



## CENTER FOR FINANCIAL STABILITY

Dialog • Insight • Solutions

### IMF Debt Plan Would Worry Keynes

Lawrence Goodman

January 23, 2014

Last week, I had the pleasure of participating on a terrific panel discussion hosted by EMTA (Emerging Market Trade Association) in Washington, DC on sovereign debt.<sup>1</sup>

Concern was widespread among the participants regarding new ideas surfacing from the IMF to intervene in the debt restructuring process.<sup>2</sup> Although there is much to like in the IMF approach, many fears are well founded.

Distress stemming from IMF intermediation between creditors and debtors actually stretches back to the founding of the Fund and one of its most well regarded founders — John Maynard Keynes.

The transcripts of the Bretton Woods conference, edited by CFS associates Kurt Schuler and Andrew Rosenberg, have an important passage where Keynes forcefully outlines his view regarding the IMF's role in sovereign debt restructuring. At the time of the Bretton Woods international monetary conference in 1944, World War II had yet to end. An Allied victory was still uncertain. Yet, Keynes knew that Britain would emerge a highly indebted nation. Specifically, enormous obligations would be due to India.<sup>3</sup>

Within this context, Keynes' stance was clear. He noted that *"the settlement of these debts must be, in our clear and settled judgment, a matter between those directly concerned."*<sup>4</sup> In other words, sovereign debts must be settled directly between debtors and creditors.

He went further and his position firmed regarding his vision for the role of the IMF. He said *"the Fund is not intended to deal directly with war indebtedness."*<sup>5</sup>

Today, in my view, the Fund has an essential role to play in sovereign debt restructuring arrangements, largely in facilitating direct communication between debtors and creditors or engagement. However, the Fund should heed Keynes' comments and encourage creditors and debtors to directly resolve unsustainable debt burdens. After all, they are the parties directly concerned.

---

<sup>1</sup> For details, please see [www.emta.org](http://www.emta.org).

<sup>2</sup> "Sovereign Debt Restructuring – Recent Developments and Implications for the Fund's Legal and Policy Framework" – International Monetary Fund, April 26, 2013.

<sup>3</sup> Keynes' position regarding the Fund was somewhat conflicted due to his serving as the UK delegate.

<sup>4</sup> The full passage is presented on the next page.

<sup>5</sup> Kurt Schuler and Andrew Rosenberg, *The Bretton Woods Transcripts*, New York: Center for Financial Stability, 2013, p. 72.



## CENTER FOR FINANCIAL STABILITY

*Dialog • Insight • Solutions*

### The Bretton Woods Transcripts

**Typescripts and Conference Proceedings  
of the United Nations Monetary and Financial Conference  
Bretton Woods, New Hampshire**

July 1-22, 1944

*Edited by*

*Kurt Schuler, CFS Senior Fellow / Financial History*

*Andrew Rosenberg, CFS Senior Associate*

#### John Maynard Keynes (United Kingdom) on Sovereign Debt

Mr. Chairman, since the United Kingdom is the only country here represented which has incurred large-scale war debt to our allies and associates, also here present, these three alternative amendments must be assumed, as indeed Mr. Shroff made clear, to relate primarily to her. Mr. Chairman, the various members of this alliance have suffered in mind, body and estate through the exhaustion of war, through which we are differing in kind and degree. These sacrifices cannot be weighed one against the other. Those of us who are most directly threatened and were nevertheless able to remain in the fight, such as the USSR and the United Kingdom, have fought this war on the principle of unlimited liability and with a more reckless disregard to economic consequences. Others are more fortunately placed. We do not need information in the larger fields of human affairs. Nothing could be less prudent than hesitation or careful counting of the cost. But as a result, there has been inevitably no equality of financial sacrifice.

In respect to overseas assets, the end of the war will find the United Kingdom greatly impoverished and other of the United Nations considerably enriched at our expense. We make no complaint to 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 result. Our efforts would have been gravely, perhaps critically, embarrassed if they had held back from helping us so wholeheartedly and on so great a scale. We will appreciate the moderate, friendly and realistic statement to 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 will take it up without any delay to settle honorably what was honorably and generously given. But we do not intend to ask assistance in this matter from the International Monetary Fund beyond the fact, as Mr. Bernstein has just pointed out, that the existence of the Fund and the general assistance it will give to stability, and expansion of trade may be expected to improve indirectly our ability to meet other obligations. We concur entirely with the view that has just been expressed by Mr. Bernstein on behalf of the American delegation that **the Fund is not intended to deal directly with war indebtedness.**

*(Commission I, third meeting)*

---

*The Center for Financial Stability (CFS) is a private, nonprofit institution focusing on global finance and markets. Its research is nonpartisan. This publication reflects the judgments and recommendations of the author(s). They do not necessarily represent the views of Members of the Advisory Board or Trustees, whose involvement in no way should be interpreted as an endorsement of the report by either themselves or the organizations with which they are affiliated.*