½	3	3½	4*	4½	5
126—150 . . .	1	1½	2	2½	3	3½	4*	4½	5	5
151—175 . . .	1½	2	2½	3	3½	4*	4½	5	5	5
176—200 . . .	2	2½	3	3½	4*	4½	5	5	5	5

Additional amounts. Corresponding increase up to 5%.

† No payment in first three months, ½ per cent. in next nine months.

* At this point the Fund and the member shall consider ways and means by which the Fund's holdings of the member's currency can be reduced.

NOTE.—No charge is made on use of the Fund resources in an amount equivalent to a member's gold subscription.

17. Capital Transfers.—The Articles of Agreement contain provisions to prevent the use of the Fund's resources to finance large capital exports by a member country in debt to the Fund. Special provisions however permit, within certain limits, capital transfers through the Fund by a member which has maintained a net credit position with the Fund for some time, subject to the limitation that such capital transfers may not raise the Fund's holdings of the member's currency above seventy five per cent. of its quota.

Members may exercise the controls necessary to regulate international capital movements.

18. Scarce Currencies.—The Fund may replenish its holdings of a scarce currency by borrowing that currency from the member or from some other source within the member's territories, with its approval, or by requiring the member to sell its currency to the Fund for gold. The Fund may apportion the supplies of a scarce currency with due regard to the relative needs of members. Members shall be authorised to impose limitations on the freedom of exchange operations in the scarce currency.

19. General Obligations of Members.—Subject to the provisions relating to scarce currencies and the transitional period, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions. Members may co-operate in measures for the purpose of making their exchange control regulations more effective. No member shall engage in any discriminatory currency arrangements or multiple currency practices, except such as are approved by the Fund, and any members who engage in them, otherwise than in accordance with the provisions relating to the transitional period, shall consult with the Fund as to their progressive removal.

Each member shall buy balances of its currency held by another member at the latter's request, if the balances have been recently acquired as a result of current transactions, or if their conversion is needed for making payments for current transactions, the buying member having the option to pay in the currency of the member making the request or in gold; but this obligation shall not apply, among other circumstances, when the convertibility of the balances has been restricted with a view to control of capital transfers, or the balances have accumulated during the continuance of exchange restrictions imposed by a member for the transitional period. Other obligations of members include furnishing the Fund with economic and financial information relating to the country necessary for the Fund's operations and within the ability of members to supply.

20. Relations with Non-Members Countries.—Each member undertakes not to engage in any transactions with a non-member, and not to co-operate with a non-member, in practices which would be contrary to the provisions of the Agreement or the purposes of the Fund, and to co-operate with the Fund with a view to preventing such transactions. Any member may impose restrictions on exchange transactions with non-members unless such restrictions are found to prejudice the interests of members and to be contrary to the purposes of the Fund.

21. Organisation and Management.—The Fund shall have a Board of Governors, Executive Directors, a Managing Director and a staff. The Board of Governors shall consist of one governor and one alternate appointed by each member, to serve for five years but to be eligible for reappointment. The Board shall meet at least annually.

There shall be not less than twelve executive directors who need not be governors and of whom five shall be appointed by the five members having the largest quotas. Two shall be elected by the American Republics other than the United States and five shall be elected by the remaining members. In addition, if at the second regular election of directors (elections shall be conducted at intervals of two years), the two largest creditors in the Fund are not among the members automatically entitled to appoint directors, either or both of such members, as the case may be, shall be entitled to appoint a

director. Each director shall appoint an alternate with full power to act for him when he is not present.

The Executive Directors shall function in continuous session at the principal office of the Fund.

Each Governor and appointed Director shall cast the number of votes allotted to the member appointing him, and each elected director shall cast the number of votes which counted towards his election.

Each member shall have 250 votes *plus* one additional vote for each part of its quota equivalent to 100,000 United States dollars. In voting on provisions relating to the waiver of conditions for drawing upon the resources of the Fund and the eligibility of a member to use the Fund's resources, the voting power of creditors with the Fund shall be increased, and of debtors reduced, to the extent of one vote for the equivalent of each 400,000 United States dollars.

In any distribution of net income the first claim shall be that of a payment at the rate of two per cent. to each creditor of the Fund on the amount by which the Fund's average holdings of its currency during a year was short of seventy-five per cent., of its quota (*viz.*, the amount of original subscription to the Fund by each member in the form of currency if twenty-five per cent. were contributed in gold). The balance shall be paid to all members in proportion to their quotas, the payment to be made in a member's own currency.

22. Offices and Depositories.—The principal office of the Fund shall be located in the territory of the member having the largest quota, *viz.*, the United States of America according to the present quotas. Initially at least one half of the holdings of the Fund of gold and assets other than a member's own currency shall be held in the depository designated by the member with the Fund's principal office and at least 40 per cent. shall be held in the four members having the next largest quotas, *viz.*, the United Kingdom, the Union of Soviet Socialist Republics, China and France.

23. Transitional Period.—The Introduction (Section I) of this Article states that the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

In the post-war transitional period members may maintain and adapt, and certain members may introduce, restrictions on payments and transfers for current international transactions, but such restrictions shall be withdrawn as soon as members find it possible to settle their balances of payments without undue recourse to the Fund, with the general aim of restoring the comparative freedom and facility of international payments and the maintenance of exchange stability. Not later than three years after the Fund starts operations and every year thereafter the Fund shall report on the restrictions still in force and five years after the Fund's beginning and every year thereafter any member retaining restrictions shall consult the Fund about their further retention. The Fund may make representations to members in the matter and if the differences are not satisfactorily composed, the member may be liable to compulsory withdrawal. The Fund shall, however, recognise that the post-war transitional period will be one of change and adjustment and shall give the member making a request occasioned thereby the benefit of any reasonable doubt.

24. Withdrawal from Membership.—Any member may withdraw from the Fund at any time by giving notice in writing, the withdrawal to become effective when such notice is received.

25. The Articles contain specific provisions for settlement of accounts with members withdrawing, temporary suspension and liquidation of the Fund and for introducing amendments to Articles of Agreement, for interpretation of the provisions and Explanation of Terms.

26. Final Provisions.—The Agreement shall enter into force when it has been signed on behalf of governments having sixty-five per cent., of the total quotas, but shall in no event enter into force before May 1, 1945. It shall

remain open for signature at Washington on behalf of the Governments of the countries represented at the Conference until December 31, 1945.

Initial Determination of Par Values.—The initial determination of par values will be the most important of the first questions to be determined in connection with the inauguration of the Fund. The Fund shall notify the members when it expects to be in a position to begin exchange transactions and shall request them to communicate within thirty days the par values of their currencies based on the rates of exchange prevailing on the sixtieth day before the entry into force of the Agreement. The par value so communicated shall be accepted for the purpose of the Agreement unless within ninety days of its being received either the member or the Fund notify that this par value is unsatisfactory. In that case the member and the Fund shall arrive at a suitable par value by agreement. In the event of failure to agree, the member shall be deemed to have withdrawn from the Fund when the period of ninety days expires.

When the par value of a member's currency has been established as above, the member shall be eligible to buy from the Fund the currencies of other members to the full extent permitted in this Agreement, provided that the Fund has begun exchange transactions. The Fund shall begin exchange transactions, when it may determine, after members having sixty-five per cent. of the total quotas have become eligible to purchase the currencies of other members, but not before the end of war in Europe.

27. **Schedules.**—The Articles of Agreement have five schedules relating to A. Quotas, B. Provisions with Respect to Repurchase by a Member of its Currency held by the Fund, C. Election of Executive Directors, D. Settlement of Accounts with Members Withdrawing, and E. Administration of Liquidation.

CHAPTER III.—THE INTERNATIONAL MONETARY FUND: REVIEW OF DISCUSSIONS

28. The general method followed by the Conference in the progress of work was to start with the statements and provisions contained in the Joint statement by Experts on the Establishment of an International Monetary Fund and the alternative or additional proposals evolved as a result of expert discussion at Atlantic City, and to consider these together with fresh alternatives and additions suggested throughout by the different delegations. Meanwhile the technical experts were also engaged in completing the formal structure of the Fund in the numerous matters of organisation, management, operation and liquidation which had not been provided for or sufficiently dealt with in the Joint Statement of principles. The order in which the different subjects were taken up by the Conference depended to some extent upon the measure of divergence of views or interests revealed. The simpler and less controversial questions were disposed of first, and the more contentious and difficult issues were resolved or taken up at later stages. In regard to the Fund, the more important questions on which there was some considerable discussion and initial difference of views, were the following:—

- (1) The amendments proposed by the Indian Delegation to the primary objectives of economic policy as stated among the purposes of the Fund, already referred to above;
- (2) The quotas of member countries which define their subscriptions, voting rights and share in management generally;
- (3) The size and composition of the Executive Directorate of the Fund;
- (4) Changes in par values or exchange rates of currencies;
- (5) Uniform changes in the gold values of all member currencies;
- (6) The range of variation of the exchange rates of currencies from parity;
- (7) The rate at which the credit facilities allowed by the Fund might be used up by member countries, and the waiver of conditions;
- (8) The position of major world currencies like sterling and the dollar in relation to the operations of the Fund, and the repurchase by a member of its currency held by the Fund;

(9) The scale and system of charges to be levied by the Fund on advances of foreign exchange to member countries (or on the Fund's holdings of local currencies);

(10) The special treatment of countries devastated by the war in respect of gold subscriptions and other matters;

(11) The location of the head office of the Fund and the distribution of gold among the depositories, etc., etc.

It is proposed to indicate here the broad lines of divergence of views disclosed on these and a few other subjects, and the manner and measure of agreement embodied in the final provisions of the Articles of Agreement arrived at by the Conference, with special reference to the point of view presented or pressed by the Indian Delegation on those outstanding matters in which they interested themselves more particularly.

29. The Purposes of the Fund: Development of Economically Backward Countries.—It has been mentioned above that the Indian delegates at Atlantic City proposed an amendment to the purposes of the International Monetary Fund suggesting the inclusion among them of assistance in the fuller utilisation of the resources of economically backward countries. Three alternatives were proposed for Article I (Purposes and Policies of the Fund), Section 2 of the Joint Statement which reads: 'to facilitate the expansion and balanced growth of international trade and to contribute in this way to the maintenance of a high level of employment and real income, which must be a primary objective of economic policy.' Of these the alternative proposed by the Indian Delegation was the only one recommending any change of substance. It read as follows:

'The purposes of the International Monetary Fund are: to facilitate the expansion and balanced growth of international trade, to assist in the fuller utilisation of the resources of economically underdeveloped countries and to contribute thereby to the promotion and maintenance in the world as a whole of a high level of employment and real income which must be the primary objectives of economic policy.' The discussion on this subject in the Conference accordingly centred on the Indian amendment.

The discussion on the subject (in Committee 1 on the 4th July forenoon) opened with a short speech by Sir Jeremy Raisman who explained that the intention underlying the particular emphasis in the Indian amendment on the development of the resources of economically underdeveloped countries was to bring out more clearly the content of the prime objectives of economic policy in relation to backward agricultural economies, while the existing phraseology appeared to connote a more limited application to the conditions of highly industrialised countries. The proposal had fairly widespread support, to start with, among the delegates on the grounds that it furnished a general guiding principle for the operation of the Fund and made the description of the primary objectives of economic policy more complete. On the other hand, it was opposed on the ground that it went beyond the scope of the Fund and introduced objectives which were not germane to its main purpose. The Fund aimed at the short-term objective of the maintenance of exchange stability and the promotion of international trade thereby, while the utilisation of the resources of underdeveloped countries was a long-term objective which could not properly be achieved through its instrumentality. Sir Shanmukham Chetty, in explaining more specifically the justification of the Indian amendment and replying to some of the criticism advanced against it, pointed out that it was not the aim of the Indian Delegation to propose any extension of the scope or obligations of the Fund, but that our sole aim was to make more full and more explicit the statement of the primary objectives of economic policy which the authors of the Joint Statement had enunciated. He elaborated this point of view before the Drafting Sub-Committee to which the question was referred and explained that phrases like 'full employment' and 'the maintenance of real income' made small appeal to the vast populations of Eastern countries like India and China which had yet to attain certain minimum standards of living before they could maintain them, and which looked to the development of their resources rather

than to 'full employment', ordinarily so understood, as their broad economic objective. He said that we recognised that the Fund itself could not directly promote the objective but no more could it directly promote the end of full employment, and either of these aims could only be indirectly facilitated by generally keeping them in view in the operations of the Fund. After our point of view had been explained there was general support for the introduction of the words 'promotion and' before 'maintenance in the world as a whole of a high level of employment and real income' as also for some reference to the development of resources and productive powers of *all member countries*. Nevertheless the changes suggested by the Indian Delegation were unacceptable to the United Kingdom and the United States delegates, as well as to some others, who regarded the objective of levelling up of economically underdeveloped countries as belonging more appropriately to the functions of the other international institution proposed to be set up, namely the International Bank for Reconstruction and Development. The Drafting Committee was guided in its decision to exclude specific reference to the needs of economically backward countries by the general principle that the declaration of the purposes and policies of the Fund must be in agreement with the real objectives and powers of the Fund as stated in the provisions contained in its constitutional document and with the means put at its disposal. We were fully cognizant of these considerations, and, our aim, indeed, was to secure a certain weightage in some of the operative provisions relating to use of the Fund's resources, to the recommendations to members on economic policy, and to quotas and management, on the score of this amendment to the purposes of the Fund. As it was, the proposal went through some further stages of discussion and finally emerged from the special Committee on Unsettled Problems and Commission I as follows:—

'The purposes of the International Monetary Fund are: to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.'

30. Purposes of the Fund: Convertibility of a portion of Sterling Balances.

—The Indian Delegation had also proposed during the course of deliberations of the Agenda Committee at Atlantic City, as already mentioned, the addition of a new purpose in the statement of purposes of the International Monetary Fund (Joint Statement, Article I), *viz.*, 'to promote and facilitate the settlement of abnormal indebtedness arising out of the war.' The proposal came up for consideration in Committee 1 on the 5th July (forenoon), and Sir Jeremy Raisman opened the discussion. He observed that the necessity of assisting the liquidation of abnormal war balances had been recognised in earlier versions of the international monetary proposals, but found no mention in the Joint Statement of Monetary Experts on the International Monetary Fund. No explanation was forthcoming of the reasons for this omission. There were, no doubt, important considerations which might have led to the exclusion of this question from the scope of the Fund's operations, and the Indian delegation did not underestimate the seriousness of the task which the new monetary institution proposed to be set up would undertake. Nevertheless he found it difficult to understand how any scheme which purported to regulate international monetary relations in the post-war world could ignore so fundamental a problem. He urged that they had also to take into account the extremely important considerations on the other side, which demanded an earnest attempt to find a solution of the question from the point of view of a country in India's position. The importance attached to this question in India was so great that it determined largely the public interest in, and attitude towards, the international monetary proposals. India expected to embark, after the war, on a programme of considerable industrial development and looked to the availability of her large sterling balances for the import of capital equipment in the immediate post-war years when the United Kingdom would be largely engaged in internal rehabilitation and reconstruction. If the problem was too large to be tackled fully by the Fund, the Fund should, nevertheless, provide some partial assistance towards

its solution. We realised, of course, Sir Jeremy Raisman went on to say, that it was perhaps too large a question to be decided by the Committee and would have to be referred to the full Commission; nevertheless, we were bound to point out the vital significance to our economy of some provision for its solution in the framework of the monetary fund. The Egyptian delegate wholeheartedly supported the resolution moved by the Leader of the Indian Delegation, without adducing any additional reasons.

The delegate of the United States then explained the attitude of the United States on the question. The explanation was brief: it was perfectly clear to them, he said, that the Fund had already as much to do as any human institution could undertake and to ask it to do more would strain its resources beyond capacity. One of the delegates supporting the United States view remarked that the problem of pre-war and war-time indebtedness was too big a problem in itself to be dealt with by the Fund. It involved various questions of funding, adjusting and arrangements between the parties concerned and had to be treated separately from the machinery of the Fund. The representative of France generally aligned himself with the previous two speakers. The last to speak on the subject was the delegate from the United Kingdom. In their view, he said, the operations of the Fund would be water-logged if the large question of the liquidation of war indebtedness were to be dealt with through its machinery. This question was, in the view of the United Kingdom Government, primarily one for settlement between the creditor and the debtor.

In view of the above discussion, the Chairman suggested that the alternative containing the Indian proposal might be referred back to the Commission without any decision or recommendation.

The question came up again in the meeting of Committee 1 on the 7th July (afternoon), in connection with the Amendment to the Purposes of the Fund moved by the Egyptian Delegation, which read as follows:—

'The Purposes of the International Monetary Fund shall be: To assist a multilateral clearing of accumulated war balances.'

The Egyptian delegate in his speech supporting the amendment explained that there were three ways by which a country in the position of Egypt could acquire access to the capital resources necessary for the purpose of purchasing imports of essential capital goods in the immediate post-war period for reconstruction and development:—

- (1) Exporting more than importing;
- (2) Allowing conversion of the sterling assets into other currencies;
- (3) Exporting gold.

As regards (1), they had to allow time for conversion of war to peace production and meet the most urgent domestic needs first, and the capacity to produce an ordinary export surplus in this manner was, therefore, limited. The transfer contemplated in the second alternative would, to some extent, depend upon the success achieved in establishing a fully functioning international trade machinery. The third alternative, again, had limitations based upon the stocks of gold available.

Mr. A. D. Shroff on behalf of the Indian Delegation supported the Egyptian amendment. After referring to the objections to the Indian proposal expressed on behalf of the United States and the United Kingdom delegations, *viz.*, that the multilateral convertibility of the accumulated sterling balances would unduly overload the resources of the Fund and that this convertibility was a matter for bilateral arrangement between the parties concerned, Mr. Shroff proceeded to point out that public opinion and feeling on this question in India was unanimous and extremely strong and unless some method were devised to facilitate the solution of what was an extremely important matter for us the ultimate attitude of our country towards the International Monetary Fund would be largely influenced by the decision of the Conference on this question. He concluded his Speech (Appendix) as follows:—

'We plead for the assistance of the Fund spread over a period of years to secure multilateral convertibility of at least a portion of our foreign balances. I

say this because with the long standing relationship between India and the United Kingdom and the traditional commercial ties between the two countries, I take it that a large portion of our sterling balances will ultimately be utilised in obtaining capital goods from the United Kingdom. I appreciate and very greatly sympathise with the difficulties of the United Kingdom now and in the early post-war period: owing to the unfortunate loss of valuable foreign investments and, due to other difficulties, it is not likely that the United Kingdom will be in a position to reach a stage of free convertibility for sterling at an early date. On the other hand, our country is pulsating with hopes and aspirations of large scale industrial development to raise the standard of living of four hundred millions of our population. We cannot, therefore, be asked to wait indefinitely till the United Kingdom has reached a stage when sterling would be freely convertible into other currencies. We therefore want conversion at least of a portion of our balances into other foreign currencies.'

The delegate from one of the European countries interposed a query as to whether the clearing balances of the occupied countries in Berlin would also be liquidated through the Fund. The United Kingdom delegate in the course of his reply to the Egyptian and Indian delegates remarked that his Government recognised the seriousness of the problem. The reference which had been made by the speakers from India and Egypt to the Keynes plan was evidence that this problem was a matter of anxious consideration to them. They did not, however, wish to ask that the business of the Fund should be complicated by an attempt to solve this problem. It would be a great misfortune for the Fund if it were to commence its business with a responsibility to liquidate these large balances. He, however, repudiated any suggestion that the balances of the occupied countries were on the same footing as those held by one member of the United Nations with another member; in the opinion of the Government of the United Kingdom these (sterling) obligations were to be respected in accordance with the long tradition of British international finance.

The United States delegate who spoke next, remarked that he was aware of the great seriousness of the problem and the difficulties under which the countries concerned were labouring to vitalize their post-war economic life. They (the United States) were somewhat embarrassed by the fact that in earlier versions there was some attempt to meet this problem. Their position in this respect, however, was like that of a young man who published a book before he had matured his ideas and who was later called to account for statements not fully considered. These statements (the Keynes and White Plans) were issued in all good faith for the very purpose of stimulating discussion and getting opinions from all over the world. A very careful study had now been made of the whole subject and it had become perfectly apparent that the magnitude of the problem was such that it could not be dealt with in the provisions of the Fund. The amount of war indebtedness far exceeded the total of the Fund. This Fund had a modest role, that of facilitating the return of international trade to normal conditions. It was not in a position to facilitate or make a settlement of these very large accumulations. He wished to call attention to the provisions of the Joint Statement which dealt with capital movements. It was not intended to prevent capital movements which were met out of a member country's own resources of gold and foreign exchange. Recognition was, therefore, given in this section to the need for the liquidation of past indebtedness by this means and to suggest anything beyond that would greatly mislead the world. We had to reconcile ourselves to the fact that the task before us was not easy and we could not cover all phases of the economic problem by means of the Fund.

The delegate for France supported the point of view of the representatives of the United Kingdom and the United States. He quoted the instance of huge quantities of francs issued as liquid assets and due by Germany and France and added that they had no intention to ask the Fund to help to collect that amount from Germany.

The Chairman, in concluding the discussion, remarked that the amendment moved by Egypt was similar to that moved by India. He pointed out that a general statement of purpose would not dispose of this problem and they had to treat of it in dealing with the transactions and the operations of the Fund. He suggested, therefore, that the Committee report the essence of the discussion to Commission I.

With a view to avoiding any possible misunderstanding of the approach of the Indian Delegation towards the question of multilateral convertibility of our sterling balances through the Fund, a new revised amendment to the purposes of the Fund was proposed by the Delegation and circulated before the meeting of the Commission. The revised amendment was as follows:—

'To facilitate the multilateral settlement of a reasonable portion of the foreign credit balances accumulated amongst the member countries during the war so as to promote the purposes referred to in subdivision 2, without placing undue strain on the resources of the Fund.'

The subject came up before the Commission in its third meeting on the 10th July (forenoon). Mr. Shroff, on behalf of the Indian Delegation, commending the above amendment to the Commission, explained that we realised that a very large proportion of the sterling balances must be liquidated through direct exports from the United Kingdom, but pointed out that the capacity of the United Kingdom to supply India's requirements of consumer and capital goods would be extremely limited during the immediate post-war years and it would assist the process of India's industrial development, and thereby the flow of international trade, if a reasonable proportion of the sterling balances could be converted into other currencies after the war. The delegate of the United States reiterated the reasons for their opposition to the proposal and was followed by Lord Keynes who made a statement on behalf of the Delegation of the United Kingdom, setting forth clearly that the settlement of these debts must be a matter between those directly concerned and that they did not intend to ask assistance in the matter from the International Monetary Fund, which was not meant to deal directly with war indebtedness. The French Delegation entirely supported the position taken up by the United States and the United Kingdom and referred again to the huge war balances accumulated by occupied countries against Germany, in respect of which they (the French Delegation) wished to make no request to the Fund. In sum, it would thus appear that the Conference objected in principle to the Fund concerning itself with the problem of war-time indebtedness on the grounds of (1) the magnitude of such indebtedness in relation to the size of the Fund; (2) the difficulties of increasing the size of the Fund; (3) the possible adjustments to which such indebtedness might be subject through settlement directly between the parties concerned, and (4) the limited character of the Fund's operations in its latest version. The Indian proposal moved in the Commission's meeting was not seconded and was lost. It had, however, evoked an unambiguous statement of the United Kingdom's position in the matter.

The speech of Mr. Shroff and the statements on behalf of the United States, the United Kingdom and the French Delegations are appended.

31. **The Quotas.**—Unlike the Keynes Plan and the different versions of the White Plan which proposed respectively the simple basis of the volume of international trade and a multiple basis of international trade, national income and fluctuations in balances of payments, for the determination of relative quotas of member countries, the Joint Statement by Experts issued in April 1944 omitted any reference to the question of the method by which quotas would be fixed. The omission was explained by the desire to avoid a decision on such a matter before opportunity had been taken to consult prospective participants,¹

though it was clearly recognised by this time that any basis for the determination of quotas must be complex and must take account of a variety of considerations.

It might be noted at the outset that, given the broad relative distribution of quotas, the absolute size of the Fund has been determined principally by the desire of the United States to limit her contribution to the resources of the Fund to the figure of her quota, *viz.*, 2,750 million United States dollars, and all discussion centering upon the absolute size of the Fund was dominated by the unwillingness of the United States Delegation to see the American contribution increased. The United States experts took the view that the aggregate quotas of all members as laid down in the agreement should be adequate to the purposes prescribed for the Fund, which, it is expressly provided for, is not intended to provide resources for relief and rehabilitation, or reconstruction and development, or for financing flights of capital, or for the clearing of war-time indebtedness.

As regards the determination of relative quotas, a satisfactory quota formula, it was explained, must give consideration to the multiple functions of the quota, which are (1) to determine the amount of a country's contribution of resources to the Fund, (2) to define the normal degree of access by a country to the foreign exchange pool of the Fund, and (3) to indicate a general measure of the economic significance of a country and of its relative voice in the management of the Fund. Hence factors like (i) national income which is a good index of a country's ability to subscribe resources to the Fund, (ii) a country's gold and dollar holdings which are the equivalent of international purchasing power and, therefore, particularly desirable assets for the purposes of an international monetary institution, and (iii) the magnitude of fluctuations in a country's balance of payments as indicated by import and export data, are regarded as relevant to the determination of quotas. Over and above these, 'the economic significance of a country in the world's economy is an intangible factor impossible to measure even approximately. It depends upon its material output, its foreign trade, its foreign investment, its economic and political strength. In the final determination of quotas, allowance should be made for this factor by an approximate adjustment in the results obtained from the formula which is employed. For this purpose it is suggested that an amount equal to 10 per cent. of the aggregate quotas should be reserved 'to increase the quotas of any countries whose quotas as determined by application of the formula seem inadequate', the formula giving the crude quota as being the sum of the following quantities:—

- (a) 2 per cent. of the national income of 1939;
- (b) 5 per cent. of the holdings of gold and gold convertible exchange as at January 1944;
- (c) 10 per cent. of average annual imports 1934-38 inclusive;
- (d) 10 per cent. of maximum variation in annual exports 1934-38 inclusive.

As part of the formula, however, it is also suggested that the total so determined be increased for each country by the percentage ratio of its average annual exports (1934-38) to its national income, so as to give 'special consideration, in this way, to those countries whose national income is particularly affected by international trade'; in other words, the degree of a country's dependence on international trade is recognised as a factor relevant to the measure of its participation in the affairs of the international monetary institution. In the actual statistical treatment of the elements in the formula, however, this last stage has been combined with adjustments in consequence of the intangible factor of 'economic significance' referred to above, and the precise determination of the Final result is not directly traceable to the terms of a definite formula.

The question of the quota was the last of the important and contentious issues to be taken up by the Conference. This was perhaps partly because of

the difficulty of arriving at an agreement among the biggest quota countries following the increase proposed by Russia in her quota from 900 to 1,200 million dollars, which also required some possible adjustments in the quotas of other countries. It was probably due also in part to the consideration that it was inadvisable to allow adjustments and changes to be proposed and made in open conference in this matter, after any fundamental accord arrived at outside the Conference, in view of the interminable difficulties of such a procedure. Consequently all activity towards influencing the decision on quotas took place behind the scenes of the Conference sessions. The day before the entire quota list was announced in a meeting of Commission I on July 15, the quotas of individual countries were communicated to the leaders and representatives of many of the delegations in special meetings with the Secretary of the United States' Treasury, Mr. Henry Morgenthau, Chairman of the Conference.

The Indian Delegation met Mr. Henry Morgenthau on Friday, the 14th July, at 3-10 p.m. Mr. Morgenthau announced the figure of the Indian quota as 400 million dollars, out of aggregate quotas of 8,800 million dollars for all the forty-four countries represented at the Conference. Mr. Harry White explained that they had, to start with, applied an economic formula but had made necessary adjustments in the determination of final quotas to allow for the general (economic and political) significance of a country, which could not be quantitatively represented by the exact terms of a formula, apart from the fact that essential data were not available for certain countries. Substantively, the Indian quota, in the American view was based on due recognition of India's economic significance.

Another stage before the announcement of the quotas was the setting up of a Quota Committee consisting of representatives of Belgium, Brazil, Canada, China, Cuba, Czechoslovakia, Egypt, the French Delegation, India, Mexico, New Zealand, Norway, the United Kingdom, Union of Soviet Socialist Republics and the United States (Chairman). The Committee which met immediately before the session of the Commission, recommended the quotas of forty-four nations totalling 8,800 million dollars (given as Schedule A to the Articles of Agreement) with reservations by China, Egypt, the French Delegation, India and New Zealand. The Delegate of the United States, in moving the adoption of the Quota Committee's report in the meeting of Commission I on July 15, explained that the early hopes of finding an objective scale for the fixation of quotas had not been realised and that the circumstances of different countries varied so widely that the consideration of many factors had been necessary. He stated that the original schedule based on an aggregate of 8 billion dollars for the original membership had been increased to 8,800 million dollars. Fifteen countries had participated in the work of the Committee on quotas and five had indicated their reservation; their task had been difficult but any errors which may have occurred in the final determination were not of intention, but were the result of the complexity of the problem.

After extended discussion the Commission voted to approve the report of the Quota Committee. Reservations were made or reconsideration was asked for by the delegates of Australia, China, Egypt, Ethiopia, the French Delegation, Greece, India, Iran, New Zealand and Yugoslavia. The Delegate of the Netherlands recorded his understanding that acceptance of a quota did not imply acceptance of any formula on which it may have been based.

Sir Jeremy Raisman on behalf of the Indian Delegation observed: 'I must say a few words in explanation of the fact that it has been necessary for us to make a reservation on behalf of India. The Delegation from India is fully conscious of the difficulties that had to be tackled in handling this complicated problem. At the same time they are aware of the strong feeling that prevails in their country that her economic importance should be duly recognised in any international economic institution of this character. It is not only a question of India's size, nor alone of her population, but that on purely economic criteria India is an important part of the world and will be an even more important part in the years to come. India is not disposed to argue about the absolute size of the quota in the manner in which some other countries might wish to do.

She is more concerned about her relative position among the countries that form the general set-up of the Fund. India feels that if due regard is given to her economic importance, there should be no danger of her failing to acquire a due share in the councils of the institution. She recognises that other considerations may have been applied in the determination of the final quotas in the case of certain countries but feels that this procedure should not result in such a distortion of the economic merits of the case. In conclusion, I have to express my agreement with the representative of the Netherlands that it is not only a question of the quota but it is the arrangements relating to the management of the Fund that are our concern.'

32. Executive Directorate of the Fund.—We now turn to a brief review of the general course of discussions on the arrangements in connection with the management of the Fund and the question of the executive directorate. These questions were dealt with by Committee 3 before the Commission took them up, and the Indian Delegation was represented on that Committee by Sir Chintaman Deshmukh.

It may be mentioned at the outset that a decision on the question of the composition of the executive body was twice sought to be obtained, first in the Committee and later in the Commission, before the quotas were announced. On both occasions the Indian Delegation raised a point of procedure, i.e., whether it would be of any advantage to discuss the arrangements for the constitution of the executive directorate before the position in regard to quotas, which had a fundamental bearing on the former, was known. On both occasions the objection of the Indian Delegation against reversing what they represented was the normal order of dealing with the subjects had general support and was accepted by the Chair. The discussion of this question was accordingly taken up after the quotas had been announced.

The Joint Statement by Experts contained the following provision relating to the Management of the fund: 'The Fund shall be governed by a board on which each member will be represented, and by an executive committee. The executive committee will consist of at least nine members including the representatives of the five countries with the largest quotas.' The provisions finally agreed upon (1) increased the number of executive directors to not less than twelve, of whom five shall be appointed by the five members having the largest quotas; (2) reserved two executive directorships for election by the American Republics; and (3) provided for the representation on the Fund's Directorate after two years of the Fund's functioning, of the two largest creditor countries on current account, if not already represented thereon.

The measure of interest shown in the provisions relating to the Executive Directorate and allied matters is indicated by the fact that as many as eleven alternative proposals, or forms of proposals, were presented on this subject; to some extent, of course, this resulted from the fact that the text of the Joint Statement only made a bare reference to the framework of the executive body and did not include full provision for many incidental matters. One of the alternative proposals which fell through was made by the Indian Delegation suggesting the appointment of six out of twelve executive directors by the six members having the largest quotas. Another alternative which was rejected was proposed by the Egyptian Delegation recommending the reservation of one seat for 'countries of the Middle East', this expression being not defined. Cuba, a member of the American Republics, moved in the meeting of the Commission on July 15, the adoption of the alternative providing for the reservation of two seats for the Republics (in addition to a number of other matters) which had the implicit approval of the 'big five' having the largest quotas. The Indian Delegation wished at this stage to move their amendment increasing the number of automatically appointed directors to six, instead of five. The Chairman, however, ruled that the main proposition before the Commission would be taken up first and only if it were rejected, would the amendments be put to vote. Since the proposal of the Cuban Delegation was accepted, the alternative proposed by the Indian Delegation was considered as automatically lost.

We propose to refer here to the prospects of India in regard to membership of the Executive Directorate as they are affected by her relative quota and the rules relating to election of Executive Directors laid down in the Articles of Agreement. The total number of votes of forty-four member countries according to Schedule A of the Articles are 88,000 (one vote for every 100,000 dollars of the quotas) plus 11,000 (250 votes for each country), i.e., 99,000. Of these, the number of votes of the five countries with the largest quotas which are entitled to appoint one executive director each, viz., the United States, the United Kingdom, the Union of Soviet Socialist Republics, China and France are 62,500 plus 1,250, i.e., 63,750. Again, the number of votes of twenty American Republics (including Philippine Commonwealth) is 5045 plus 5000 (250 × 20), i.e., 10,045. These two categories, therefore, make a total of 73,795 votes for seven executive directors, leaving a total of 25,205 votes to be cast (by 19 countries) for the five elective executive directors of which the number of Indian votes is 4250 or 16.86 per cent. The average number of votes available for each elective executive director is 5041. A procedure of one or more ballots is prescribed to ensure that no votes are wasted, in the sense of being cast for persons who are not elected, and that all votes are cast for one or other of the elected directors. No person who received less than nineteen per cent. of the total number of votes that can be cast (eligible votes), viz., 4,789 according to the present Schedule A, shall be considered elected, the excess of votes cast for an elected person above twenty per cent. viz., 5041, being redistributed in a subsequent ballot—without, however, splitting up the votes of any country—to other persons. Each time the person obtaining the lowest number of votes, if five persons are not elected, is eliminated provided that after four persons are elected, the fifth may be elected by a simple majority of the remaining votes (and shall be deemed to have been elected by all such votes).

We may for the purpose of demonstration proceed on the least favourable assumption (without regard to probability) that no other country votes for India in any ballot. No conceivable permutation or grouping of countries will avoid a certain number of votes being wasted in the limited sense of increasing the total votes cast for a person above nineteen per cent., and the aggregate of 799 votes in excess of 19,156 viz., the minimum number of votes required for four elective directors at 19 per cent. (the total number of votes of the 18 countries other than India is 20,955 = 19,156 plus 799) will for the most part be used up in the 'excess' votes cast for the four elected directors. If on an average nearly 21 per cent. of the votes are cast for each person, there will be no other votes except India's left over after four persons have been elected. On the least favourable assumption made above, therefore, the election of India to the executive directorate under the present rules and the present distribution of quotas is assured.

There will be one difference, however, between the elected and appointed or permanent members. As mentioned in the summary of provisions given in the last chapter, initially at least forty per cent. of the holdings of the Fund of gold and assets other than a member's own currency shall be held in the depositories designated by the four members with the next largest quotas after the United States (which shall designate a depository for at least fifty per cent. of the Fund's holdings). The Fund may, however, hold such assets in other designated depositories selected by it.

One of the provisions included in the Final Act which was actively supported by the Indian Delegation, was that the Executive Directors should (reside at and) function in continuous session at the principal office of the Fund. We felt that a country such as India, situated at such a distance from the principal office of the Fund, might be excluded from effective participation in the counsels of the Fund, unless the Executive Directors were available on the spot for regular consultation and decision, and that that was the only means of preventing undue concentration of all executive powers in the single hands of the Managing Director which might be extremely dangerous having regard to the nature and burden of responsibility involved. This position was generally accepted by the Committee

Another provision relating to the staff which was adopted at the instance of the Indian Delegation, supported by the United Kingdom Delegation, was that in appointing the staff the Managing Director should pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

33. Par Values of Currencies.—The discussion on changes in the par values of currencies brought out the importance of discovering a proper mean between the ends of exchange stability and elasticity or of rigidity and flexibility of exchange rates. On this subject, the Joint Statement provided that changes in the par value of a member's currency should be made by the Fund only with the approval of a member country, and ordinarily on the latter's proposal, for the correction of a fundamental disequilibrium; that the Fund should not take exception to the domestic, social and political policies of the country applying for a change in the exchange value of its currency, and should take into consideration the extreme uncertainties prevailing at the time of the original fixation of currency parities. Furthermore, 'after consulting the Fund a member country may change the established parity of its currency provided the proposed change inclusive of any previous change since the establishment of the Fund does not exceed 10 per cent. In the case of application for a further change not covered by the above and not exceeding 10 per cent., the Fund shall give its decision within two days of receiving the application if the applicant so requests.' It was, however, felt by many countries that these provisions did not go far enough to provide the requisite degree of exchange flexibility. The United Kingdom delegation put forward an alternative provision which was adopted in substance which makes possible changes in exchange rates to any extent without the concurrence of the Fund and with only the obligation on the part of a member country to consult with the Fund, but gave the Fund power to declare a member ineligible to use its resources without compelling its immediate withdrawal from the system. The representative of the United Kingdom explained that the only safeguard which the draft of the Fund proposals in the Joint Statement by Experts offered in case of a difference of opinion between a member and the Fund was withdrawal by the member from the Fund. Withdrawal by a large participant might, however, be an extremely embarrassing step and it was as well, therefore, that some intermediate position should be created in which it would be possible to prevent a member from using the resources of the Fund without its having to withdraw from the organisation. The general aim was to provide a more workable structure and flexible framework than the crude system of outright expulsion under the original proposals. Certain countries made it clear beyond any doubt that they regarded the measure of exchange flexibility provided for in the alternative proposed as absolutely essential to enable them to adhere to any such organisation as the Fund. They referred to the experience of the 'thirties' when depreciation became inevitable in order to alleviate economic distress and for the avoidance of grave internal disorders. The United States delegates appreciated the political character of this problem having regard to the importance attached by countries to national sovereignty in the fundamental matter of the external value of their currency. On the other hand, some other countries pleaded for a greater degree of exchange stability. The matter was referred to the Commission and after being considered again by the Special Committee the following provisions were adopted and appear in the Articles of Agreement of the Fund:—

IV 5. (a) A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(b) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

(c) When a change is proposed, the Fund shall first take into account the changes, if any, which have already taken place in the initial par value of the member's currency as determined under Article XX, Section 4. If the proposed change, together with all previous changes, whether increases or decreases,

(i) does not exceed ten per cent. of the initial par value, the Fund shall raise no objection,

(ii) does not exceed a further ten per cent. of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests,

(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(d) Uniform changes in par values made under Section 7 of this Article shall not be taken into account in determining whether a proposed change falls within (i), (ii), or (iii) of (c) above.

(e) A member may change the par value of its currency without the concurrence of the Fund if the change does not affect the international transactions of members of the Fund.

(f) The Fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic, social or political policies of the member proposing the change.

A word of explanation appears necessary in regard to sub-section (e) above. This was incorporated in accordance with the wishes of the Union of Soviet Socialist Republic Delegation who explained that all their foreign trade was conducted in foreign currencies and payment was made and received in foreign currencies; their foreign trade was transacted on the basis of the prices of the international market expressed in foreign exchange and the internal level of prices did not affect the external prices of goods sold by the Soviet Union and therefore their international transactions. Accordingly, changes in the external parity of the Soviet currency could not affect the amounts of her exports and imports or her international transactions and could not therefore be regarded as competitive exchange depreciation (or appreciation); they only served an internal book-keeping purpose.

34. Uniform Changes in par values of currencies.—The question of uniform changes in the gold values of all currencies was the subject of a somewhat lengthy debate. It will be recalled that the Keynes Plan provided for a change in the gold value of 'Bancor',—the proposed international currency unit, by means of a four-fifths majority, while the original United States Treasury Plan contained no corresponding provision as regards the proposed new unit of account the 'Unitas.' Such a provision was, however, inserted in the Joint Statement in the following terms:—

'Article IV—Section 5. An agreed uniform change may be made in the gold value of member currencies provided that each member country having 10 per cent. or more of the aggregate quotas approves.'

The alternative sponsored by the United Kingdom and the United States Delegations in the Conference proposed that the Fund may make uniform proportionate changes *by majority vote* (*viz.*, by majority of voting power) in the par values of the currencies of all the members, provided each such change is approved by every country which has 10 per cent. or more of the aggregate quotas (*i.e.*, the United States, the United Kingdom and Russia according to the present quotas). The general justification for some provision for altering the gold value of all currencies together under an international monetary system is, of course, obvious from the history of the 'thirties' when this question was decided in practice through a process of trial and error and unilateral currency depreciation by different countries at different times, resulting in grave injury to trade, production and employment everywhere. The aim of such a provision would be to entrust to an international institution the task of determining the relation between gold and currencies as a whole from the point of view of world welfare, and there was no difference of opinion as regards its desirability in general. The formula proposed for effecting a uniform change, however, implied

that such a change could be made at the option of the three largest members. This raised strong opposition on the part of the small countries. An amendment was moved to the effect that the support of a majority of the *number of member countries* should be required for a change in the gold value of all currencies as well as a majority of the voting power and the votes of members with 10 per cent. or more of the quota. It was argued in support of this amendment that a change of this fundamental character should not be left to be made with the approval only of the largest countries but should be made with the approval of a majority of the member countries of the Fund. A compromise proposal suggested that the support of at least one-third of the number of member countries should be required over and above a majority of voting power and the approval of countries with 10 per cent. or more of the total quota. This proposal appeared to have a considerable measure of support at the time that it was presented but no definite agreement was forthcoming and the question was referred to the Special Committee; the proposal which emerged from that Committee and was accepted by the Commission made an attempt to meet the point of view of the small countries by adding a proviso to the section as follows:—

‘The par value of a currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund’s action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.’

35. Range of Variation of Exchange Rates.—A matter of some importance was the determination under the Fund scheme of substitutes for the old ‘gold points’ or the range between which exchange rates would be allowed to fluctuate without the Fund’s intervention. Three sections of the Joint Statement made a reference to this subject in the following terms:—

‘Article IV.all transactions in member currencies shall be at rates within an agreed percentage of parity;’ ‘IX. Obligations of Member Countries. 1. Not to buy gold at a price which exceeded the agreed parity of its currency by more than a prescribed margin and not to sell gold at a price which falls below the agreed parity by more than a prescribed margin; 2. Not to allow exchange transactions in its market in currencies of other members at rates outside a prescribed range based on the agreed parities.’

Two issues were involved in a decision on this subject: In the first place, should the Fund prescribe only the maximum permissible limits of variation from parity, leaving the individual countries free to determine separately for themselves the range of their exchange rates within the maximum limits or should the Fund determine the precise degree of fluctuations allowed for member countries’ exchange rates within the maximum spread? In the latter case, should the Fund prescribe the limits of exchange variation separately in respect of each currency against every other currency, taking into account the relevant factors of distance between countries, the time taken in, and costs of transmission of, trade bills, etc? As soon as the issues were thus stated and became sufficiently clear, it was decided that the Fund could only lay down a general maximum margin for changes in exchange rates, and individual countries might be left free to regulate the variations of their exchanges within the prescribed over-all limits. The special position of forward transactions and the need of a further margin for them in relation to spot transactions was also recognised. The relevant provisions incorporated in the Final Act are as follows:—

Article IV. Section 2. Gold purchase based on par values.—The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin.

‘Section 3. Foreign exchange dealings based on parity.—The maximum and minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from their parity, (i) in the case of spot exchange transactions, by more than 1 per cent., and (ii) in the

case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.'

A second question which called for decision in this connection related to the character and measure of responsibility of the member countries to ensure that the provisions of the Agreement in this matter were enforced in their territories. The precise nature of the problem presented is made clear by the following provisions proposed under one of the alternatives:

'Each member undertakes, through appropriate measures authorised under this Agreement, not to permit within its jurisdiction an appreciation or depreciation of the exchange value of its own currency in terms of gold beyond the range prescribed under (a) above. A member whose monetary authorities in fact freely buy and sell gold within the prescribed range, to settle international transactions, shall be deemed to be fulfilling this undertaking.

Exchange transactions in the territory of one member involving the currency of any other member, which evade or avoid the exchange regulations prescribed by that other member and authorised by this Agreement, shall be an offence in the territory of all members.'

It was pointed out during the discussion on these proposed clauses, in which the Indian Delegation participated, that where a country imposed exchange regulations, it should be responsible for enforcing them and not the country where the transactions took place; for the liability of transactions completed in good faith to be made an offence, through a violation of the exchange regulations of any other member country, might seriously disturb trade. It was, however, explained by the United States Delegation that the intention of the proposed additions to the text of the Agreement was only to ensure reasonable co-operation of member countries with one another in the reciprocal observance of their exchange regulations. The following provisions were accordingly incorporated in the final Articles of Agreement:

Article IV. Section 4(b). Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

Article VIII. Section 2(b). Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member. In addition, members may, by mutual accord, co-operate in measures for the purpose of making the exchange control regulations of either member more effective, provided that such measures and regulations are consistent with this Agreement.

36. Rate of Utilisation of Quotas and Waiver of Conditions.—Another subject of some lively controversy related to the rate at which the quotas of member countries should be allowed to be used up. One of the conditions on which, according to the Joint Statement by Experts, a member should be entitled to buy another member's currency from the Fund in exchange for its own currency, was that the Fund's total holdings of the currency offered (after having been restored, if below that figure, to 75 per cent. of the member's quota) had not been increased by more than 25 per cent. of the member's quota during the previous twelve months and did not exceed 200 per cent. of the quota; it was, however, added that the Fund might in its discretion and on terms which safeguarded its interests waive the above condition. Broadly, two alternative proposals were made in respect of this provision, both having the effect of liberalising the extent and range of the draft by a member on the resources of the Fund. One alternative suggested that 33 1/3 per cent. be substituted for 25 per cent. in the above condition so that a member could draw upon its quota in larger instalments or at a quicker rate when required. The other alternative proposed that the total holdings of the Fund in the currency of a member

country initiating the purchase shall not exceed 125 per cent. of the quota in the first, 150 per cent. of the quota in the second, 175 per cent. of the quota in the third year of the operations of the Fund in that particular currency and 200 per cent. thereafter. The effect of this provision would be that if a member refrained from using its quota during the first one or two or three years it could draw upon the quota to the extent of 50 and 75 per cent. in the second and third years and 100 per cent. in the fourth year and in every year thereafter. It would make possible the building up of idle balances by admitting the principle of carry-over implied in the formula. The proposal was supported on the ground that certain countries required much greater latitude and elasticity in the use of their quota owing to the extreme seasonal disturbances, the large variations of prices and the severity of incidence of the business cycle in their case, and the consequently wider amplitude of fluctuations of their balances of payments; the waiver clause was not an altogether satisfactory way of meeting this kind of situation. Also the Fund had a safeguard against abuse of these comparatively liberal provisions in the right to make recommendations to a country regarding the proper use of its resources and to declare a member country ineligible for access to the Fund if its recommendations were not accepted. On the other hand, it was argued that the Fund had discretion to give larger advances wherever necessary, that its discretionary powers in this respect should be sufficient in most circumstances, that the limitation of a draft on quotas to the maximum extent of 25 per cent. every year was desirable and necessary and, indeed, that the policy of conservation of resources and of building up the reputation and credit of the Fund was in the collective interest of the debtor countries themselves. If the Fund were too liberal in disbursing funds, the debtor countries which were late in claiming assistance might find the resources of important and vital currencies exhausted by the demands of those who were at the head of the queue. It was, however, recognised that due regard should be paid to the exceptional circumstances of certain countries making requests for advances, arising out of the conditions of their trade and balance of payments. Accordingly, in the final provisions incorporated in the Articles of Agreement a proviso was inserted in the section regarding the waiver of conditions empowering the Fund to waive the prescribed terms 'especially in the case of members with a record of avoiding large or continuous use of the Fund's resources'; also, 'in making a waiver it (the Fund) shall take into consideration periodic or exceptional requirements of the member requesting the waiver.'

37. Repurchase by a member of its currency held by the Fund.—A provision of some interest is contained in Article V, Section 7(b) relating to repurchase by a member of its currency held by the Fund, sub-section (b) (ii) being of particular significance to countries which conduct a large proportion of their foreign trade in terms of foreign currencies such as the sterling or dollar and which maintain their foreign exchange balances in these currencies.

The problem which these provisions are intended to solve is this. Currencies like the dollar and sterling are important media of international transactions and are customarily employed in settlement of contracts over a wide field of trade in preference to many national currencies and it is not the aim of the Fund Agreement to undermine the use of the major world currencies in international trade. Now under the general mechanism of the Fund it would be unobjectionable for a country (say India) to build up dollar balances if it had a surplus balance of payments with the United States (and a favourable balance of payments on the whole) since no draft on the dollar resources of the Fund or of other countries is involved by this means. Nor is there any objection from the point of view of the Fund if a country acquires dollars in trade with a third country (*viz.*, country other than the United States) and utilises them to *make payments* (i) in the United States, or (ii) in other countries: in the two cases the use of the dollars avoids respectively a drain on the Fund's resources of dollars or the use of other resources of the Fund. But if a country acquires dollars from countries other than the United States (*viz.*, third

countries) and *builds up dollar balances*, its favourable balance of payments would have drained dollar resources from other countries or from the Fund. In such a case, the use of the dollar as an ordinary medium of international payments might indirectly result in the American contribution to the Fund (*viz.* dollars in the Fund) being drawn upon to finance the deficit of one country (say Brazil) in her trade with a third country (say India), and to assist the latter to accumulate idle dollar reserves. It was felt desirable that this result should be generally avoided by securing in substance that the Fund's holdings of a country's currency are used to meet its favourable balance of payments or the final liabilities of other countries to it through the repurchase provisions in sub-section 7(b)(i). The fullest use of the holdings of a country's currency with the Fund can, however, only be ensured if the repurchase provisions are extended to cover the entire increment of dollars (or other currency) resulting from a country's favourable balance of payments in dollars (or other currencies) with countries other than the United States (or other relevant country) and it is the aim of sub-section 7(b)(ii) to secure this. The conditions stated in sub-section (c), however, limit the scope of these provisions so that they shall not be used either to deplete a country's monetary reserves or its currency holdings with the Fund below certain substantial limits (75 per cent. of the quota) or to require the surrender to the Fund of currencies of which the Fund already had a relatively substantial holding (75 per cent. of the quota).

The broad objective of these provisions, therefore, is to safeguard, within certain limits and up to a defined extent, the resources of the Fund against being diverted to the accumulation of idle balances of foreign exchange, without interfering directly with the free use of the major currencies for financing the flow of current international trade.

38. The Scale and System of Charges.—The charges to be levied on members on the holdings of their currency with the Fund in excess of the quota, *i.e.*, for purchasing foreign exchange from the Fund, was another question which disclosed sharp differences of points of view in the Committee.

It was explained in support of the level and the scheme of charges that in practice there would be a continuing trend for the Fund's holdings of currencies in strong demand to decrease, and of those in light demand to increase, and that it was very desirable to ensure that the countries selling currencies to the Fund should have sufficient inducement to repurchase them so that the balance and strength of the system might be maintained. The provisions of the Fund had to contain adequate safeguards against undue and excessive resort to its facilities and against short-term borrowing being converted into long term loans; for, unless the operations of the Fund were conducted on a sound business basis it would run into trouble and the weak debtor countries which took objection to the high rates of charges would be the principal sufferers in consequence. On the other hand, it was argued that the Fund was not a profit-making organisation, that it did not need to collect large reserves and that the limitation of the use of its facilities was amply safeguarded by the various provisions under which a member country could be declared ineligible to use the resources of the Fund in the event of abuse. The description of the rates as originally presented as minimum rates, was also the subject of criticism, and the countries which feared the application of still higher rates against them pressed for some fixation of maximum rates or the conversion of the proposed minimum rates into normal rates to be levied uniformly in respect of all countries. Reference was also made during the discussion on charges, in which the Indian Delegation took part, to the bearing of tariff policy on the smooth functioning of the Fund. It was pointed out in particular that unless the United States altered its tariff policy and became a great importing as well as exporting country, the efforts of other countries to set their house in order would only lead to restriction; the scheme of charges proposed placed the entire burden of adjustment on the debtor, whereas, if the objective of expansion was to be attained, there was as strong a case for penalising the countries whose currencies grew scarce as for penalising those whose currencies accumulated with the Fund. Altogether, many shades

of difference of opinion were heard in the Committee and it was agreed to report these to the Commission.

At the very outset of the consideration of the question in the Commission, one of the delegates reiterated the objections to the very principle of the charges being levied exclusively on the debtor countries and suggested the application of some kind of penalty against the creditor as well, declaring that the proposals in their existing form were contrary to the purposes of the Fund. The delegate of the United States observed during his reply that the aim of the Fund was to stabilise currencies and unless some deterrents were placed on overdrafts the Fund would get out of balance. He explained that in their view the rates were very moderate and the United States did not propose to give up its right to adopt such rates as it thought fit to adopt; that they regarded the rates as absolutely necessary in the interests of the functioning of the Fund; and, indeed, that without acceptance of the principle of charges and increase in them according to the period of overdraft, the United States Delegation could not go ahead with the Fund. The United Kingdom delegate generally supporting the stand taken up by the United States Delegation, remarked that the principle of the charges seemed to them reasonable and necessary and, so far as could be humanly foreseen, the scale proposed was appropriate. Their sole reservation applied to the lack of symmetry in the provision for changes in the scale in the United States proposals, according to which the rates could be increased at the discretion of the Fund but could not be reduced. The Commission adjourned at this stage and at its next meeting the draft of the United States proposals was approved with the omission of the description of the scale as minimum charges and the inclusion of the United Kingdom amendment that the rates may be changed (*in either direction*) by a three-fourths majority of the total voting power.

39. Treatment of Enemy-occupied Countries in the Fund.—Amendments were introduced in respect of two provisions of the Articles of Agreement relating to the Fund to give more favoured treatment to countries whose territories had been devastated or damaged by enemy occupation and required large-scale reconstruction and rehabilitation. One of the proposals which was supported, among others, by the U. S. S. R. and French delegates, related to the reduction by 25 per cent. of the gold contribution (as part of their quota subscriptions) of countries devastated by the war. It was rejected after some debate by the Commission on July 15 (afternoon). Another proposal related to the modification of the provisions regarding the repurchase of a country's currency held with the Fund in favour of enemy-occupied countries, to the effect that 'in the case of members whose metropolitan territories have been occupied by the enemy, gold newly produced during the five years after the entry into force of this Agreement from mines located within their metropolitan territories shall not be included in computations of their monetary reserves or of increases in their monetary reserves.' This was adopted by the Commission.

40. Offices and Depositories.—In regard to the principal office of the Fund, which according to the Articles of Agreement is to be located in the territory of the member country having the largest quota, *viz.*, the United States of America, the United Kingdom Delegation recorded a reservation. In the opinion of the British Government, as announced by the delegate of the United Kingdom in the meeting of Commission I on July 18, the location of the headquarters of the Fund should have reference to the location of other international bodies that will be established. No final decision on this matter should, therefore, be taken pending the general determination of the framework of these other bodies. The same reservation applied to the headquarters of the Bank. The United Kingdom Delegation urged that all such inter-related questions should be left for inter-Governmental decision at a later date.

Criticism was also voiced by a number of delegates in the course of discussion of certain proposed provisions which sought to lay down the distribution of gold among depositories. It was urged that no hard and fast formula should be laid down limiting the discretion of the Executive Directors in the matter of location of the assets of the Fund, particularly gold, as rigid regulation in this-

respect would involve unnecessary shifting of gold in order that certain percentages should be adhered to. Considerations of safety and convenience would naturally guide the Executive Directors in the matter, which should be left to their responsibility and judgment. In the draft of the provision as finally approved the word 'initially' was added at the beginning so as to restrict the application of the prescribed distribution of gold and assets other than a member's own currency to the time of initiation of the Fund.

41. **Family Remittances and Current Transactions.**—Under the article relating to Explanation of Terms XIX (h) (4) 'moderate remittances for family living expenses' are specifically included among current transactions. At an earlier stage this reference related to 'moderate *immigrant* remittances.' The delegate of the Union of Soviet Socialist Republics proposed its deletion on the ground that it would be difficult to distinguish immigrant remittances which were capital transactions from those which were current transactions, and that the position might be left to be determined by the Fund in agreement with the members concerned. The Indian Delegation in common with a number of other delegations opposed the amendment having regard to the large number of Indian labourers serving in foreign lands and the assurance which the specific inclusion of this provision would afford in respect of their interests. It was pointed out in the course of the discussion that obligations to the family are of more than a contractual nature and should be placed at least on a par with contractual obligations. The specific inclusion of moderate remittances for family living expenses under the concept of current transactions was accordingly accepted by the Commission in its meeting on July 19 with the elimination of the limiting word 'immigrant'.

42. **Furnishing of Information.**—On the question of furnishing the fullest information to the Fund in respect of a country's economic and financial position and its balance of payments, with due regard to the varying ability of different members to supply such information, there was no serious difference of opinion among the general body of the delegations. Opposition, however, came from the U. S. S. R. Delegation which submitted a much smaller list (excluding *inter alia* data regarding the production of gold) than the list proposed and finally included in the Articles of Agreement. The Commission accepted the larger list as being necessary not only for the efficient conduct of the Fund's operations, but also for the general and reciprocal improvement of the state of economic and financial knowledge of member countries, the U. S. S. R. delegation recording its opinion that the information should be confined to the minimum necessary for the effective discharge of the Fund's duties. This proviso accordingly qualifies the list of data included under Article VIII, section 5, on the furnishing of information.

43. **Fixing initial par values.**—During the discussion on the subject of fixing initial par values, the Indian Delegation pointed out that, as they were members of the Sterling Bloc, unless previous intimation was given by the United Kingdom of their decision regarding the fixing of the par value of sterling in terms of gold, India will not have sufficient time to notify the Fund of the par value of its currency. The Indian Delegation further pointed out that it should be appreciated by the Committee that a change in the *de facto* par value of sterling may necessitate a change in the par value of the rupee and therefore it was absolutely essential that India should have sufficient notice of the par value of sterling notified by the United Kingdom to the Fund. The United Kingdom delegate assured both India and all members of the Sterling Bloc that previous intimation of the par value of sterling will be given to members of the Sterling Bloc.

CHAPTER IV

A. International Bank for Reconstruction and Development: Summary of Articles of Agreement

44. The Articles of Agreement of the International Bank for Reconstruction and Development comprise eleven articles and two schedules. The articles relate, among other matters, to purposes, membership in and capital of the

Bank, general provisions relating to loans and guarantees, operations, organisation and management, withdrawal of membership and suspension of membership or operations; final provisions regarding inauguration of the Bank etc.

45. Purposes.—The purposes of the International Bank are to assist in the reconstruction and development of territories of member countries by facilitating the investment of capital for productive purposes, including the restoration of war-damaged economies, the reconversion of productive facilities to peace-time needs and the encouragement of the development of productive resources in less developed countries; to promote private foreign investment by means of guarantees or participation in loans and other investments made by private investors, and to supplement private investment by direct loans for productive purposes out of its own capital, funds raised by it and its other resources; to promote the long-range balanced growth of international trade and the maintenance of equilibrium in balances of payments by encouraging long-term international investment, thereby assisting in raising productivity, the standard of living and conditions of labour in member countries, etc., etc.

46. Membership.—The original members of the Bank shall be those members of the International Monetary Fund which accept membership in the Bank, and other members may be admitted later by the Bank.

47. Capital.—The Bank shall have an authorised capital of 10,000 millions in terms of United States dollars of the weight and fineness in effect on July 1, 1944, divided into 100,000 shares of 100,000 dollars each available for subscription only by members. The capital may be increased by a three-fourths majority of the total voting power.

The original members shall subscribe the *minimum* number of shares of the Bank set forth in Schedule A, totalling 9,100 million, the remaining portion of the capital stock being reserved for subscription by other members. According to the distribution of share capital laid down in the schedule, the fourteen largest holders of shares (in terms of United States dollars) will be the United States 3,175 million, the United Kingdom 1,300 million, the Union of Soviet Socialist Republics 1,200 million, China 600 million, France 450 million, India 400 million, Canada 325 million, Netherlands 275 million, Belgium 225 million, Australia 200 million, Czechoslovakia and Poland 125 million each, Brazil 105 million and the Union of South Africa 100 million. Twenty per cent. of a member's subscription shall be paid or subject to call as needed by the Bank for its operations and the remaining eighty per cent. shall be callable only when required to meet the obligations (on account of defaults by borrowers) arising out of participation in direct loans out of funds borrowed in a member country or out of guarantees by the Bank of loans made by private investors through the usual investment channels.

The liability on shares shall be limited to the unpaid portion of the shares.

The subscription of 20 per cent. shall be paid in gold or United State dollars and in the currencies of the members (or their securities) as follows: 2 per cent. in gold or United States dollars and the remaining 18 per cent. in the currency of a member; when a call is made out of the remaining 80 per cent. of the liability, referred to above, payment may be made in gold, in United States dollars or in the currency required by the Bank for the purpose of discharging obligations for which the call is made. The 2 per cent. payable as above shall be paid within sixty days of the Bank's beginning operations; enemy-occupied countries may postpone payment of one-quarter of the amount thus payable for five years, and other postponements may be allowed under certain emergency circumstances. Not less than 10 per cent. altogether of the price of the share shall be called by the Bank within one year of its beginning operations, but not more than 5 per cent. of the price of the share shall be called within any period of three months.

The value of holdings of the Bank of certain currencies of member countries derived from the original subscriptions to the Bank, shall be maintained through the member paying to the Fund, or the Fund returning to the member, an

amount of its currency equivalent to the reduction or the increase respectively in the par value of a member's currency held by the Fund. This provision may be waived by the Bank in the event of a uniform proportionate change in the par values of all currencies brought about by the International Monetary Fund.

The shares of the Bank shall not be pledged or encumbered in any manner and shall be transferable only to the Bank.

48. General Provisions relating to Loans and Guarantees.—The Bank's resources and facilities shall be used for the benefit only of members for development and reconstruction alike, but with special regard so far as conditions and terms of loans are concerned to lightening the financial burden of reconstruction.

The treasury, central bank, stabilization fund or other similar fiscal agency shall be a member's agency for dealing with the Bank.

The total amount outstanding of guarantees, participations in loans and direct loans made by the Bank shall not be increased beyond the sum of the unimpaired subscribed capital, reserves and surplus of the Bank.

The Bank may guarantee, participate in, or make loans to any member or any political subdivision thereof and any business, industrial, and agricultural enterprise in the territories of a member provided that (i) when the loan is not made directly to the Government of a member, the Government or central bank or other comparable agency fully guarantees the repayment of the principal and the payment of interest etc., on the loan, (ii) the borrower would be unable otherwise to obtain the loan on reasonable conditions, (iii) the project is recommended after careful study by a competent committee, (iv) due regard is paid to the capacity of the borrower or guarantor to repay, and to the interests of the members as a whole as well as the borrowing member, (v) the Bank receives suitable compensation for its risk, (vi) the loans are for the purpose of specific projects of reconstruction or development.

The Bank shall impose no conditions as to the expenditure of the proceeds of a loan in any particular member country or countries. The borrower shall be permitted to draw on the proceeds which shall be credited to his account with the Bank, only to meet expenses in connection with the project as they are incurred.

49. Operations: Methods of making or facilitating loans.—The Bank may make or facilitate loans satisfying the general conditions specified above (i) by direct loans, or participations in loans out of its own funds, (ii) by direct loans, or participation in loans, out of funds borrowed in a member country, and (iii) by guaranteeing private loans in whole or in part,—in the last two cases with the approval of the member or members in whose markets the funds are raised and in whose currency the loan is denominated and with its or their agreement that the proceeds may be freely exchanged for the currency of any other member.

50. Operations: Availability and transferability of currencies.—Currencies paid into the Bank as part of the twenty per cent. subscription of members subject to call in the ordinary course as described in para. 47 above, shall be loaned, and currencies received by the Bank from borrowers or guarantors in payment on account of principal of direct loans made with the aforesaid currencies, shall be reloaned or exchanged for other currencies only with the approval of the members whose currencies are involved; provided, however, that if necessary, after the Bank's subscribed capital has been entirely called, such currencies shall, without restriction by the members be used or exchanged for other currencies required to meet the Bank's obligations or liabilities on various accounts.

The Bank may use without restriction currencies received in repayment of principal of direct loans made out of funds borrowed in a member country, to make amortization payments or to anticipate payment or repurchase of any of the Bank's obligations.

All other currencies available to the Bank shall be used without restriction by the members whose currencies are offered. Currencies raised in the markets

of members by borrowers on loans guaranteed by the Bank shall also be free from restriction as to their use.

51. Operations: Provision of currencies for direct loans.—The Bank shall furnish the borrowing member with such currencies of *other* members as are needed for expenditures in their territories. In exceptional circumstances when local currency required for the purposes of the loan cannot be raised by the borrower on reasonable terms, the Bank may provide the borrower with that currency, and if the project gives rise indirectly to an increased need of foreign exchange, with gold or foreign exchange up to the amount of the borrower's local expenditure. Also, in exceptional circumstances, when the spending of a loan in a member's territory gives rise to increased need for foreign exchange by the member, the Bank may repurchase with gold or foreign exchange a part of that member's currency thus spent.

52. Operations: Payment Provisions.—The terms and conditions of the loans and guarantees shall be determined by the Bank. In respect of loans made out of funds borrowed in a member country, and guarantees of private loans, the rate of the Bank's commission shall be not less than 1 and not more than 1½ per cent. per annum on the outstanding portion of a loan during the first ten years of the Bank's operations, and may be reduced thereafter in respect of the existing as well as future loans, if a reduction is justified by the state of reserves; in respect of future loans the rate of commission may also be increased if this appears advisable.

All loan contracts shall stipulate the currency or currencies for payments to the Bank, though such payments may be made in gold or, if the Bank agrees, in a different currency to that stipulated.

Loans made out of the 20 per cent. capital subscribed by the members towards the Bank's loan operations, shall be repaid, and interest thereon paid, in the currency loaned, unless the member concerned agrees otherwise.

If a member suffers from an acute exchange situation, the Bank may relax the conditions of payments with respect to the whole, or part, of the annual service so as to (i) accept service payments on the loan in the member's own currency for periods up to three years, upon appropriate terms regarding the maintenance of the foreign exchange value of that currency and its repurchase, or so as to (ii) modify the terms of amortization or extend the life of the loan, or both.

The amount of commission received by the Bank in respect of loans out of borrowed funds and guarantees of private loans shall be set aside as a special reserve in liquid form against the liabilities of the Bank. The first charge in respect of losses arising out of defaults on loans shall be against this reserve, after which the other reserves, surplus and capital and the unpaid subscriptions shall be drawn upon in order.

The Bank shall have the power to buy and sell securities which it has issued, guaranteed, or invested in, with the approval of the member in whose markets the transactions are to be effected; to borrow any member's currency with its approval; by a three-fourths majority of the total votes, to buy and sell other securities for the investment of the special reserve and to deal with any person, partnership, association, corporation or other legal entity in the territories of any member.

53. Organization and Management.—Many of the provisions in regard to the organization and management of the Bank are similar to those in respect of the Fund and need not be mentioned in this summary.

The Bank shall have a Board of Governors, Executive Directors, a President and staff. The Board of Governors shall consist of one governor and one alternate appointed by each member to serve for five years but to be eligible for reappointment. The Board shall at least hold an annual meeting. Each member shall have 250 votes plus one additional vote for each share of stock held. There shall be twelve Executive Directors who need not be Governors and of whom five shall be appointed by the five members having the largest

number of shares, and seven shall be elected by the remaining members; the executive directors shall be appointed or elected every two years. Each director shall appoint an alternate with full power to act for him when he is not present.

There shall be an Advisory Council to advise the Bank on matters of general policy, of not less than seven persons selected by the Board of Governors including representatives of banking, commercial, industrial, labour and agricultural interests, and with as wide a national representation as possible. The Council shall meet at least annually.

In deciding on loan applications or guarantees relating to matters directly within the competence of any general international organisation or public international organisations having specialised responsibilities in fields related to the Bank and participated in primarily by members of the Bank, the Bank shall give consideration to the views and recommendations of such organisations.

The principal office of the Bank shall be located in the territory of the member holding the greatest number of shares. The Bank may also establish regional offices and determine the location of, and the areas to be covered by, each regional office, which shall be advised by a regional council.

The provisions in respect of depositories are similar to those in the Fund.

In any distribution of net income, the first charge shall be that of a payment up to two per cent. to each creditor member on the basis of the average amount outstanding of the loans made out of the currency corresponding to its capital subscription, referred to above in the provisions relating to 'capital'; the balance shall be paid to all members in proportion to their shares. Payments to each member shall be made, as far as possible, in its own currency.

54. Withdrawal from Membership.—Any member may withdraw from the Bank at any time by transmitting a notice in writing to the Bank, the withdrawal to become effective when such notice is received. There are provisions for suspension of membership and compulsory withdrawal by a member after a period of suspension.

Any member which ceases to be a member of the International Monetary Fund shall automatically cease after three months to be a member of the Bank unless the Bank by three-fourths of the total voting power has agreed to allow it to remain a member.

The Articles contain specific provisions, as do the Fund articles, for settlement of accounts with governments ceasing to be members, for suspension of operations and settlement of obligations, for amendment of the Articles of Agreement and for interpretation as well as for the status, immunities and privileges of the Bank and its officers.

55. Final Provisions.—The Agreement shall enter into force when it has been signed on behalf of governments with minimum subscriptions of not less than sixty-five per cent. of the total of \$9,100 million given in Schedule A, but in no event before May 1, 1945. It shall remain open for signature at Washington on behalf of the governments of the countries represented at the Conference until December 31, 1945.

The Articles of Agreement have two schedules relating to A. Subscriptions and B. Election of Executive Directors.

B. THE INTERNATIONAL BANK: REVIEW OF DISCUSSIONS

56. It has been explained in Chapter I above that the work of Commission II was more complicated in some respects than that of Commission I because of the smaller amount of preparatory work on the proposals which the Commission had to examine. The handicap in this respect was, however, by no means considerable. The main work in connection with the Bank proposals before the Conference took place had been done by the United States Treasury experts, who issued a Preliminary Draft Outline of a Proposal for a United Nations Bank for Reconstruction and Development in November 1943, and by the United Kingdom officials who communicated the conclusions of their critical examination.

of the United States proposals to the United States Treasury in April 1944; in arriving at these conclusions the United Kingdom officials had had the advantage of discussions with the technical representatives of India and the Dominions. This was followed by an exchange of notes and views between the United States and United Kingdom experts which resulted in considerable progress towards agreement on fundamentals and on the numerous complicated technical provisions of the International Bank, thereby greatly facilitating the work of the Conference. The sessions of Commission II were fewer, generally shorter in duration and showed more expedition than of Commission I. Wide disagreement was disclosed only on a few large matters and the discussions were brief and yielded relatively quick conclusions. A reference is made in the following paragraphs to the more significant matters debated in the Commission meetings.

57. **Name.**—First, as regards the designation of this international monetary institution as a "Bank". In so far as we can speak of capital subscriptions, loans, guarantees, issue of bonds, etc., the new financial institution may have some apparent claim to the name of Bank, but the type of shareholders, the nature of subscriptions, the exclusion of all deposits and of short-term loans, the non-profit basis, are foreign to the accepted nature of a Bank. It was however, largely by accident born, so to speak, with the name 'Bank', and 'Bank' it remains, mainly because no completely satisfactory alternative name could be found in the dictionary for this unprecedented institution.

58. **Purposes.**—The purposes of the international Bank are further elucidated by the following passages from the foreword by Mr. Henry Morgenthau, Jr., Secretary of the Treasury, to the Preliminary Draft Outline of a Proposal for a Bank for Reconstruction and Development of the United and Associated Nations issued in November 1943:

'One of the important international economic and financial problems which will confront the United Nations at the end of the war will be the unprecedented need for foreign capital. In the areas devastated by war or plundered and ravaged by the enemy, factories and mines, public utilities and railroads, public buildings and public works will have to be repaired or restored. In most of the United Nations, industries now producing war goods will require capital for reconversion to peacetime production and in many areas of the world, large investment will be needed for industrial, agricultural and commercial development.

Countries whose productive capacities have been seriously impaired by war will find that their industries cannot provide the capital goods and their people cannot provide the savings required for investment in reconstruction. Most non-industrial countries will of necessity be dependent upon foreign capital to acquire the funds for the purchase of machinery, equipment and other capital goods necessary for development. And even in those countries where a considerable part of the need for capital can be met locally, there will be some need for foreign capital to supplement the funds that can be raised at home.'

'The primary aim of such an agency should be to encourage private capital to go abroad for productive investment by sharing the risks of private investors and by participating with private investors in large ventures. The provision of some of the capital needed for reconstruction and development, where private capital is unable to take the risk, is intended to remain secondary in the operations of such an agency. It should, of course, scrupulously avoid undertaking loans that private investors are willing to make on reasonable terms. It should perform only that part of the task which private capital cannot do alone.'

The general character and principle of the Bank's constitution is clearly brought out by the following passage from a memorandum of the United Kingdom officials, dated the 13th April 1944:

'This seems an appropriate division of functions, which will appeal to the world as just and right. Only those countries with an investable surplus can put up the money; but that is no reason why they should also run all the financial risks, perhaps quite substantial, of reconstructing the devastation of war and developing the more backward countries. The great-increase of trade arising

from the granting of the loans would benefit all alike, and it is just and right that the resulting risk should be shared all round. This should be within the capacity, divided, of course, in appropriate proportions, of all participating countries. It embodies both the justice and the commonsense of the underlying situation.'

Perhaps we may also quote a few lines descriptive of the underlying idea of the Bank from the remarks of the reporting delegate of Commission II in presenting its report to the Executive Plenary Session on July 21, 1944.

'It is unquestionable that a loan granted to one country from the resources or with the guarantee of the Bank will not be advantageous to that country alone. The loan will enable it to reconstruct its economy destroyed by war, or inadequately developed. As a result, activity is fostered, needs and requirements are satisfied, purchasing power is increased, new markets are born, and indirectly, by means of the general flow of international trade, all countries finally benefit by the improvement brought about in the particular country which has obtained a loan through the Bank. In this way, capital which is now in excess in certain countries will again be put to productive use and will find its reward not only in the rate of interest on remunerative investments, but also, indirectly, in the promotion of world prosperity which rich countries themselves need in order to maintain and develop their own well-being.'

There was some discussion of the purposes of the International Bank with a view to having the aim of development recognised as on a par with that of reconstruction in the statement of purposes as well as in the operative provisions of the Articles of Agreement. This was conceded specifically in Article III, Section 1 regarding 'Use of resources' which provides that 'the resources and facilities of the Bank shall be used . . . with equitable consideration to projects for development and projects of reconstruction alike.'

Reference has been made above in the course of the review of discussions relating to the purposes of the Fund to the attempt of the Indian Delegation to have a mention of the development of the resources of economically underdeveloped countries included among the incidental purposes of the Fund, a proposal which was negatived mainly on the ground that this function fell appropriately within the province of the International Bank. A specific mention of 'the encouragement of the development of productive facilities and resources in less developed countries' was accordingly incorporated among the purposes of the Bank at the instance of the Indian Delegation.

A purpose of the International Bank is stated to be 'to arrange the loans made or guaranteed by it in relation to international loans through other channels so that the more useful and urgent projects, large and small alike, will be dealt with first.' Having regard to the possibility that the claims of small projects located in small countries but vital and important to their economies might be overlooked in favour of large projects having an appearance of greater urgency, the words 'large and small alike' were inserted at the instance of one of the Latin American Delegations.

59. Membership.—The membership of the Bank is open only to members of the International Monetary Fund and any member which ceases to be a member of the Fund shall, in the ordinary course, automatically cease after three months to be a member of the Bank unless the Bank by a three-fourths majority decides to allow it to retain membership. The two international monetary institutions are thus to be treated as more or less complementary in respect of membership. Broadly, this is intended to secure that countries which do not undertake the obligations of membership of the international monetary system, primarily the obligation to maintain reasonable stability of the exchange value of the currency and to consult with other countries in regard to changes therein, should be excluded from the special benefit resulting from the joint effort of members of the Fund towards encouragement of the flow of long-term international investment through the International Bank. This stipulation will be understood in the light of the destructive incidence of exchange instability on international investment during the 'thirties.

60. **Capital.**—The total subscriptions to the International Bank were made equal to the total quotas of the Fund until the announcement towards the end of the Conference that the Union of Soviet Socialist Republics Government had agreed to raise their subscription from 900 million to 1,200 million dollars which raised the total amount of subscriptions allotted to countries which are entitled to be original members of the Bank to 9,100 million dollars. For the rest, the distribution of share capital among countries is approximately the same as that of quotas under the Fund, the only changes from the quota distribution under the Fund in respect of the first fourteen countries being that the subscriptions of the United States, China and Canada are higher by 425 million, 50 million and 25 million dollars respectively while the subscription of Brazil is lower by dollars 45 million than their corresponding Fund quotas.

In the opinion of the United States technical experts, a Bank for Reconstruction and Development with a subscribed capital of 10 billion dollars would have sufficient resources to facilitate and encourage the maintenance of an adequate volume of international investment in the post-war period, particularly having regard to the facts that the average annual volume of international investment by the leading industrial countries in the period from 1923 to 1937, was somewhat less than 3 billion dollars a year, a considerable part of which was generally not raised in the capital market and not all of which would fulfil the Bank's conditions for loan or guarantee, and, further, that a considerable part of all international investment will continue to be made directly through the usual investment channels without recourse to the Bank.

61. **Limitation of Guarantees and Loans.**—A reference has been made in the above summary of the Articles to one of the general provisions relating to loans and guarantees of the Bank, namely, that the total amount outstanding in respect of guarantees, participation in loans and direct loans made by the Bank shall not exceed 100 per cent. of the unimpaired subscribed capital, reserves and surplus of the Bank. There were alternatives proposed suggesting the increase of this limit to 150 per cent. in view, it was argued, of the inadequacy of the subscribed capital for the long-term loan requirements of the post-war world and the consequent narrowness of the 100 per cent. ratio. On the other hand, however, it was explained that enthusiasm for the objective on which all were agreed *viz.*, an abundant and free flow of international investment should not make the Conference overlook the limitations of the machine which it was proposed to set up: the International Bank was an agency for encouraging and promoting through its guarantees the use of the investor's money, and the investor wanted to be certain of amortisation and interest; the guarantee afforded by the Bank must be a first class support and great care was necessary to ensure that the Bank's credit was not impaired; the International Bank was a great experiment in a new field of international co-operation and must maintain a very high standard, for any setback would be irretrievable; the figure of the Bank's operations suggested in the Articles of Agreement was high enough to start with and was capable of increase, if experience suggested that an increase was necessary. In the light of this discussion, the Commission accepted the 100 per cent. limit.

62. **Loan Committees.**—There was some discussion of the advisability of including experts and members of the technical staff of the Bank on the Loan Committees appointed by the Bank and required to report on loan applications. The United Kingdom Delegation expressed their opposition to such inclusion, which was, however, supported by the United States Delegation and, among others, by the Indian Delegation and was accepted by the Commission after discussion.

63. **Voting.**—The question of the distribution of voting rights in the Bank was also settled after some debate in the Commission. The basis of voting according to the number of shares held plus 250 votes *viz.* the same as under the Fund, was proposed by one of the Latin American delegations and was supported by the delegation of a small European country. It was opposed on the ground that the voting rights should correspond to the capital subscriptions without any element of loading in favour of small countries, as the International Bank was a real bank and must run on business lines as much as possible.

The United States Delegation, however, supported the same basis of voting for the Bank as for the Fund and the proposal of weighting the capital distribution by a uniform additional 250 votes was accordingly adopted.

64. Executive Directors.—Reference has been made above to the provision in the Articles of Agreement of the Bank prescribing the appointment of twelve executive directors of whom five shall be appointed, one by each of the five members having the largest number of shares. Sir Chintaman Deshmukh on behalf of the Indian Delegation proposed that the number of directors to be appointed by members having the largest quotas should be raised to six. He pointed out, as the Chairman of the Indian Delegation had explained in respect of our corresponding amendment to the provisions of the Fund, that the Indian Delegation felt that their country was entitled by virtue of her relative economic importance among the nations of the world, to a permanent place on the executive directorate of the Bank. The original proposal presented by one of the delegations from Latin America that the number of automatically appointed directors shall be five and of elected directors seven, was, however, carried and the Indian amendment was automatically lost.

65. Relationship of the Bank to other International Organisations.—One of the provisions which was agreed upon after a somewhat prolonged consideration was that regarding the relationship of the Bank to other international organisations. The provision as finally agreed lays down that the Bank shall give consideration, in deciding on loan applications, to the views and recommendations of international organisations (*e.g.*, the Commission on Food and Agriculture, the International Labour Office etc.) having specialised responsibilities. The representative of the Interim Commission on Food and Agriculture, however, supported an alternative provision which would have required the submission of each individual loan application for specific consideration and recommendation by the other international organisations concerned, and would accordingly have given them greater influence in determining individual loan applications and would correspondingly have limited the discretion of the Bank in the matter. It was generally appreciated that it would be useful to the Bank to consult organisations like the Food and Agriculture Commission on certain projects and have the benefit of their informed advice and, generally, that the Bank *by itself* could not safeguard its funds as well as it could *with* the assistance and collaboration and the advantage of the knowledge and skill of specialised international organisations. But the consensus of opinion was that the Bank's discretion should not be unduly fettered as it alone was in a position to view all applications together and to achieve the proper co-ordination of the allocation of its resources, which specialised organisations interested in cultivating special fields of activity might not achieve through their recommendations. Accordingly, the work of specific examination and investigation of projects was entrusted to the Committees to be set up by the Bank itself.

66. War-devastated Countries.—In regard to the time of payment of subscriptions for the Bank, it is laid down in the Articles that the two per cent. payable on each share in gold or United States dollars shall be paid within sixty days of the date on which the Bank begins operations 'provided that any original member of the Bank whose metropolitan territory has suffered from enemy occupation or hostilities during the present war shall be granted the right to postpone payment of one-half per cent. until five years after that date.' The originally proposed wording of this proviso only made a reference to enemy occupation; the words 'or hostilities' were inserted in consideration of the position of a country like the United Kingdom which had suffered extensive damage without occupation by the enemy. Also Article III, Section 1(b) provides that 'for the purpose of facilitating the restoration and reconstruction of the economy of members whose metropolitan territories have suffered great devastation from enemy occupation or hostilities, the Bank, in determining the conditions and terms of loans made to such members, shall pay special regard to lightening the financial burden and expediting the completion of such restoration

and reconstruction'. The adoption of these provisions was strongly opposed by a few enemy-occupied countries of Europe, including France, though it was supported by others including the Union of Soviet Socialist Republics. The opposition was based on the sense of keen disappointment voiced by France regarding the measure of assistance afforded in the Articles of Agreement of the two international monetary institutions to countries which had been devastated by war. It was argued that the acceptance of this concession for enemy-occupied countries, which gave too little, and its incorporation in the Articles of Agreement, would be misunderstood in the occupied countries, which might read too much into it, and the French Delegation begged the Conference to respect the proviso. On the other hand, it was explained by the United States delegates (adverting also to the refusal of Commission I to accept a postponement of gold payment in respect of the Articles of the Fund similar to that proposed in the first of the above two provisions), that none of the delegates would accept anything that interfered with the soundness of the projects, and, at any rate, these provisions offered a public recognition in an official document that some countries had suffered more than others as a result of the war.

67. Suspension of Membership and Operations.—The terms on which a shareholder might withdraw, namely, those on which the repurchase of its shares might be arranged, as well as its interest in operating profits and losses be terminated (while retaining its obligation to contribute towards losses in so far as they are not met out of past accumulated reserves), are detailed in a separate Article, which also prescribes the manner of distribution of the assets of the Bank. It was remarked during the final stages of the consideration of the Articles relating to the Bank that more attention had been paid to the obsequies of the Bank than to its natal provisions, but there was general concurrence that the elaborate care bestowed on drafting the terms of a member's withdrawal as well as the distribution of the Bank's assets in the event of permanent suspension of operations was useful and necessary. Also, a redeeming feature of the long and complicated provisions is that they relate to 'the orderly realization, conservation and preservation of its (the Bank's) assets and settlement of its obligations' rather than to liquidation—a term appropriately reserved for lesser mortals like ordinary corporations!

C. SUMMARY OF AGREEMENT OF BRETTON WOODS CONFERENCE

68. On July 21, the Co-ordinating Committee was constituted with the following membership:—

Fred M. Vinson (United States of America), *Chairman*.

Arthur de Souza Costa (Brazil).

Ping-Wen Kuo (China).

Robert Mosse (French Delegation).

Eduardo Suarez (Mexico).

A. A. Arutinunian (Union of Soviet Socialist Republics).

Lionel Robbins (United Kingdom).

The full Committee met at 2 P.M. on July 21 and approved for submission to the Conference the following:—

Summary of Agreement of the Bretton Woods Conference

This Conference at Bretton Woods, representing nearly all the peoples of the world, has considered matters of international money and finance which are important for peace and prosperity. The Conference has agreed on the problems needing attention, the measures which should be taken, and the forms of international co-operation or organization which are required. The agreement reached on these large and complex matters is without precedent in the history of international economic relations.

I. The International Monetary Fund.—Since foreign trade affects the standard of life of every people, all countries have a vital interest in the system of exchange of national currencies and the regulations and conditions which

govern its working. Because these monetary transactions are international exchanges, the nations must agree on the basic rules which govern the exchanges if the system is to work smoothly. When they do not agree, and when single nations and small groups of nations attempt by special and different regulations of the foreign exchanges to gain trade advantages, the result is instability, a reduced volume of foreign trade, and damage to national economies. This course of action is likely to lead to economic warfare and to endanger the world's peace.

The Conference has therefore agreed that broad international action is necessary to maintain an international monetary system which will promote foreign trade. The nations should consult and agree on international monetary changes which affect each other. They should outlaw practices which are agreed to be harmful to world prosperity, and they should assist each other to overcome short-term exchange difficulties.

The Conference has agreed that the nations here represented should establish for these purposes a permanent international body, *The International Monetary Fund*, with powers and resources adequate to perform the tasks assigned to it. Agreement has been reached concerning these powers and resources and the additional obligations which the member countries should undertake. Draft Articles of Agreement on these points have been prepared.

II. The Bank for Reconstruction and Development.—It is in the interest of all nations that post-war reconstruction should be rapid. Likewise, the development of the resources of particular regions is in the general economic interest. Programs of reconstruction and development will speed economic progress everywhere, will aid political stability and foster peace.

The Conference has agreed that expanded international investment is essential to provide a portion of the capital necessary for reconstruction and development.

The Conference has further agreed that the nations should co-operate to increase the volume of foreign investment for these purposes, made through normal business channels. It is especially important that the nations should co-operate to share the risks of such foreign investment, since the benefits are general.

The Conference has agreed that the nations should establish a permanent international body to perform these functions, to be called *The Bank for Reconstruction and Development*. It has been agreed that the Bank should assist in providing capital through normal channels at reasonable rates of interest and for long periods for projects which will raise the productivity of the borrowing country. There is agreement that the Bank should guarantee loans made by others and that through their subscriptions of capital all countries should share with the borrowing country in guaranteeing such loans. The Conference has agreed on the powers and resources which the Bank must have and on the obligations which the member countries must assume, and has prepared draft Articles of Agreement accordingly.

The Conference has recommended that in carrying out the policies of the institutions here proposed special consideration should be given to the needs of countries which have suffered from enemy occupation and hostilities.

The proposals formulated at the Conference for the establishment of the Fund and the Bank are now submitted, in accordance with the terms of the invitation, for consideration of the governments and people of the countries represented.

CHAPTER V

Other measures for International Monetary and Financial Co-operation

39. It has been mentioned in Chapter I above that Commission III on 'Other Means of International Financial Co-operation' was set up in the second plenary session of the Conference on July 3, at the same time as the other

two Commissions, and the proposals submitted to the Commission related to three general fields of interest, *viz.*, 'Silver', 'Enemy Assets etc.' and 'Economic and Financial Policy'. Accordingly three *ad hoc* Committees were appointed to consider the proposals and make recommendations to the Commission. At its final meeting on July 20, 1944, the Commission received the reports of the three Committees and arrived at its conclusions in respect of them.

The Commission adopted the report of Committee 1 on 'The Use of Silver for International Monetary Purposes' and recommended that the following statement be included in the Final Act:—

'The problems confronting some nations as a result of the wide fluctuation in the value of silver were the subject of serious discussion in Commission III. Due to the shortage of time, the magnitude of the other problems on the agenda, and other limiting considerations, it was impossible to give sufficient attention to this problem at this time in order to make definite recommendations. However, it was the sense of Commission III that the subject should merit further study by the interested nations.'

70. The Commission adopted two measures placed before it by Committee 2 under the heading of 'Enemy Assets, Looted Property and Related Matters'.

The one was a recommendation reading as follows:—

'The United Nations Monetary and Financial Conference recommends the liquidation of the Bank for International Settlements at the earliest possible moment.'

The other was a resolution relating to Enemy Assets and Looted Property, and this was adopted in principle and a drafting committee was appointed to make certain language changes and empowered to prepare a resolution for presentation to the Plenary Session of the Conference. The Resolution as submitted by the drafting committee read as follows:—

WHEREAS

In anticipation of their impending defeat, enemy leaders, enemy nationals and their collaborators are transferring assets to and through neutral countries in order to conceal them and to perpetuate their influence, power, and ability to plan future aggrandizement and world domination thus jeopardising the efforts of the United Nations to establish and permanently maintain peaceful international relations;

WHEREAS

Enemy countries and their nationals have taken the property of occupied countries and their nationals by open looting and plunder, by forcing transfers under duress, as well as by subtle and complex devices, often operated through the agency of their puppet governments, to give the cloak of legality to their robbery and to secure ownership and control of important enterprises in the post-war period;

WHEREAS

Enemy countries and their nationals have also through sales and other methods of transfer, run the chain of their ownership and control through occupied and neutral countries, thus making the problem of disclosure and disentanglement one of international character;

WHEREAS

The United Nations have declared their intention to do their utmost to defeat the methods of dispossession practiced by the enemy, have reserved their right to declare invalid any transfers of property belonging to persons within occupied territory, and have taken measures to protect and safeguard property, within their respective jurisdictions, owned by occupied countries and their nationals, as well as to prevent the disposal of looted property in United Nations markets;

THEREFORE

It is resolved that, in recognition of these considerations, the United Nations Monetary and Financial Conference

I. Takes note of and fully supports steps taken by the United Nations for the purpose of

(a) uncovering, segregating, controlling, and making appropriate disposition of enemy assets;

(b) preventing the liquidation of property looted by the enemy, locating and tracing ownership and control of such looted property, and taking appropriate measures with a view to its restoration to its lawful owners.

II. Recommends that all Governments of countries represented at this Conference take action consistent with their relations with the countries at war to call upon the Governments of neutral countries

(a) to take immediate measures to prevent any disposition or transfer within territories subject to their jurisdiction of any

(1) assets belonging to the Government or any individuals or institutions within those United Nations occupied by the enemy; and

(2) looted gold, currency, art objects, securities, other evidences of ownership in financial or business enterprises, and of other assets looted by the enemy;

as well as to uncover, segregate and hold at the disposition of the post-liberation authorities in the appropriate country any such assets within territory subject to their jurisdiction.

(b) to take immediate measures to prevent the concealment by fraudulent means or otherwise within countries subject to their jurisdiction of any

(1) assets belonging to, or alleged to belong to, the Government or any individuals or institutions within enemy countries;

(2) assets belonging to, or alleged to belong to, enemy leaders, their associates and collaborators, and to facilitate their ultimate delivery to the post-armistice authorities.

71. The Commission adopted the report of Committee 3 on 'Economic and Financial Policies, Exchange of Information, and other Means of Financial Co-operation.'

Of the matters considered by Committee 3 two were subject to specific discussion and vote by the Commission.

The first was a resolution combining the proposals submitted by Bolivia, Brazil, Chile, Cuba, and Peru. The text of the Resolution, which was adopted by the Commission, is as follows:—

WHEREAS

In Article I of the Articles of Agreement of the International Monetary Fund it is stated that one of the principal purposes of the Fund is to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy;

WHEREAS

It is recognised that the complete attainment of this and other purposes and objectives stated in the Agreement cannot be achieved through the instrumentality of the Fund alone;

THEREFORE

The United Nations Monetary and Financial Conference recommends to the participating Governments that, in addition to implementing the specific monetary and financial measures which were the subject of this Conference, they seek, with a view to creating in the field of international economic relations

conditions necessary for the attainment of the purposes of the Fund and of the broader primary objectives of economic policy, to reach agreement as soon as possible on ways and means whereby they may best

(1) reduce obstacles to international trade and in other ways promote mutually advantageous international commercial relations;

(2) bring about the orderly marketing of staple commodities at prices fair to the producer and consumer alike;

(3) deal with the special problems of international concern which will arise from the cessation of production for war purposes; and

(4) facilitate by co-operative effort the harmonization of national policies of Member states designed to promote and maintain high levels of employment and progressively rising standards of living.

The second matter voted on was a resolution introduced by the Australian Delegation recommending that the Governments invited to accept the international Monetary Agreement be invited to enter, at the same time, into an undertaking to maintain high levels of employment in their respective countries. A motion for adoption of the Australian resolution was defeated.

(Sd.) A. J. RAISMAN, *Chairman*.

(Sd.) C. D. DESHMUKH.

(Sd.) T. E. GREGORY.

(Sd.) SHANMUKHAM CHETTY.

(Sd.) A. D. SHROFF.

(Sd.) B. K. MADAN, *Secretary*.

NEW DELHI;

The 10th February 1945.

APPENDIX

Speech of Mr. A. D. Shroff, Indian Delegate, before Committee 1, on July 7, 1944, in support of Egypt's Amendment to the Purposes of the International Monetary Fund relating to Sterling Balances.

I am in entire accord with Alternative H moved by the delegate for Egypt. In principle, it is the same as Alternative G which was moved the other day by the Leader of my Delegation, though our Alternative was more modestly worded. I am very sorry to say that the manner in which the proposal of the Indian Delegation was received by this Committee and the very casual fashion in which it was disposed of have caused serious disappointment to this side of the Committee. In general, two criticisms of the Indian proposal were made on behalf of the United States of America and the United Kingdom Delegations. The delegate from the United States of America raised the objection that if the foreign credit balances accumulated during the war were to be given multilateral convertibility through the Fund, they would unduly overload the Fund. The United Kingdom delegate put forth the view that this was a matter for bilateral arrangement between the parties and interests concerned. I should like to make it clear that so far as India is concerned public opinion and feeling on this question have not only been unanimous but extremely strong and unless some method is devised to facilitate the solution of what is an extremely important matter for us the ultimate attitude of our country towards the International Monetary Fund which is proposed to be established will be largely influenced by the decision of the Conference on this question. What is our position? Under the various provisions of the Joint Statement relating to foreign exchange resources and reserves of member countries, it appears that although we have four billion dollars worth of sterling balances, we have practically no foreign exchange reserves. I would also like the Committee to appreciate that what we visualize for the future of our country is in full consonance with the primary objectives of the International Monetary Fund, namely, the expansion and balanced growth of international trade and the attainment of a high level of employment and real income. I have heard it said several times at these meetings and it was repeated this morning by the delegate from Brazil, that the settlement of the current balances in international trade was the main if not the only objective of establishing the International Monetary Fund. Well, if that was so, why was the primary objective of economic policy

defined in the Purposes of the Fund as the promotion and maintenance of a high level of employment and real income? We felt enthusiastic about the proposals for the International Monetary Fund as we hoped and believed that through international co-operation we would be enabled to build up our economy to a stage where we should make our own contribution towards the strengthening of the resources of the International Monetary Fund. During the war we have built up, as I have said, large foreign exchange balances in London and if we cannot make any use of them through the machinery of the International Monetary Fund, I cannot comprehend how a country situated as we are can be enthusiastically interested in the establishment and operation of such a Fund. I plead for some constructive reply from the sponsors of this scheme that the machinery will assist us in the solution of this problem. Here you are creating an International Monetary Fund and you are entirely ignoring the existence of huge foreign balances. Are you not thereby creating at the same time a sort of rival to the Fund? Mr. Chairman, I would like the Committee to bear with me for a few moments for a reference on this point to what was stated on the subject in the original United Kingdom proposals for an international clearing union as also in what is known as the White Proposals from the United States of America. The delegate from Egypt has already drawn the attention of this Committee to these original proposals. I would particularly like to read paragraph 34 from the Keynes Proposals :

Paragraph 34 reads as under :—

'The position of abnormal balances in overseas ownership held in various countries at the end of the war presents a problem of considerable importance and special difficulty. A country in which a large volume of such balances is held could not, unless it is in a creditor position, afford the risk of having to redeem them in bancor on a substantial scale, if this would have the effect of depleting its bancor resources at the outset. At the same time, it is very desirable that the countries owning these balances should be able to regard them as liquid, at any rate over and above the amounts which they can afford to lock up under an agreed programme of funding or long-term expenditure. Perhaps there should be some special over-riding provision for dealing with the transitional period only by which, through the aid of the Clearing Union, such balances would remain liquid and convertible into bancor by the creditor country whilst there would be no corresponding strain on the bancor resources of the debtor country, or at any rate, the resulting strain would be spread over a period.'

Dr. Goldenweiser, the delegate from the United States of America, mentioned that this item was excluded from the Joint Statement on the ground that it would unduly overload the Fund. I presume that he said this on the understanding that perhaps at the very outset of the Fund the entire amount of these foreign credit balances would be taken over by the Fund in one lump sum. This is not our case. We plead for the assistance of the Fund spread over a period of years to secure multilateral convertibility of at least a portion of our foreign balances. I say this because with the long-standing relationship between India and the United Kingdom and the traditional commercial ties between the two countries, I take it that a large portion of our sterling balances will ultimately be utilised in obtaining capital goods from the United Kingdom. I appreciate and very greatly sympathise with the difficulties of the United Kingdom now and in the early postwar period owing to the unfortunate loss of valuable foreign investments and, due to other difficulties, it is not likely that the United Kingdom will be in a position to reach a stage of free convertibility for sterling at an early date. On the other hand, our country is pulsating with hopes and aspirations of large scale industrial development to raise the standard of living of four hundred millions of our population. We cannot, therefore, be asked to wait indefinitely till the United Kingdom has reached a stage when sterling would be freely convertible into other currencies. We therefore want conversion at least of a portion of our balances into other foreign currencies.

Statement by Mr. A. D. Shroff, Member of the Indian Delegation, at the meeting of Commission I, on July 10, 1944

Mr. Chairman, at the outset I should like to have your ruling on the matter which would probably facilitate discussion and disposal of this item. In Committee I of Commission I, we discussed on two separate occasions Alternatives G and H. As the result of these discussions, the Indian Delegation has tabled Alternative K, which has not yet been discussed by Committee I. I suggest, Sir, for your consideration that Alternative G, Alternative H and Alternative K may all be discussed together.

I will now place before Commission I Alternative K tabled by our Delegation which reads as follows : To facilitate the multilateral settlement of a reasonable portion of the foreign credit balances accumulated amongst the member countries during the war so as to promote the purposes referred to in Sub-division 2, without placing undue strain on the resources of the Fund.

At the time we discussed Alternatives G and H in Committee I, two principal objections were raised. The delegate from the United States opposed both of these alternatives on the ground that the inclusion of this item will overload the Fund. From the very start when we placed our alternative for consideration before this Conference, we were absolutely clear in our minds and when I spoke at one of the meetings of Committee I, I endeavoured to clear up that misunderstanding that we never intended the International Monetary Fund,

when it was set up, to take over straight away in one lump sum the entire accumulated credit balances during the war. In explaining particularly the situation of India, I also made it clear that considering the very close commercial ties between the two countries, it is more than likely that a very large proportion of the sterling balances we have accumulated in London over a period of years will be used in buying goods of both categories—consumer and capital goods from the United Kingdom. At the same time, I pointed out that if we are going to be realists, we must consider the actual situation in the United Kingdom today and in the post-war period. I refer, for instance, to the unfortunate loss of valuable foreign investments by the United Kingdom and, I may add, the necessity today of rehabilitation of some of the industries of the United Kingdom and the necessity of reducing at least some of the tremendous privations which are being borne by the population of the United Kingdom during the last four and a half years. All these factors will tend to reduce the capacity of the United Kingdom to give us the goods which we badly need. That being so, our position is this: Considering the primary objective of the International Monetary Fund, namely, the facilitation and expansion of international trade and, secondly, a high level of employment and real income—we attach very great importance to the definition of the primary objective—and taking into consideration the inability of the United Kingdom at least for a fairly long period from now onwards to meet the requirements of our capital goods, I submit to this Conference that if a country situated as we are is to be enthusiastic for international collaboration, then some means has to be devised by which multilateral convertibility would be given at least to a certain proportion of the large balances we have accumulated in London. I fail to understand the argument of the United States delegate that the International Monetary Fund would be overloaded if this item was included among the purposes of the Fund. We are here met at the instance of the sponsors of this Conference to tackle a very big problem. I ask, are we realistic enough in tackling this problem without adequate resources in the Fund? There are billions of accumulated balances abroad. As I said in Committee I, are we not simultaneously with the establishment of the Fund creating a sort of rival to the Fund? And I ask whether it would be advisable to ignore the existence of these balances? My answer to the delegation of the United States is that you will not unduly overload the fund if you create machinery for multilateral convertibility for a reasonable portion of these accumulated balances. The resources available to the Fund for tackling the problem are in my judgment inadequate and look rather like sending a jellyfish to tackle a whale. What I ask for is a multilateral settlement of a portion of our balances. If the Conference is prepared to accept the principle of our amendment, then I see no difficulty at all in evolving a concrete formula by which the two purposes set out in our amendment can be met. The purposes set out in our amendment are two; To secure multilateral convertibility for a reasonable portion of our balances and, secondly, to devise a formula so as not to place undue strain on the resources of the Fund. I think, Sir, talking among friends, it may be as well to speak frankly about this question. We have not disguised from the Conference the very strong feeling in our country on this question. I am sure that the sponsors of this Conference are seeking collaboration from all countries of the world known as the United and Associated Nations. It may be that unfortunately situated as we are politically perhaps the 'big guns' in the Conference may not attach great importance to a country like India. But I am bound to point out this, if you are prepared to ignore a country of the size of India, with four hundred million population and with natural resources though not fully developed, yet not incomparable to the natural resources of some of the highest powers on this earth, we cannot be expected to make our full contribution to the strengthening of the resources of the Fund. Suppose you don't accept our position, you are placing us in a situation which I may compare to the position of a man with a million dollar balance in the bank but not sufficient cash to pay his taxi fare. That is the position you put us in. You want to facilitate the expansion and balanced growth of international trade. You incidentally want to build up a high level of employment and real income throughout the world as a whole. Mr. Morgenthau in his very fine opening address said 'Poverty is a menace wherever it is found'. Do you expect to fulfil the main objectives of this Fund if you allow large countries to be feasted with this sort of poverty? I would like this Commission to face this question in a very realistic spirit. I am sure everybody here needs the collaboration of everybody else but if that collaboration has to be obtained realistically, you will make it possible for all countries in the world to be associated with you. I beg of you, Commission, to deal very dispassionately and sympathetically with the problem I put before you. Thank you very much.

Statement on behalf of the United States Delegation at the meeting of Commission I, on July, 10, 1944

We are all cognizant of the importance of the problem of wartime indebtedness so ably presented by the delegate of India. We are confident that the problem can best be settled directly by the countries concerned, however, and we doubt the advisability of attempting this through the International Monetary Fund.

We must be sure that the work of the Fund is not made more difficult by burdening it with tasks which it cannot successfully undertake. Recognition of this fundamental principle led the technical experts to recommend that the International Monetary Fund should not be used for purposes of relief or reconstruction or for meeting indebtedness arising out of the war. The Fund can contribute most effectively to the solution of international monetary problems if it confines its work to the specialised tasks for which it is designed.

While the International Monetary Fund cannot deal directly with indebtedness arising out of the war, we are confident its operations will facilitate the development of an environment of orderly and stable exchanges free from restrictions that hamper world trade—an environment in which the problem of wartime indebtedness can be amicably settled by the countries directly concerned.

The Fund can contribute a good deal in this way to the ultimate solution of the problem of wartime indebtedness. It is all that the Fund can be sure of doing. To ask more is to impose on the Fund the danger of failing to perform the other and more specific tasks for which it is intended and for which it is suited.

The United States Delegation expresses its sympathetic understanding of the importance of this problem to India. The United States Delegation hopes that the alternatives proposed by the Delegate of India will not be pressed. We are confident that the problem of wartime indebtedness can best be settled directly by the countries concerned in a spirit of mutual understanding.

Statement by Lord Keynes on behalf of the Delegation of the United Kingdom at the meeting of Commission I, on July 10, 1944.

Since the United Kingdom is the only country here represented which has incurred large-scale war debts to her Allies and Associates also here present, these alternative amendments must be assumed, as Mr. Shroff had indeed made clear, to relate primarily to her.

The various members of this alliance have suffered in mind, body and estate from the effort and exhaustion of war in ways differing in kind and in degree. These sacrifices cannot be weighed one against the other. Those of us who were most directly threatened and were nevertheless able to remain in the fight, such as the Union of Soviet Socialist Republics and the United Kingdom, have fought this war on the principle of unlimited liability and with a more reckless disregard to economic consequences than others who were more fortunately placed. We do not plead guilty to imprudence; for in the larger field of human affairs nothing could have been less prudent than hesitation or a careful counting of the cost.

But as a result there has been inevitably no equality of financial sacrifice. In respect of overseas assets the end of the war will find the United Kingdom greatly impoverished and others of the United Nations considerably enriched at our expense. We make no complaint of this provided that the resulting situation is accepted for what it is. On the contrary, we are grateful to those Allies, particularly to our Indian friends, who put their resources at our disposal without stint and themselves suffered from privation as a result. Our effort would have been gravely, perhaps, critically, embarrassed if they had held back from helping us so wholeheartedly and on so great a scale. We appreciate the moderate, friendly and realistic statement of the problem which Mr. Shroff has put before you today. Nevertheless the settlement of these debts must be, in our clear and settled judgment, a matter between those directly concerned. When the end is reached and we can see our way into the daylight we shall take it up without any delay, to settle honourably what was honourably and generously given.

But we do not intend to ask assistance in this matter from the International Monetary Fund—beyond the fact, as the American Delegation has pointed out, that the existence of the Fund and the general assistance it will give to the stability and expansion of trade may be expected to improve indirectly our ability to meet other obligations. We concur entirely in the view which has just been expressed by the American Delegation that the Fund is not intended to deal directly with war indebtedness.

Since we do not intend either to ask for, or to avail ourselves of, any special treatment from the Fund, it appears to the United Kingdom Delegation that this amendment could be of no practical effects and is therefore better discarded if misunderstanding is to be avoided about the role which the Fund can expect to play.

Statement by Mr. Istel, French Delegate, at the meeting of Commission I, on July 10, 1944.

While the French Delegation sympathizes with India's difficulties, it entirely supports the position taken by the United States and the United Kingdom. Although France and other occupied countries have accumulated huge war balances against Germany, they do not request that the Fund should be concerned with these because it is clear that the Fund should be concerned only with current account movements. The very argument given by India's Delegate as to the time which it will take for India to obtain goods against blocked currencies, shows that the transactions contemplated are not of a current account nature and, therefore, are not in conformity with the purposes of the Fund. We consider that the question raised by India should not be addressed to the Fund but to some other organization.