The Joint Statement

The Joint Statement by Experts on the Establishment of an International Monetary Fund *was the outcome of discussions between Lord Keynes and Mr. White in Washington in September–October 1943. After extensive redrafting a final version was agreed upon in April 1944 and was then published. The text reproduced below is taken from the British White Paper, Cmd. 6519, and includes the British Government's foreword and Explanatory Notes indicating the British attitude to the Statement.*

Joint Statement by Experts on the Establishment of an International Monetary Fund [1]

(April 1944)

His Majesty's Government have authorised the publication of this Statement of Principles for an International Monetary Fund, which is the result of close study over many months at the expert level. It in no way commits the Governments concerned. It is conceived as part of a general plan for international co-operation, the objectives of which, as a whole, would be the progressive development of international trade, active employment, reasonable stability of prices and the machinery for the orderly adjustment of exchanges.

The purpose of publication in this way and at this stage is to promote informed discussion in all quarters from which valuable guidance can be obtained by the Governments in preparation for the formulation in due course of policies by the States concerned.

I. EXPLANATORY NOTES BY UNITED KINGDOM EXPERTS ON THE PROPOSAL FOR AN INTERNATIONAL MONETARY FUND.

Some of the more important respects in which the *Joint Statement by Experts on the Establishment of an International Monetary Fund,* set forth below as agreed between the British and American technical experts, differs from, or resembles, the *Proposals for an International Clearing Union* published as Cmd. 6437 are briefly explained below:—

(1) Under the *Clearing Union* the member countries might have been said to bank with the Union with which they were to keep balances or run overdrafts. Under the *International Monetary Fund,* on the other hand, the Fund may be said to bank with the member countries, which undertake to grant to the *Fund* facilities to hold and to draw on their local funds. Thus if under the *Clearing Union* a member country drew resources from the *Union* this meant that its own balance with the *Union* would be diminished and the balance of some other member would be increased; whereas, if a member country draws resources from the *Fund,* this means that the *Fund's* balances with that member are increased and its balances with some other member are decreased.

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These two arrangements represent alternative technical setups, capable of performing precisely the same functions. The same purposes and provisions in all other respects can be carried into effect under the one as under the other. It has, however, proved easier to obtain agreement on the mechanism of the proposed *Fund,* which has the appearance of being closer to what is already familiar.

(2) As a consequence of this, it is no longer necessary to introduce a new international unit, whether bancor or unitas, since it is only if the member countries bank with the Fund that the use of a new common unit becomes unavoidable.

(3) The provisions of the *Clearing Union,* by which only the Central Banks of member countries were in a position to engage in transactions with the *Union,* are replaced by the analogous provisions of III (1) (2) and (3) under which the *Fund* can only engage in transactions with the Monetary Authority of member countries and is not free to enter the market or deal with other banks or persons.

(4) The aggregate facilities, guaranteed by the initial subscriptions of the members under II (1), are smaller than were proposed for the *Clearing Union.* But they are substantial and, if necessary, can be increased later on by general agreement. It has been argued that the present proposals involve as large a commitment as it is prudent to ask in favour of an, as yet, untried institution. Moreover, in estimating the sufficiency of the facilities proposed, it is necessary to bear in mind X (1), where it is made clear that the facilities of the *Fund* are not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

(5) The *Clearing Union* proposals were criticised on the ground that they made insufficient provision for elasticity of exchange rates and for subsequent modification in the rates initially established. The new proposal explicitly provides for alteration of exchange rates, whilst maintaining the general principle that, exchange rates being two-ended so that a change in the parity of any currency affects the currencies of all countries, not only that of the country making the change, a proposed change is a proper subject for international consultation. The *Fund,* acting in a judicial capacity, is required under IV (3) to approve any change which is essential to the correction of a fundamental disequilibrium, and shall, in determining the matter, accept the domestic, social or political policies of the country applying for a change as facts of the situation to be accepted and not criticised. Moreover, during the transitional period immediately after the war it shall under X (4) give the member country presenting a proposal the benefit of any reasonable doubt, and shall under IV (3) at all times take into consideration the extreme uncertainties prevailing at the time the parities of exchange were initially agreed upon. In addition member countries are allowed under IV (4) a certain margin for making unilateral changes. Finally, if a member feels unable to accept a decision of the Fund on this or on any other matter, it is entitled under VIII (1) to withdraw from membership without notice and without penalty, apart from an undertaking under VIII (2) to liquidate any outstanding obligations to the Fund within a reasonable time. Thus no member is under any obligation to continue its adherence to the conditions of membership if it comes to the conclusion that, taken as a whole, they are no longer to its advantage.

(6) The provisions for securing, apart from certain temporary relaxations, an eventual free inter-convertibility of all national currencies, on the basis of the parities of the exchange rates established for the time being, are the same in effect as those under the *Clearing Union.*

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(7) Clauses III (5) and IX (3) provide that a member's obligation to maintain free convertibility of its currency applies only to transactions of a current account nature. It does not apply to capital transfers or to the removal of balances accumulated prior to the acceptance of the obligation of convertibility. Clause V (1) contemplates the control of the outflow of capital by members using the resources of the *Fund,* so as to ensure that the *Fund* shall not be drawn upon to finance a large or sustained outflow of a capital nature. Thus the proposal allows the maintenance of exchange control in so far as it is required to carry out the above defined purposes, and may even require a member to exercise control of some kind.

(8) The proposals of the *Clearing Union,* to prevent a country from using up its quota too rapidly and from drawing on the *Fund* too freely in conditions in which its own resources are adequate without drawing on the *Fund,* are worked out more fully in clauses III (2) and (7) but without difference of intention. The provisions of II (3) and III (6) and (7) are new, under which the *Fund* has some gold resources which may be gradually increased with the intention that such gold in the hands of the *Fund* will be freely available in the interests of equilibrium.

(9) It was a feature of the *Clearing Union* proposals that they introduced certain provisions for placing on creditor countries, as well as on debtor countries, some pressure to share the responsibility in appropriate circumstances for maintaining a reasonable stability in the balances of international payments. These have been replaced in the new proposal by a different, but perhaps more far-reaching, provision with the same object in view. This is under VI, which provides that, if the requirements of the *Fund* for the currency of a country, in an unbalanced creditor position with the rest of the world, seem likely to exceed the supply of that currency which the *Fund* is in a position to acquire to meet the applications of the other members, the *Fund* shall issue a report covering the causes of the unbalanced position and containing recommendations designed to bring it to an end. Meanwhile the available supplies of the scarce currency will be apportioned, and the other members become entitled to resume complete freedom of action in relation to the affected currency. They are allowed to take any steps at their discretion to curtail imports from the country in question and to restrict and regulate exchange transactions, so as to keep their purchases in terms of the affected currency within the limits of their ability to pay. Rather than allow such a situation to develop, it would be open to a creditor country to use any of various means to prevent the development of an unmanageable unbalanced situation with the rest of the world as a whole.

(10) The provisions for the management of the new Institution have not been worked out in detail in this Statement of Principles. This is an important matter left over for further discussion and development at a later date.

(11) The *Clearing Union* proposals, which were put forward at a relatively early stage of the war, did not attempt to deal adequately with the transitional arrangements in the period following the conclusion of hostilities. Whilst there are still too many uncertainties in other directions to allow of clear-cut conclusions, Clause X of the Joint Statement carries matters somewhat further. It is there provided that a member need not assume the full obligations of membership until satisfactory arrangements are at its disposal to facilitate the settlement of its balance of payments difficulties arising out of the war. Furthermore X (2) contemplates a gradual evolution towards the attainment of the objects of the *Fund* by progressive stages and no country is committed to an immediate removal of war-time restrictions and regulations. Whilst the *Fund*

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may, within three years of the *Fund's* coming into force, make representations that the time has come for a further withdrawal of restrictions, no member is committed as to any fixed date for this final removal and is entitled to use its own judgment as to when it is strong enough to undertake the free convertibility of its currency which it has accepted as the desirable aim. The drafting of this Clause, as the experts on both sides understand it, allows, during the transition period, the maintenance and adaptation by the members of the sterling area of the arrangements now in force between them. Nor is the scheme intended, when the obligation of free convertibility has been accepted, to interfere with the traditional ties and other arrangements between the members of the sterling area and London.

(12) In most other respects the general aims and purposes of the new scheme are the same as those set forth in Cmd. 6437 in presenting the *Clearing Union Proposals.*

II. JOINT STATEMENT BY EXPERTS ON THE ESTABLISHMENT OF AN INTERNATIONAL MONETARY FUND.

Sufficient discussion of the problems of international monetary co-operation has taken place at the technical level to justify a statement of principles. It is the consensus of opinion of the experts of the United and Associated Nations who have participated in these discussions that the most practical method of assuring international monetary co-operation is through the establishment of an International Monetary Fund. The principles set forth below are designed to constitute the basis of this Fund. Governments are not asked to give final approval to these principles until they have been embodied in the form of definite proposals by the delegates of the United and Associated Nations meeting in a formal conference.

I. *Purposes and Policies of the International Monetary Fund.*

The Fund will be guided in all its decisions by the purposes and policies set forth below:

1. To promote international monetary co-operation through a permanent institution which provides the machinery for consultation on international monetary problems.

2. 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.

3. To give confidence to member countries by making the Fund's resources available to them under adequate safeguards, thus giving members time to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

4. To promote exchange stability, to maintain orderly exchange arrangements among member countries, and to avoid competitive exchange depreciation.

5. To assist the establishment of multilateral payments facilities on current transactions among member countries and the elimination of foreign exchange restrictions which hamper the growth of world trade.

6. To shorten the periods and lessen the degree of disequilibrium in the international balance of payments of member countries.

II. *Subscription to the Fund.*

1. Member countries shall subscribe in gold and in their local funds amounts (quotas) to be agreed, which will amount altogether to about $8 billion if all the

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United and Associated Nations subscribe to the Fund (corresponding to about $10 billion for the world as a whole).

2. The quotas may be revised from time to time, but changes shall require a four-fifths vote, and no member's quota shall be changed without its assent.

3. The obligatory gold subscription of a member country shall be fixed at 25 per cent. of its subscription (quota) or 10 per cent. of its holdings of gold and gold-convertible exchange, whichever is smaller.

III. *Transactions with the Fund.*

1. Member countries shall deal with the Fund only through their Treasury, Central Bank, Stabilization Fund or other fiscal agencies. The Fund's account in a member's currency shall be kept at the Central Bank of the member country.

2. A member shall be entitled to buy another member's currency from the Fund in exchange for its own currency on the following conditions:

(*a*) The member represents that the currency demanded is presently needed for making payments in that currency which are consistent with the purposes of the Fund.

(*b*) The Fund has not given notice that its holdings of the currency demanded have become scarce in which case the provisions of VI, below, come into force.

(*c*) 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) have not increased by more than 25 per cent. of the member's quota during the previous twelve months, and do not exceed 200 percent of the quota.

(*d*) The Fund has not previously given appropriate notice that the member is suspended from making further use of the Fund's resources on the ground that it is using them in a manner contrary to the purposes and policies of the Fund; but the Fund shall not give such notice until it has presented to the member concerned a report setting forth its views and has allowed a suitable time for reply.

The Fund may in its discretion and on terms which safeguard its interests, waive any of the conditions above.

3. The operations on the Fund's account will be limited to transactions for the purpose of supplying a member country on the member's initiative with another member's currency in exchange for its own currency or for gold. Transactions provided for under 4 and 7, below, are not subject to this limitation.

4. The Fund will be entitled at its option with a view to preventing a particular member's currency from becoming scarce:

(*a*) To borrow its currency from a member country;

(*b*) To offer gold to a member country in exchange for its currency.

5. So long as a member country is entitled to buy another member's currency from the Fund in exchange for its own currency, it shall be prepared to buy its own currency from that member with that member's currency or with gold. This requirement does not apply to currency subject to restrictions in conformity with IX (3) below or to holdings of currency which have accumulated as a result of transactions of a current account nature effected before the removal by the member country of restrictions on multilateral clearing maintained or imposed under X (2) below.

6. A member country desiring to obtain directly or indirectly the currency of another member country for gold is expected, provided that it can do so with equal advantage,

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to acquire the currency by the sale of gold to the Fund. This shall not preclude the sale of newly-mined gold by a gold-producing country on any market.

7. The Fund may also acquire gold from member countries in accordance with the following provisions:

(a) A member country may repurchase from the Fund for gold any part of the latter's holdings of its currency.

(b) So long as a member's holdings of gold and gold-convertible exchange exceed its quota, the Fund in selling foreign exchange to that country shall require that one-half of the net sales of such exchange during the Fund's financial year be paid for with gold.

(c) If at the end of the Fund's financial year a member's holdings of gold and gold-convertible exchange have increased, the Fund may require up to one-half of the increase to be used to repurchase part of the Fund's holdings of its currency so long as this does not reduce the Fund's holdings of a country's currency below 75 per cent. of its quota or the member's holdings of gold and gold-convertible exchange below its quota.

IV. *Par Values of Member Currencies.*

1. The par value of a member's currency shall be agreed with the Fund when it is admitted to membership and shall be expressed in terms of gold. All transactions between the Fund and members shall be at par subject to a fixed charge payable by the member making application to the Fund; and all transactions in member currencies shall be at rates within an agreed percentage of parity.

2. Subject to 5, below, no change in the par value of a member's currency shall be made by the Fund without the country's approval. Member countries agree not to propose a change of parity of their currency unless they consider it appropriate to correct a fundamental disequilibrium. Changes shall be made only with the approval of the Fund subject to the provisions below.

3. The Fund shall approve a requested change in the par value of a member's currency if it is essential to correct a fundamental disequilibrium. In particular, the Fund shall not reject a requested change necessary to restore equilibrium because of domestic social or political policies of the country applying for a change. In considering a requested change, the Fund shall take into consideration the extreme uncertainties prevailing at the time the parities of currencies of member countries were initially agreed upon.

4. 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.

5. An agreed uniform change may be made in the gold value of member currencies, provided every member country having 10 per cent. or more of the aggregate quotas approves.

V. *Capital Transactions.*

1. A member country may not use the Fund's resources to meet a large or sustained outflow of capital and the Fund may require a member country to exercise control to

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prevent such use of the resources of the Fund. This provision is not intended to prevent the use of the Fund's resources for capital transactions of reasonable amount required for the expansion of exports or in the ordinary course of trade, banking and other business. Nor is it intended to prevent capital movements which are met out of a member country's own resources of gold and foreign exchange, provided such capital movements are in accordance with the purposes of the Fund.

2. Subject to VI, below, a member country may not use its control of capital movements to restrict payments for current transactions or to delay unduly the transfer of funds in settlement of commitments.

VI. *Apportionment of Scarce Currencies.*

1. When it becomes evident to the Fund that the demand for a member country's currency may soon exhaust the Fund's holdings of that currency, the Fund shall so inform member countries and propose an equitable method of apportioning the scarce currency. When a currency is thus declared scarce, the Fund shall issue a report embodying the causes of the scarcity and containing recommendations designed to bring it to an end.

2. A decision by the Fund to apportion a scarce currency shall operate as an authorization to a member country, after consultation with the Fund, temporarily to restrict the freedom of exchange operations in the affected currency and, in determining the manner of restricting the demand and rationing the limited supply amongst its nationals, the member country shall have complete jurisdiction.

VII. *Management.*

1. The Fund shall be governed by a board on which each member will be represented, and by an executive committee. The executive committee shall consist of at least nine members including representatives of the five countries with the largest quotas.

2. The distribution of voting power on the board of directors and the executive committee shall be closely related to the quotas.

3. Subject to II (2) and IV (5), all matters shall be settled by a majority of votes.

4. The Fund shall publish at short intervals a statement of its position showing the extent of its holdings of member currencies and of gold and its transactions in gold.

VIII. *Withdrawal.*

1. A member country may withdraw from the Fund by giving notice in writing.

2. The reciprocal obligations of the Fund and the country are to be liquidated within a reasonable time.

3. After a member country has given notice in writing of its withdrawal from the Fund, the Fund may not dispose of its holdings of the country's currency except in accordance with arrangements made under 2, above. After a country has given notice of withdrawal its use of the resources of the Fund is subject to the approval of the Fund.

IX. *The Obligations of Member Countries.*

1. Not to buy gold at a price which exceeds 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.

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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.

3. Not to impose restrictions on payments for current international transactions with other member countries (other than those involving capital transfers or in accordance with VI, above) or to engage in any discriminatory currency arrangements or multiple currency practices without the approval of the Fund.

X. *Transitional Arrangements.*

1. Since the Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war, the agreement of a member country to III (5) and IX (3), above, shall not become operative until it is satisfied as to the arrangements at its disposal to facilitate the settlement of the balance of payments differences during the early post-war transition period by means which will not unduly encumber its facilities with the Fund.

2. During this transition period member countries may maintain and adapt to changing circumstances exchange regulations of the character which have been in operation during the war, but they shall undertake to withdraw as soon as possible by progressive stages any restrictions which impede multilateral clearing on current account. In their exchange policy they shall pay continuous regard to the principles and objectives of the Fund; and they shall take all possible measures to develop commercial and financial relations with other member countries which will facilitate international payments and the maintenance of exchange stability.

3. The Fund may make representations to any member that conditions are favourable to the withdrawal of particular restrictions or for the general abandonment of restrictions inconsistent with IX (3), above. Not later than three years from the coming into force of the Fund any member still retaining any restrictions inconsistent with IX (3) shall consult the Fund as to their further retention.

4. In its relations with member countries the Fund shall recognize that the transition period is one of change and adjustment and in deciding on its attitude to proposals presented by members it shall give the member country the benefit of any reasonable doubt.

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