MINUTES OF MEETING OF COMMITTEE 1 OF COMMISSION I
July 6, 1944 10:00 A.M.

Purposes, Policies, and Quotas of the Fund

The fourth meeting of the Committee began with a discussion of the report of the Drafting Committee. The revised wording of Article I, Section 2, Alternative c, (p. 1b) was considered. This Alternative was sponsored by the Indian Delegation and proposes that there be included in the purposes of the Fund: "to assist in the fuller utilization of the resources of economically under-developed countries".

Professor Robbins of the United Kingdom said that he believed the ideas of India could be adequately met in a preamble covering the whole work of the Conference.

Mr. Nash of New Zealand said that there were three objectives that should be kept in mind if the Fund were to be successful. These are:

1. The expansion of trade
2. A fuller utilization of resources
3. A better distribution of real income

These objectives should be fully stated but Mr. Nash agreed that he would be satisfied if they were covered in the preamble.

Mr. Melville of Australia agreed with Mr. Nash.

Mr. Tsiang, the Chairman, said that while the wording was not perfect it was as good as could be agreed upon. He, therefore, suggested that the wording of the Drafting Committee be accepted.

Mr. Chetty of India desired to suggest a new wording.

Mr. Robbins proposed that India reserve the right to raise the question again if their views were not met in the preamble but that in the meantime they accept tentatively the present wording of the Drafting Committee.

Mr. ~~Shroff of India~~ Chetty agreed to this.

Mr. Nash then suggested the words, "unused resources" instead of "productive power" and asked the meaning of productive power. Mr. Tsiang replied that the words of Mr. Nash were considered and rejected by the Committee since they implied capitalistic development.

Mr. Gudin of Brazil said that it was intended that the Fund confine its operations to current transaction and that there should be a distinction between the purposes of the Fund and those of the Bank. The words "unused resources" implied invdstment and were more appropriate for the Bank.

Mr. Varvaressos of Greece said that he believed the present wording as proposed by the Drafting Committee was more comprehensive than that suggested by Mr. Nash.

Mr. Tsiang then said that the subject had been discussed to the limit of fruitfulness and suggested that the Committee accept the report on Article I, Section 2, with the understanding that if any Delegation was dissatisfied it could raise the question subsequently.

The report of the Drafting Committee on Article I, Section 3 and 6 was accepted. The Committee also accepted the recommendation of the Drafting Committee that the addition at the end of Article I, Alternative A, p. la, which says, "the Fund shall be guided in all its decisions by the purposes set forward above" be included at the end of Article I.

The Committee then considered Alternative H, submitted by Egypt and which reads, "to promote the multilateral settlement of foreign credit balances accumulated during the war." ~~The~~

The representative of Egypt discussed at length the relation of the balances to Egypt's economic position. He outlined the United States proposal regarding blocked balances contained in the July 10,1943 draft of the Fund

Mr. Shroff of India supported what the Egyptian representative had said and made a~~n effective~~ vigorous representation of India's economic problems. He read from the earlier United Kingdom plan for a clearing union. He said that it was his desire that the Fund provide at least some machinery for converting a portion of the blocked balances into liquid form.

The Polish representative took exception to Mr. Shroff's position and pointed out that Poland had ~~frozen~~ debts due from Germany but did not consider it appropriate that the Fund be burdened with such ~~their blocked~~ balances. ~~in Germany.~~

Professor Robbins of the United Kingdom replied to the representatives of India and Egypt saying that he fully ~~their question~~ recognized the seriousness of the problem and was not unaware of the cost of the war to these countries ~~India~~ both in blood as well as in material~~s and~~ resources. Nevertheless, he said the Fund should not be asked to settle this stupendous problem, and the United Kingdom had a fixed objection to burdening the Fund with it. ~~the problem.~~

M Mr. Goldenweiser supported Professor Robbins, saying that the United States was fully aware of the ~~country's~~ difficulties of the countries owning the balances. We were slightly embarrassed, he said, by an earlier attempt to solve the problem before we had given it really mature consideration. He called attention to Article V, Section 1, p. 21 on capital transactions which provides that while the Fund's resources are not to meet a large outflow of capital, it is not intended to prevent the use of the Fund's resources for capital transactions of reasonable amount. To go beyond this, however, he said, would be unwise. Therefore, to refer to war balances and to imply that the Fund might facilitate a solution of the problem would be misleading.

Mr. Istel

Mr. Istel of France agreed with what had been said by Professor Robbins, Mr. Goldenweiser and the Polish representative. He said that France, like Poland, had debts due from Germany but was not asking the Fund to help in their liquidation.

Mr. Tsiang said that China was also in this position. The Chairman then suggested that with reference to Alternative H, ~~that~~ the Committee report the Alternative, together with the sense of the discussion to Commission I. He then turned to the Agenda on Document F.1 and referred to Article II, Alternative A, Section 6, (p.4) dealing with payments when quotas are changed. ~~It~~ This was accepted without discussion.

The discussion then turned to Alternative B, (p.4a) which has to do with reduction in gold payments by countries which have suffered from enemy occupation and hostilities.

The Chairman also read Alternative C which is a variation of Alternative B.

The representative from U.S.S.R. Mr. ~~Zlobin~~ Morozov, read a statement of the Russian position on this proposal. Baron Boel of Belgium agreed with the proposal but disapproved of the feature that the reduction should vary according to the amount of damage. He said this would require the Fund to evaluate the damage for each country. All countries damaged by enemy occupation, he said, should be treated alike and should have their gold payments, under this Alternative, reduced by 25 percent, namely, 75 percent of the amount that they would otherwise pay.

Mr. Tsiang said that this question was related to that raised by Czechoslovakia regarding the date of payment, and which had been referred to the ad hoc committee. The present problem, he said, has to do with the

amount

amount of payment. He said that this should also be referred to Commission I. There was no ~~decent~~ dissent.

Mr. Tsiang then took up Article IX, Section 1, (p. 38) which has to do with the obligation of member countries not to buy and sell gold at a price which departs from parity by more than a prescribed margin.

Professor Robbins said that Committee 2 had questioned whether Article IX should not be considered by them. He suggested a joint session with Committee 2.

Mr. Tsiang said that he had talked with Mr. White, Chairman of Commission I and informed him that Committee 1 did not object to a discussion of this subject by Committee 2. Mr. White informed Mr. Tsiang that a joint committee might be appointed on this question and that Committee 1 should proceed with its assignment.

Mr. Tsiang said that Committee 1 was, therefore, required to continue with its assignment.

In response to an inquiry as to the meaning of Section 2, which was missing and to be inserted later, Mr. Goldenweiser replied that he had no information.

~~Section 2. Meaning of Alternative A, Section 1, which was missing.~~

The Committee then considered Alterantive A, Section 2. The representative from Czechoslovakia enquired as to the meaning of the words, "from or to the monetary authorities" in the sentence which reads, "no member country shall buy or sell gold from or to the monetary authorities of another member at prices" etc.

Mr. Goldenweiser

Mr. Goldenweiser replied that it was intended to deal only with governments and that since monetary authorities vary from country to country the language was in general terms.

The Netherland representative asked whether the language was intended to exclude transaction with non-member countries.

Mr. Goldenweiser replied that the intention was merely to require countries to stay within the specified margin in their transaction.

Mr. Tsiang referred the question to the Drafting Committee and turned to Section 2 on page 39, paragraph (a) which deals with maximum and minimum rates for exchange transactions.

Mr. Nash of New Zealand questioned this phraseology and feared that the wording implied the Fund had the right to fix rates as distinct from specifying the range.

Mr. Goldenweiser said that the intention was that the Fund merely fix maximum and minimum points from parity; parity being determined in accordance with other provisions.

Mr. Nash suggested this be referred to the Drafting Committee since the wording was ambiguous. He agreed, he said, with the substance as explained by Mr. Goldenweiser.

Mr. Carbo of Ecuador inquired whether it was possible to fix identical percentages for all countries. He believed that the perscribed variation ~~shall~~ should vary.

The Netherlands representative referred to the place in this section regarding the percentage of variation. He believed the amount of variation should be discussed.

Mr. Goldenweiser

Mr. Goldenweiser said that the spread should take into consideration such things as cost of transportation and other items which were included in the familiar gold points under the old gold standard. He said that the range would be determined for each rate within the prescribed range.

Mr. Tsiang referred the question to the Drafting Committee. He then took up Article IX Alternative A, Section 3, ~~XX~~ paragraph (b). p.39. The discussion turned to the last sentence of this paragraph which says, "A member whose monetary authorities in fact freely buy and sell gold within the prescribed range," shall be deemed to be fulfilling this undertaking."

Mr. Goldenweiser explained that the country was under obligation to see that its rates did not vary beyond the allowed amount and that buying and selling gold would be the more usual method of accomplishing this.

The Peruvian representative said that some countries could not sell gold but could merely sell foreign exchange.

Mr. Tsiang referred this question to the Drafting Committee.

The Committee then considered paragraph (c) of the same section which deals with the obligation of a member to prevent ~~invasion~~ violation of exchange regulations of other members.

Mr. Goldenweiser said that the intention was that a country would agree to attempt to cooperate and not to tolerate violations of other members authorized regulations. Legal technicalities, he said, were involved and suggested that this be referred to the Drafting Committee. This was done and the Committee was asked to postpone its consideration of this paragraph until Committee 2 had completed its consideration of matters relating to this question.

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The Committee then considered Article IX, Alternative A, Section 4, (p.40) which refers to the obligation not to impose restrictions on current transactions.

The Czechoslovak representative asked if the~~ir~~re was an attempt to define the meaning of "current international transactions".

Mr. Goldenweiser replied that this was being done along with the preparation of ~~the~~ definitions of other subjects. Considerable discussion took place as to the precise nature of the exchange control which member countries obligated themselves to eliminate under this Section.

Mr. Varvaressos of Greece said that this section did not prevent exchange control for purposes other than current transactions.

Professor Robbins said that there was confusion between the institution, exchange control, and policies of exchange control.

Mr. Nash of New Zealand desired that it be clearly stated that control of exchange was not vested in the hands of an outside body. New Zealand desires, he said, to be able to control all types of exchange transactions.

Professor Robbins said that there was nothing in the agreement which asked for the abandonment of the institution exchange control and that control of capital transactions was permitted.

Mr. Karpinski of Poland referred to the absence in the present draft of earlier provisions on this question.

Mr. Goldenweiser said that Committee 2 is discussing the question of the rights to control capital movements and that there is an understanding that control of capital movements remains with each individual country. He suggested that this question be referred to Commission I with the request that there be elucidation ~~to~~ of the extent to which control may

~~is to~~

~~is to~~ may be exercised. The question ~~shall~~ would then be referred back to this Committee or to Committee 2.

Mr. Melville of Australia said that he felt it was clear that the intention is to prevent restrictions on exchange transactions which interfere with imports or with the payment of interests and dividends.

Mr. Tsiang referred this to Commission I.

The meeting ~~was~~ adjourned.