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ANNEX II

National Advisory Council
Document No. 88
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Action No. 383

Meeting No. 147, January 23, 1950

Subject: Proposed European Clearing Union

Action: The following action was taken: The National Advisory Council advises the Administrator for Economic Cooperation that:

I. The Council considers that in the establishment of any European clearing union designed to further progress toward the objectives of economic integration and ultimate full convertibility of currencies the following conditions should be met:

1. The operations of the proposed clearing union shall not conflict with obligations undertaken by the United States and other member governments to the International Monetary Fund;
2. The establishment of the clearing union on the regional basis proposed shall not prevent any one participating country from moving as rapidly as possible toward full currency convertibility, nor prevent any group among the participating countries from moving as rapidly as possible toward full currency convertibility and closer integration, independently of the rate of progress evidenced by the other members of the clearing union.

II. In order to insure fulfillment of the foregoing stipulation, the National Advisory Council recommends with respect to:

1. Financial Operations of and United States Contribution to a Clearing Union

(a) The United States might reasonably concur in any arrangements which the Administrator might work out with the European countries as to the provision of credits by participating countries in local currency which might be used on a multilateral basis.

(b) Conditional aid dollars might be made available to debtors in specific amounts which might be used multilaterally to cover "structural deficits" with other participants. This money, as present conditional aid, might be supplied by the United States.

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(c) Provision might be made for dollar payments on an "automatic" basis to be made by debtor countries through the clearing union to the creditor countries. Arrangements should be worked out whereby at the earliest practicable date, and not later than June 30, 1952, net dollar payments by debtors to the clearing union are at least equal to any net dollar payments from the clearing union to creditors so that the question of any United States financing would not arise beyond that date. The ECA would fix a maximum limitation on its obligations for such financing.

(d) The United States should not make any contribution to a fund from which loans would be made by a clearing union to debtors on a non-automatic basis in essentially the same way as International Monetary Fund drawings.

(1) The ECA may, however, modify its allocation of aid to individual countries upon the recommendations of a clearing union, to take account of payments positions of such countries relative to the clearing union

(2) provided that no action should be taken by ECA upon any such recommendation involving a question of concern to the International Monetary Fund until the International Monetary Fund has had a reasonable opportunity to reach a judgment and to express its views and they have been considered by the United States Government.

2. Management of Clearing Union and United States Participation Therein.

In order to avoid any possible United States involvement in conflict of recommendations made by the clearing union on monetary policy and those of the International Monetary Fund, the United States should not participate in the management of the clearing union. This would not preclude a United States observer in the union for the duration of the ERP period only; nor would it preclude United States veto power on any use of funds contributed by the United States under 1 above.

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III. With respect to the memorandum of January 12, 1950, from the Managing Director of the International Monetary Fund, the National Advisory Council instructs the United States Executive Director to assure the Managing Director that the United States fully recognizes the interest of the International Monetary Fund in any European clearing union and also indicate the hope of the United States that the International Monetary Fund will proceed promptly with consideration of the relationship which ought to be worked out between the International Monetary Fund and any European clearing union. As an immediate first step, the United States will propose that a Fund representative be invited to participate in the meetings of the special committee of the OMEC which is now discussing the clearing union proposal.