STILL all for

the Keynes Plan

Bank - or

Credit Exchange

analogous body from

an int. fund in which

creditors are in ch[arge?]

(a) Credit Exchange

(b) Tax Exchange [illegible]

~~Sounder~~ Times

\+ Cans. T[illegible]

(c) TOO [illegible]

30-40 [illegible]

~~[illegible]~~

Mostly Horse

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c) Does not bail on

Experience – Bb Priv

Evolution

Result

d) Raise false hopes

+ Lull – Easy

way. Escape from

e) Politicos decisions

Transition

f) Could [illegible] deliver

g) Does not free

[illegible] PB – Us

h) [illegible] on instability of

Economy

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Proof of July 21, 1943.

BANCOR AND UNITAS

by R. C. Leffingwell

Anglo-American collaboration after the war is as vital to the survival of our nations as their military collaboration during the war. The United States cannot stand alone in war or peace. So we approach the Experts' Plans for a world bank and a world currency with the most patient thoughtful interest; and with full recognition of their high objective, to create and maintain after the war a decent world for decent men to live in. We Americans dare not be isolationists again. We cannot maintain ourselves and our American standard of living unless we have a peaceful and prosperous world to trade in.

(1) *World bank government.* However, an international bank and an international currency are impracticable and undesirable. An international government must come first; and the day for that is far distant.

True, Keynes says (IX 40) "we have here (in the world bank) a genuine organ of truly international government." But I suggest that when we do have an international government it should be a democratic government of elected representatives of the peoples and not a government of super-central bankers, inflating or deflating us, as a whole or in sections, for our good, as Keynes suggests (IX 39(5)).

In peace time perhaps 10% of our production is exported and 90% is for home consumption. We do nine-tenths of our business with ourselves. Yet the value of the dollar we pay to our wage earners, the American cost of living, the American standard of living, will under the Experts' Plans be determined by a world bank board. A stable foreign exchange value of the dollar, not a stable domestic

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price level, and wage level, are to be their objectives. Our price level, our cost of living, are to be inflated or deflated, in order to keep the dollar at rates of exchange with other currencies determined as provided in the plans. No nation can permit a central bank of central banks to dictate its taxes and tariffs (and other nations' tariffs), its expenditures, its interest rates, its wage level, its cost of living, the foreign exchange value and the gold value of its currency. These are functions of government, not of a world central bank. The American Constitution, Article 1, Section 8, provides that *the Congress* shall have power "5. To coin money, regulate the value thereof, and of foreign coin, and fix the standard of weights and measures."

So I am against a world bank as an instrument of world government.

(2) *Causes and consequences.* Both plans are obscure about the fundamental questions involved in currency stability and instability. Are we to guarantee the currencies of countries addicted to the abuse of the monetary printing press? What about the tariffs of the United States or the Ottawa Empire Preference tariff policy? Are we to maintain the Hawley-Smoot tariffs, except for piecemeal reciprocal trade agreements? What about the First World War debts? Shall we repeal the Johnson Act? What about Lease-Lend? Are we going to demand return of the goods and services with which the United Nations have fought our war? These questions are passed over or left to imagination and admonition and to the world bank board in which the voices of the borrower nations and of the remote and uninterested nations will predominate at least numerically.

Stable foreign exchanges are desirable. But they should reflect balanced budgets and balanced international payments. Gifts, grants and loans for relief and reconstruction from creditor countries to impoverished countries will be necessary after the

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war. They should be financed by taxes and long loans, not by currency issues. So will lower tariffs and the removal of embargoes and quotas and exchange controls, and the forgiveness of old and new war debts be necessary. When these things have been done, and peace and law and order restored, foreign exchange stability should follow, as a matter of course, the removal of the causes of instability. No good can come of printing paper money of the creditor countries to buy printed paper money of debtor countries. We must first remove the causes that make them bad.

So I am against pegging the exchanges.

(3) *Inflationary plans.* And I am against exchange pegging because it is inflationary. The Rt. Hon. Walter Elliot, M.P. put it well in the London *Times* of April 20th:

> ". . . after all, what does even the Keynes plan, the most important of the currency plans issued so far, amount to? It amounts to this, that if the plan goes through an international bank will be established in which every one will have a credit.
>
> That is the sort of bank we have all dreamed about for many years. Borrowing will be done, as the White Paper ingenuously puts it, with an 'anonymous' or 'impersonal' quality. One of the sentences is perhaps worth quoting in full:—
>
> 'Where financial contributions are required for some purpose of general advantage it is a great facility not to have to ask for specific contributions from any named country, but to depend rather on the anonymous and impersonal aid of the system as a whole.'
>
> In fact, the stuff would be sent around in plain vans.
>
> Lord Keynes is quite intelligent enough to know that such a system, taken by itself, would have a short life, though a gay one."

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The tragic needs of the occupied, devastated, and impoverished countries must be met and working capital provided. The need is great, but need does not furnish a basis for sound money. And a sound world bank cannot be managed by the borrowers nor can a sound world currency be based on giving them automatic overdraft facilities, or the privilege of selling their currencies to a world bank. The suggestion of allowing such overdraft facilities up to a limited amount without charge and of charging only 1% or at the most 2% on borrowings in excess of that limited amount is inflationary. The suggestion that creditor countries in effect shall automatically be obliged to buy the currency of debtor countries without condition, and issue in effect their own currency against it, is unsafe. All that these overdraft facilities could achieve would be temporary relief for the needy by debasing the sounder currencies to the level of the unsound. We should be attempting the cure of war inflation and post-war inflation by more inflation.

(4) *American safeguards.* The American plan accepts all the fundamental principles of a world bank and a world currency but sets up certain seeming safeguards of which some may be mentioned here;

A. In effect, though not in words, it gives the United States veto power in many cases by requiring a four-fifths vote. I do not know however whether we can wisely invite others to sit in the game, and then refuse to play, when we have most of the chips.

B. While Keynes provides that the world bank shall be an almost unlimited liability company in which the creditor nations, notably the United States, pay the bills, the American plan limits our liability to our quota or share of a total fund of at least $5 billion. The American plan requires all participants, not merely creditor nations, to provide some capital contribution. These are to be made to an

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extent varying from 5% to 12½% of each nation's quota in gold, and the balance in the contributing nation's own obligations. However, it does not appear that debtor countries are in a position to make any contribution to the capital of the world bank. Indeed, the mere fact of their making a contribution in gold would tend to weaken their currencies and force upon the world bank the purchase of more of them. Similarly if they were to print bonds or currency to deliver as a capital contribution to the world bank this would seem to weaken the currencies of the debtor countries. The truth is that only the creditor countries are in a position to make any real contribution to the capital of the world bank, and of these the chief is the United States. As the London *Economist*, May 1st, page 556, with refreshing frankness says:

> ". . . it is as well to be entirely candid—more so than either official document could be—about the specific nature of the conditions which any scheme will have to meet in the post-war world. To talk of 'surplus countries' and 'deficit countries', of currencies of which there is a shortage and those of which there is a superfluity, is all very well; but it is better to name names. The one country which, above all, was a surplus country before the war and is certain to be still more strongly so after the war, is the United States. The central currency difficulty of the post-war years will be to find means by which the rest of the world can meet its obligations to the United States and buy the American goods it needs. The 'rest of the world' is not, of course, a homogeneous expression and among the countries other than the United States there will be some that have more difficulty than others, and some that have less, in balancing their books. One country which, to judge by the present indications, will have rather more than the average difficulty in paying its international way is the United Kingdom."

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C. The American plan however ties the unitas to $10 of the present gold value. The American plan thus demands the best of both worlds. It would inflate our currency to buy foreign currency, create a dollar exchange standard for the whole world, putting our gold behind the world's currencies, and yet keep the dollar at its present gold value. If we couldn't achieve this miracle and were bankrupted in the effort, as in 1933, we should have to get the world bank board's permission to reduce the gold value of the dollar, instead of the consent of the President and Congress of the United States as in 1933.

The value of bancor too is fixed in terms of gold "but not unalterably." Keynes proposes "to supplant gold as a governing factor, but not to dispense with it." He recognizes its great psychological value and its value for international purposes.

(5) *Not enough gold.* Keynes says that our gold is the basis of our "impregnable liquidity" (VI, 26). Let us examine that. How much of "our gold" is ours? How impregnable is our liquidity?

Our stabilization fund had a net loss of $856 millions of gold in less than two years—the fiscal year 1942 and 1943 to the middle of April. For the last five years earmarking of gold for foreign account has been proceeding in varying amounts, and the total under earmark at the end of March was $2,872 millions, the all-time high. We have to provide for the pay of our overseas forces and services in cash. We have to pay cash for our purchases in South America and elsewhere so far as not covered by reverse Lend-Lease. Thus the foreign claims against our gold which were great before the war are mounting. The aggregate of foreign-owned long-term investments and of bank deposits and earmarked gold, was over $13 billion in June 1941. Part of it was more or less permanent foreign investment here, part "hot money" frozen by the war.

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Quite aside from foreign claims, what we call our gold is not all free for another reason. Though the gold that came here was sterilized between 1933 and 1939, latterly it has been most fertile. We are inflating currency and bank deposits rapidly against this gold base. Our banks have been without excess reserves of their own for a long time and the Federal Reserve System has necessarily been manufacturing the reserves for them without which the commercial banks cannot subscribe for the war bonds the people do not take.

Until the war is over, and the reconstruction period too, we must continue lend-lease and make exports of food and raw materials as gifts or grants in aid without getting paid for them. Meanwhile gold exports, gold earmarks, and dollar claims against our gold in favor of foreign nations and central banks will continue to rise; and so will dollar claims against our gold in favor of Americans, represented by dollar currency and bank deposits being created to enable the United States to finance the war. In addition we must put our gold behind most of the currencies of the world, not, I hope, under the Keynes plan or the American plan, but by making dollar credits available to every peaceful and law-abiding country that will put its house in order and comply with reasonable conditions, *imposed by us*, the creditors, for monetary and economic sanitation. It may not, therefore, be possible to maintain the present gold value of the dollar and the dollar-exchange value of sterling and other currencies tied to it and so to gold. War-time gold production is curtailed and war-time production of paper money is very great. The effort to support the world's currencies on the existing gold base in terms of a dollar of the present gold value might bring about a drastic deflation.

(6) *Forgotten lessons.* We had a major deflation to protect the gold standard in 1921-2 following the First World War inflation.

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The deflation of 1931-3 was the result of the American adherence to the old gold standard, from the time England went off gold in the autumn of 1931 until our banks were closed in March 1933. We deflated our economy to protect the gold standard. Our gold had been counted twice: once in our reserves and once in the reserves of foreign central banks, which were more or less on the gold-exchange standard. Although we seemed to have ample gold we had inflated credit about ten to one on that gold base, some of which belonged to foreign governments and central banks, and when the French and the British and others withdrew their gold, which seemed to be ours but wasn't, that withdrawal required something like a proportionate contraction of credit.

We must after the war stop the inflation, but I do not think the world economy and social structure can stand another major deflation in our time.

(7) *Capital movements*. Both plans contemplate freezing capital movements as well as extraordinary war balances to a greater or less extent. That means necessarily that *all* foreign exchange transactions must continue to be controlled and licensed by government and proof given that *any* remittance whatever is not capital nor an extraordinary war balance. One naturally thinks of stable exchanges as desirable not as an end in themselves but as a means to freer movement of goods and services, of capital and its usufruct. It is disappointing to find that these experts intend merely to peg the exchanges by policing them and preventing remittances not approved by the policemen.

In addition to the war debts we are now incurring to foreign nations, very great amounts of flight money came to the United States before the war, and to England and other countries too, and have been quite properly frozen during the war. But these balances should be, at the earliest possible date after the war, made free and liquid, so that the owners

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of them as soon as peace is restored may use them for their own purposes.

A bank, or a national economy, can only expect to receive deposits of funds if it is prepared to pay out deposits of funds. The paying teller's window must be open or the receiving teller will have nothing to do. Anything in the nature of a continuing freezing of foreign balances after the war is going to be a first-rate misfortune not only for the creditor countries which own these balances but also for the two great powers, England and the United States, which hold and owe them. Perhaps it would be a greater misfortune for England than for the United States, for one of the greatest items of England's international balance of payments has been her receipts from banking services, due to the fact that London has been the world's banker. London has been the world's banker by virtue of her willingness to pay out as well as to receive money. The first great task after the war is going to be to open up London and New York as free money markets from which money may be withdrawn and in which it may be deposited.

No money center is entitled in peace time to use foreigners' deposits, whether represented by money in bank or gold or securities, unless the owners of those deposits are willing to leave them on deposit. Failure after peace is restored, and after a reasonable transition period, to get the machinery working again, to pay out money or gold or securities on demand, is neither good business nor creditable.

(8) *Rumor.* An international board of all nations such as both plans contemplate may become the center of international rumor and of international bad news as well as good news, if any. Whenever any doubts exist about the ability of any country to maintain a good exchange quotation, or about any political or economic policy of any country, or any admonitions are suggested to be addressed to any nation that is thought to be misbehaving itself,

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the board which these plans contemplate will become a debating society for the discussion of every sordid and unhappy detail. Such problems as these, of the gravest import, should be dealt with by Secretaries of the Treasury, Finance Ministers, and central bank governors, in the secrecy and confidence of their head offices. They are unfit for discussion in the perpetual conferences of international financial delegates such as both plans contemplate.

(9) *Voluntary or competitive depreciation.* Germany after the last war used the printing press freely, depreciated her currency to the vanishing point and wiped out all indebtedness. At the same time by this process she wiped out the middle class, which is the backbone of any country, and no doubt so made more certain and inevitable the rise of a Hitler sooner or later. That was in no way comparable to the following cases.

In 1926-7 France sold the franc and pegged it down. Thus France acquired gold. This laid a heavy burden on the pound, and in spite of the Federal Reserve Banks' support of the pound in 1927 (which had such inflationary results in the United States), finally, in 1931, the pound was forced off gold. Great Britain then sold the pound for gold, and France and others withdrew gold from the United States—with disastrous deflationary effects upon the United States. This forced the United States off gold in early 1933. Later in 1933 the United States, in turn, sold the dollar for gold, and sold it down for some six months, and then, in January 1934, pegged it down to a 40% depreciation—with disastrous consequences to the rest of the world. That was seven years of competitive depreciation, engaged in by the three great Governments of the Allies, France, Britain and the United States, in turn.

That sort of thing ought not to happen again. The three great powers, the United States, Great Britain and Russia, should agree among themselves, if they

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will, not to engage in competitive depreciation, and to invite the adherence of others to this agreement. That would seem an easier thing for them to do than to join in either of these global exchange-pegging plans.

(10) *New world currency is not desirable.* We do not need more machinery. We need to make better use of the machinery we have. The dollar and the pound have weathered many storms and stood solid. Though they had to bend, they never broke before the storms. The pound and the dollar were both off gold, in fact though not in law, during the First World War. The pound went off gold again in 1931 and the dollar in 1933. Yet nobody lost faith in either or in their buying power. The reputation for soundness is hard won. Both the pound and the dollar have won it, in the course of long and bitter experience, the pound since the Napoleonic wars, the dollar since some time after the Civil War. Behind the pound and the dollar stand the resources of the two greatest and wealthiest trading nations of the world, Great Britain and the United States. (Make no mistake. Britain though short of gold is rich in men and resources, in real wealth, and will be so after the war too.) Behind them stand the banking experience of the two great English-speaking nations, who understand the principles of banking and finance; though they don't always practise them. It would be wrong to throw away the good will and experience of the managers of the Bank of England and the Federal Reserve System and substitute an untried and unknown currency of account, managed by an untried and unknown international bank, many of whose directors must necessarily lack experience and the tradition of sound money.

There is a fundamental vice in all plans for a world government, whether political or financial or economic. These plans put control of human affairs in charge of a majority of little nations, thus separating responsibility from power.

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(11) *Dollar sterling alliance.* But it would be a very sound idea for the United States to lend to Great Britain whatever funds may be needed to support the pound sterling in the initial period of reconstruction at or about $4 to the pound or whatever other rate may be determined upon by the two Governments as proper and defensible. (Britain has been more successful than the United States in controlling inflation and it has been suggested that the purchasing-power parity is nearer $6 to the pound). Great Britain is a strong and powerful nation, and though, with sublime recklessness of everything but to preserve her freedom, she has thrown all her resources into the war,* and did so gallantly before America came to her financial assistance by lend-lease, I believe profoundly in the military, financial and economic durability of the British Empire.

It would be wise and right and prudent for the United States to put our gold behind the pound. Together we should create a dollar-sterling-gold exchange standard, and invite adherence to it by countries desiring to join us and complying with conditions necessary to exchange stability. Then, though most of the money might have to come from the United States at first, I should like to see Great Britain and the United States lock arms as partners, and, with the participation of such creditor nations as might be induced to join, extend such aid as they in their prudent judgment might think best to the suffering countries which have been overrun by our bitter enemies the Germans and the Japanese, imposing such conditions of financial aid as prudence suggests.

(12) *And Russia.* I should like to see Russia join in if and to the extent she will. Russia has become

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* "According to the latest White Paper, about £2,200 millions of external resources, gold, bank balances and investments were mobilized in the three year period 1940-42, and another £600 millions of foreign resources is to be conscripted during the present fiscal year." (National City Bank circular, July 1943, p. 83.)

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the great power of eastern Europe and Asia, and her participation in any aid given in the east of Europe and in Asia would be of immense, if not controlling, financial, economic and political importance.

(13) *Conclusion.* World welfare, and our own (which is inextricably interwoven with the world's), will be best served by preserving the monetary standards of Great Britain and the United States, the dollar and the pound, and by our making frank gifts and grants in aid, of foodstuffs and raw materials and working capital, to the less fortunate nations, during the period of reconstruction after the war. The occupied countries should have an opportunity to re-create and re-organize their currencies, and they should be provided with gold credits by the creditor countries after careful examination of their plans for monetary and economic reconstruction and on approval of those plans. Relatively small gold loans will furnish ample bases for sound currency for each of the impoverished countries provided they put their houses in order and adopt sound budgets and sound monetary and economic policies—and provided creditor countries lower their tariffs. But loans of this character to the occupied countries or to other impoverished countries do not furnish a sound basis for issue of currency by the creditor powers, whether directly or by the bancor or unitas device.

The problem will be to provide sound government, and peace and law and order, and capital loans and grants and gifts of food and raw materials, and currency stabilization; to forgive war debts; and to reduce tariffs, particularly of the creditor nations, of which the United States is the outstanding example; so that all countries may balance their international payments, and trade may be free and employment available for all who will work.

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1) Gradual Premature — would rather

2) $S_x R_x$ ⊕ £ — first

3) Fundamentals

4) Political — C. Bk

See all — submerge a snitch

5) Who suffer it 2 — not
effort?

6) Exchange agency

7) call on funds then
funds stt.

8) Right vs eligible rules

Kvest. — [illegible]

9) Transition period + long —

1.) Buyers Pay 5 — Rediscount 5 — Rights
7 " 5

12) Debts Nations will [illegible]
[illegible] postponement of realistic reform

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14 – Ohed [illegible] Currency Reform –

15) [illegible] [illegible] [illegible] before [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] down [illegible] [illegible].

16) [illegible] [illegible] [illegible] control.

17) Avoid – Postpone reforms

18) Blame [illegible] [illegible]

19) [illegible] [illegible] – account $ / £ Recal

20) Do not confuse [illegible] B. [illegible] [illegible] [illegible] [illegible] [illegible] [illegible] [illegible]

21) Trade – [illegible] | – [illegible] [illegible]
[illegible] [illegible] – | costs – Com. policy

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~~St Louis – Long~~

(22) Quota fixed immediately need.

~~23~~ [illegible]

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Author(s): British Information Services

Title: International Clearing Union: Text of a Paper Containing Proposals by British Experts for an International Clearing Union

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File

FEDERAL RESERVE BANK

OF NEW YORK

July 24, 1943.

Mr. Leon Fraser,
The First National Bank of the
City of New York,
2 Wall Street,
New York, New York.

Dear Mr. Fraser:

For your information there are enclosed copies of a letter dated July 15, 1943, by Mr. Ruml to the Board of Governors of the Federal Reserve System regarding the Keynes and White Plans for post-war international currency stabilization and the statement of Mr. Williams on this subject which is referred to in the letter. This is the final form of the letter, a draft of which was read to and discussed at the meeting of the board of directors held July 15, 1943.

Very truly yours,

William F. Treiber

William F. Treiber,
Secretary.

Enclosures

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C
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July 15, 1943

Board of Governors
of the Federal Reserve System
Washington, 25, D. C.

S i r s :

As stated in Mr. Sproul's letter of July 1st, we discussed at the meeting of our Board of Directors on that date your letter of June 25th regarding international currency stabilization, and arrangement was made for a further discussion of the question at our meeting on July 15th. In the interval between the two meetings the substance of Mr. Williams' statement at the meeting of the Federal Open Market Committee on June 28th was distributed to the directors and senior officers of the Bank. A copy of this statement is enclosed.

Since the publication in April of the plans for currency stabilization by the American and British Treasuries, this Bank has taken a great interest in this problem. Under the direction of the Foreign Relations Committee of our Board of Directors, plans were developed for systematic research and for collaboration between our Research Department and the Board's Staff in the study of the problem. Mr. Knoke's letter of July 12th presents a list of some of the memoranda prepared here which have been furnished to the Board. Other studies are now under way and will be forwarded to the Board of Governors as completed.

While our directors and officers have been greatly interested in the plans for currency stabilization and have discussed many of the questions involved at our Board meetings during the past several months, no attempt has been made to arrive at a consensus or to formulate any statement as the official position of the Bank. It has seemed to us, in view of the magnitude and complexity of the problem and the importance of exploring carefully all approaches to it, that premature crystallization of views would be undesirable.

At our present stage of discussion, our directors and officers feel that there are a number of major questions that deserve much more thoroughgoing exploration than they appear thus far to have received before any final decisions are reached with regard to the Keynes and White plans or any alternative approach to the problem of currency stabilization.

Some of these questions are:

1. Whether it is better to attempt to create from the beginning some new world monetary organization on the lines of the Keynes or the White plan under the control of an international governing body, or whether it is better to undertake first to stabilize the leading currencies.

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2. As a corollary to this question, should we not have a thorough exploration of England's post-war problems and our relation to them rather than permit these problems to be merged into the "world problem" under an international currency plan? Whatever plan is adopted, it seems clear that the solution of England's special problems will be one of the basic requirements for world economic and monetary stability after the war, and it seems a fair question to raise whether the best way to help the British, as we all desire to do, is to go at the problem directly rather than through the medium of a general international currency plan.

3. Whether the many and difficult problems of transition from war to peace and the problems of longer run monetary stability should be handled by a single monetary plan or should be treated separately. Here again, England's situation provides the best illustration of the nature of the question involved. In the transition period, England will need to have for a number of years large international credits. Should this special necessity of the transition period, which will apply also to many other countries, be saddled upon a plan for long run monetary stability? As Mr. Williams states in his memorandum: "The transition problem will be that of providing credits in one form or another for the debtor countries, whereas for the purpose of longer run stability, the fundamental assumption underlying any mechanism that is set up should be that the country's position will oscillate around a zero debit-credit position. To start the scheme off therefore with a difficult transition period ..... will mean that the longer run working of the plan will be already jeopardized by the lopsided condition of the fund or the union which is bound to occur if the transition problem is effectively handled." Without indicating any final conclusion as to our own views, we do think this is a question of the most fundamental importance and one that should have the most thorough exploration before any final views are reached with respect to the plans for currency stabilization.

4. One of the most difficult questions, in our judgment, is that relating to the nature, degree, and duration of exchange control. One of the major purposes of both plans appears to be the relaxation and final abandonment of exchange control. But it is recognized, at least in the Keynes plan, that control of short-term capital movements may require some kind of over-all supervision of exchange operations. Even apart from short-term capital movements, moreover, it will be a difficult question of the transition period to decide at what stage and under what circumstances exchange controls can safely be relaxed, and any currency plan which encouraged a premature abandonment of exchange control might do more harm than good. We therefore feel that this whole subject of exchange control and its relation to the plans deserves more careful study before final decisions are reached.

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Board of Governors
of the Federal Reserve System July 15, 1943

5. Among students of the problems of post-war economic stability, there exist some differences of opinion as to the fundamental method of approach. All agree in general terms that the problem is politico-economic as well as monetary, but many insist that the economic adjustments that will have to be made after the war, involving questions of trade organization, tariffs, foreign investment, price and cost adjustments, are much the more fundamental aspects of the subject, and that if wise decisions are made in these fields, the question of monetary stabilization will not present major difficulties. Others, while perhaps not dissenting, insist that a start must be made in the field of currency stabilization, and that if this is done, it will provide an essential part of the framework within which international economic and financial policies can be developed.

We recognize that this is a difficult question, but we think there is a danger today of over-emphasis, both among the technical experts and in public discussion, upon the mechanics of currency stabilization, and that from this point of view it might be desirable to withhold judgment, and even deliberately to delay final action, on currency plans until more work has been done and more public discussion has been developed upon these other aspects of the problem. One of the greatest dangers of over-preoccupation with international currency organization is that the public, in this and other countries, will assume that the adoption of a currency plan provides assurance that the other and far more difficult parts of the problem of post-war international adjustment have been solved.

6. We are particularly impressed with the thought that the Reserve System will have a special responsibility of its own for the maintenance of monetary stability at home. Whatever plan is adopted, it ought to provide for adequate safeguards against an uncontrolled or uncontrollable expansion of reserves and deposits in this country. How this aspect of the problem is to be handled is one of the most difficult questions. It seems clear that the provision of foreign exchange resources to other countries on the scale suggested by Keynes would be an extremely hazardous undertaking from the standpoint of this country. On the other hand, there appears to be much evidence in the White plan that consideration has been given to this problem. This seems apparent both from the much more modest size of the fund and from the fact that under the White plan there cannot be a general convergence of the demand of other countries upon the dollar. The extent of the expansion of our bank reserves will be limited by our contribution to the fund and the amount of gold held outside this country. It seems apparent also that the White plan is intended to protect the United States from undue risks by its provision of a four-fifths majority vote on most of the major questions that could arise in the operation of the plan.

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Board of Governors
of the Federal Reserve System July 15, 1943

7. These differences between the two plans reveal, we are inclined to think, a most difficult dilemma, and one which raises doubts about the workability of this kind of world-wide approach to the problem. On the one hand, the plan must be big enough and bold enough to offer some promise of achieving its objectives, but, on the other hand, the bigger and broader it is, the larger and less definite become the risks and responsibilities of the United States, which stands in a unique relation to all such schemes as the world's leading and only important creditor and a principal source of raw materials and manufactures. One of the lines of criticism offered against the White plan in public discussion has been that in its effort to protect this country it has proposed machinery that is likely to prevent constructive action, and that the main result might be a general freezing of an unsound and unstable situation. If there is any merit in this sort of criticism, it again raises some of the questions we raised earlier in this letter, particularly, (1) whether it would not be better to deal with the transition problems first and the long run questions of currency stabilization later; and (2) whether it would not be better to deal first with the British problem and our relation to it before attempting to set up a general scheme for currency stabilization under an international governing body.

The substance of this letter has been read to and discussed at a full meeting of our Board today and fairly represents their present views. We expect to continue our discussions and will be very glad to keep the Board of Governors informed of any further development of views among us.

Yours very truly,

(Signed) Beardsley Ruml
Chairman

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CURRENCY STABILIZATION:
THE KEYNES AND WHITE PLANS (1)

By John H. Williams

Publication in April by the American and British Treasuries of plans for monetary stabilization after the war has launched a debate that will continue until a decision has been reached. This is a fine example of the democratic process. Both Treasuries have emphasized the tentative character of the proposals and have invited comment from any quarter. The plans have been announced as the work of technical experts. Dr. Harry D. White, Director of the Division of Monetary Research of the Treasury, is the author of the American plan and Lord Keynes, now serving as an adviser of the British Treasury, the author of the British plan. The discussions thus far both between the two Governments and with the other allied and associated governments have been entirely through the medium of technical experts. The Governments themselves remain uncommitted. Although the American plan has been presented by Secretary Morgenthau to the appropriate committees of Congress and there has already been some preliminary discussion of both plans in the British Parliament, it seems probable that the legislative phase of the debate will not get seriously under way for some time. At the appropriate stage, presumably, public hearings will be conducted by our Congressional committees.

(1) With some minor revisions, this is the statement that was presented at a meeting of the Reserve Bank Presidents with the Board of Governors on June 28, 1943.

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The present planning and discussion of monetary stabilization contrasts most favorably with the complete lack of planning of this character in the last war, and provides some hope that we may escape the international monetary chaos which occurred after the unpegging of sterling in 1919 had revealed the breakdown of the gold standard which the war had produced. This period of currency disorder was marked especially by the drastic inflation of the German and other Central and Eastern European currencies and by the milder inflations in France, Belgium, and Italy. Beginning in 1924, there was a general effort in the world to restore the gold standard. It would not be true to say that this effort was unaccompanied by attempts at international collaboration, but on the most fundamental question, that of the rates at which the exchanges should be stabilized, each country acted entirely independently, the English adopting the pre-1914 pound and the French stabilizing at a depreciated rate. It was generally agreed among economists that the pound had been over-valued and the franc under-valued, with the result that England was subject to the constant hazard of losing gold, while France was absorbing gold and exercising a deflationary pressure on the outside world. The United States also was a large importer of gold, though most of it came in the earlier twenties before other currencies had been stabilized and largely by reason of that fact.

These large and abnormal movements of gold, which exercised a profoundly disturbing effect upon international trade and financial relations, gave rise to violent controversy, particularly between the British and ourselves. The British reproached us for our unwillingness or inability to raise our price level, which, as Keynes put it, was

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burying the world's gold in the vaults of Washington and threatening to create a new breakdown of the gold standard. American economists, on the other hand, emphasized England's failure to lower her costs of production, which, as they pointed out, was the clear implication of her decision, independently taken, to over-value the pound. When we realize that we were then already in the early phases of the boom which culminated in the crash of 1929, the English reproach seems pointless but typical of the kind of conflict of viewpoints which arises when nations make decisions stabilizing exchange rates independently, rather than by mutual agreement.

With the onset of the great depression, of which they were in part the cause, these maladjustments of exchange rates resulted in a second breakdown of the gold standard. England was forced off gold in the fall of 1931, and in the spring of 1933 the United States, after suffering a large drain of gold and under conditions of a general banking collapse, also suspended the gold standard and embarked on its experiment of raising the price of gold. It was in this period that an increasing number of economists, and particularly Lord Keynes, began to say that a stable exchange system was no longer feasible or desirable in the world, and to advocate freely flexible exchange rates. As they put it, we were faced with a choice between stable exchanges and stable internal prices, incomes and employment. External monetary stability would have to give way to the requirements of internal stability. I never agreed with this advocacy of fluctuating exchange rates which seemed to me to be based on shallow reasoning, and I wrote several papers about it at the time. One of the most interesting developments of the last ten years is that this

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controversy seems to have almost entirely faded out and been followed by a general recognition of the necessity of exchange stability.

II

Both the Keynes and the White plans give abundant evidence that the lessons of the inter-war period have been carefully pondered. The fundamental purpose of both is to provide exchange stability, but to provide also a method of orderly change in rates through international cooperation when changes are really necessary. Both recognize also the need for controlling short-term capital movements, those erratic flights of capital from one country to another which we were studying a few years ago, rather fruitlessly, under the name of "hot money." Both emphasize the danger that unless we can achieve currency stabilization on some such lines as these, the world may be forced permanently into a system of exchange control with all the evils of bilateralism and other restrictive trade policies which accompany that system. With these general purposes of the two plans and with their general lines of compromise of earlier ideas in order to achieve a less rigid and more effectively controlled system of stable exchange rates, I am heartily in accord, and in these respects I welcome the plans as a great step forward.

But there is a real danger, I believe, that because of our approval of the general purpose of the plans we may assume that they provide the only effective methods of going at the problem. If one of the reasons for early publication of the plans is that of public education, we must be careful that the scope of the debate does not narrow down too

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soon. In this regard, the technique that has been adopted of inviting the technical representatives of the Allied and Associated Governments to discuss the plans in Washington and London before the process of public education is well developed, and particularly before the question has been thoroughly aired in Congress, may have an unfortunate effect. To take the visiting experts point by point through the plans is likely to center their interest unduly upon these particular plans, or some combination of them, even though they are invited to submit their own ideas; and if the experts of our own and other governments do most of their thinking within the framework of these plans, it becomes difficult to see how there can be really adequate discussion among the interested policy-making agencies of government of other possible approaches to the problem.

In much of the press comment and in the analyses thus far published by economists there seems to me to be a similar danger of prematurely narrowing the discussion. Simultaneous publication of the two plans has resulted, not unnaturally, in much comparison of them with each other and with the gold standard. The differences of detail between them are over-emphasized and the much more fundamental similarity is often overlooked. One plan or the other is preferred, moreover, mainly on the ground of the degree of similarity or difference from the gold standard which the particular writer thinks he finds, and thus the public might be led to the conclusion that we have a choice between one or the other of these plans, or some combination of them, and the gold standard as we formerly had it.

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In all this there is much danger that we may fail to made a really thoroughgoing exploration of the problem and fail to take adequate account of other ways of going at it. Not only are the two plans fundamentally similar, but both are essentially gold standard plans. If we can fully grasp these facts, we shall have a better basis not only for understanding the plans themselves but for considering other possible approaches to the problem. In my Foreign Affairs article, I tried to show the similarity of these plans with the gold standard mechanism by means of a point-by-point comparison between the gold standard method of international trade adjustment and the mechanism provided in these plans. The essential point of the comparison is that transfers of currencies in White's stabilization fund or transfers of debit and credit on the books of Keynes' clearing union perform precisely the same function as international gold movements. To put the same point another way, and one which is of special concern to the Reserve System, bank reserves and bank deposits would be affected by these transfers within the fund or the union in precisely the same way as they have previously been by international gold movements.

III

If then these plans are variants of the gold standard system, we must ask ourselves what are the fundamental grounds on which these particular variants of the gold standard are proposed as a solution of the post-war monetary problem. In my mind it seems very clear that there are two main grounds for these proposals: first, to handle the international

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problems of transition from war to peace, and second, to provide a mechanism for international monetary stability in a more normal world, after this transition has been effected.

Both of these of course are problems of the most fundamental importance, but I doubt the wisdom of trying to solve them within the framework of a single monetary plan, and the fact that both the Keynes and the White plans attempt to do this constitutes my first major objection against them.

To consider first the problem of transition from war to peace: there will of course be many difficulties in many countries; some countries will have large blocked war balances; some countries will be deficient in gold and foreign exchange while other countries will have too much; all the nations at war, and to a considerable extent even the neutrals, will be faced with the difficult problems of conversion from a war economy to a peace economy. In the British White Paper outlining his plan, Lord Keynes lays great stress upon these problems of transition and argues that it will be necessary to start the nations off on a great wave of monetary expansion which will induce them to trade and produce freely. In his plan, provision is made for the creation of about $30 billion of foreign exchange resources, of which about $25 billion would be credited to countries outside the United States. If to this we add the $11 billion of gold now existing outside this country and about $1 billion of new gold production each year for the next five years, which might represent the remainder of the war and the period of transition, we get a total of about $40 billion as the measure of the monetary expansion which

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Lord Keynes has in mind. The Reserve System is bound to have a very special interest in the creation of such a fund, for if, as seems highly probable, its expenditure during the transition period should take the form of a convergence of world demand upon the dollar, this would mean that our problem of excess reserves would be re-created on a much larger scale than during the thirties. And we have to bear in mind that this expansion of reserves would come on top of the doubling and more likely the trebling of our money supply which is resulting from our financing of the war. This danger of forcing an undue monetary expansion upon the United States would be much more moderate under the White plan than under the Keynes plan as now devised. The White plan calls for a stabilization fund of $5 billion, of which $2 billion would be put up by this country. Under the White plan, moreover, there could not be a general convergence of monetary demand upon the United States, since this would be limited to the amount of currency that this country would put up plus the amount of gold held outside this country.

From the point of view of its expansionary effects upon the United States, I would much prefer, if I had to choose between these two plans, to have the White plan so far as the problem of the transition period is concerned, but I have a fundamental objection to the dual purpose character of either plan. To use either plan, first as a method of handling the problems of transition from war to peace and then as a mechanism for ensuring longer run monetary stability seems to me a fundamentally fallacious method of approach to the problem, for in the transition period the problem will be mainly one of lending and borrowing,

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Whichever plan is used, the transition problem will be that of providing credits in one form or another for the debtor countries, whereas for the purpose of longer run stability, the fundamental assumption underlying any mechanism that is set up should be that the country's position will oscillate around a zero debit-credit position. To start the scheme off therefore with a difficult transition period in which some countries are bound to run up large debits and others large credits will mean that the longer run working of the plan will be already jeopardized by the lop-sided condition of the fund or the union which is bound to occur if the transition problem is effectively handled. I am not sure how clearly I have made this point, but the essence of it is that the character of the problems in the two periods are fundamentally different, and are in fact in conflict with each other to such a degree that no single monetary plan for both purposes would be likely to succeed well in each; the more it fixed attention on one problem, the more it would jeopardize its success with the other.

Perhaps the point will be clearer if we illustrate it by considering the special problem of England. England will have one of the most difficult problems of transition from war to peace. In the war she has been forced to use up most of her foreign capital assets. At the same time, much of her export production has been diverted to her war activity, while the war has required the maintenance of a large volume of imports, for which in many cases she will be unable to pay until after the war. And even then, until she has developed her export trade, the payment of her blocked war balances will require large international credits. It has been estimated that England will need from $1 to $2

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billion of international credit a year for the first five years after the war. How this credit should be supplied is one of the major questions of the transition period.

One wonders whether this is one of the cases which Lord Keynes had in mind when he talked about starting off the nations on a wave of international monetary resources large enough to overcome any fears they might have of producing and trading courageously and freely. What England's situation will call for will be an international credit which would have to be furnished presumably mainly by this country. Perhaps the best way to furnish it, if it is politically feasible, would be to regard the transition to peace as a projection of the war period and continue the lease-lend arrangement. But surely this is the kind of problem that requires some direct and specific treatment, and no long-run plan for international monetary stabilization should be burdened with it.

I have heard it said that the British, and possibly some other countries, would prefer to borrow from an international stabilization fund or clearing union on the ground that the arrangement is more impersonal, that it is a method, in effect, of denationalizing a loan, but surely this kind of camouflage ought not to be permitted to jeopardize a plan for international monetary stability for the longer run future which is based, as I have said, upon the assumption of the maintenance on the average by every country participating in it of a no debit-credit position.

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IV.

Whether the Keynes and White plans provide the best basis for longer run monetary stability, after the transition to peace has been achieved, is also a difficult question. I have long believed in another kind of approach to the problem. As I said earlier, these are gold standard types of plans, but they are modelled after what might be called the textbook type of gold standard, rather than after that which actually existed in the nineteenth century. As developed by the classical economists the theory of the gold standard was that of the compensatory action of a large number of countries of equal economic weight interacting upon each other; through international gold flow at stable rates of exchange and its effects on internal prices and incomes of the trading countries, the nations were supposed to hold themselves more or less in balance. But actually trade and finance were organized around a central country, which in the nineteenth century was England, and the stabilizing control for the entire group of countries was exercised predominantly by the central country. This is what was meant by the familiar statement that England was on gold and the rest of the world on sterling. The clearings function which Keynes emphasizes so much in his plan was performed by the London discount market, which in turn was controlled by the Bank of England and its discount rate.

Though the organization of trade and finance has changed considerably since the nineteenth century, the question of finding the modern counterpart to this arrangement seems to me to be the essence of the problem of how to achieve international monetary stability. One advantage which this approach would have would be to fix attention upon the

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truly international currencies whose stability is essential for all the others. Even in the post-war world, and taking account of all the changes since the nineteenth century, there are not likely to be more than a few such international currencies; the currencies of most countries will be local, or at best neighborhood, currencies. When, for instance, Argentina makes a payment to South Africa, it is done, not directly, but through New York or London. For these and many other countries the most fundamental international monetary question is bound to be the stability of the dollar-sterling rate.

Stabilizing the leading currencies first and fitting in the lesser currencies afterward would, I think, have many advantages. By proceeding in this way, it would be less necessary to wait until normal peacetime conditions have been restored through all or most of the world. We could begin, for example, with the dollar-sterling rate, even though recognizing that its relation to many of the European currencies could not be determined until after a period of reconstruction. This piecemeal character of the approach I am suggesting seems to me one of its best features. Since, moreover, the United States will be the only important creditor, we have a special interest in going at the problem in a way that enables us to get the clearest conception of the nature and the magnitude of the responsibilities and risks which we are undertaking.

The problem of international monetary stabilization is highly complex. It involves many questions of international economic adjustment, particularly questions of commercial policy and foreign investment. One of the chief dangers of focusing attention on such worldwide plans

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for monetary stability as those proposed by Keynes and White is that the other fundamental aspects of the problem may get pushed into the background. From this point of view it might not be a bad idea to slow down consideration of these plans until we can get a clearer idea of what is being proposed on these other segments of the problem. But I have great difficulty in seeing how we can have any but the vaguest ideas about plans for international commercial policy and foreign investment, except as we begin to think concretely in terms of the major countries, their relations to each other and to the rest of the world.

One aspect in particular of these relations between the major countries is what they mean to do toward coordinating their internal policies. In my article in Foreign Affairs, I commented at some length upon how almost completely Lord Keynes in his White Paper has neglected this aspect of the problem of international monetary stability. Yet the whole history of the period between the two wars proves nothing more clearly than the fact that the stability of currencies throughout the world depends primarily upon the ability of the major countries to maintain a high degree of stability of production and employment within their own borders. I have tried the experiment in recent months of asking visitors from foreign countries what they regard as most essential for the well-being of their own countries and the stability of their currencies after the war, and invariably the answer is good markets in the United States and other leading countries. In my view, therefore, the problem of achieving international monetary stability is primarily one of coordinating the economic, monetary, and fiscal policies of the leading countries, both internally and externally. If that could be done,

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particularly as between this country and the British Empire, the problems of currency stability for the rest of the world would probably not present major difficulties.

V.

In closing, I would like to say a word about the analogies between the problems of monetary stabilization and those that will arise in the international political sphere after the war. The Keynes and White schemes could be called a League of Nations type of approach to a post-war problem, the kind of approach which says, "Let us all be represented on democratic principles, and let us all cooperate." The more I think about this approach, the more I fear it may be verbiage--high sounding words and sentiments that do not get us anywhere.

Coming down on the train, I ran across a digest of Walter Lippmann's new book on American foreign policy and was struck with the similarity of his approach to that I have suggested here. He says the Spanish-American War thrust us into the international scene and led us to make commitments without developing commensurate powers. For the almost half century since then, we have talked about keeping free from entangling alliances, about disarmament, about making the world safe for democracy. These, according to Mr. Lippmann, were mirages which prevented our seeing how the world is put together and where our interests lie. His main thesis is that if in time of war, recurrently, we find ourselves allied with the British and the Russians, for example, then the basis for peace in the future is frankly an alliance with those countries.

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I would not push this analogy too far, but what it has in common with what I am trying to say is the necessity for breaking down a world problem into its parts.

There is one other thought I should like to express in conclusion. I have heard it suggested in recent weeks that it is now too late to consider any other approach to the international monetary problem than the Keynes and White proposals. This is put on the ground that many foreign experts have now visited Washington and London and that the task of finding the core of agreement, always difficult in international negotiation, is now far along. The English experts in particular, I understand, have shown their willingness to make adjustments of their plan in favor of ours. This is, I grant, a most difficult question, but democracy begins at home and it is not likely that our Congress will consider itself committed by the discussions among experts which have been announced as purely tentative in character and as not committing even the Treasuries, and certainly not the other policy-making agencies of government. The greatest danger in the present procedure probably is that, if at a later stage Congress or the public should reject these particular plans, we might be faced with a purely negative result. That would indeed be unfortunate, and constitutes a main reason why at this stage we should be exploring the various approaches to the problem of monetary cooperation, rather than narrowing the discussion down to the Keynes and White plans.

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POSTWAR INTERNATIONAL MONETARY STABILIZATION

On April 6, 1943 the United States Treasury Department made public a provisional outline of a plan for postwar international monetary stabilization drafted by American technical experts. The next day the British Government issued in London tentative proposals drafted by British experts with the same general objective. The texts of these two plans (currently referred to as the White plan and the Keynes plan)—are presented below together with brief introductory statements issued with the plans by the Treasury Department and the British Government respectively. Both plans were drawn up as a basis for discussion and exchange of views; neither Government is committed to the proposals put forward by its experts. These plans have been submitted to the Governments of the other United and Associated Nations, and are now being discussed with technical experts from these countries. A number of modifications are under consideration.

A. PLAN SUBMITTED BY UNITED STATES EXPERTS

Introductory Statement

It is still too soon to know the precise form and magnitude of postwar monetary problems. But it is certain that we shall be confronted with the task of dealing with three inseparable monetary problems: to prevent the disruption of foreign exchanges, to avoid the collapse of some monetary systems, and to facilitate the restoration and balanced growth of international trade. Clearly, such a formidable task can be successfully handled only through international action.

The creation of instrumentalities adequate to deal with the inevitable postwar monetary problems should not be postponed until the end of hostilities. It would be ill-advised if not dangerous to leave ourselves unprepared at the end of the war for the difficult task of international monetary cooperation. We should begin now to devise an international monetary agency, for the task is certain to take many months at least. Specific and practical proposals must be formulated by the experts and must be carefully considered by the policy-shaping officials of the various countries. In each country acceptance of a definitive plan can follow only upon legislative or executive action. And even when a plan is finally adopted, much time will be consumed in gathering personnel and in establishing an organization before an international institution for monetary cooperation can begin effective work.

There is another important reason for initiating now concrete discussions of specific proposals. A plan for international monetary cooperation can be a factor in winning the war. It has been suggested, and with much cogency, that the task of assuring the defeat of the Axis powers would be made easier if the victims of aggression, actual and potential, could have greater assurance that a victory of the United Nations will not mean in the economic sphere a repetition of the exchange instability and monetary collapse that followed the last war. That assurance should be given now. The people in all of the United Nations must be encouraged to feel themselves on solid ground. They must be given to understand that a victory of the United Nations will not usher in another two decades of widespread economic disruption. The people must know that we at last recognize the fundamental truth that prosperity, like peace, is indivisible.

One of the appropriate agencies to deal with international economic and monetary problems would be an international stabilization fund with resources and powers adequate to the task of helping to achieve monetary stability and to facilitate the restoration and balanced growth of international trade. A proposal drafted by American technical experts is appended. The draft presents only the essential elements of an international stabilization fund. The provisions of the proposal are in every sense tentative, intended as a basis for discussion and exchange of views. Obviously, there are many details that have been omitted and that can be better formulated after there is agreement on the general principles.

It is recognized that an international stabilization fund is only one of the instrumentalities

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which may be needed in the field of international economic cooperation. Other agencies are also needed to provide capital for postwar reconstruction and development, to provide funds for rehabilitation and relief, and to promote stability in the prices of primary international commodities. There is a strong temptation to embrace within a single international agency the responsibility for dealing with these and other international economic problems. We believe, however, that international economic institutions can operate more effectively if they are not burdened with important but extraneous duties for which they have not been devised and for which they are unsuited. For example, the highly specialized nature of international monetary stabilization and the provision of long-term capital would seem to call for separate institutions, each designed to deal with its distinct problems.

It should be emphasized that the appended draft deals only with an international stabilization fund. It is anticipated that there will also be submitted for consideration a preliminary draft of a proposal for an international agency whose function will be to provide capital for reconstruction and development. It is hoped that the appended draft will call forth from the experts of the United Nations, critical comment and constructive suggestions. It is our belief that a workable and acceptable plan can emerge only from the joint efforts of the United Nations.

Preliminary Draft Outline of Proposal for a United and Associated Nations Stabilization Fund

I. Purposes of the Fund

1. To stabilize the foreign exchange rates of the currencies of the United Nations and nations associated with them.

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

3. To help create conditions under which the smooth flow of foreign trade and of productive capital among the member countries will be fostered.

4. To facilitate the effective utilization of the abnormal foreign balances accumulating in some countries as a consequence of the war situation.

5. To reduce the use of foreign exchange controls that interfere with world trade and the international flow of productive capital.

6. To help eliminate bilateral exchange clearing arrangements, multiple currency devices, and discriminatory foreign exchange practices.

II. Composition of the Fund

1. The Fund shall consist of gold, currencies of member countries, and securities of member governments.

2. Each of the member countries shall subscribe a specified amount which will be called its quota. The aggregate of quotas of the member countries shall be the equivalent of at least 5 billion dollars.

The quota for each member country shall be determined by an agreed upon formula. The formula should give due weight to the important factors relevant to the determination of quotas, e.g., a country's holdings of gold and foreign exchange, the magnitude of the fluctuations in its balance of international payments, and its national income.

3. Each member country shall provide the Fund with 50 per cent of its quota on or before the date set by the Board of Directors of the Fund on which the Fund's operations are to begin.

4. The initial payment of each member country (consisting of 50 per cent of its quota) shall be 12.5 per cent of its quota in gold, 12.5 per cent in local currency, and 25 per cent in its own (i.e., government) securities. However, any country having less than 300 million dollars in gold need provide initially only 7.5 per cent of its quota in gold, and any country having less than 100 million dollars in gold need provide initially only 5 per cent of its quota in gold, the contributions of local currency being increased correspondingly. A country may, at its option, substitute gold for its local currency or securities in meeting its quota requirement.

5. The member countries of the Fund may be called upon to make further provision toward meeting their quotas pro rata at such times, in such amounts, and in such form as the Board of Directors of the Fund may determine, provided that the proportion of gold called for shall not exceed the proportions indicated in II-4 above, and provided that a four-fifths vote of the Board shall be required for subsequent calls to meet quotas.

6. Any changes in the quotas of member countries shall be made only with the approval of a four-fifths vote of the Board.

III. Powers and Operations

The Fund shall have the following powers:

1. To buy, sell, and hold gold, currencies, bills of exchange, and government securities of member countries; to accept deposits and to earmark gold; to issue its own obligations, and

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to discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of balances, bills of exchange, and gold.

All member countries agree that all of the local currency holdings shall be free from any restrictions as to their use. This provision does not apply to abnormal war balances acquired in accordance with the provisions of III-9, below.

2. To fix the rates at which it will buy and sell one member's currency for another, and the rates in local currencies at which it will buy and sell gold. The guiding principle in the fixing of such rates shall be stability in exchange relationships. Changes in these rates shall be considered only when essential to correction of a fundamental disequilibrium and be permitted only with the approval of four-fifths of member votes.

3. To sell to the Treasury of any member country (or stabilization fund or central bank acting as its agent) at a rate of exchange determined by the Fund, currency of any member country which the Fund holds, provided that:

a. The foreign exchange demanded from the Fund is required to meet an adverse balance of payments on current account with the country whose currency is being demanded.

b. The Fund's holdings of the currency of any member country shall not exceed during the first year of the operation of the Fund, the quota of that country; it shall not exceed during the first two years 150 per cent of such quota; and thereafter it shall not exceed 200 per cent of such quota; except that upon approval by four-fifths of the member votes, the Fund may purchase any local currency in excess of these limits, provided that at least one of the following two conditions is met:

i. The country whose currency is being acquired by the Fund agrees to adopt and carry out measures recommended by the Fund designed to correct the disequilibrium in the country's balance of payments, or

ii. It is believed that the balance of payments of the country whose currency is being acquired by the Fund will be such as to warrant the expectation that the excess currency holdings of the Fund can be disposed of within a reasonable time.

c. When the Fund's net holdings of any local currency exceed the quota for that country, the country shall deposit with the Fund a special reserve in accordance with regulations prescribed by the Board of Directors. This provision does not apply to currencies acquired under III-9 below.

d. When a member country is exhausting its quota more rapidly than is warranted in the judgment of the Board of Directors, the Board may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Fund.

e. A charge at the rate of 1 per cent per annum, payable in gold, shall be levied against any member country on the amount of its currency held by the Fund in excess of the quota of that country. Abnormal war balances acquired by the Fund (in accordance with III-9 below) shall not be included in the computed balance of local currency used as a basis for this charge.

f. When the Fund's holdings of the local currency of a member country exceed the quota of that country, upon request by the member country, the Fund shall resell to the member country the Fund's excess holdings of the currency of that country for gold or acceptable foreign exchange.

4. The right of a member country to purchase foreign exchange from the Fund with its local currency for the purpose of meeting an adverse balance of payments on current account is recognized only to the extent of its quota, subject to the limitation in III-3 above and III-7 below.

5. With the approval of four-fifths of the member votes, the Fund in exceptional circumstances may sell foreign exchange to a member country to facilitate transfer of capital, or repayment or adjustment of foreign debts, when in the judgment of the Board such a transfer is desirable from the point of view of the general international economic situation.

6. When the Fund's holdings of any particular currency drop below 15 per cent of the quota of that country, and after the Fund has used for additional purchases of that currency,

(*a*) Gold in an amount equal to the country's contribution of gold to the Fund, and

(*b*) The country's obligations originally contributed,

the Fund has the authority and the duty to render to the country a report embodying an analysis of the causes of the depletion of its holdings of that currency, a forecast of the prospective balance of payments in the absence of special measures, and finally, recommendations designed to increase the Fund's holdings of that currency. The Board member of the country in question should be a member of the

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Fund committee appointed to draft the report. This report should be sent to all member countries and, if deemed desirable, made public.

Member countries agree that they will give immediate and careful attention to recommendations made by the Fund.

7. Whenever it becomes evident to the Board of Directors that the anticipated demand for any particular currency may soon exhaust the Fund's holdings of that currency, the Board of Directors of the Fund shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution, together with suggestions for helping to equate the anticipated demand and supply for the currency.

The Fund shall make every effort to increase the supply of the scarce currency by acquiring that currency from the foreign balances of member countries. The Fund may make special arrangements with any member country for the purpose of providing an emergency supply under appropriate conditions which are acceptable to both the Fund and the member country.

The privilege of any country to acquire an amount of other currencies equal to or in excess of its quota shall be limited by the necessity of assuring an appropriate distribution among the various members of any currency the supply of which is being exhausted. The Fund shall apportion its sales of such scarce currency. In such apportionment, it shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the particular countries making the request for the scarce currency.

8. In order to promote the most effective use of the available and accumulating supply of foreign exchange resources of member countries, each member country agrees that it will offer to sell to the Fund, for its local currency or for foreign currencies which it needs, all foreign exchange and gold it acquires in excess of the amount it possessed immediately after joining the Fund. For the purpose of this provision, including computations, only free foreign exchange and gold are considered. The Fund may accept or reject the offer.

To help achieve this objective each member country agrees to discourage the unnecessary accumulation of foreign balances by its nationals. The Fund shall inform any member country when, in its opinion, any further growth of privately-held foreign balances appears unwarranted.

9. To buy from the governments of member countries, abnormal war balances held in other countries, provided all the following conditions are met:

a. The abnormal war balances are in member countries and are reported as such (for the purpose of this provision) by the member government on date of its becoming a member.

b. The country selling the abnormal war balances to the Fund agrees to transfer these balances to the Fund and to repurchase from the Fund 40 per cent of them (at the same price) with gold or such free currencies as the Fund may wish to accept, at the rate of 2 per cent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

c. The country in which the abnormal war balances are held agrees to the transfer to the Fund of the balances described in (*b*) above, and to repurchase from the Fund 40 per cent of them (at the same price) with gold or such currencies as the Fund may wish to accept, at the rate of 2 per cent of the transferred balances each year for 20 years beginning not later than 3 years after the date of transfer.

d. A charge of 1 per cent, payable in gold, shall be levied against the country selling its abnormal war balances and against the country in which the balances are held. In addition a charge of 1 per cent, payable in gold, shall be levied annually against them on the amount of such balances remaining to be repurchased by each country.

e. If the country selling abnormal war balances to the Fund asks for foreign exchange rather than local currency, the request will not be granted unless the country needs the foreign exchange for the purpose of meeting an adverse balance of payments not arising from the acquisition of gold, the accumulation of foreign balances, or other capital transactions.

f. Either country may, at its option, increase the amount it repurchases annually. But, in the case of the country selling abnormal war balances to the Fund, not more than 2 per cent per annum of the original sum taken over by the Fund shall become free, and only after 3 years shall have elapsed since the sale of the balances to the Fund.

g. The Fund has the privilege of disposing of any of its holdings of abnormal war balances as free funds after the 23-year period

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is passed, or sooner under the following conditions:

i. its holdings of the free funds of the country in which the balances are held fall below 15 per cent of its quota; or

ii. the approval is obtained of the country in which the balances are held.

h. The country in which the abnormal war balances are held agrees not to impose any restrictions on the use of the instalments of the 40 per cent portion gradually repurchased by the country which sold the balances to the Fund.

i. The Fund agrees not to sell the abnormal war balances acquired under the above authority, except with the permission or at the request of the country in which the balances are being held. The Fund may invest these balances in ordinary or special government securities of that country. The Fund shall be free to sell such securities in any country provided that the approval of the issuing government is first obtained.

j. The Fund shall determine from time to time what shall be the maximum proportion of the abnormal war balances it will purchase under this provision.

Abnormal war balances acquired under this provision shall not be included in computing the amount of foreign exchange available to member countries under their quotas.

10. To buy and sell currencies of nonmember countries, but shall not be authorized to hold such currencies beyond sixty days after date of purchase, except with the approval of four-fifths of the member votes.

11. To borrow the currency of any member country, provided four-fifths of the member votes approve the terms of such borrowing.

12. To sell member-country obligations owned by the Fund provided that the Board representative of the country in which the securities are to be sold approves.

To use its holdings to obtain rediscounts or advances from the central bank of any country whose currency the Fund requires.

13. To invest any of its currency holdings in government securities and prime commercial paper of the country of that currency provided four-fifths of the member votes approve, and provided further that the Board representative of the country in which the investment is to be made approves.

14. To lend to any member country its local currency from the Fund for one year or less up to 75 per cent of the currency of that country held by the Fund, provided such loan is approved by four-fifths of the member votes.

15. To levy upon member countries a pro rata share of the expenses of operating the Fund, payable in local currency, not to exceed $\frac{1}{10}$ per cent per annum of the quota of each country. The levy may be made only to the extent that the earnings of the Fund are inadequate to meet its current expenses, and only with the approval of four-fifths of the member votes.

The Fund shall make a service charge of ¼ per cent or more on all exchange and gold transactions.

16. The Fund shall deal only with or through

a. The treasuries, stabilization funds, or fiscal agents of member governments;

b. The central banks, only with the consent of the member of the Board representing the country in question; and

c. Any international banks owned predominantly by member governments.

The Fund may, nevertheless, with the approval of the member of the Board representing the government of the country concerned, sell its own securities, or securities it holds, directly to the public or to institutions of member countries.

IV. Monetary Unit of the Fund

1. The monetary unit of the Fund shall be the Unitas (UN) consisting of 137 $\frac{1}{7}$ grains of fine gold (equivalent to $10 U.S.). The accounts of the Fund shall be kept and published in terms of Unitas.

2. The value of the currency of each member country shall be fixed by the Fund in terms of gold or Unitas and may not be altered by any member country without the approval of four-fifths of the member votes.

3. Deposits in terms of Unitas may be accepted by the Fund from member countries upon the delivery of gold to the Fund and shall be transferable and redeemable in gold or in the currency of any member country at the rate established by the Fund. The Fund shall maintain a 100 per cent reserve in gold against all Unitas deposits.

4. No change in the value of the currencies of member countries shall be permitted to alter the value in gold or Unitas of the assets of the Fund. Thus if the Fund approves a reduction in the value of the currency of a member country (in terms of gold or Unitas) or if, in the opinion of the Board, the currency of a member country had depreciated to a significant extent, that country must deliver to the Fund when

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requested an amount of its local currency equal to the decreased value of that currency held by the Fund. Likewise, if the currency of a particular country should appreciate, the Fund must return to that country an amount (in the currency of that country) equal to the resulting increase in the gold or Unitas value of the Fund's holdings. The same provisions shall also apply to the government securities of member countries held by the Fund. However, this provision shall not apply to currencies acquired under III-9 (abnormal war balances).

V. Management

1. The administration of the Fund shall be vested in a Board of Directors. Each government shall appoint a director and an alternate, in a manner determined by it, who shall serve for a period of three years subject to the pleasure of their government. Directors and alternates may be reappointed.

In all voting by the Board, the director or alternate of each member country shall be entitled to cast an agreed upon number of votes. The distribution of voting power shall be closely related to the quotas of member countries, although not in precise proportion to the quotas. An appropriate distribution of voting power would seem to be the following: Each country shall have 100 votes plus 1 vote for the equivalent of each 100,000 Unitas (1 million dollars) of its quota.

Notwithstanding the approved formula for distributing voting power, no country shall be entitled to cast more than one-fourth of the aggregate votes regardless of its quota. All decisions, except where specifically provided otherwise, shall be made by a majority of the member votes.

2. The Board of Directors shall select a Managing Director of the Fund and one or more assistants. The Managing Director shall become an ex officio member of the Board and shall be chief of the operating staff of the Fund. The Managing Director and the assistants shall hold office for two years, shall be eligible for reelection, and may be removed for cause at any time by the Board.

The Managing Director of the Fund shall select the operating staff in accordance with regulations established by the Board of Directors. Members of the staff may be made available, upon request of member countries, for consultation in connection with international economic problems and policies.

3. The Board of Directors shall appoint from among its members an Executive Committee to consist of not less than eleven members. The Chairman of the Board shall be Chairman of the Executive Committee, and the Managing Director of the Fund shall be an ex officio member of the Executive Committee.

The Executive Committee shall be continuously available at the head office of the Fund and shall exercise the authority delegated to it by the Board. In the absence of any member of the Executive Committee, his alternate shall act in his place. Members of the Executive Committee shall receive appropriate remuneration.

4. The Board of Directors may appoint such other committees as it finds necessary for the work of the Fund. It may also appoint advisory committees chosen wholly or partially from persons not employed by the Fund.

5. The Board of Directors may at any meeting, by a four-fifths vote, authorize any officers or committees of the Fund to exercise any specified powers of the Board. The Board may not delegate, except to the Executive Committee, any authority which can be exercised only by a four-fifths vote.

Delegated powers shall be exercised only until the next meeting of the Board, and in a manner consistent with the general policies and practices of the Board.

6. The Board of Directors may establish procedural regulations governing the operations of the Fund. The officers and committees of the Fund shall be bound by such regulations.

7. The Board of Directors shall hold an annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes, the chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

8. A country failing to meet its obligations to the Fund may be suspended provided a majority of the member votes so decides. While under suspension, the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Fund. At the end of two years the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member votes.

Any country may withdraw from the Fund by giving notice, and its withdrawal will take effect two years from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice, such country shall be subject to the same obligations as any other member of the Fund.

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A country which is dropped or which withdraws from membership shall have returned to it an amount in its own currency equal to its contributed quota, plus other obligations of the Fund to the country, and minus any sum owed by that country to the Fund. Any losses of the Fund may be deducted pro rata from the contributed quota to be returned to the country that has been dropped or has withdrawn from membership. The Fund shall have five years in which to liquidate its obligation to such a country. When any country is dropped or withdraws from the Fund, the rights of the Fund shall be fully safeguarded.

9. Net profits earned by the Fund shall be distributed in the following manner:

a. 50 per cent to reserves until the reserves are equal to 10 per cent of the aggregate quotas of the Fund.

b. 50 per cent to be divided each year among the members in proportion to their quotas. Dividends distributed to each country shall be paid in its own currency or in Unitas at the discretion of the Fund.

VI. Policies of Member Countries

Each member country of the Fund undertakes the following:

1. To maintain by appropriate action exchange rates established by the Fund on the currencies of other countries, and not to alter exchange rates except with the consent of the Fund and only to the extent and in the direction approved by the Fund. Exchange rates of member countries may be permitted to fluctuate within a specified range fixed by the Fund.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions and controls over foreign exchange transactions (other than those involving capital transfers) with other member countries, and not to impose any additional restrictions without the approval of the Fund.

The Fund may make representations to member countries that conditions are favorable for the abandonment of restrictions and controls over foreign exchange transactions, and each member country shall give consideration to such representations.

3. To cooperate effectively with other member countries when such countries, with the approval of the Fund, adopt or continue controls for the purpose of regulating international movements of capital. Cooperation shall include, upon recommendation by the Fund, measures that can appropriately be taken:

a. Not to accept or permit acquisition of deposits, securities, or investments by nationals of any member country imposing restrictions on the export of capital except with the permission of the Government of that country and the Fund;

b. To make available to the Fund or to the Government of any member country full information on all property in the form of deposits, securities and investments of the nationals of that member country; and

c. Such other measures as the Fund shall recommend.

4. Not to enter upon any new bilateral foreign exchange clearing arrangements, nor engage in multiple currency practices, except with the approval of the Fund.

5. To give consideration to the views of the Fund on any existing or proposed monetary or economic policy, the effect of which would be to bring about sooner or later a serious disequilibrium in the balance of payments of other countries.

6. To furnish the Fund with all information it needs for its operations and to furnish such reports as it may require in the form and at the times requested by the Fund.

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Fund and to facilitate the activities of the Fund.

B. PLAN SUBMITTED BY BRITISH EXPERTS

Introductory Statement

In Parliament on February 2, the Chancellor of the Exchequer mentioned the need, after the war, of "an international monetary mechanism which will serve the requirements of international trade and avoid any need for unilateral action in competitive exchange depreciation . . . a system in which blocked balances and unilateral clearances would be unnecessary . . . an orderly and agreed method of determining the value of national currency units . . . we want to free the international monetary system from those arbitrary, unpredictable and undesirable influences which have operated in the past as a result of large scale speculative movements of short-term capital."

On the directions of H. M. Government, this problem has been under close examination by the Treasury in consultation with other Departments. The present paper has been prepared,

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and the Government has decided that it should be published, as a preliminary contribution to the solution of one of the problems of international economic co-operation after the war.

H. M. Government is not committed to the principles or details of the scheme. Any proposals for a satisfactory international monetary mechanism after the war can only be framed after full consideration of all aspects of a very difficult problem. It is hoped that these proposals will afford a basis for discussion, criticism and constructive amendment, together with similar plans having similar objectives which may be prepared by experts of other Governments.

On these terms it has been presented for technical examination by experts of the U. S. Government. On these terms also it has been discussed in an informal and exploratory manner with officials of the Governments of the Dominions and of India. These discussions were on the expert plane, and did not commit the Governments concerned in any way. It has also been discussed with representatives of the European Allies, and has been communicated to representatives of the other United Nations.

Proposals for an International Clearing Union

Preface

Immediately after the war, all countries which have been engaged will be concerned with the pressure of relief and urgent reconstruction. The transition out of this into the normal world of the future cannot be wisely effected unless we know into what we are moving. It is therefore not too soon to consider what is to come after. In the field of national activity occupied by production, trade and finance, both the nature of the problem and the experience of the period between wars suggest four main lines of approach.

1. The mechanism of currency and exchange.
2. The framework of a commercial policy regulating conditions for exchange of goods, tariffs, preferences, subsidies, import regulations and the like.
3. Orderly conduct of production, distribution and price of primary products so as to protect both producers and consumers from the loss and risk for which extravagant fluctuations of market conditions have been responsible in recent times.
4. Investment aid, both medium and long term, for countries whose economic development needs assistance from outside.

If the principles of these measures and the form of institutions to give effect to them can be settled in advance, in order that they may be in operation when need arises, it is possible that taken together they may help the world to control the ebb and flow of the tides of economic activity which have, in the past, destroyed security of livelihood and endangered international peace.

All these matters will need to be handled in due course. The proposal that follows relates only to the mechanism of currency and exchange in international trading. It appears on the whole convenient to give it priority, because some general conclusions have to be reached under this head before much progress can be made with other topics.

In preparing these proposals care has been taken to regard certain conditions, which the groundwork of an international economic system to be set up after the war should satisfy if it is to prove durable.

(1) There should be the least possible interference with internal national policies, and the plan should not wander from the international *terrain*. Since such policies may have important repercussions on international relations they cannot be left out of account. Nevertheless, in the realm of internal policy, the authority of the governing board of the proposed institution should be limited to recommendations, or, at most, to imposing conditions for more extended enjoyment of the facilities which the institution offers.

(2) The technique of the plan must be capable of application irrespective of the type and principle of government and the economic policy existing in the prospective member States.

(3) Management of the institution must be genuinely international, without preponderant power of veto or enforcement lying with any country or group. And the rights and privileges of smaller countries must be safeguarded.

(4) Some qualification of the right to act at pleasure is required by any agreement or treaty between Nations. But in order that such arrangements may be fully voluntary so long as they last and terminable when they have become irksome, provision must be made for voiding the obligation at due notice. If many member States were to take advantage of this, the plan would have broken down, but if they are free to escape from its provisions if necessary, they may be more willing to go on accepting them.

(5) The plan must operate not only to the general advantage but also to the individual advantage of each of the participants, and must

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not require a special economic or financial sacrifice from certain countries. No participant must be asked to do or offer anything which is not to his own true long-term interest.

It must be emphasized that it is not for the Clearing Union to assume the burden of long term lending which is the proper task of some other institution. It is also necessary for it to have the means of restraining improvident borrowers. But the Clearing Union must also seek to discourage creditor countries from having unused large liquid balances which ought to be devoted to some positive purpose. For excessive credit balances necessarily create excessive debit balances for some other party. In recognising that the creditor as well as the debtor may be responsible for a want of balance, the proposed institution would be breaking new ground.

I. The Objects of the Plan

About the primary objects of an improved system of International Currency there is, to-day, a wide measure of agreement:—

(*a*) We need an instrument of international currency having general acceptability between nations, so that blocked balances and bilateral clearings are unnecessary; that is to say, an instrument of currency used by each nation in its transactions with other nations, operating through whatever national organ, such as a Treasury or a Central Bank, is most appropriate, private individuals, businesses and banks other than Central Banks, each continuing to use their own national currency as heretofore.

(*b*) We need an orderly and agreed method of determining the relative exchange values of national currency units, so that unilateral action and competitive exchange depreciations are prevented.

(*c*) We need a *quantum* of international currency, which is neither determined in an unpredictable and irrelevant manner as, for example, by the technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries; but is governed by the actual current requirements of world commerce, and is also capable of deliberate expansion and contraction to offset deflationary and inflationary tendencies in effective world demand.

(*d*) We need a system possessed of an internal stabilising mechanism, by which pressure is exercised on any country whose balance of payments with the rest of the world is departing from equilibrium in either direction, so as to prevent movements which must create for its neighbours an equal but opposite want of balance.

(*e*) We need an agreed plan for starting off every country after the war with a stock of reserves appropriate to its importance in world commerce, so that without due anxiety it can set its house in order during the transitional period to full peace-time conditions.

(*f*) We need a central institution, of a purely technical and non-political character, to aid and support other international institutions concerned with the planning and regulation of the world's economic life.

(*g*) More generally, we need a means of reassurance to a troubled world, by which any country whose own affairs are conducted with due prudence is relieved of anxiety, for causes which are not of its own making, concerning its ability to meet its international liabilities; and which will, therefore, make unnecessary those methods of restriction and discrimination which countries have adopted hitherto, not on their merits, but as measures of self-protection from disruptive outside forces.

2. There is also a growing measure of agreement about the general character of any solution of the problem likely to be successful. The particular proposals set forth below lay no claim to originality. They are an attempt to reduce to practical shape certain general ideas belonging to the contemporary climate of economic opinion, which have been given publicity in recent months by writers of several different nationalities. It is difficult to see how any plan can be successful which does not use these general ideas, which are born of the spirit of the age. The actual details put forward below are offered, with no dogmatic intention, as the basis of discussion for criticism and improvement. For we cannot make progress without embodying the general underlying idea in a frame of actual working, which will bring out the practical and political difficulties to be faced and met if the breath of life is to inform it.

3. In one respect this particular plan will be found to be more ambitious and yet, at the same time, perhaps more workable than some of the variant versions of the same basic idea, in that it is fully international, being based on one general agreement and not on a multiplicity of

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bilateral arrangements. Doubtless proposals might be made by which bilateral arrangements could be fitted together so as to obtain some of the advantages of a multilateral scheme. But there will be many difficulties attendant on such adjustments. It may be doubted whether a comprehensive scheme will ever in fact be worked out, unless it can come into existence through a single act of creation made possible by the unity of purpose and energy of hope for better things to come, springing from the victory of the United Nations, when they have attained it, over immediate evil. That these proposals are ambitious is claimed, therefore to be not a drawback but an advantage.

4. The proposal is to establish a Currency Union, here designated an *International Clearing Union*, based on international bank-money, called (let us say) *bancor*, fixed (but not unalterably) in terms of gold and accepted as the equivalent of gold by the British Commonwealth and the United States and all the other members of the Union for the purpose of settling international balances. The Central Banks of all member States (and also of non-members) would keep accounts with the International Clearing Union through which they would be entitled to settle their exchange balances with one another at their par value as defined in terms of bancor. Countries having a favourable balance of payments with the rest of the world as a whole would find themselves in possession of a credit account with the Clearing Union, and those having an unfavourable balance would have a debit account. Measures would be necessary (see below) to prevent the piling up of credit and debit balances without limit, and the system would have failed in the long run if it did not possess sufficient capacity for self-equilibrium to secure this.

5. The idea underlying such a Union is simple, namely, to generalise the essential principle of banking as it is exhibited within any closed system. This principle is the necessary equality of credits and debits. If no credits can be removed outside the clearing system, but only transferred within it, the Union can never be in any difficulty as regards the honouring of cheques drawn upon it. It can make what advances it wishes to any of its members with the assurance that the proceeds can only be transferred to the clearing account of another member. Its sole task is to see to it that its members keep the rules and that the a'vances made to each of them are prudent and a visable for the Union as a whole.

II. The Provisions of the Plan

6. The provisions proposed (the particular proportions and other details suggested being tentative as a basis of discussion) are the following:—

(1) All the United Nations will be invited to become original members of the International Clearing Union. Other States may be invited to join subsequently. If ex-enemy States are invited to join, special conditions may be applied to them.

(2) The Governing Board of the Clearing Union shall be appointed by the Governments of the several member States, as provided in (12) below; the daily business with the Union and the technical arrangements being carried out through their Central Banks or other appropriate authorities.

(3) The member States will agree between themselves the initial values of their own currencies in terms of bancor. A member State may not subsequently alter the value of its currency in terms of bancor without the permission of the Governing Board except under the conditions stated below; but during the first five years after the inception of the system the Governing Board shall give special consideration to appeals for an adjustment in the exchange value of a national currency unit on the ground of unforeseen circumstances.

(4) The value of bancor in terms of gold shall be fixed by the Governing Board. Member States shall not purchase or acquire gold, directly or indirectly, at a price in terms of their national currencies in excess of the parity which corresponds to the value of their currency in terms of bancor and to the value of bancor in terms of gold. Their sales and purchases of gold shall not be otherwise restricted.

(5) Each member State shall have assigned to it a *quota*, which shall determine the measure of its responsibility in the management of the Union and of its right to enjoy the credit facilities provided by the Union. The initial quotas might be fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years, and might be (say) 75 per cent of this amount, a special assessment being substituted in cases (of which there might be several) where this formula would be, for any reason, inappropriate. Subsequently, after the elapse of the transitional period, the quotas should be revised annually in accordance with the running average of each country's actual volume of trade in the three preceding years, rising to a five-year average when figures

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for five post-war years are available. The determination of a country's quota primarily by reference to the value of its foreign trade seems to offer the criterion most relevant to a plan which is chiefly concerned with the regulation of the foreign exchanges and of a country's international trade balance. It is, however, a matter for discussion whether the formula for fixing quotas should also take account of other factors.

(6) Member States shall agree to accept payment of currency balances, due to them from other members, by a transfer of bancor to their credit in the books of the Clearing Union. They shall be entitled, subject to the conditions set forth below, to make transfers of bancor to other members which have the effect of overdrawing their own accounts with the Union, provided that the maximum debit balances thus created do not exceed their quota. The Clearing Union may, at its discretion, charge a small commission or transfer fee in respect of transactions in its books for the purpose of meeting its current expenses or any other outgoings approved by the Governing Board.

(7) A member State shall pay to the Reserve Fund of the Clearing Union a charge of 1 per cent per annum on the amount of its average balance in bancor, whether it is a credit or a debit balance, in excess of a quarter of its quota; and a further charge of 1 per cent on its average balance, whether credit or debit, in excess of a half of its quota. Thus, only a country which keeps as nearly as possible in a state of international balance on the average of the year will escape this contribution. These charges are not absolutely essential to the scheme. But if they are found acceptable, they would be valuable and important inducements towards keeping a level balance, and a significant indication that the system looks on excessive credit balances with as critical an eye as on excessive debit balances, each being, indeed, the inevitable concomitant of the other. Any member State in debit may, after consultation with the Governing Board, borrow bancor from the balances of any member State in credit on such terms as may be mutually agreed, by which means each would avoid these contributions. The Governing Board may, at its discretion, remit the charges on credit balances, and increase correspondingly those on debit balances, if in its opinion unduly expansionist conditions are impending in the world economy.

(8)—(*a*) A member State may not increase its debit balance by more than a *quarter* of its quota within a year without the permission of the Governing Board. If its debit balance has exceeded a quarter of its quota on the average of at least two years, it shall be entitled to reduce the value of its currency in terms of bancor provided that the reduction shall not exceed 5 per cent without the consent of the Governing Board; but it shall not be entitled to repeat this procedure unless the Board is satisfied that this procedure is appropriate.

(*b*) The Governing Board may require from a member State having a debit balance reaching a *half* of its quota the deposit of suitable collateral against its debit balance. Such collateral shall, at the discretion of the Governing Board, take the form of gold, foreign or domestic currency or Government bonds, within the capacity of the member State. As a condition of allowing a member State to increase its debit balance to a figure in excess of a half of its quota, the Governing Board may require all or any of the following measures:—

(i) a stated reduction in the value of the member's currency, if it deems that to be the suitable remedy;

(ii) the control of outward capital transactions if not already in force; and

(iii) the outright surrender of a suitable proportion of any separate gold or other liquid reserve in reduction of its debit balance.

Furthermore, the Governing Board may recommend to the Government of the member State any internal measures affecting its domestic economy which may appear to be appropriate to restore the equilibrium of its international balance.

(*c*) If a member State's debit balance has exceeded *three-quarters* of its quota on the average of at least a year and is excessive in the opinion of the Governing Board in relation to the total debit balances outstanding on the books of the Clearing Union, or is increasing at an excessive rate, it may, in addition, be asked by the Governing Board to take measures to improve its position, and, in the event of its failing to reduce its debit balance accordingly within two years, the Governing Board may declare that it is in default and no longer entitled to draw against its account except with the permission of the Governing Board.

(*d*) Each member State, on joining the system, shall agree to pay to the Clearing Union any payments due from it to a country in default towards the discharge of the latter's debit balance and to accept this arrangement in the event of falling into default itself. A member State which resigns from the Clearing Union

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without making approved arrangements for the discharge of any debit balance shall also be treated as in default.

(9) A member State whose credit balance has exceeded *half* of its quota on the average of at least a year shall discuss with the Governing Board (but shall retain the ultimate decision in its own hands) what measures would be appropriate to restore the equilibrium of its international balances, including—

(*a*) Measures for the expansion of domestic credit and domestic demand.

(*b*) The appreciation of its local currency in terms of bancor, or, alternatively, the encouragement of an increase in money rates of earnings.

(*c*) The reduction of tariffs and other discouragements against imports.

(*d*) International development loans.

(10) A member State shall be entitled to obtain a credit balance in terms of bancor by paying in gold to the Clearing Union for the credit of its clearing account. But no one is entitled to demand gold from the Union against a balance of bancor, since such balance is available only for transfer to another clearing account. The Governing Board of the Union shall, however, have the discretion to distribute any gold in the possession of the Union between the members possessing credit balances in excess of a specified proportion of their quotas, proportionately to such balances, in reduction of their amount in excess of that proportion.

(11) The monetary reserves of a member State, viz., the Central Bank or other bank or Treasury deposits in excess of a working balance, shall not be held in another country except with the approval of the monetary authorities of that country.

(12) The Governing Board shall be appointed by the Governments of the member States, those with the larger quotas being entitled to appoint a member individually, and those with smaller quotas appointing in convenient political or geographical groups, so that the members would not exceed (say) 12 or 15 in number. Each representative on the Governing Board shall have a vote in proportion to the quotas of the State (or States) appointing him, except that on a proposal to increase a particular quota, a representative's voting power shall be measured by the quotas of the member States appointing him, increased by their credit balance or decreased by their debit balance, averaged in each case over the past two years. Each member State, which is not individually represented on the Governing Board, shall be entitled to appoint a permanent delegate to the Union to maintain contact with the Board and to act as *liaison* for daily business and for the exchange of information with the Executive of the Union. Such delegates shall be entitled to be present at the Governing Board when any matter is under consideration which specially concerns the State he represents, and to take part in the discussion.

(13) The Governing Board shall be entitled to reduce the quotas of members, all in the same specified proportion, if it seems necessary to correct in this manner an excess of world purchasing power. In that event, the provisions of 6 (8) shall be held to apply to the quotas as so reduced, provided that no member shall be required to reduce his actual overdraft at the date of the change, or be entitled by reason of this reduction to alter the value of his currency under 6 (8) (*a*), except after the expiry of two years. If the Governing Board subsequently desires to correct a potential deficiency of world purchasing power, it shall be entitled to restore the general level of quotas towards the original level.

(14) The Governing Board shall be entitled to ask and receive from each member State any relevant statistical or other information, including a full disclosure of gold, external credit and debit balances and other external assets and liabilities, both public and private. So far as circumstances permit, it will be desirable that the member States shall consult with the Governing Board on important matters of policy likely to affect substantially their bancor balances or their financial relations with other members.

(15) The executive offices of the Union shall be situated in London and New York, with the Governing Board meeting alternately in London and Washington.

(16) Members shall be entitled to withdraw from the Union on a year's notice, subject to their making satisfactory arrangements to discharge any debit balance. They would not, of course, be able to employ any credit balance except by making transfers from it, either before or after their withdrawal, to the Clearing Accounts of other Central Banks. Similarly, it should be within the power of the Governing Board to require the withdrawal of a member, subject to the same notice, if the latter is in breach of agreements relating to the Clearing Union.

(17) The Central Banks of non-member States would be allowed to keep credit clearing accounts with the Union; and, indeed, it would be

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advisable for them to do so for the conduct of their trade with member States. But they would have no right to overdrafts and no say in the management.

(18) The Governing Board shall make an annual Report and shall convene an annual Assembly at which every member State shall be entitled to be represented individually and to move proposals. The principles and governing rules of the Union shall be the subject of reconsideration after five years' experience, if a majority of the Assembly desire it.

III. What Liabilities Ought the Plan to Place on Creditor Countries?

7. It is not contemplated that either the debit or the credit balance of an individual country ought to exceed a certain maximum—let us say, its *quota*. In the case of debit balances this maximum has been made a rigid one, and, indeed, counter-measures are called for long before the maximum is reached. In the case of credit balances no rigid maximum has been proposed. For the appropriate provision might be to require the eventual cancellation or compulsory investment of persistent bancor credit balances accumulating in excess of a member's quota; and, however desirable this may be in principle, it might be felt to impose on creditor countries a heavier burden than they can be asked to accept before having had experience of the benefit to them of the working of the plan as a whole. If, on the other hand, the limitation were to take the form of the creditor country not being required to accept bancor in excess of a prescribed figure, this might impair the general acceptability of bancor, whilst at the same time conferring no real benefit on the creditor country itself. For, if it chose to avail itself of the limitation, it must either restrict its exports or be driven back on some form of bilateral payments agreements outside the Clearing Union, thus substituting a less acceptable asset for bancor balances which are based on the collective credit of all the member States and are available for payments to any of them, or attempt the probably temporary expedient of refusing to trade except on a gold basis.

8. The absence of a rigid maximum to credit balances does not impose on any member State, as might be supposed at first sight, an unlimited liability outside its own control. The liability of an individual member is determined, not by the quotas of the other members, but by its own policy in controlling its favourable balance of payments. The existence of the Clearing Union does not deprive a member State of any of the facilities which it now possesses for receiving payment for its exports. In the absence of the Clearing Union a creditor country can employ the proceeds of its exports to buy goods or to buy investments, or to make temporary advances and to hold temporary overseas balances, or to buy gold in the market. All these facilities will remain at its disposal. The difference is that in the absence of the Clearing Union, more or less automatic factors come into play to restrict the volume of its exports after the above means of receiving payment for them have been exhausted. Certain countries become unable to buy and, in addition to this, there is an automatic tendency towards a general slump in international trade, and, as a result, a reduction in the exports of the creditor country. Thus, the effect of the Clearing Union is to give the creditor country a choice between voluntarily curtailing its exports to the same extent that they would have been involuntarily curtailed in the absence of the Clearing Union, or, alternatively, of allowing its exports to continue and accumulating the excess receipts in the form of bancor balances for the time being. Unless the removal of a factor causing the involuntary reduction of exports is reckoned a disadvantage, a creditor country incurs no burden but is, on the contrary, relieved, by being offered the additional option of receiving payment for its exports through the accumulation of a bancor balance.

9. If, therefore, a member State asks what governs the maximum liability which it incurs by entering the system, the answer is that this lies entirely within its own control. No more is asked of it than that it should hold in bancor such surplus of its favourable balance of payments as it does not itself choose to employ in any other way, and only for so long as it does not so choose.

IV. Some Advantages of the Plan

10. The plan aims at the substitution of an expansionist, in place of a contractionist, pressure on world trade.

11. It effects this by allowing to each member State overdraft facilities of a defined amount. Thus each country is allowed a certain margin of resources and a certain interval of time within which to effect a balance in its economic relations with the rest of the world. These facilities are made possible by the constitution of the system itself and do not involve particular indebtedness between one member State and another. A country is in credit or debit with the Clearing Union as a whole. This means

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that the overdraft facilities, whilst a relief to some, are not a real burden to others. For the accumulation of a credit balance with the Clearing Union would resemble the importation of gold in signifying that the country holding it is abstaining voluntarily from the immediate use of purchasing power. But it would not involve, as would the importation of gold, the withdrawal of this purchasing power from circulation or the exercise of a deflationary and contractionist pressure on the whole world, including in the end the creditor country itself. Under the proposed plan, therefore, no country suffers injury (but on the contrary) by the fact that the command over resources, which it does not itself choose to employ for the time being, is not withdrawn from use. The accumulation of bancor credit does not curtail in the least its capacity or inducement either to produce or to consume.

12. In short, the analogy with a national banking system is complete. No depositor in a local bank suffers because the balances, which he leaves idle, are employed to finance the business of someone else. Just as the development of national banking systems served to offset a deflationary pressure which would have prevented otherwise the development of modern industry, so by extending the same principle into the international field we may hope to offset the contractionist pressure which might otherwise overwhelm in social disorder and disappointment the good hopes of our modern world. The substitution of a credit mechanism in place of hoarding would have repeated in the international field the same miracle, already performed in the domestic field, of turning a stone into bread.

13. There might be other ways of effecting the same objects temporarily or in part. For example, the United States might redistribute her gold. Or there might be a number of bilateral arrangements having the effect of providing international overdrafts, as, for example, an agreement by the Federal Reserve Board to accumulate, if necessary, a large sterling balance at the Bank of England, accompanied by a great number of similar bilateral arrangements, amounting to some hundreds altogether, between these and all the other banks in the world. The objection to particular arrangements of this kind, in addition to their greater complexity, is that they are likely to be influenced by extraneous, political reasons; that they put individual countries in a position of particular obligation towards others; and that the distribution of the assistance between different countries may not correspond to need and to the real requirements, which are extremely difficult to foresee.

14. It should be much easier, and surely more satisfactory for all of us, to enter into a general and collective responsibility, applying to all countries alike, that a country finding itself in a creditor position *against the rest of the world as a whole* should enter into an arrangement not to allow this credit balance to exercise a contractionist pressure against world economy and, by repercussion, against the economy of the creditor country itself. This would give everyone the great assistance of multilateral clearing, whereby (for example) Great Britain could offset favourable balances arising out of her exports to Europe against unfavourable balances due to the United States or South America or elsewhere. How, indeed, can any country hope to start up trade with Europe during the relief and reconstruction period on any other terms?

15. The facilities offered will be of particular importance in the transitional period after the war, as soon as the initial shortages of supply have been overcome. Many countries will find a difficulty in paying for their imports, and will need time and resources before they can establish a readjustment. The efforts of each of these debtor countries to preserve its own equilibrium, by forcing its exports and by cutting off all imports which are not strictly necessary, will aggravate the problems of all the others. On the other hand, if each feels free from undue pressure, the volume of international exchange will be increased and everyone will find it easier to re-establish equilibrium without injury to the standard of life anywhere. The creditor countries will benefit, hardly less than the debtors, by being given an interval of *time* in which to adjust their economies, during which they can safely move at their own pace without the result of exercising deflationary pressure on the rest of the world, and by repercussion, on themselves.

16. It must, however, be emphasized that the provision by which the members of the Clearing Union start with substantial overdraft facilities in hand will be mainly useful, just as the possession of any kind of reserve is useful, to allow time and method for necessary adjustments and a comfortable safeguard behind which the unforeseen and the unexpected can be faced with equanimity. Obviously, it does not by itself provide any long-term solution against a continuing disequilibrium, for in due course the more improvident and the more impecunious, left to themselves, would have run through

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their resources. But, if the purpose of the overdraft facilities is mainly to give time for adjustments, we have to make sure, so far as possible, that they *will* be made. We must have, therefore, some rules and some machinery to secure that equilibrium is restored. A tentative attempt to provide for this has been made above. Perhaps it might be strengthened and improved.

17. The provisions suggested differ in one important respect from the pre-war system because they aim at putting some part of the responsibility for adjustment on the creditor country as well as on the debtor. This is an attempt to recover one of the advantages which were enjoyed in the nineteenth century, when a flow of gold due to a favourable balance in favour of London and Paris, which were then the main creditor centres, immediately produced an expansionist pressure and increased foreign lending in those markets, but which has been lost since New York succeeded to the position of main creditor, as a result of gold movements failing in their effect, of the breakdown of international borrowing and of the frequent flight of loose funds from one depository to another. The object is that the creditor should not be allowed to remain entirely passive. For if he is, an intolerably heavy task may be laid on the debtor country, which is already for that very reason in the weaker position.

18. If, indeed, a country lacks the productive capacity to maintain its standard of life, then a reduction in this standard is not avoidable. If its wage and price levels in terms of money are out of line with those elsewhere, a change in the rate of its foreign exchange is inevitable. But if, possessing the productive capacity, it lacks markets because of restrictive policies throughout the world, then the remedy lies in expanding its opportunities for export by removal of the restrictive pressure. We are too ready to-day to assume the inevitability of unbalanced trade positions, thus making the opposite error to those who assumed the tendency of exports and imports to equality. It used to be supposed, without sufficient reason, that effective demand is always properly adjusted throughout the world; we now tend to assume, equally without sufficient reason, that it never can be. On the contrary, there is great force in the contention that, if active employment and ample purchasing power can be sustained in the main centres of the world trade, the problem of surpluses and unwanted exports will largely disappear, even though, under the most prosperous conditions, there may remain some disturbances of trade and unforeseen situations requiring special remedies.

V. The Daily Management of the Exchanges under the Plan

19. The Clearing Union restores unfettered multilateral clearing between its members. Compare this with the difficulties and complications of a large number of bilateral agreements. Compare, above all, the provisions by which a country, taking improper advantage of a payments agreement (for the system is, in fact, a *generalized* payments agreement), as Germany did before the war, is dealt with not by a single country (which may not be strong enough to act effectively in isolation or cannot afford to incur the diplomatic odium of isolated action), but by the system as a whole. If the argument is used that the Clearing Union may have difficulty in disciplining a misbehaving country and in avoiding consequential loss, with what much greater force can we urge this objection against a multiplicity of separate bilateral payments agreements.

20. Thus we should not only obtain the advantages, without the disadvantages, of an international gold currency, but we might enjoy these advantages more widely than was ever possible in practice with the old system under which at any given time only a minority of countries were actually working with free exchanges. In conditions of multilateral clearing, exchange dealings would be carried on as freely as in the best days of the gold standard, without its being necessary to ask anyone to accept special or onerous conditions.

21. The principles governing transactions are: first, that the Clearing Union is set up, not for the transaction of daily business between individual traders or banks, but for the clearing and settlement of the ultimate outstanding balances between Central Banks (and certain other super-national Institutions), such as would have been settled under the old gold standard by the shipment or the earmarking of gold, and should not trespass unnecessarily beyond this field; and, second, that its purpose is to increase *freedom* in international commerce and not to multiply interferences or compulsions.

22. Many Central Banks have found great advantage in centralising with themselves or with an Exchange Control the supply and demand of all foreign exchange, thus dispensing with an outside exchange market, though continuing to accommodate individuals through the existing banks and not directly. The further extension of such arrangements would be

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consonant with the general purposes of the Clearing Union, inasmuch as they would promote order and discipline in international exchange transactions in detail as well as in general. The same is true of the control of capital movements, further described below, which many States are likely to wish to impose on their own nationals. But the structure of the proposed Clearing Union does not *require* such measures of centralisation or of control on the part of a member State. It is, for example, consistent alike with the type of Exchange Control now established in the United Kingdom or with the system now operating in the United States. The Union does not prevent private holdings of foreign currency or private dealings in exchange or international capital movements, if these have been approved or allowed by the member States concerned. Central Banks can deal direct with one another as heretofore. No transaction in bancor will take place except when a member State or its Central Bank is exercising the right to pay in it. In no case is there any direct control on capital movements by the Union, even in the case of 6 (8) (*b*) (ii) above, but only by the member States themselves through their own institutions. Thus the fabric of international banking organisation, built up by long experience to satisfy practical needs, would be left as undisturbed as possible.

23. It is not necessary to interfere with the discretion of countries which desire to maintain a special intimacy within a particular group of countries associated by geographical or political ties, such as the existing sterling area, or groups, like the Latin Union of former days, which may come into existence covering, for example, the countries of North America or those of South America, or the groups now under active discussion, including Poland and Czechoslovakia or certain of the Balkan States. There is no reason why such countries should not be allowed a double position, both as members of the Clearing Union in their own right with their proper quota, and also as making use of another financial centre along traditional lines, as, for example, Australia and India with London, or certain American countries with New York. In this case, their accounts with the Clearing Union would be in exactly the same position as the independent gold reserves which they now maintain, and they would have no occasion to modify in any way their present practices in the conduct of daily business.

24. There might be other cases, however, in which a dependency or a member of a federal union would merge its currency identity in that of a mother country, with a quota appropriately adjusted to the merged currency area as a whole, and *not* enjoy a separate individual membership of the Clearing Union, as, for example, the States of a Federal Union, the French colonies or the British Crown Colonies.

25. At the same time countries, which do not belong to a special geographical or political group, would be expected to keep their reserve balances with the Clearing Union and not with one another. It has, therefore, been laid down that balances may not be held in another country except with the approval of the monetary authorities of that country; and, in order that sterling and dollars might not appear to compete with bancor for the purpose of reserve balances, the United Kingdom and the United States might agree together that they would not accept the reserve balances of other countries in excess of normal working balances except in the case of banks definitely belonging to a Sterling Area or Dollar Area group.

VI. The Position of Gold under the Plan

26. Gold still possesses great psychological value which is not being diminished by current events; and the desire to possess a gold reserve against unforeseen contingencies is likely to remain. Gold also has the merit of providing in point of form (whatever the underlying realities may be) an uncontroversial standard of value for international purposes, for which it would not yet be easy to find a serviceable substitute. Moreover, by supplying an automatic means for settling some part of the favourable balances of the creditor countries, the current gold production of the world and the remnant of gold reserves held outside the United States may still have a useful part to play. Nor is it reasonable to ask the United States to demonetise the stock of gold which is the basis of its impregnable liquidity. What, in the long run, the world may decide to do with gold is another matter. The purpose of the Clearing Union is to supplant gold as a governing factor, but not to dispense with it.

27. The international bank-money which we have designated *bancor* is defined in terms of a weight of gold. Since the national currencies of the member States are given a defined exchange value in terms of bancor, it follows that they would each have a defined gold content which would be their official buying price for gold, above which they must not pay. The fact that a member State is entitled to obtain a credit in terms of bancor by paying actual gold

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to the credit of its clearing account, secures a steady and ascertained purchaser for the output of the gold-producing countries, and for countries holding a large reserve of gold. Thus the position of producers and holders of gold is not affected adversely, and is, indeed, improved.

28. Central Banks would be entitled to retain their separate gold reserves and ship gold to one another, provided they did not pay a price above parity; they could coin gold and put it into circulation, and, generally speaking, do what they liked with it.

29. One limitation only would be, for obvious reasons, essential. No member State would be entitled to demand gold from the Clearing Union against its balance of bancor; for bancor is available only for transfer to another clearing account. Thus between gold and bancor itself there would be a one-way convertibility, such as ruled frequently before the war with national currencies which were on what was called a "gold exchange standard." This need not mean that the Clearing Union would only receive gold and never pay it out. It has been provided above that, if the Clearing Union finds itself in possession of a stock of gold, the Governing Board shall have discretion to distribute the surplus between those possessing credit balances in bancor, proportionately to such balances, in reduction of their amount.

30. The question has been raised whether these arrangements are compatible with the retention by individual member States of a full gold standard with two-way convertibility, so that, for example, any foreign central bank acquiring dollars could use them to obtain gold for export. It is not evident that a good purpose would be served by this. But it need not be prohibited, and if any member State should prefer to maintain full convertibility for internal purposes it could protect itself from any abuse of the system or inconvenient consequences by providing that gold could only be exported under licence.

31. The value of bancor in terms of gold is fixed but not unalterably. The power to vary its value might have to be exercised if the stocks of gold tendered to the Union were to be excessive. No object would be served by attempting further to peer into the future or to prophesy the ultimate outcome.

VII. The Control of Capital Movements

32. There is no country which can, in future, safely allow the flight of funds for political reasons or to evade domestic taxation or in anticipation of the owner turning refugee. Equally, there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment.

33. For these reasons it is widely held that control of capital movements, both inward and outward, should be a permanent feature of the post-war system. It is an objection to this that control, if it is to be effective, probably requires the machinery of exchange control for *all* transactions, even though a general permission is given to all remittances in respect of current trade. Thus those countries which have for the time being no reason to fear, and may indeed welcome, outward capital movements, may be reluctant to impose this machinery, even though a general permission for capital, as well as current transactions reduces it to being no more than a machinery of record. On the other hand, such control will be more difficult to work by unilateral action on the part of those countries which cannot afford to dispense with it, especially in the absence of a postal censorship, if movements of capital cannot be controlled *at both ends.* It would, therefore, be of great advantage if the United States, as well as other members of the Clearing Union, would adopt machinery similar to that which the British Exchange Control has now gone a long way towards perfecting. Nevertheless, the universal establishment of a control of capital movements cannot be regarded as essential to the operation of the Clearing Union; and the method and degree of such control should therefore be left to the decision of each member State. Some less drastic way might be found by which countries, not themselves controlling outward capital movements can deter inward movements not approved by the countries from which they originate.

34. 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

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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.

35. The advocacy of a control of capital movements must not be taken to mean that the era of international investment should be brought to an end. On the contrary, the system contemplated should greatly facilitate the restoration of international loans and credits for legitimate purposes in ways to be discussed below. The object, and it is a vital object, is to have a means—

(*a*) of distinguishing long-term loans by creditor countries, which help to maintain equilibrium and develop the world's resources, from movements of funds out of debtor countries which lack the means to finance them; and

(*b*) of controlling short-term speculative movements or flights of currency whether out of debtor countries or from one creditor country to another.

36. It should be emphasised that the purpose of the overdrafts of bancor permitted by the Clearing Union is, not to facilitate long-term, or even medium-term, credits to be made by debtor countries which cannot afford them, but to allow time and a breathing space for adjustments and for averaging one period with another to all member States alike, whether in the long run they are well-placed to develop a forward international loan policy or whether their prospects of profitable new development in excess of their own resources justifies them in long-term borrowing. The machinery and organisation of international medium-term and long-term lending is another aspect of post-war economic policy, not less important than the purposes which the Clearing Union seeks to serve, but requiring another, complementary institution.

VIII. Relation of the Clearing Union to Commercial Policy

37. The special protective expedients which were developed between the two wars were sometimes due to political, social or industrial reasons. But frequently they were nothing more than forced and undesired dodges to protect an unbalanced position of a country's overseas payments. The new system, by helping to provide a register of the size and whereabouts of the aggregate debtor and creditor positions respectively, and an indication whether it is reasonable for a particular country to adopt special expedients as a temporary measure to assist in regaining equilibrium in its balance of payments, would make it possible to establish a general rule *not* to adopt them, subject to the indicated exceptions.

38. The existence of the Clearing Union would make it possible for member States contracting commercial agreements to use their respective debit and credit positions with the Clearing Union as a test, though this test by itself would not be complete. Thus, the contracting parties, whilst agreeing to clauses in a commercial agreement forbidding, in general, the use of certain measures or expedients in their mutual trade relations, might make this agreement subject to special relaxations if the state of their respective clearing accounts satisfied an agreed criterion. For example, an agreement might provide that, in the event of one of the contracting States having a debit balance with the Clearing Union exceeding a specified proportion of its quota on the average of a period, it should be free to resort to import regulation, to barter trade agreements, or to higher import duties of a type which was restricted under the agreement in normal circumstances. Protected by the possibility of such temporary indulgences, the members of the Clearing Union should feel much more confidence in moving towards the withdrawal of other and more dislocating forms of protection and discrimination and in accepting the prohibition of the worst of them from the outset. In any case, it should be laid down that members of the Union would not allow or suffer among themselves any restrictions on the disposal of receipts arising out of current trade or "invisible" income.

IX. The Use of the Clearing Union for Other International Purposes

39. The Clearing Union might become the instrument and the support of international policies in addition to those which it is its primary purpose to promote. This deserves the greatest possible emphasis. The Union might become the pivot of the future economic government of the world. Without it, other more desirable developments will find themselves impeded and unsupported. With it, they will fall into their place as parts of an ordered scheme. No one of the following suggestions is a necessary part of the plan. But they are illustrations of the additional purposes of high

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importance and value which the Union, once established, might be able to serve:—

(1) The Union might set up a clearing account in favour of international bodies charged with post-war relief, rehabilitation and reconstruction. But it could go much further than this. For it might supplement contributions received from other sources by granting preliminary overdraft facilities in favour of these bodies, the overdraft being discharged over a period of years out of the Reserve Fund of the Union, or, if necessary, out of a levy on surplus credit balances. So far as this method is adopted it would be possible to avoid asking any country to assume a burdensome commitment for relief and reconstruction, since the resources would be provided in the first instance by those countries having credit clearing accounts for which they have no immediate use and are voluntarily leaving idle, and in the long run by those countries which have a chronic international surplus for which they have no beneficial employment.

(2) The Union might set up an account in favour of any supernational policing body which may be charged with the duty of preserving the peace and maintaining international order. If any country were to infringe its properly authorised orders, the policing body might be entitled to request the Governors of the Clearing Union to hold the clearing account of the delinquent country to its order and permit no further transactions on the account except by its authority. This would provide an excellent machinery for enforcing a financial blockade.

(3) The Union might set up an account in favour of international bodies charged with the management of a Commodity Control, and might finance stocks of commodities held by such bodies, allowing them overdraft facilities on their accounts up to an agreed maximum. By this means the financial problem of buffer stocks and "ever-normal granaries" could be effectively attacked.

(4) The Union might be linked up with a Board for International Investment. It might act on behalf of such a Board and collect for them the annual service of their loans by automatically debiting the clearing account of the country concerned. The statistics of the clearing accounts of the member States would give a reliable indication as to which countries were in a position to finance the Investment Board, with the advantage of shifting the whole system of clearing credits and debits nearer to equilibrium.

(5) There are various methods by which the Clearing Union could use its influence and its powers to maintain stability of prices and to control the Trade Cycle. If an International Economic Board is established, this Board and the Clearing Union might be expected to work in close collaboration to their mutual advantage. If an International Investment or Development Corporation is also set up together with a scheme of Commodity Controls for the control of stocks of the staple primary products, we might come to possess in these three Institutions a powerful means of combating the evils of the Trade Cycle, by exercising contractionist or expansionist influence on the system as a whole or on particular sections. This is a large and important question which cannot be discussed adequately in this paper; and need not be examined at length in this place because it does not raise any important issues affecting the fundamental constitution of the proposed Union. It is mentioned here to complete the picture of the wider purposes which the foundation of the Clearing Union might be made to serve.

40. The facility of applying the Clearing Union plan to these several purposes arises out of a fundamental characteristic which is worth pointing out, since it distinguishes the plan from those proposals which try to develop the same basic principle along bilateral lines and is one of the grounds on which the Plan can claim superior merit. This might be described as its "anonymous" or "impersonal" quality. No particular member States have to engage their own resources as such to the support of other particular States or of any of the international projects or policies adopted. They have only to agree in general that, if they find themselves with surplus resources which for the time being they do not themselves wish to employ, these resources may go into the general pool and be put to work on approved purposes. This costs the surplus country nothing because it is not asked to part permanently, or even for any specified period, with such resources, which it remains free to expend and employ for its own purposes whenever it chooses; in which case the burden of finance is passed on to the next recipient, again for only so long as the recipient has no use for the money. As pointed out above, this merely amounts to extending to the international sphere the methods of any domestic banking system, which are in the same sense "impersonal" inasmuch as there is no call on the particular depositor either to support as such

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the purposes for which his banker makes advances or to forgo permanently the use of his deposit. There is no countervailing objection except that which applies equally to the technique of domestic banking, namely that it is capable of the abuse of creating excessive purchasing power and hence an inflation of prices. In our efforts to avoid the opposite evil, we must not lose sight of this risk, to which there is an allusion in 39 (5) above. But it is no more reason for refusing the advantages of international banking than the similar risk in the domestic field is a reason to return to the practices of the seventeenth century goldsmiths (which are what we are still following in the international field) and to forgo the vast expansion of production which banking principles have made possible. Where financial contributions are required for some purpose of general advantage it is a great facility not to have to ask for specific contributions from any named country, but to depend rather on the anonymous and impersonal aid of the system as a whole. We have here a genuine organ of truly international government.

X. The Transitional Arrangements

41. It would be of great advantage to agree the general principles of the Clearing Union before the end of the war, with a view to bringing it into operation at an early date after the termination of hostilities. Major plans will be more easily brought to birth in the first energy of victory and whilst the active spirit of united action still persists, than in days of exhaustion and reaction from so much effort which may well follow a little later. Such a proposal presents, however, something of a dilemma. On the one hand, many countries will be in particular need of reserves of overseas resources in the period immediately after the war. On the other hand, goods will be in short supply and the prevention of inflationary international conditions of much more importance for the time being than the opposite. The expansionist tendency of the plan, which is a leading recommendation of it as soon as peace-time output is restored and the productive capacity of the world is in running order, might be a danger in the early days of a sellers' market and an excess of demand over supply.

42. A reconciliation of these divergent purposes is not easily found until we know more than is known at present about the means to be adopted to finance post-war relief and reconstruction. If the intention is to provide resources on liberal and comprehensive lines outside the resources made available by the Clearing Union and additional to them, it might be better for such specific aid to take the place of the proposed overdrafts during the "relief" period of (say) two years. In this case credit clearing balances would be limited to the amount of gold delivered to the Union, and the overdraft facilities created by the Union in favour of the Relief Council, the International Investment Board or the Commodity Controls. Nevertheless, the immediate establishment of the Clearing Union would not be incompatible with provisional arrangements, which could take alternative forms according to the character of the other "relief" arrangements, qualifying and limiting the overdraft quotas. Overdraft quotas might be allowed on a reduced scale during the transitional period. Or it might be proper to provide that countries in receipt of relief or Lend-Lease assistance should not have access at the same time to overdraft facilities, and that the latter should only become available when the former had come to an end. If, on the other hand, relief from outside sources looks like being inadequate from the outset, the overdraft quotas may be even more necessary at the outset than later on.

43. We must not be over-cautious. A rapid economic restoration may lighten the tasks of the diplomatists and the politicians in the resettlement of the world and the restoration of social order. For Great Britain and other countries outside the "relief" areas the possibility of exports sufficient to sustain their standard of life is bound up with good and expanding markets. We cannot afford to wait too long for this, and we must not allow excessive caution to condemn us to perdition. Unless the Union is a going concern, the problem of proper "timing" will be nearly insoluble. It is sufficient at this stage to point out that the problem of timing must not be overlooked, but that the Union is capable of being used so as to aid rather than impede its solution.

XI. Conclusion

44. It has been suggested that so ambitious a proposal is open to criticism on the ground that it requires from the members of the Union a greater surrender of their sovereign rights than they will readily concede. But no greater surrender is required than in a commercial treaty. The obligations will be entered into voluntarily and can be terminated on certain conditions by giving notice.

45. A greater readiness to accept super-

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national arrangements must be required in the post-war world. If the arrangements proposed can be described as a measure of financial disarmament, there is nothing here which we need be reluctant to accept ourselves or to ask of others. It is an advantage, and not a disadvantage, of the scheme that it invites the member States to abandon that licence to promote indiscipline, disorder and bad-neighbourliness which, to the general disadvantage, they have been free to exercise hitherto.

46. The plan makes a beginning at the future economic ordering of the world between nations and "the winning of the peace." It might help to create the conditions and the atmosphere in which much else would be made easier.

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POSTWAR INTERNATIONAL MONETARY STABILIZATION

On July 12, 1943, the Canadian Minister of Finance, the Hon. J. L. Ilsley, tabled in the Canadian House of Commons a document containing general observations of Canadian experts on plans for postwar monetary organization and tentative draft proposals of these experts for an International Exchange Union. As explained in the general observations, the proposals of the Canadian experts, like the British and American plans,[1] are provisional and tentative in character. Mr. Ilsley, in presenting the Canadian plan to the House of Commons, stated that "the document does not necessarily represent the views of this Government by which, indeed, it has not as yet been considered, and involves no commitment whatsoever as to the attitude which may later be taken by the Government when formal internatonal discussions are held to deal with the problem in question." The text of this document is given below, with certain minor modifications in the headings.

General Observations of Canadian Experts on Plans for Postwar Monetary Organization

1. Officials of the Canadian Government have had an opportunity of examining the United States Treasury Department Preliminary Draft Outline of a Proposal for a United and Associated Nations Stabilization Fund, and have received explanations of this proposal from American officials. A similar procedure was followed in connection with the paper containing proposals by British experts for an International Clearing Union. The discussions with both British and American officials have been entirely exploratory and the Canadian Government has not been committed to any course of action as a result of these conversations. The American and British experts, for their part, have laid stress on the fact that their proposals are tentative in character, and have made it clear to representatives of the Canadian Government (as well as to those of other Governments) that they would welcome critical comment and constructive suggestions. Canadian experts who have been studying the British and the American proposals are, therefore, led to make certain observations of a general character and to submit an alternative plan. Like the British and the American plans, the proposals of the Canadian experts are provisional and tentative in character; they incorporate important features of both the American and the British plans and add to them certain new elements.

2. The main objectives of the American and the British proposals appear to be identical, namely, the establishment of an international monetary mechanism which will aid in the restoration and development of healthy international trade after the war, which will achieve a high degree of exchange stability, and which will not conflict with the desire of countries to carry out such policies as they may think appropriate to achieve, so far as possible, economic stability at a high level of employment and incomes. To aid in the achievement of these objectives, the British and American experts have proposed the establishment of a new international monetary institution. Their proposals are large in conception, but no larger than the problem itself. There is every reason to improve the structure and operation of the monetary mechanism on the basis of experience. But there is no reason why proposals should be based exclusively on the limited, and on the whole, bad experience of the past two decades. Unless dependable exchange and credit relations between countries can be achieved before the stresses and strains of the postwar period begin, there is little likelihood that irreparable damage can be avoided.

3. If plans for international monetary organization are to be successful, other problems—by no means less difficult or less important—will also have to be faced and solved by joint international action. It would, indeed, be dangerous to attach too much importance to monetary organization of and by itself, if this resulted in neglect of other problems which may be even more important and difficult, or in a misguided faith that with a new form of monetary organization the other problems would solve themselves. In the international field alone (to say nothing of the innumerable domestic problems involved in the profound changes in the structure of production and employment which have taken place in all belligerent and many nonbelligerent countries due to the exigencies of the war) it will be necessary to attack frontally such problems as commercial policy, international investment, the instability of primary product

[1] For texts of these plans, see the Bulletin for June 1943, pp. 501-521.

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prices—to name but a few. No international monetary organization, however perfect in form, could long survive economic distortions resulting from bilateralist trade practices, continued refusal of creditor countries to accept imports in payment of the service on their foreign investment or to invest their current account surplus abroad, or enormous fluctuations in food and raw material prices such as characterized the years between the two wars. But the fact that there are many problems to be faced cannot be used as an excuse for facing none. A start must be made somewhere, and for the reasons given in paragraph 5, the problem of international monetary organization is a logical and fruitful starting-place.

4. The establishment of an international monetary organization is no substitute for the measures of international relief and rehabilitation which will be required as the war draws to its conclusion and afterwards; and in the view of the Canadian experts any monetary organization which is set up should not be called upon to finance transactions of this nature. Some continuing and stable arrangements regarding international long-term investment are also clearly essential if equilibrium is to be achieved and maintained. Nor should it be thought that the proposed international monetary institution is merely an instrument of the transition period from war to peace. True, it has special importance in this period but it should be designed as a permanent institution and not as a stop-gap to function during a relatively short period of time.

5. An important, perhaps the most important, feature of the British and the American proposals is the provision in both plans for the extension of credit between countries. The two plans differ as regards the precise techniques to be used in extending credit and as regards the amounts which may be involved; but both plans provide that foreign credits are to be available under certain conditions to countries having need of them, and that they shall be made available through an international monetary organization rather than through bilateral arrangements between pairs of countries. The provision for credit extension is nothing more nor less than a straightforward and realistic recognition of the fact that at the end of the war a large number of countries, whose import requirements will be considerable, will not have immediately available a sufficient reserve of foreign assets to enable them to expose themselves to the risk of participation in a world economic system. An interval will be needed to give time for adjustment and reorganization. If the penury in foreign means of payment of certain important countries is to be allowed to fix the pattern of postwar trading and domestic policies, then all can look forward to penury—no country, rich or poor, will escape the impoverishment resulting from the throttling of international trade which will result.

6. It is useful to consider what would happen if no action were taken to set up international machinery of the general character suggested by the experts of the United States and the United Kingdom. Theoretically, one alternative would be immediate cash settlement for all international transactions. But how can cash be produced for purchases abroad? Only by selling goods or services abroad, or by disposing of acceptable foreign assets such as securities and gold. The facts regarding the distribution of the world's monetary gold reserves and the changes which have taken place in the course of the war in various countries' holdings of foreign securities are too well known to require elaboration. Broadly speaking, and allowing for certain exceptions and time-lags, a cash basis for the settlement of international transactions would mean that any country's capacity to export would be limited to the amount of its own currency it made available to foreign countries through its imports and other current payments abroad—in other words, trade would in effect be reduced to barter. In point of fact, however, there is no possibility that countries would for long allow themselves to be confined in such a strait jacket. Faced with the problem of an unsalable surplus of export goods and with consequent domestic unemployment, they would refuse to accept the penalty of disorganization of export trade if that penalty could be avoided, even temporarily, by the extension of credit. Countries would embark on bilateral credit arrangements, no doubt linked with deals relating to the purchase and sale of goods; and as soon as certain countries began to adopt this course others would find that they had to follow suit to protect their trade interests. It is difficult to imagine a more fruitful source of international dissension than a competitive trade and credit extension programme of this character.

The Canadian experts believe it to be true, therefore, that the Stabilization Fund or Clearing Union plans do not involve a decision as to whether foreign credits shall be extended or withheld. In some form or other, credit will in fact be extended; and the decision which has to be taken relates primarily to the method employed. For the reasons given above, interna-

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tional arrangements are greatly to be preferred to bilateral deals.

7. This leads to the question, how much credit should be made available through the international monetary mechanism? A vital feature of any plan of this sort is the provision it makes for the borrowing power of each participant and for the contribution to the resources of the organization by the participating countries through the provision of capital, the accumulation of balances or through loans. Some concern has been expressed in regard to the size of the commitment which may be assumed by prospective creditors. It is probable that Canada will be a creditor country on current account, and the Canadian experts have therefore given careful thought to this aspect of the arrangements.

8. There is one preliminary observation which should be made in this connection. It would be a distortion of the realities of the situation for any country, or its citizens, to regard the willingness to provide resources to an international organization of the general character proposed by the British and the American experts as an act of generosity which is performed for the sake of foreign countries. Resources are provided to the organization first, because all have a stake in recreating a functioning international economic system and secondly, because for each individual country the realistic alternatives in the form of trade disorganization are costlier than the provision of resources. Moreover, and most important of all, the resources provided are not given away; they are fully secured by the organization's holdings of gold and national currencies. It can only lead to confusion of thought to regard participation in such plans as these as in any way similar in character to participation in international relief schemes, important and necessary though the latter may be.

9. It seems apparent that, in one way or another, substantial unregulated movements of capital between countries will be prevented. In these circumstances, countries will, by and large, lose or gain foreign exchange to the extent, but only to the extent, of the unbalance in their current account transactions with the rest of the world. If a country is building up a substantial credit position, it will know that this situation is produced because it is selling more goods and services abroad than it is buying abroad. If it is dissatisfied with this position, if it wishes to reduce its credit balance, it has through participation in the proposed organization lost no single one of the courses of action ever open to it. True, it is by no means easy for a country, acting alone, to solve problems of unbalance. But as a last resort a country *can* find a solution by unilateral action. It can do the only things it ever could do in these circumstances; it can buy more abroad—goods, services or investments; or it can sell less abroad. It is therefore quite wrong to assume that countries participating in the proposed institution would, because of this participation, be left without control over their international commitments. It may be, and no doubt is, useful to erect danger signals at various stations along the road followed by both debtors and creditors. Such signals are useful reminders. But there is nothing to prevent either creditor or debtor from taking remedial action at any time.

10. If the foregoing is a correct analysis of the situation—and it would appear to be a simple statement of fact—creditors need not be unduly concerned about the possible size of their investment in the Fund, knowing that the ultimate actual size of their stake can be determined by their own course of action from day to day and from year to year. Nevertheless, even the appearance of an unlimited commitment is probably undesirable and in the tentative proposals of Canadian experts, a limit is placed on the obligation of each participant to provide resources to the institution. But there is less real danger to the interests of creditor countries in the establishment of a Fund or a Union whose potential resources are unnecessarily large (and may in consequence never be entirely used) than there is in the establishment of an institution whose resources are obviously too small. The interests of all will best be served by providing a fair degree of latitude, a satisfactory breathing-space—to debtors and creditors alike. If its objectives are to be achieved, the resources must be large enough to permit time for basic readjustments to be accomplished; they must be such that the organization will command general confidence in its own stability. For if this is not the case, what will happen? It will be believed that certain currencies are likely to become "scarce" currencies—a belief which will be reinforced by the reduction in the institution's holdings of that particular currency. Countries which are likely to require a "scarce" currency will hasten to make their purchases which are payable in that currency. As the holdings of the "scarce" currency are used up, as discussions and arguments commence regarding an enlargement of the quota or some other form of extension of credit, grave misgivings in regard to the international situation will arise. The position will be very much akin to that of a bank whose

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cash reserves are feared to be insufficient. There will be a run on that currency in the institution; and if the currency concerned is an important one, the international effects will be very serious indeed. No form of international monetary organization can continuously compensate for chronic maladjustments in the current account balance of payments of the countries which may be concerned, but it would be most unwise to set up machinery which stood a fair chance of facing a crisis at a comparatively early date.

11. To avoid misunderstanding it should be emphasized that it would be extremely dangerous to use short-term credits as a device to cover up basically unsound positions. This would be no less disastrous in the international than in the domestic field, and any monetary system which made such an attempt on a large scale would inevitably break down. A chronic unbalance in current account balances of international payments which is not matched by voluntary long-term capital movements—lending abroad by creditor countries, and borrowing abroad by debtor countries—is symptomatic of a deep-seated maladjustment which has to be dealt with if equilibrium is to be restored. No debtor country can live beyond its resources indefinitely; and no creditor country can persistently refuse to lend its surplus abroad or make other adjustments to its creditor position without ripping the international fabric. But time is required for adjustments to be made and for remedial measures to have their effects, and the contention of this paper is that the time allowed must be adequate. More time may be purchased at a smaller real cost than less time.

12. There is one final observation of a general character which should be made. The new international monetary institution which it is proposed to establish will be neither omniscient nor omnipotent. Its aim will be to promote conditions in which member countries are free to carry out sound economic policies for the welfare of their own people and in which they will not be induced or forced, for lack of organized cooperation, to pursue policies which impoverish themselves and contribute to the impoverishment of the world. The organization should be international and not supernational. Nations should enter into the proposed agreement for common purposes and advantages, realizing that without such agreement the common purposes cannot be achieved. In their national policies, countries should be limited only by their own will in entering and remaining in the organization. If the proposed institution functions well, it will have at its disposal more information regarding the currents of international financial transactions and the causes of disequilibrium than has ever been available before. It will be in a position to offer informed and disinterested advice to its members. It may be hoped that the quality of the advice offered will be such that it will carry great weight. But no member state should be asked to bind itself in all circumstances to follow the advice given by the organization. Moreover, if a country feels at any time that its national interests are being jeopardized by the actions of the organization, and is willing to sacrifice the advantages of continued membership, it should be free to withdraw, after making provision to liquidate its obligations to the organization or, if the country is a creditor, it should have returned to it its original contribution to the resources of the organization. The proposals here advanced are put forward in the belief that a soundly conceived international agreement can give greater scope for national policies than can exist outside it.

13. To sum up these general observations, it is suggested that:

(a) An international agreement for the establishment of an international monetary organization which involves the extension of credit is essential if international cooperation in the postwar world is to be achieved.

(b) Such machinery will deal with only one of the numerous problems which must be faced, but it is a logical and convenient starting place for joint international action.

(c) The credit made available through the international monetary organization should be adequate to deal with that portion of current account surpluses and deficits which is not met by relief and other concerted international action in the years immediately after the war; it should be sufficient to provide a firm basis on which multilateral world trade can be re-established after the war; and it should provide time to countries which find their international accounts unbalanced to take the necessary corrective measures to adjust their position.

(d) The extension of credit is not a cure-all; it merely provides time for adjustments; and unless unbalanced positions (except those accompanying long-term capital movements) are brought into equilibrium, any arrangements made will break down.

(e) No country participating in the arrange-

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ments loses control over the size of its international commitments, since it can determine their size by its own action, if it wishes to do so.

(f) No country participating in the arrangements loses control over its domestic economic policies.

Tentative Draft Proposals of Canadian Experts for an International Exchange Union*

I. Purposes of the Union

1. To provide for stability of exchange rates and to provide an orderly method for their determination.

2. To provide a convenient clearing mechanism to settle balances in international payments.

3. To provide to all countries access to foreign exchange resources in order to reduce the danger that economic and commercial policies in the period immediately after the war will be largely determined by a shortage of foreign exchange and to enable countries thereafter to be guided in their economic and commercial policies by long-run considerations when faced with a temporary reduction of foreign markets.

4. To aid in the achievement of international equilibrium by measures designed to prevent excessive short-term borrowing through the Union or the excessive accumulation of uninvested foreign surpluses.

5. To contribute to the re-establishment and development of a multilateral trading system and to the elimination of discriminatory trading and currency practices.

II. Resources of the Union

Member countries shall agree to make the following resources available to the Union:

1. A capital subscription to the amount of the quota assigned to each member country, the aggregate of such quotas to be 8,000 million dollars.

(a) Determination of quotas
The quota for each member country shall be determined by a formula which will give due regard to factors such as international trade, national income, and holdings of gold and foreign exchange convertible into gold. A special assessment may be levied in any case where this formula would be inappropriate.

(b) Payment of capital subscriptions
The capital subscription of each member country shall be paid up in full on or before the date set by the Governing Board of the Union on which the Union's operations are to begin. Each member country shall pay in at least 15 per cent of its quota in gold and the balance in national currency; a country may substitute gold for national currency in meeting its quota requirements. The Union may make such arrangements as it deems appropriate to provide a period of time within which countries having less than 300 million dollars in gold or foreign exchange convertible into gold in official exchange reserves may pay up their gold contribution in full, the equivalent in national currency to be paid in the interval. Notwithstanding the provisions of subsequent paragraphs, the Union shall sell foreign exchange to such member countries for the purpose of acquiring gold to pay their capital subscriptions.

(c) Change in quotas
The Board may from time to time change the quotas of particular member countries, provided, however, that in voting on proposals to increase quotas the voting strength of each member shall be increased or decreased to take account of the Union's net sales or purchases of the currency of each member country in accordance with the weighted voting formula set out in IX, 3, below. No increase shall, however, be made in the quota of any country without the consent of the representative of the country concerned.

2. Loans to the Union, as required, in amounts not exceeding 50 per cent of the quota of each member country.

(a) Conditions of borrowing
The terms and conditions of loans made by member countries to the Union under the provisions of paragraph II, 2, shall be set out in the rules and regulations of the Union. The Union's authority to borrow domestic currency from member countries in amounts up to 50 per cent of their quotas shall be a revolving authority. The union shall not exercise its right to borrow until it has used its available gold resources to acquire additional supplies of the currency in question. Subject to the provisions of the preceding sentence, the

* It might be preferable to refer to the proposed organization as the International Exchange Fund. However, to avoid any possible misunderstanding which might arise through the use of the term Fund to describe both the association of members and the resources of the institution, the term Union has been used throughout this document to describe the organization itself.

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Union must exercise its right to borrow when its holdings of the currency of any member country have been reduced to 10 per cent of the quota of that member country. When the Union exercises its right under the provisions of paragraph II, 2, to borrow additional supplies of the currency of any member country it shall have the duty to attempt to improve its position in the currency concerned by acquiring the currency or gold from the holdings of other member countries for payment in their national currencies or in other foreign exchange they need.

(b) Conditions of repayment
The Union shall have the right to repay loans contracted under the provisions of paragraph II, 2, at any time. The member country making the loan shall have the right to demand repayment in gold to the extent of the Union's gold holdings at any time and shall also have the right to demand repayment in its national currency provided that such repayment does not reduce the Union's holdings of that currency below 50 per cent of the quota of the member country. Member countries shall agree to give 30 days' notice of demand for repayment of loans made to the Union under the provisions of the present article.

III. Monetary Unit of the Union

1. The monetary unit of the Union shall be an international unit of such name as may be agreed (hereafter referred to as the Unit) and it shall consist of 137 $\frac{1}{7}$ grains of fine gold. The accounts of the Union shall be kept and published in terms of the Unit.

2. The value of the Unit in terms of gold shall not be changed without the approval of four-fifths of member votes.

3. Member countries shall agree with the Union the initial values of their currencies in terms of gold or the Unit and, except as provided in paragraph IV,2, below, shall undertake not to alter these values without the approval of the Union.

4. Deposits in terms of the Unit may be accepted by the Union from member countries upon the delivery of gold to the Union. Such Unit deposits shall be transferable to other member countries. They shall be redeemable in gold and the Union shall maintain at all times a 100 per cent reserve in gold against all Unit deposits.

IV. Exchange Rates

1. The Union shall fix, on the basis of exchange rates initially agreed between it and each member country, the rates at which it will buy and sell one member's currency for another's, and the rates in local currencies at which it will buy and sell gold. The spread between the Union's buying and selling rates for member currencies and for gold shall not exceed 1 per cent. Except as provided in paragraph IV, 2, below, member countries shall agree not to change the initially agreed exchange rates without the approval of the Union and any country which alters the value of its currency without the consent of the Union shall be declared in default of its obligations and become subject to the penalties provided in XI, 1, below.

2. Notwithstanding the provisions of paragraph IV, 1, above, any member country which is a net purchaser of foreign exchange from the Union (arising from other than capital account transactions) to the extent of at least 50 per cent of its quota and has so been on the average of the preceding 12 months shall be entitled to depreciate its exchange to the maximum extent of 5 per cent; provided, however, that the provisions of this paragraph shall not apply to any country which holds independent official reserves of gold and foreign currencies freely convertible into gold in amounts exceeding 50 per cent of its quota. No country shall be entitled to repeat the exchange depreciation provided for in this paragraph without the specific approval of the Union.

In the course of conversation in Washington the Canadian experts expressed the view that it might be desirable to provide for a somewhat greater permissive range of depreciation in exchange rates with somewhat different safeguards than those incorporated in paragraph IV, 2. The following is a draft of a paragraph which might be substituted for paragraph IV, 2, of the text:

"Notwithstanding the provisions of paragraph IV, 1, above, any member country which has had an adverse balance of payments on current account during a two year period of such magnitude that it has utilized, to cover this deficit, 50 per cent of its independent gold and foreign exchange reserves and is, in addition, a net purchaser of foreign exchange from the Union to the extent of 50 per cent of its quota shall be entitled to depreciate its exchange rate to the maximum extent of 10 per cent. The provisions of this paragraph shall only be applicable once in respect of each member country

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unless the specific approval of the Union has been obtained. Any member country intending to depreciate its exchange rate under the provisions of this paragraph shall inform the management of the Union in advance and shall afford it an opportunity to make such observations as it deems appropriate before taking such action."

3. No change in the value of currencies of member countries shall be permitted to alter the value of the assets of the Union in terms of gold or the Unit. Thus if the Union approves a reduction in the value of the currency of a member country, or if a country depreciates its exchange under the provisions of the preceding paragraph, or if a significant depreciation in the value of the currency of a member, as determined by quotations on the exchange markets of other member countries, has in fact occurred, that country must on request deliver to the Union an amount of its local currency equal to the decrease in the value of that currency held by the Union. Likewise, if the currency of a particular country should appreciate, the Union must return to that country an amount in the currency of that country or in gold equal to the resulting increase in the value of the Union's holdings.

V. Operations of the Union—Provisions of Special Applicability to Deficit Countries

1. The Union shall have the power to sell to the Treasury of any member country (or exchange fund or central bank acting as its agent for the purpose) at the rate of exchange established by the Union, currency of any country which the Union holds, subject to the following provisions:

(a) Without special permission, no country shall be a net purchaser of foreign exchange from the Union except for the purpose of meeting an adverse balance of payments on current account and the Union may at any time limit the amounts of foreign exchange to be sold to any member country which is permitting significant exports of capital while having an adverse balance of payments on current account.

(i) A county shall be regarded as a net purchaser of foreign exchange if as a result of the Union's purchases and sales of currencies the Union's holdings of its currency rise above the amount originally provided to the Union by way of capital subscription.

(ii) The Union may require any member country to furnish at periodic intervals statistics of its balance of international payments on current account and on capital account and statistics of gold and foreign exchange holdings, public and private. Each such member country shall agree to furnish officers of the Union with detailed explanations of the basis on which such statistics are computed. If at any time the Governing Board has reason to believe that an outflow of capital from any member country is resulting directly or indirectly in net purchases of foreign exchange by that country from the Union, it shall have the right to require a control of outward capital movements as a condition of making additional sales of foreign exchange to such country. Without limiting the generality of the foregoing, the Union shall normally require any member country which has been a net purchaser of foreign exchange to the extent of 25 per cent of its quota to impose restrictions on outward capital movements if none exist.

(iii) In considering applications from countries which have been net purchasers of foreign exchange from the Union for the special permission referred to in paragraph V, 1, (a), to purchase foreign exchange for purposes other than the meeting of an adverse balance of payments on current account, the Governing Board shall give careful attention to applications for foreign exchange to facilitate the adjustment of foreign debts where this is deemed to be desirable from the point of view of the general economic situation and shall also give special attention to applications for foreign exchange by member countries not in default on their foreign obligations for the purpose of maintaining contractual principal payments on foreign debt.

(b) In order to promote the most effective utilization of existing stocks of gold and foreign exchange, no member country shall have the right to be a net purchaser of foreign exchange from the Union so long as that country's holdings of gold and foreign currencies freely convertible into gold (including private as well as official holdings) exceed its quota.

In interpreting this provision the Governing Board shall give special consideration to the position of certain Asiatic countries where gold has long been used as private treasure.

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(c) In general, the Union shall have the power to sell foreign exchange for domestic currency to member countries up to 200 per cent of the quota of each such member country. Net sales of foreign exchange shall not exceed 50 per cent of the quota of each member country during the first year and the cumulative net sales shall not exceed 100 per cent, 150 per cent, or 200 per cent during the first two, three, and four years of the operation of the Union.

On special vote of the Governing Board, in which voting strength shall be weighted to allow for the Union's net purchases and sales of each member country's currency in accordance with the provisions described in paragraph IX, 3, below, the Union may purchase any currency in excess of these limits provided that (a) the country whose currency is being acquired by the Union agrees to adopt and carry out measures recommended by the Union to correct the disequilibrium in its balance of payments, or (b) it is the view of the Governing Board that the country's prospective balance of payments is such as to warrant the expectation that the excess currency holdings of the Union can be disposed of in a reasonable time.

(d) In order to promote the most effective utilization of existing stocks of gold and foreign exchange the Union may, as a condition of making further sales of foreign exchange to any member country which would bring its net purchases to an amount in excess of 50 per cent of its quota, require such country to sell to the Union, for domestic currency, appropriate amounts of any reserves it (or its residents) may hold of gold or foreign exchange acceptable to the Union.

(e) Notwithstanding the provisions of paragraph (c) above, whenever a member country is exhausting its quota more rapidly than is warranted in the judgment of the Governing Board, the Board may make such recommendations to that country as it thinks appropriate with a view to correcting the disequilibrium, and may place such conditions upon additional sales of foreign exchange to that country as it deems to be in the general interest of the Union.

2. A charge of 1 per cent per annum payable in gold shall be levied against member countries on the amount of their currency held by the Union in excess of the quotas of such countries.

VI. Operations of the Union—Provisions of Special Applicability to Surplus Countries

1. In order to promote the most effective utilization of the available and accumulating supply of gold and foreign exchange resources of member countries, each member country shall, on request of the Union, sell to the Union, for its local currency or for foreign currencies which it needs, all gold and foreign exchange it acquires in excess of the amounts held immediately after joining the Union.

For the purpose of this provision, only free foreign exchange and gold are considered. Each member country shall agree to furnish the Union with periodic reports of gold and foreign exchange holdings, public and private.

2. When the Union's operations have resulted in excess sales of the currency of any member country to the extent of 75 per cent of the quota of that country the Union may, in order to increase its resources of the currency in question, attempt to arrange, in cooperation with such agencies as may be established to promote international investment, with the member country a programme of foreign capital investment (or repatriation) and may sell foreign exchange to facilitate such capital movements.

3. When the Union's holdings of the currency of a member country are being exhausted more rapidly than is warranted in the judgment of the Governing Board, the Board may make a report on the situation. Without restricting the generality of the foregoing, whenever the Union's operations have resulted in excess sales of the currency of any member country to the extent of 85 per cent of the quota of that country, the Union has the authority and the duty to render to the country a report embodying an analysis of the causes of the depletion of its holdings of the currency and recommendations appropriate to restore the equilibrium of the international balances of the country concerned. Such recommendations may relate to monetary and fiscal policies, exchange rate, commercial policy, and international investment.

The Board member of the country in question shall be a member of the Union Committee appointed to draft the report. The report shall be sent to all member countries and, if deemed desirable, made public.

4. The Union shall have the right at any time to enter into arrangements with any member country to borrow additional supplies of its

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currency on such terms and conditions as may be mutually satisfactory.

5. The Union shall have the right at any time to enter into special arrangements with any member country for the purpose of providing an emergency supply of the currency of any other member country on such terms and conditions as may be mutually satisfactory.

6. Whenever it becomes apparent to the Governing Board that the anticipated demand for any currency may soon exhaust the Union's holdings, the Governing Board shall inform the member countries of the probable supply of this currency and of a proposed method for its equitable distribution together with suggestions for helping to equate the anticipated demand and supply.

(a) The provisions of paragraph VI,6, shall come into force only after the Union has exercised in full its right under paragraph II,2, to borrow additional supplies of the currency of the member country and after the Union has taken such further steps to increase its supply of this currency as it has deemed appropriate and found possible.

(b) The provisions of paragraph V,1, (c), shall, if necessary, be restricted by the duty of the Union to assure an appropriate distribution among various members of any currency the Union's supply of which is being exhausted.

(c) In rationing its sales of any scarce currency the Union shall be guided by the principle of satisfying the most urgent needs from the point of view of the general international economic situation. It shall also consider the special needs and resources of the various countries making the request for the scarce currency.

(d) Member countries shall agree that restrictions imposed by other member countries on the importations of goods from a country whose currency is being rationed by the Union shall, for the duration of such rationing, not be regarded as constituting an infraction of the most favoured nation obligations of commercial treaties except in the case of countries holding official reserves of gold and the currencies of member countries in amounts exceeding 50 per cent of their quotas.*

* This proposal will clearly have to be reviewed in the light of such general arrangements as may be made regarding international commercial policy and coordinated with those arrangements.

7. Whenever the Governing Board has, under the provisions of the preceding paragraph, taken steps to ration the Union's supply of the currency of any member country, it may require the remaining member countries to prevent the sale by their residents of each other's currencies, including bills of exchange, in the country whose currency is being rationed and to prevent the purchase by their residents of the rationed currency through the exchange markets of nonmember countries. In addition, whenever the Board has taken steps to ration the Union's supply of the currency of any member country, it shall have the duty to re-examine the prevailing exchange rates and to recommend such changes as it may regard as appropriate to the changed circumstances.

VII. Powers of the Union–General

1. The Union shall have the powers to take such actions as are required to carry out the operations enumerated in the preceding paragraphs. For greater clarity, the Union shall have the power to buy, sell and hold gold, currencies, and government securities of member countries; to accept deposits and to earmark gold; to issue its own obligations and to discount or offer them for sale in member countries; and to act as a clearing house for the settling of international movements of funds and gold.

Member countries agree that all of the Union's local currency holdings shall be free from any restrictions as to their use for payments within the country concerned.

2. When the Union's holdings of the local currency of a member country exceed the quota of that country the Union shall have the power to resell to the member country, upon its request the Union's excess holdings of its currency for gold or acceptable foreign exchange.

3. The Union shall have the power to invest any of its currency holdings in government securities of the country of that currency, provided that the Board representative of the country concerned approves.

4. The Union shall have the power to buy and sell currencies of nonmember countries, but shall not normally hold the currencies of nonmember countries beyond 60 days after the date of purchase.

5. The Union shall have the power to levy upon member countries a pro rata share of the expenses of operating the Union, such levy to be made, however, only to the extent that the earnings of the Union are inadequate to meet its current expenses.

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6. The Union shall make a service charge of one-quarter per cent on all gold transactions.

7. In conducting its own operations the Union shall have the power to deal only with or through (a) the Treasuries, exchange funds, or fiscal agents of governments, (b) central banks with the consent of the member of the Board representing the country in question, and (c) any international banks owned predominantly by member countries. The Union may, nevertheless, with the approval of the member of the Board representing the country concerned, sell its own securities directly to the public or to institutions of member countries.

8. The Union shall have the power and the duty to cooperate with such other institutions of an international character as may exist or be established to deal with matters of international concern, including but not restricted to international investment and commercial policy.

VIII. Abnormal Wartime Balances

During the first two years of operation the Union shall have the right to purchase abnormal wartime balances held by member countries in other member countries for the national currency of the country selling such balances or for foreign exchange needed to meet current account deficits in such country's balance of international payments, in amounts not exceeding in the aggregate 5 per cent of the quotas of all member countries. At the end of two years of operation the Governing Board shall propose a plan for the gradual further liquidation, in whole or in part, through the Union, of abnormal wartime balances lying to the credit of member countries in other member countries and other financial indebtedness of a similar character. If the Governing Board feels unable to recommend that the Union's resources be used for this purpose it shall have the duty to propose some other method by which the problem can be considered.

IX. Voting Power

1. Each member country shall have 100 votes plus one vote for the equivalent of each 100,000 Units of its quota.

2. All decisions, except where specifically provided otherwise, shall be made by majority of the member votes.

3. Notwithstanding the provisions of paragraph 1 above, in any vote on a proposal to increase the quota of any member country, member countries shall acquire one additional vote for each 100,000 Units of their contribution to the resources of the Fund (by way of original capital subscription or by way of loans made under the provisions of paragraph II,2) which has been utilized, net, on the average of the preceding year by the Union for sale to other member countries; and member countries shall lose one vote for each 100,000 Units of their net utilization of the resources of the Union on the average of the preceding year.

X. Management

1. The administration of the Union shall be vested in a Governing Board. Each government shall appoint a representative and an alternate who shall serve on the Board for a period of three years subject to the pleasure of their government. Representatives and alternates may be reappointed.

2. The Governing Board shall select a Governor of the Union and one or more assistants. The Governor shall become an ex officio member of the Board and shall be chief of the operating staff of the Board. The Governor and his assistants shall hold office for five years and shall be eligible for re-election and may be removed for cause at any time by the Board.

3. The Governor of the Union shall select the operating staff in accordance with regulations established by the Governing Board. Members of the staff may be made available upon request of member countries or of other institutions of an international character for consultation in connection with economic problems and policies.

4. The Governing Board shall appoint from among its members an Executive Committee to consist of not fewer than eleven members. The Chairman of the Board shall be the Chairman of the Executive Committee and the Governor of the Union shall be ex officio a member of the Executive Committee. Meetings of the Executive Committee shall be held at least once every two months and more frequently if the Executive Committee shall so decide.

5. The Governing Board shall hold an annual meeting and such other meetings as it may be desirable to convene. On request of member countries casting one-fourth of the votes the Chairman shall call a meeting of the Board for the purpose of considering any matters placed before it.

6. Net profits earned by the Union shall be distributed in the following manner:

(a) 50 per cent to reserves until the reserves are equal to 10 per cent of the aggregate quotas of the Union,

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(b) 50 per cent to be divided each year among the members in proportion to their quotas.

XI. Withdrawal and Expulsion from the Union

1. A country failing to meet its obligations to the Union may be suspended provided a majority of the member votes so decides. While under suspension the country shall be denied the privileges of membership but shall be subject to the same obligations as any other member of the Union. At the end of one year the country shall be automatically dropped from membership unless it has been restored to good standing by a majority of the member votes.

2. Any country which has been a net purchaser of foreign exchange from the Union may withdraw from the Union by giving notice and its withdrawal shall take effect one year from the date of such notice. During the interval between notice of withdrawal and the taking effect of the notice such country shall be subject to the same obligations as any other member of the Union.

3. Any country which has not been a net purchaser of foreign exchange from the Union may withdraw from the Union by giving notice and its withdrawal shall take effect 30 days from the date of such notice. During the interval between notice of withdrawal and the taking effect of notice such country shall be subject to the same obligations as any other member of the Union; except, however, that no country which has given notice of withdrawal shall be required to make loans to the Union under the provisions of paragraph II,2, above.

4. A country which is dropped or which withdraws from membership shall have returned to it an amount in its own currency equal to its contributed quota plus other obligations of the Union to the country and minus any sums owed by that country to the Union. The Union shall have 5 years in which to liquidate its obligation to such country.

XII. Policies of Member Countries

In addition to the obligations assumed under the preceding paragraphs, each member country shall undertake the following:

1. To maintain by appropriate action the exchange rates initially agreed with the Union on the currencies of other countries and not to alter exchange rates except under the provisions of paragraph IV,2, above, or with the consent of the Union and only to the extent and in the direction approved by the Union. Exchange rates of member countries may be permitted to fluctuate within a range not exceeding the spread fixed by the Union itself for its own purchases and sales of foreign exchange.

2. To abandon, as soon as the member country decides that conditions permit, all restrictions on foreign exchange transactions other than those required effectively to control capital movements with other member countries; and not to impose any additional restrictions, except for the purpose of controlling capital movements, without the approval of the Union.

The Union may make representations to member countries that conditions are favourable for the abandonment or relaxation of foreign exchange restrictions other than those required effectively to control capital movements and each member country shall agree to give consideration to such representations.

3. To cooperate effectively with other member countries when such countries, with the approval of the Union, adopt or continue controls for the purpose of regulating international movements of capital.

Cooperation shall include, upon recommendation by the Union, measures that can appropriately be taken

(a) not to accept or permit acquisitions of deposits, securities, or investments by residents of any member country imposing restrictions on the export of capital except with the permission of the government of that country and the Union;

(b) to make available to the Union or to the government of any member country full information on all property in the form of deposits, securities, and investments of the residents of that country; and

(c) such other measures as the Union may recommend.

4. Not to enter into any new bilateral foreign exchange clearing arrangements nor engage in multiple currency practices except with the approval of the Union.

5. To give careful consideration to the views of the Union on existing or proposed monetary or economic policy the effect of which would be to cause a serious disequilibrium in the balance of payments of the country adopting such policy or of other countries.

6. To furnish the Union with all information it needs for its operations and to furnish such reports as it may require in the forms and at the times requested by the Union.

7. To adopt appropriate legislation or decrees to carry out its undertakings to the Union and to facilitate the activities of the Union.

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BRITISH WHITE PAPER ON WAR FINANCE

There is given below the text of a British Government White Paper (Cmd. 6438) presented to Parliament on April 12 last by the Financial Secretary to the British Treasury under the title "An Analysis of the Sources of War Finance and an Estimate of the National Income and Expenditure in 1938, 1940, 1941, and 1942." This document is the third of a series initiated in 1941; the texts of the earlier White Papers (Cmd. 6347 and Cmd. 6261) were published in the BULLETIN *for July 1941, pages 633–638, and June 1942, pages 539–549. These documents, which are presented in connection with the annual budget speech in Parliament by the Chancellor of the Exchequer, are prepared in the British Central Statistical Office with the collaboration of the Treasury.*

PREFACE

In the preamble to the statistical material presented in Cmd. 6347 (April 1942), it was stated:

"The results of more comprehensive enquiries covering overseas disinvestment and expenditure on consumption are, unfortunately, not available in time to be included below, and the figures for these items are given subject to this reserve. Any subsequent modification in either of these totals will require a corresponding change in the total of domestic disinvestment."

These enquiries are now substantially further advanced, and, in addition, the main categories of national income have been re-examined in the light of later information. The effect of this additional information is set out in section G.

In Table I, item 8 (domestic investment) is the balancing figure obtained by difference, and not (except in 1938) by direct estimation. In Table II, item 28 (net personal savings) is the balancing figure. Tables III and IV are mainly based on actual figures taken from the Public Accounts etc., apart from items repeated from Tables I and II.

The calculation of the proportion of resources absorbed by government expenditure given in section B of Cmd. 6347 has been discontinued.

A. THE SOURCES OF WAR FINANCE

[In millions of pounds]

	1940	1941	1942
(1) Central government expenditure	3,339	4,616	[1]5,103
Less (2) Overseas disinvestment	−756	−797	−632
(3) Expenditure requiring domestic finance	2,583	3,819	4,471
Less (4) Central government revenue	−1,259	−1,828	−2,343
	1,324	1,991	2,128
Less (5) Extra-budgetary funds and local authority surpluses[2]	−186	−220	−231
	1,138	1,771	1,897
Less (6) Compensation received in respect of war risks and war damage claims[3]	−36	−248	−215
	1,102	1,523	1,682
Less (7) Savings and undistributed profits, including reserves against taxation	−1,080	−1,323	−1,509
(8) Residue (Table I, item 8) from sources indicated below	22	200	173

[1] Excluding expenditure equivalent to the Canadian contribution of 225,000,000 pounds. This sum is also excluded from lines (2) and (4).
[2] Excluding the Exchange Equalisation Account, changes in which are already included in overseas disinvestment.
[3] See the explanation of this item in footnote (1) below.

The residue has been provided from the following sources:—

(*a*) Sales to public authorities of fixed capital assets (such as sites, buildings, and stocks of goods) previously owned privately;
(*b*) Sinking funds and depreciation funds of firms and institutions;
(*c*) Depletion of stocks and working capital (apart from sales under (*a*) above and temporary investment under (*d*) below) carried by private finance, measured by the reduction in their value as reckoned in the calculation of profits;

Less

(*d*) New investment financed out of privately-owned funds, including investment of a temporary nature due to the financing, out of private funds, of work in respect of government contracts ultimately recoverable from the Exchequer;
(*e*) Replacements and renewals charged on depreciation funds;
(*f*) Replacements of war losses actually carried out (including new ships in private ownership and stocks of commodities lost and replaced within the year).[1]

[1] This deduction must be made because credit has been taken in the table above for the *whole* of compensation received in respect of war risks and war damage claims, whether or not it has been applied to replacement.

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It will be seen that in comparison with the figures for 1940 and 1941 given in Cmd. 6347, revisions in the estimates have resulted in a very considerable reduction in the residue and an increase in savings and undistributed profits including reserves against taxation. The revisions are further examined in section G.

Attention is drawn to the statement under (*c*) above that the net change in stocks and working capital is measured by the change in their value as reckoned in the calculation of profits. While the practice in this respect is not uniform, the measure given here will approximate more closely to the change in the value of stocks than to the value of the quantitative change. In other words, the calculation of profits takes account of changes in the value rather than in the quantity of stocks.

Since the amount of the residue has been obtained by difference, any errors in other items in Table I have been absorbed into it. Undue weight should not be attached to the fall in the residue in 1942. It is not possible to say more than that the residue in 1942 was of the same order of magnitude as in 1941 and in all probability was smaller rather than larger.

B. THE COMPOSITION OF PERSONAL EXPENDITURE ON CONSUMPTION

[In millions of pounds]

	1938	1940	1941	1942
(1) Food	1,198	1,235	1,260	1,320
(2) Drink and tobacco	452	617	750	912
(3) Rent, rates, and water charges	500	524	521	520
(4) Fuel and light	194	210	233	242
(5) Other household goods	261	251	241	241
(6) Clothing	441	496	450	462
(7) Travel, including privately-owned vehicles and their running expenses	296	185	202	215
(8) Other services	468	461	469	465
(9) Other goods, including the income issued in kind to H. M. Forces and Auxiliary Services	225	303	383	423
(10) Personal expenditure on consumption at market prices	4,035	4,282	4,509	4,800

These figures relate to expenditure on consumption met out of personal income[2] and exclude, as far as possible, money spent on consumers' goods and services by businesses and public authorities. The more comprehensive enquiry referred to in the preamble to Cmd. 6347 has brought about a small reduction in the aggregate figures. This is discussed further in section G.

The composition of the nine sub-groups is as follows:—

[2] Including the expenditure on consumption of charities and other non-profit-making bodies, as well as of individuals. No distinction is made between purchases by civilians and purchases by members of the Forces out of their pay and cash allowances.

Food—comprises purchases of food, including such beverages as tea, coffee, and cocoa, by households together with the value of food used in canteens, restaurants, and hotels after allowance for purchases not made out of personal income.

Drink and tobacco—comprises expenditure on beer, wine, spirits, other alcoholic beverages, and tobacco.

Rent, rates, and water charges—includes an allowance in respect of buildings occupied by non-profit-making bodies, hotels, boarding houses, etc., in addition to private dwelling houses.

Fuel and light—includes coal, coke, gas, electricity, and paraffin.

Other household goods—includes furniture, furnishings, hardware, soap, cleaning materials, etc.

Clothing—includes dress materials and boots and shoes together with an allowance for repair work, besides all forms of men's, women's, and children's wear.

Travel—includes travel paid for out of personal income, and therefore the travel of members of the Forces when at their own expense, in all public conveyances together with the purchase of privately-owned vehicles and running expenses incidental to their use.

Other services—includes such services as post, telegraph and telephone, medical, undertaking, domestic, hotel and restaurant, entertainment in so far as they are purchased out of personal income.

Other goods—includes all goods not appearing above, together with the income issued in kind to H.M. Forces and Auxiliary Services.

C. PERSONAL EXPENDITURE ON CONSUMPTION IN TERMS OF CONSTANT PRICES

Personal expenditure on consumption at market prices and after adjustment for subsidies and indirect taxes is estimated to have changed as follows between 1938 and 1942:—

[In millions of pounds]

	1938	1940	1941	1942
(1) Personal expenditure on consumption at market prices	4,035	4,282	4,509	4,800
Plus				
(2) Subsidies	15	70	142	150
	4,050	4,352	4,651	4,950
Less				
(3) Indirect taxes specifically on consumption	−431	−578	−770	−931
(4) Personal consumption thus adjusted	3,619	3,774	3,881	4,019

A new study has been made of the average change in the retail market price of goods and services covering approximately 90 per cent of

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the total of civil expenditure on consumption, that is, of the total of expenditure shown in line (1) above, *less* the income issued in kind to H. M. Forces and Auxiliary Services. To illustrate the method adopted, the figure for 1942 was calculated by taking the average of the change between 1938 and 1942 in the cost at market prices of buying the collections of goods and services bought in 1938 and 1942 respectively.[3] Since the diversion to war purposes of resources used in peace-time for the satisfaction of consumers' needs has necessitated a considerable change in the structure of consumers' purchases, it might have been expected that the two components of the final average would differ somewhat widely. This, however, is not in fact the case, the proportionate increase between 1938 and 1942 in the cost of purchasing each collection being almost the same. The two percentage changes are sufficiently close to one another for their average to afford a reasonable measure of market price changes applicable to personal expenditure on consumption.

By adjusting the figures of personal expenditure on consumption for changes in the level of prices, an indication is obtained of the movement in the quantum of consumers' purchases. The resulting series are as follows:—

[Per cent]

Proportionate change in—	1938	1940	1941	1942
(1) Personal expenditure on consumption at market prices, including indirect taxes and excluding subsidies	1.00	1.06	1.11	1.19
(2) Personal expenditure on consumption, excluding specific indirect taxes and increased by subsidies	1.00	1.04	1.07	1.11
(3) Personal expenditure on consumption in terms of constant prices	1.00	0.88	0.82	0.82
(4) Retail prices, excluding specific indirect taxes and increased by subsidies	1.00	1.18	1.30	1.36

The figures in line (3) confirm the estimate previously given in Cmd. 6347, where it was stated that "the measure of the reduction in the volume of consumption in 1941, compared with 1938, cannot be estimated more precisely than that it probably lies within the limits of 15 and 20 per cent according to the system of weighting which is adopted," inasmuch as the more accurate figure now available turns out to be 18 per cent.

It is important that the price series given in line (4) should not be confused with the Ministry of Labour's Cost of Living index, since the former series covers the expenditure of all classes of the community and includes luxuries as well as necessaries.

In interpreting these figures it is desirable to recognise that from slightly different points of view it would be possible to adopt a system of weighting which would justify an index of quantity changes either higher or lower than the one given here. To illustrate the position with the example of food, an index of the nutritional value of food consumed would show a smaller decline than the food component of the present index of quantities, but such an index would make no allowance for the fact that dietary standards are maintained in war-time with some inevitable sacrifice of consumers' ordinary preferences. On the other hand, an index of quantity change which fell more than the one given here would be obtained if it were assumed that consumers were rigid in their peace-time preferences, for it is unlikely that consumers would buy the collection of goods and services which they do at present at the relative prices now ruling, in the absence of rationing and other forms of control.

The series given here of personal expenditure on consumption in terms of constant prices indicates the position of the community as a whole, but not necessarily that of any particular class or individual. Any measure of price changes obtained by dividing either series of money values by the series in terms of constant prices, should not be used for other purposes such as the reduction of the net national income or the expenditure of public authorities on goods and services to terms of constant prices. Price movements in other sections of the economy have been very different from those applicable to consumers' expenditures, but it is not at present possible to provide any numerical measure of them.

D. PRIVATE SAVINGS

PERSONAL SAVINGS

[In millions of pounds]

	1938	1940	1941	1942
(1) Gross personal savings, including allowance for accrued taxation	241	807	1,004	1,271
Less (2) Death duties, etc.	−90	−85	−94	−100
(3) Net personal savings after allowance for death duties, etc.	151	722	910	1,171
Less (4) Increase in allowance to meet accrued taxation[1]	−17	−94	−206	−280
(5) Net personal savings after allowance for accrued taxation	134	628	704	891

[1] This item shows the excess of the liability for direct taxes accruing on current incomes at current rates of taxation over current direct tax payments.

[3] The figures were obtained not by a direct comparison between 1938 and, say, 1942, but by linking together direct comparisons of adjacent intermediate periods. A direct comparison of 1942 with 1938 would, however, yield a figure which differed only in the third place of decimals.

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The allowance to meet accrued income tax in each year is the excess of tax liabilities accrued during the year, on the assumption that there will be no change in the rate of tax, over total payments during the year in respect both of tax currently due and of arrears. Thus in order to obtain the total amount required at the end of 1942 to meet the taxation accrued and unpaid, though not necessarily due, at that date, the figures in row (4) must be added together; that is to say, the aggregate at that date was 580 (=94+206+280) *plus* the amount accrued and unpaid at the end of 1939, *plus* or *minus* any adjustment due to changes in the rate of tax between the dates of earning and of assessment. The same applies to the increases in allowances to meet accrued taxation on impersonal income shown in line (7) below.

It was stated in Cmd. 6347 that an attempt to check the figures of personal savings by direct methods suggested that the figures of net personal savings were not over-estimated and that it would have been easier on such evidence to justify a higher than a lower total. This has been borne out by the revised estimates, which give a considerably higher figure than before for personal savings in 1940 and 1941. On the other hand, it was then thought likely that a more exact estimate of expenditure on consumption would increase rather than decrease that figure, but, as explained above this expectation has not been fulfilled.

IMPERSONAL SAVINGS
[In millions of pounds]

	1938	1940	1941	1942
(6) Gross impersonal savings, including allowance for accrued taxation....	182	358	413	338
Less (7) Increase in allowance to meet accrued taxation....	−12	−183	−233	−148
(8) Net impersonal savings, after allowance for accrued taxation....	170	175	180	190

NET PRIVATE SAVINGS (PERSONAL AND IMPERSONAL)
[In millions of pounds]

	1938	1940	1941	1942
(9) Net personal savings after allowance for accrued taxation....	134	628	704	891
(10) Net impersonal savings after allowance for accrued taxation....	170	175	180	190
(11) Aggregate net private savings after allowance for accrued taxation....	304	803	884	1,081

The series in line (11), *i.e.* the sum of lines (5) and (8) above has been obtained indirectly by deducting direct estimates of personal consumption and taxes met out of private incomes from direct estimates of private incomes. Net impersonal savings have then been estimated separately and the remainder allocated to personal savings. There is, however, no very precise line between "personal" and "impersonal." Impersonal savings in the present context is intended to include not only the net undistributed profits of companies but also the savings held in the business accounts of traders, farmers, and other individuals. For savings used to extend farm equipment or to repay business mortgages and other debts cannot reasonably be regarded as personal. Great precision cannot be achieved in the estimation of the last-mentioned kinds of impersonal savings, since in these cases there is not the line between distributed and undistributed profits that exists in the case of companies. Any revision of the item of impersonal savings would require an equal and opposite change in the estimate of personal savings.

While it is still impracticable to construct a direct estimate of personal savings by setting down the net change in all assets held by persons, some information can be provided on the distribution of bank deposits. The following table, provided by the courtesy of the Clearing Banks, shows the movement of net personal and other accounts:—

[In millions of pounds]

	1940	1941		1942	
	June 30	June 30	Dec. 31	June 30	Dec. 31
(1) Total deposits held by Clearing Banks....	2,469	2,946	3,329	3,263	3,629
Less (2) Advances to customers and other accounts....	−926	−859	−807	−800	−773
(3) Total deposits (net)....	1,507	2,087	2,522	2,463	2,856
(4) Personal deposits (net)....	617	661	692	704	820
(5) Other deposits (net)....	890	1,426	1,830	1,759	2,036

Net personal deposits in line (4) exclude the accounts of businesses, financial institutions, public authorities, and also, for example, those of individual traders, shopkeepers, farmers, and professional men where the accounts are known to be used for the purpose of business. Nonresident deposits and sundry accounts are also excluded. No attempt has been made to adjust for the amount of bank accommodation obtained by the discounting of bills.

The figures in line (5) have been obtained by subtracting those in line (4) from those in line (3). Thus line (5) includes nonresident deposits and sundry accounts as well as the business deposits of which it is mainly made up.

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E. PROPORTION OF PRIVATE INCOME (PERSONAL AND IMPERSONAL) DEVOTED TO TAXATION

[In millions of pounds]

	1938	1940	1941	1942
(1) Private income (item 37 of Table II)	4,920	6,156	7,063	7,836
(2) Direct taxes, social insurance contributions of employees, War Damage Act contributions and premiums, etc., met out of private income	552	794	1,231	1,527
(3) Indirect taxes and rates specifically on consumption *less* subsidies	416	508	628	781
(4) Other indirect taxes, etc., met out of private income	170	200	240	220
(5) Excess of tax liabilities over payments	29	277	439	428
(6) Total tax liabilities in respect of private income, *i.e.* (2) + (3) + (4) + (5)	1,167	1,779	2,538	2,956
(7) Line (6) as a percentage of line (1)	24	29	36	38

This table shows the proportion of the private income devoted to direct and indirect taxation, rates, compulsory contributions to social insurance and war risks insurance schemes, and contributions and premiums (almost the whole of which are compulsory) under the War Damage Act, abated by the amount of subsidies. The figures relate not only to taxes falling on personal incomes, but also to those which fall on other private income, *e.g.* National Defence Contribution and Excess Profits Tax.

The figures in line (4) are estimates of that part of the sum of items 12 and 13 of Table I which is met out of private income, *i.e.* which does not appear in the expenditure by public authorities on goods and services at market prices. Consideration of Table IV will show that the remaining part of these taxes and compulsory payments represents transfers within the public authority sector and is, therefore, self-financing. It does not have to be met out of private income.

It is not possible to estimate accurately the division of these taxes and compulsory payments between those to be met out of private income and those which represent transfers within the public authority sector. The figures given in line (4) represent approximate orders of magnitude, but it is unlikely that any inaccuracy they contain perceptibly affects the percentages in line (7).

F. DISTRIBUTION OF PRIVATE INCOME BY RANGES OF GROSS INCOME SHOWING THE EFFECT OF CHANGES IN INCOME TAX AND SURTAX, 1938-41

Financial Year 1940-41

Range of gross income	Number of incomes	Aggregate gross income 1940-41	Aggregate net income with income tax and surtax at— 1938-39 rates	Aggregate net income with income tax and surtax at— 1940-41 rates	Proportion of gross income retained with taxes at— 1938-39 rates	Proportion of gross income retained with taxes at— 1940-41 rates
	(In thousands)	(In millions of pounds)			(Per cent)	
Private income at the disposal of individuals—						
Under 250	......	3,328	3,322	3,302	99.8	99.2
250-500	3,295	1,069	1,036	984	96.9	92.0
500-1,000	770	516	457	411	88.6	79.7
1,000-2,000	250	345	283	245	82.0	71.0
2,000-10,000	97	360	256	197	71.1	54.7
10,000 and over	8	170	84	48	49.4	28.2
Other private income	......	[1]624	......	216	......	33.7
Total private income	......	6,412	......	5,397	......	84.2

Financial Year 1941-42

Range of gross income	Number of incomes	Aggregate gross income 1941-42	Aggregate net income with income tax and surtax at— 1938-39 rates	Aggregate net income with income tax and surtax at— 1941-42 rates	Proportion of gross income retained with taxes at— 1938-39 rates	Proportion of gross income retained with taxes at— 1941-42 rates
	(In thousands)	(In millions of pounds)			(Per cent)	
Private income at the disposal of individuals—						
Under 250	......	3,398	3,392	3,307	99.8	97.3
250-500	4,450	1,490	1,445	1,276	97.0	85.6
500-1,000	1,050	685	613	495	89.5	72.3
1,000-2,000	285	400	328	245	82.0	61.3
2,000-10,000	97	360	256	170	71.1	47.2
10,000 and over	8	170	84	35	49.4	20.6
Other private income	......	[1]761	......	200	......	26.3
Total private income	......	7,264	......	5,728	......	78.9

[1] Including all liabilities for National Defence Contribution and Excess Profits Tax which are deducted together with income tax in arriving at net income.

These tables, which relate to income *received* in 1940-41 and 1941-42, show the amount of private income at the disposal of individuals in different ranges of gross income. The category of other private income includes the investment income of charities, the increase in assurance funds, and the undistributed profits of *companies* together with all liabilites for National Defence Contribution and Excess Profits Tax. It is not the same as impersonal income shown in Table II which does not include the first two of the above categories but makes allowance for the business savings of private traders, etc., as well as the undistributed profits of companies.

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As in the case of income tax assessment, the incomes of a husband and wife are reckoned as one income. Further, in the table relating to 1940-41, for example, the aggregate net income at 1940-41 rates is the amount which would have resulted if all taxpayers had during that year paid the full tax liability at 1940-41 rates on the income actually received by them in that year. The figures in the corresponding column headed 1938-39 do not relate to the income of that year, but to the income that would have remained after tax in 1940-41, if the taxation of 1938-39 had been in force in that year.

The whole of transfer payments other than National Debt interest has been included in the incomes below 250 pounds.

G. A COMPARISON WITH Cmd. 6347

As stated in the preamble, it is now possible to give substantially more accurate estimates of certain items as a result of additional information that has become available since last year. So far as the main items are concerned, the position may be summarised as follows:—

(1) The estimates of profits and salaries are now known to be higher than was supposed a year ago, while the estimate of wages, etc., is slightly reduced. In the case of salaries, the new figures are approximately 10 per cent higher than those previously given for 1940 and 1941. In the case of profits and interest, comparable percentages are 5 and 12. However, as may be seen from Table II, item 15, paid out profits are not greatly affected and are even somewhat reduced. The net national income as a whole is increased by 2½ and 4 per cent respectively in the two years.

(2) The more reliable estimates of personal expenditure on consumption now available indicate that this item was slightly over-estimated in Cmd. 6347. The figures now available for 1940 and 1941 are 3 and 1 per cent below the corresponding estimates given last year.

(3) Consequent upon the increase in the estimates of profits and salaries, there is an increase in the estimates of direct tax liabilities and therefore in the figures given for the excess of tax liabilities over payments.

(4) Further information on overseas disinvestment leaves the figures given in Cmd. 6347 substantially unchanged. It has not so far been possible to provide a further check on this figure by the direct estimation of the balance of overseas payments on current account.

(5) As a consequence of the rise in income and fall in consumption there is a substantial decline in the residual estimate of private net disinvestment at home. At the same time, there is a corresponding rise in savings, including allowance for accrued taxation, a considerable part of which is absorbed by the increase in the estimates of such allowance.

The extent of the revision under (5) illustrates the precarious nature of residual figures in circumstances in which they cannot be checked by direct estimates.

The new figures are believed to be much more accurate on the strict definition of the meaning of the residual figure. The reason why this is so falls under two headings:—

(*a*) The previous estimate of the residual figures was partly justified by reference to the large amount of the accumulating sinking funds, etc., against depreciation which represented a net reduction in the national wealth in so far as they could not be employed currently. The new figures do not necessarily disturb the conclusion that disinvestment of this kind was taking place. It would now appear, however, that, in using this factor to explain the residual figure previously published, not enough allowance was made for various expenditures incurred for war purposes, partly for building, partly for the working capital of government contractors, which is carried temporarily by private business finance and therefore krecons, under the definition, as positive private home investment, and offsets the depreciation which is not currently made good. There is evidence of an increase in the value of stocks and work in progress carried under private finance.

(*b*) It was explained in Cmd. 6347 that a change had been made from the procedure adopted in Cmd. 6261 by which sums used for writing down stocks which have fallen in value were deducted from business earnings. It was also stated that such an adjustment was only required in times of falling prices. This last conclusion has been the subject of legitimate criticism. It is right either to keep the statistics entirely in money terms without adjustment for price changes, or to adjust for falling and for rising prices alike. Since no uniform practice is adopted in bringing the effects of the rising prices of stocks into profits and since no adequate statistics are available of the amounts so brought to account, it has seemed better to revert to the procedure of Cmd. 6261 and make no adjustment for either contingency. It follows that the resulting figure for disinvestment relates to the money value of stocks as reckoned in the calculation of profits. Thus, in so far as rising prices offset, in terms of value, a decline

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in quantity, there is no apparent disinvestment in terms of money, in spite of the real disinvestment which has occurred. The effect of the rising prices at which stocks are taken into profits should be apparent both in an increased level of profits before tax and in a decreased residual figure for disinvestment, etc.

It is believed that the revised figures show more accurately the effect of both these influences.

TABLE I

ESTIMATES OF NET NATIONAL INCOME AND EXPENDITURE IN 1938, 1940, 1941, AND 1942

[In millions of pounds]

	1938	1940	1941	1942
1. Rent of land and buildings	381	389	385	384
2. Profits and interest	1,241	1,624	1,926	2,183
3. Salaries, and the pay and allowances (in cash and kind) of officers in H.M. Forces and Auxiliary Services	1,081	1,288	1,338	1,408
4. Wages, and the pay and allowances (in cash and kind) of other ranks in H.M. Forces and Auxiliary Services	1,787	2,425	2,970	3,409
5. Net national income	4,490	5,726	6,619	7,384

	1938	1940	1941	1942
6. Personal expenditure on consumption at market prices	4,035	4,282	4,509	4,800
7. Expenditure at home and abroad, by public authorities, on goods and services at market prices	845	3,059	4,194	4,608
8. Private net investment at home and war losses made good	287	(−22)	(−200)	(−173)
9. Private and government net investment abroad	−55	−756	−797	−632
10. Subsidies	15	70	142	150
Less				
11. Indirect taxes and rates specifically on consumption	−431	−578	−770	−931
12. Other indirect taxes, rates, etc.	−206	−205	−220	−239
13. War risks insurance premiums	......	−124	−239	−199
14. Net national expenditure	4,490	5,726	6,619	7,384

NOTES

1. This item represents the income from the ownership of lands, houses, etc., after allowance has been made for maintenance and repair. It includes incomes from these sources below the effective income tax exemption limit and also when received by nonprofit-making bodies, *e.g.* charities, colleges, etc.

2. Aggregate profits here are net, *i.e.* after current business losses have been deducted. Also, as before, this item excludes interest on the national debt and income due to foreigners, but includes miscellaneous government income (such as trading profits and certain receipts from abroad). The item includes income from profit and interest received by persons below the income tax exemption limit or by nonprofit-making bodies and also incomes below the income tax exemption limit belonging to persons working on their own account. As explained in section G, the allowance for the year 1938 in respect of sums used to write down stocks has not been continued.

3. This item includes: (*a*) the untaxed allowances whether in money or in kind (food, clothing, etc.) received by officers in H. M. Forces and Auxiliary Services, (*b*) the whole of the earnings of shop assistants, (*c*) small salaries below the income tax exemption limit.

4. An allowance for income received in kind (food, clothing, etc.) by, *e.g.* other ranks in H. M. Forces and Auxiliary Services and domestic servants, has been added to their cash income and allowances. The estimate of personal expenditure on consumption at market prices (item 6) includes a similar allowance.

5. This item is the sum of items 1 to 4 and is an estimate of the incomes received by factors of production in, or only temporarily absent from, the United Kingdom in the course of producing the current output of goods and services of all kinds. These incomes are "before tax," since all taxes, direct and indirect, falling on these incomes, whether paid directly by individuals (including nonprofit-making bodies) or through businesses or public authorities, will be paid out of them. The item is "net" in the sense that the sums shown in items 1 and 2 exclude that part of gross receipts which is set aside in the calculation of net rent and profit for the maintenance and repair or replacement of all existing capital equipment (such as houses, machinery, or stocks) which is being currently worn out or used up.

6. This item shows the money value of all consumption goods and services either bought by individuals and nonprofit-making bodies or received by them as income in kind. The figures shown here are therefore at prices which include indirect taxes, rates, etc., and war risks insurance premiums, which appear in the market price of these goods and services. They exclude costs which, being met by government subsidies, do not enter into market prices.

7. This item excludes expenditure by public authorities which does not arise from a direct demand for goods and services. Thus it excludes (i) transfer payments, (ii) claims paid in respect of war losses, (iii) loan repayments, payments to sinking funds, etc., (iv) subsidies. Further, Post Office expenditure and the expenditure of local authorities on housing and trading services are excluded. Thus, (*a*) Post Office new capital and expenditure is included in net investment at home (item 8), (*b*) personal expenditure on postal services appears in personal expenditure on consumption (item 6), and (*c*) business expenditure on these services is included as a cost of production in the price of the other goods and services enumerated in items 6, 7, and 8.

Lend-Lease assistance and expenditure equivalent to the Canadian contribution are excluded from this item. Thus, in so far as goods have been received under Lend-Lease or have been paid for out of the Canadian contribution, this series is not a consistent measure of the value of the total amount of goods and services currently at the disposal of public authorities, since it includes overseas resources obtained by borrowing or disinvestment, but not those ob-

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tained under Lend-Lease provisions or as a result of the Canadian contribution.

8. This item is composed of (*a*) gross expenditure on fixed capital and its upkeep, *i.e.* new investment, and replacement and repairs (whether normal or resulting from war damage) actually made good, provided that it is financed privately or forms part of the capital expenditure of the Post Office or the housing and trading services of local authorities, *minus* (*b*) sinking funds and depreciation allowances which have been set aside in the calculation of rent and profits in items 1 and 2, *minus* (*c*) receipts from the sale to public authorities of existing privately-owned capital assets, such as land, buildings, or stocks, *plus* (*d*) the increase in stocks, excluding (*e*) below, held under private finance (as valued for the calculation of profits in item 2), *plus* (*e*) stocks replaced to make good war losses, *plus* (*f*) expenses connected with the investment of savings, such as certain legal costs and stamp duties incurred in the transfer of property, which do not enter into the market value of other goods and services. The figure for 1938 is affected, as compared with the estimate given in Cmd. 6347, by the change in the basis of the valuation of stocks referred to in the note to item 2 above.

It has been impossible to make a direct estimate of the constituents of this item for the war years. The figures in brackets have been obtained by subtracting the sum of items 6, 7, 9, 10, 11, 12, and 13 from item 5 and are therefore dependent on the accuracy of these estimates.

9. This item is an estimate of the net increase (or, when negative, decrease) in the overseas assets of the United Kingdom and is equal to the United Kingdom balance of payments on current account. Any liability incurred as a result of Lend-Lease assistance is not taken into account in this item just as the value of the goods and services received in this way is not included in item 7 above.

10. This item is restricted to the following classes of payments made by the central government to meet the costs of goods and services bought by the public: (i) agricultural subsidies such as the beet sugar subsidy, milk subsidy, wheat deficiency payments, and grants in respect of fertilizers, grassland ploughing, and field drainage, (ii) losses incurred on the commercial accounts of the Ministry of Food and the Ministry of War Transport, and (iii) a subsidy on coal paid by the Ministry of Fuel and Power. This item is included here since it represents payments in respect of costs not appearing in the market value of goods and services.

11. This and the two items following require to be deducted from the sum of items 6 to 9 (which equals the net national income at market prices) since they appear in market prices but do not appear in any of items 1 to 4. The item includes (i) certain customs and excise duties and (ii) local rates on dwelling houses, etc.

12. This item includes (i) compulsory contributions of employers to social insurance, (ii) motor vehicle duties on vehicles owned by businesses, (iii) stamp duties other than those on the transfer of property, and (iv) customs and excise duties and local rates not included in item 11 above.

13. This item shows the premiums paid under the commodities and marine war risks insurance schemes, but not contributions and premiums under the War Damage Act, which are treated like direct taxes.

14. This item is the sum of items 6 to 13 and is an estimate of expenditure on the factors of production in, or only temporarily absent from, the United Kingdom. It is, therefore, by definition equal to item 5.

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TABLE II

ESTIMATE OF PRIVATE INCOME AND OUTLAY IN 1938, 1940, 1941, AND 1942

[In millions of pounds]

Personal Income

	1938	1940	1941	1942		1938	1940	1941	1942
15. Rent of land and buildings, profits and interest (including National Debt interest and interest accrued on National Savings Certificates) received by persons	1,515	1,648	1,650	1,811	23. Personal expenditure on consumption adjusted for subsidies and specific indirect taxes, rates, etc.	3,619	3,774	3,881	4,019
16. Salaries, and the pay and allowances (in cash and kind), of officers in H.M. Forces and Auxiliary Services	1,081	1,288	1,338	1,408	24. Excess of indirect taxes and rates specifically on consumption over subsidies	416	508	628	781
17. Wages, and the pay and allowances (in cash and kind), of other ranks in H.M. Forces and Auxiliary Services	1,787	2,425	2,970	3,409	25. Direct tax payments other than death duties, etc., and War Damage Act contributions and premiums met out of personal income	385	537	715	825
18. Pension payments	131	151	178	200	26. Death duties and stamps on the transfer of property	90	85	94	100
19. Payments in respect of unemployment and the relief of poverty	112	64	30	18	27. Excess of direct tax liabilities on personal income over payments	17	94	206	280
20. Health payments	35	35	33	39	28. Net personal savings after setting aside the excess of direct tax liabilities over payments	(134)	(628)	(704)	(891)
21. Other transfer payments	......	15	29	11					
22. Personal income before tax	4,661	5,626	6,228	6,896	29. Personal outlay	4,661	5,626	6,228	6,896

Impersonal Income

	1938	1940	1941	1942		1938	1940	1941	1942
30. Impersonal income before tax	259	530	835	940	32. National Defence Contribution and Excess Profits Tax payments	15	68	231	348
					33. Other direct tax payments including War Damage Act contributions and premiums met out of impersonal income	62	104	191	254
					34. Excess of direct tax liabilities on impersonal income over payments	12	183	233	148
					35. Net impersonal savings after setting aside the excess of direct tax liabilities over payments	170	175	180	190
31. Impersonal income before tax	259	530	835	940	36. Impersonal outlay	259	530	835	940

Private Income

	1938	1940	1941	1942		1938	1940	1941	1942
37. Private income before tax (sum of items 22 and 31)	4,920	6,156	7,063	7,836	38. Private outlay (sum of items 29 and 36)	4,920	6,156	7,063	7,836

NOTES

15. This item is composed of items 1 and 2 of Table I *plus* National Debt interest received by the private sector of the economy and accrued interest on National Savings Certificates *less* impersonal private income *less* miscellaneous income from public property, etc. (see item 81 of Table IV).

16 and 17. The same as items 3 and 4 respectively of Table I.

18. This item is composed of noncontributory and contributory old age pensions, other contributory pensions, supplementary pensions, and cash payments in respect of war pensions and service grants.

19. This item is composed of unemployment insurance benefits, unemployment allowances, and outdoor relief paid by local authorities.

20. Cash and medical benefits under the National Health Insurance Scheme.

21. Certain transfer payments, *e.g.* billeting allowances, arising out of the war.

The sum of items 18 to 21 *plus* the National Debt interest and interest accrued on National Savings Certificates, included in item 15 above, is equal to the total of transfer payments shown in item 101 of Table IV.

22. This item is the sum of items 15 to 21 and shows the total of disposable money income received by persons (including nonprofit-making bodies).

23. This item is equal to item 6 of Table I *less* item 24 of Table II.

24. Numerically equal to item 11 of Table I *less* item 10 of Table I.

25. This item includes payments of (i) income tax (other than that paid by businesses in respect of business savings), (ii) surtax, (iii) employees' contributions to social insurance, (iv) War Damage Act contributions and premiums, met out of personal income, (v) motor vehicle duties on vehicles owned by persons.

26. Together with item 25 makes up the total of direct tax, etc., payments met out of personal income.

27. This item shows the excess of the liability for the direct taxes included in items 25 and 26 accruing on current income at current rates of taxation over current direct tax payments. It relates particularly to income tax and surtax, since in these cases liabilities in respect of current incomes (payable in the future) differ considerably from current payments at times when money incomes or rates of taxation are changing.

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28. This item represents the excess of personal money income over outgoings for consumption and liability for taxes, compulsory contributions, etc., including death duties. It has been obtained throughout by subtracting the sum of items 23 to 27 from item 22; it therefore depends on the accuracy of these items.

29. This item is the sum of items 23 to 28, which show the various ways in which personal money income is disposed of. Current income may be either *(a)* spent on consumption, *(b)* paid away in taxes and the like, *(c)* set temporarily aside against increased liabilities to tax, or *(d)* added to past savings. Since this list is exhaustive the item is by definition equal to item 22.

30. This item is equal to that part of the net national income before tax (item 5 of Table I above) which is neither paid out to persons (in which case it enters, together with transfer payments, into item 22) nor accrues to public authorities as miscellaneous income from public property, trading, etc.

31. See preceding note.

32. Equal to the total payments of National Defence Contribution and Excess Profits Tax.

33. This item is composed of other direct taxes such as income tax and War Damage Act contributions and premiums met out of impersonal private income. Together with items 25, 26, and 32, it is equal to item 73 of Table IV.

34. This item shows the excess of the liability for the direct taxes included in items 32 and 33 accruing on current income at current rates of taxation over the current payments of these taxes. As explained in the note to item 27, accruals of this kind will be payable in the future in so far as current payments are made in respect of assessments based on the income earned in an earlier period.

35. An estimate of impersonal private savings and intended to include not only the net undistributed profits of companies but also the savings held in the business accounts of traders, farmers, and other individuals.

36. The sum of items 32 to 35 and by definition equal to item 31.

37. The sum of items 22 and 31.

38. The sum of items 29 and 36.

TABLE III
CENTRAL GOVERNMENT EXPENDITURE AND THE SOURCES FROM WHICH IT WAS FINANCED IN 1938, 1940, 1941, AND 1942

[In millions of pounds]

	1938	1940	1941	1942
39. Central government revenue	891	1,259	1,828	2,343
40. Net personal savings including allowance for accrued taxes	151	722	910	1,171
41. Undistributed profits after payment of taxes and War Damage Act contributions and premiums but including allowance for accrued taxes	182	358	413	338
42. Surplus on extra-budgetary funds	22	148	154	151
43. Local authority surplus	7	38	66	80
44. Compensation received in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act	......	36	248	215
Less				
45. Private net investment (or *plus* disinvestment) at home and war losses made good	−287	22	200	173
46. Private and government net investment (or *plus* disinvestment) abroad	55	756	797	632
47. Central government deficit	130	2,080	2,788	2,760
48. Central government expenditure	1,021	3,339	4,616	5,103

	1938	1940	1941	1942
49. Central government revenue	891	1,259	1,828	2,343
50. Unemployment Fund	−1	24	64	74
51. National Health Funds	......	9	8	12
52. Local Loans Fund	−2	5	9	10
53. Other extra-budgetary receipts including war risks insurance and certain War Damage Act receipts, Exchange Equalisation Account, and redutcion in Exchequer balance	258	515	73	−47
54. Reconstruction Finance Corporation loan	......	......	87	4
55. Canadian Government interest-free loan	......	......	......	157
56. Receipts from capital transactions included in miscellaneous revenue, and appropriations in aid arising from capital transactions	5	10	10	10
Less				
57. Sinking funds	−11	−12	−17	−13
58. Other expenditure (net)	4	−8	13	−1
59. Finance through government agencies	253	543	247	206
60. Post Office and Trustee Savings Banks	1	119	214	234
61. National Savings Certificates including increase in accrued interest	3	168	213	231
62. Defence Bonds	......	180	174	134
63. Other public issues (net)	62	552	1,021	1,026
64. Increase in fiduciary issue	10	50	150	170
65. Increase in Treasury bills held outside government departments and Bank Ways and Means	−199	130	279	151
66. Treasury deposit receipts	......	338	473	155
67. Tax reserve certificates	......	......	17	453
68. Public borrowing at home	−123	1,537	2,541	2,554
69. Central government expenditure	1,021	3,339	4,616	5,103

NOTES

39. This item, the sum of items 70, 74, and 78 of Table IV, is composed of total ordinary revenue (*including* throughout the period the receipts from wireless licences but *excluding* receipts under the War Damage Act, which appear in extra-budgetary funds, and the Canadian contribution) *plus* receipts from classes which may be appropriated in aid of Votes corresponding to gifts, taxes, and income from property, *less* receipts from the Post Office Fund, which is treated as an extra-budgetary fund, *less* Post Office Vote of Credit ex-

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penditure (since the Post Office is treated as part of the private sector of the economy; see note to item 7 of Table I), *less* receipts from capital transactions included in miscellaneous revenue, which are properly regarded as a part of the finance of the deficit, *less* transfers between public authorities included in miscellaneous revenue, *less* departmental receipts in excess of those appropriated in aid of Votes since these appear in miscellaneous revenue and also, so far as they are relevant, in receipts from classes which may be appropriated in aid of Votes corresponding to gifts, taxes, and income from property.

40. The sum of items 27 and 28 of Table II.

41. The sum of items 34 and 35 of Table II.

42. Item 83 of Table IV with its sign changed. The current account of extra-budgetary funds as a whole has show an excess of income over expenditure.

43. Item 84 of Table IV with its sign changed. See note to item 42 above.

44. Item 97 of Table IV. The whole of the compensation received by claimants appears here as available to finance the deficit, since allowance is made for outgoings on war losses made good in item 45 below.

45 and 46. Items 8 and 9 respectively of Table I.

47. The sum of items 40 to 46, which show the *economic* sources from which the central government deficit is financed, and is the same as item 82 of Table IV.

48. The sum of items 39 and 47 of this table and the same as item 86 of Table IV.

50, 51, and 52. Net increase in these funds available for loan to the Exchequer.

53. The net increase in government securities held by other extra-budgetary funds including the Exchange Equalisation Account, certain receipts in respect of war risks insurance and the War Damage Act, and the reduction in Exchequer balance.

56. These items are included here since they appear in central government expenditure but not in revenue.

58. This item includes net issues under various Acts, *e.g.* North Atlantic Shipping Act, 1934, Tithe Act, 1936, Anglo-Turkish (Armaments Credit) Agreement Act, 1938, Overseas Trade Guarantees Act, 1939.

59. The sum of items 50 to 58, and represents the total of sums used to finance the central government deficit which is received from government funds and similar sources as opposed to loans from the public.

60. The increase in investments from the net deposits in the Post Office Savings Bank and Trustee Savings Bank.

61 and 62. The net receipts after deduction of repayments.

63. Receipts from public issues, *e.g.* National War Bonds and Savings Bonds, and Other Debt (net) *less* securities redeemed, and excluding purchases of government securities (war or pre-war issues) by public departments.

65. The increase in bills held by the market or by Empire Funds and in Bank Ways and Means Advances.

66. Receipts less repayments.

68. The sum of items 60 to 67, showing the amount of public borrowing at home. The sum of item 59, and this item shows the *financial* sources from which the central government deficit is financed, and is equal to item 47.

69. The sum of items 49, 59, and 68, and equal to item 48.

TABLE IV

THE INCOME, DEFICIT, AND EXPENDITURE OF PUBLIC AUTHORITIES IN 1938, 1940, 1941, AND 1942

[in millions of pounds]

	1938	1940	1941	1942		1938	1940	1941	1942
Direct taxes, War Damage Act contributions, etc.					*Subsidies*				
70. Central government	497	734	1,089	1,390	90. Central government	15	70	142	150
71. Extra-budgetary funds	55	60	142	137	91. Extra-budgetary funds	......	......	......	......
72. Local authorities	......	......	......	......	92. Local authorities	......	......	......	......
73. Total	552	794	1,231	1,527	93. Total	15	70	142	150
Indirect taxes, rates, war risks insurance premiums, etc.					*Payments in respect of claims under the marine and commodities war risks insurance schemes and the War Damage Act*				
74. Central government	372	502	705	883	94. Central government	......	......	......	......
75. Extra-budgetary funds	54	182	304	272	95. Extra-budgetary funds	......	36	248	215
76. Local authorities	211	223	220	214	96. Local authorities	......	......	......	......
77. Total	637	907	1,229	1,369	97. Total	......	36	248	215
Miscellaneous income from public property, trading, etc.					*Transfer payments*				
78. Central government	22	23	34	70	98. Central government	318	343	394	441
79. Extra-budgetary funds	......	......	......	......	99. Extra-budgetary funds	137	117	101	103
80. Local authorities	26	26	31	33	100. Local authorities	23	19	14	11
81. Total	48	49	65	103	101. Total	478	479	509	555
Deficit					*Expenditure on goods and services*				
82. Central government	130	2,080	2,788	2,760	102. Central government	464	2,680	3,831	4,254
83. Extra-budgetary funds	−22	−148	−154	−151	103. Extra-budgetary funds	14	13	12	13
84. Local authorities	−7	−38	−66	−80	104. Local authorities	367	366	351	341
85. Total	101	1,894	2,568	2,529	105. Total	845	3,059	4,194	4,608
Income plus deficit					*Total expenditure, excluding transfers to other authorities but including payments out of transfers from other authorities*				
86. Central government	1,021	3,339	4,616	5,103	106. Central government	797	3,093	4,367	4,845
87. Extra-budgetary funds	87	94	292	258	107. Extra-budgetary funds	151	166	361	331
88. Local authorities	230	211	185	167	108. Local authorities	390	385	365	352
89. Total	1,338	3,644	5,093	5,528	109. Total	1,338	3,644	5,093	5,528

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NOTES

This table is a combined statement of the income, deficit and expenditure of public authorities in the United Kingdom. Transfers between one public authority and another, such as Exchequer grants to local authorities, are excluded from the income of the receiving authority and from the expenditure of the authority making the transfer. Thus, expenditure by local authorities from Exchequer grants is attributed to local authorities and not to the central government as in Cmd. 6347. Reimbursements to local authorities in respect of expenditure incurred on behalf of the central government have, as far as possible, been shown as expenditure of the central government.

Expenditure on goods and services is here *net* in the sense that it is after deduction of goods and services sold by public authorities to the general public, which are included either in personal expenditure on consumption or in private investment at home.

70. Includes income tax, after allowance for the small amount paid by public authorities in respect of their income from property, surtax, other Inland Revenue duties, National Defence Contribution, and Excess Profits Tax. In contrast with the treatment adopted in Cmd. 6347 *all* War Damage Act contributions and premiums are excluded from this item and included in the following item. Certain appropriations-in-aid or receipts appearing in miscellaneous revenue which correspond to gifts (*e.g.* sundry contributions towards the cost of the war) or direct taxes are also included. The receipts from wireless licences are here treated as direct taxes as also are motor vehicle duties on vehicles owned by persons.

71. Composed of employees' contributions to social insurance and War Damage Act contributions and premiums.

74. Composed of customs and excise duties, motor vehicle duties not included in item 70 above, stamp duties other than those on the transfer of property and appropriations-in-aid corresponding to indirect taxes.

75. Composed of employers' contributions to social insurance and premium payments under the commodities and marine war risks insurance schemes.

76. Composed of local rates with the exception of water rates, which are treated as current receipts from trading services.

78. Post Office net receipt, receipt from Crown Lands and from Sundry Loans, certain items appearing in miscellaneous revenue, such as contributions towards the cost of the war received from colonial governments and peoples, and certain appropriations-in-aid, such as receipts under the Railway Agreement. Interest on National Debt owned by public departments, etc., is excluded.

80. An estimate of the profits from trading services and corporation estates treated in such a way that (i) central government grants to local authority trading services, but not transfers from rate fund accounts in aid of deficiencies, and (ii) contributions from local authority trading services to the rate fund account are included.

82. The excess of central government expenditure over revenue. The sources from which this deficit is financed are set out in Table III.

83. This item shows the decumulation of the commodities and marine war risks insurance schemes' monies, and of monies held by funds such as the Unemployment and National Health Insurance Funds, and in various accounts managed by the National Debt Commissioners, etc.

84. In ascertaining this item, capital expenditure on housing and trading services, which appears in private net investment (item 8 of Table I), is excluded. Subject to this, the item is a net figure representing the excess of capital expenditure over savings represented by debt repayments, undistributed profits of trading undertakings, etc.

86. The sum of items 70, 74, 78, and 82; items 87 and 88 are obtained similarly.

90. This item has been fully described in the note to item 10 of Table I.

95. The value of claims paid under the commodities and marine war risks insurance schemes and the War Damage Act.

98. This item includes (i) National Debt interest paid to persons and businesses, (ii) interest accrued on National Savings Certificates, (iii) contributory and non-contributory old age pensions, (iv) cash payments in respect of war pensions and service grants, (v) supplementary pensions, (vi) unemployment allowances, (vii) billeting allowances.

99. Unemployment and National Health Insurance benefits and contributory pensions.

100. Public assistance (out-relief) in money and kind.

103. This item is composed of fees paid to agents under the war risks insurance schemes and War Damage Act and of contributions towards administration costs made by the Unemployment and National Health Insurance Funds, etc.

104. This item differs from the corresponding item in Cmd. 6347 by the inclusion of expenditure out of net transfers from other public authorities.

105. The same as item 7.

106. This item excludes net transfers made by the central government to extra-budgetary funds and local authorities which, in so far as they are spent, appear in items 107 and 108. It therefore differs from item 48 (which also appears as items 69 and 86 and item (1) of section A above) which includes such transfers.

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NOTES ON DISCUSSION REGARDING POST-WAR INTERNATIONAL CURRENCY STABILIZATION

New York, September 2, 1943.

Preceding the regular meeting of the Board of Directors of the FEDERAL RESERVE BANK OF NEW YORK held at its office at 2 o'clock p. m. this day, an informal meeting was held at 10 o'clock a. m. for the purpose of discussing the subject of post-war international currency stabilization. At this informal meeting there were

Present:

Mr. Ruml, Chairman,
Messrs. Brown, Clute, Conway, Fraser,
Myers and Williamson,
Mr. Sproul, President,
Mr. Rounds, First Vice President,
Messrs. Gidney, Knoke, Logan, Rice,
Rouse and Williams, Vice Presidents,
Mr. Roelse, Assistant Vice President,
Mr. Dillistin, General Auditor,
Mr. Treiber, Assistant Counsel and
Secretary,
Mr. Brome, Assistant Counsel
and Assistant Secretary.

Mr. R. B. Wiltse, Managing Director of the Buffalo Branch of the Federal Reserve Bank of New York, Mr. Moore, Chief, Foreign Research Division, Research Department, and Mr. H. C. Wallich, Foreign Research Division, Research Department attended the meeting by invitation.

Dr. Harry D. White, Director of Monetary Research of the Treasury Department, Mr. E. M. Bernstein, Assistant Director of Monetary Research of the Treasury Department, and Mr. E. A. Goldenweiser, Director of the Division of Research and Statistics of the Board of Governors of the Federal Reserve System, also attended the meeting by invitation.

Mr. Ruml stated that the committee of directors on foreign relations has been studying the problems relating to post-war international monetary stabilization for several months and that these problems have been discussed with the board of directors and officers of the bank on several occasions; and he expressed the appreciation of the directors and officers of the opportunity to discuss these problems with Dr. White and Mr. Bernstein. He stated that it was not expected that any conclusions would be reached at the meeting, but that the committee of directors

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on foreign relations would continue its study and would probably report the results of its study to the board of directors.

At the suggestion of the committee of directors on foreign relations Mr. Ruml opened the discussion by reading the following paragraph from a memorandum prepared by Mr. Sproul which, he stated, had not been adopted by the board of directors but which it was thought expressed the point of view of the committee:

> "1. The purposes which underlie proposals for an international currency stabilization mechanism will find general acceptance. International collaboration to promote increased productivity and a higher standard of living for all peoples is a legitimate world aspiration. The reduction of international barriers to the exchange of goods and services, whether those barriers are political, commercial, or monetary, is a legitimate world goal. The question then is not one of internationalism vs. isolationism, nor of multi-lateralism vs. bi-lateralism, but of how best to achieve our objective."

Mr. Ruml then referred to the tentative outline of discussion setting forth the questions which the directors and officers had been considering, copies of which had been distributed among those present at the meeting; and it was agreed that the points in the outline should be taken up in order.

Mr. Ruml then read questions 1(a), (b) and (c) of topic I as follows:

1. (a) Can we or other countries, including the relatively undeveloped countries, intelligently commit ourselves to a currency stabilization plan, until plans as carefully and deliberately explored have been worked out for dealing with other problems such as the abnormal situation at the end of the war, international long term lending and development, and international stabilization of important raw material prices?

   (b) Will the immediate organization of an international currency stabilization fund facilitate other and more important measures of international economic collaboration, or will it facilitate avoidance or postponement of solution of more difficult problems, meanwhile loading the currency stabilization mechanism with burdens which it cannot bear?

   (c) Unless the international currency stabilization fund is de facto a world political organization, can it exercise the controls necessary to its operation, and is this the way to establish a world political organization, assuming the world is ready for such an organization?

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Mr. Dillistin entered the meeting at this point.

Mr. Sproul stated that he felt that these topics raise some fundamental questions, although not necessarily the most fundamental.

He said that question 1(a) should concern not only ourselves but also, to perhaps a greater extent, the smaller, more undeveloped countries for whose interests we, as a leading nation, should have some concern. He stated that the question is whether, without more being done about such problems as those enumerated in the question, any country could commit itself to the discipline and requirements of an international stabilization plan, no matter how set up. Mr. Sproul said that it appears to him that these questions should be explored as thoroughly and discussed as much publicly as the currency stabilization plans have been; that otherwise there is a danger that the American people, for instance, will feel that they do not know the entire package, that they do not know the whole program for which they will be expected to supply funds, when attention is focused on the segment of currency stabilization.

Question 1(b), Mr. Sproul said, presents a question of judgment, opinion and guess. Unless the whole thing is on the table, he said, the chances of solution and acceptance are less. In his opinion, the adoption of a currency stabilization mechanism prior to any attack on the other problems might be accepted by public opinion in many countries as a solution to the more difficult problems with the result that action which should be taken to solve those problems might not be taken. He stated that he was influenced by the experience in the 1920's when central banks were expected to do everything by the control of credit; and he expressed the view that failure to meet these other problems might place too great a burden upon the currency stabilization mechanism.

Mr. Sproul said that question 1(c) opens up a whole field that has been argued with much heat and little light. It raises the question of the effective powers of the Fund and the extent to which the sovereignty of the participating

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nations is invaded. It will be necessary for corrective measures to be taken by creditor countries and by debtor countries. He stated that many people feel that, unless the Fund has the powers to compel adjustments, there can be no assurance that proper corrective measures will be taken. Without such powers it is difficult to see how the Fund can prevent currency disequilibrium in the long rum. If the Fund has such powers, the organization would appear to be de facto a world political organization as well as a monetary organization, and it should be clearly understood that it impinges upon the sovereignty of the participating countries. If this is so, he said, the question arises whether it would not be better to establish a world political organization as such, and to fit the monetary organization into that setting.

Mr. Ruml suggested that Dr. White might wish to comment on the qestions as outlined by Mr. Sproul; and Dr. White replied that he would be glad to do so.

Dr. White stated that the Treasury representatives had sought the opportunity of discussing these problems with the directors and officers of the bank because they want the support and understanding of the directors and officers if, after understanding, they feel that they can give their support, and also because they thought it desirable to explore what each other has in mind and to discuss the whole subject, thereby removing any area of misunderstanding and, if possible, narrowing the points of difference, if any.

Dr. Goldenweiser entered the meeting at this point.

Dr. White stated, with reference to question 1(a), that all who had worked on the problem readily admit that the Treasury's proposal is designed to make a contribution only to a segment of the various problems involved. He said that the development of solutions to the other problems or the creation of agencies to deal with them is highly desirable; and to the extent, for instance, that provision could be made for long-term credits and reconstruction and rehabilitation a substantial contribution would be made to the prosperity of the world. If there is high prosperity, the stabilization agency will have little work to do. If

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there is not, more pressure will be put on the Fund.

Dr. White stated that plans for an organization to handle the problems of foreign investments are being considered although it has not yet been determined whether, when such plans are presented to the public for discussion, they will call for a national or an international organization. He said, however, that the public would have ample opportunity to discuss such a proposal before either it or the currency stabilization plan is acted upon by the Congress.

He said he felt that it is a basic error to assume that the success of the Fund or of a long-term investment agency would be completely dependent upon having both or upon having solutions to the other problems referred to in question 1(a). The creation of instruments to solve such problems would make each task easier, he said, and it would be unfortunate if there should emerge from the world discussions only a stabilization fund; but it would be even more unfortunate if a fund were not created. In any event, the Fund would have a contribution to make if the other problems were not handled.

Dr. White said that the kind of commercial policy which prevails after the war would have important effects on the problems of the Fund because the extent to which countries would have to resort to the Fund would be influenced by their ability to sell their goods. Although proposals for seeking a more intelligent commercial policy are going forward, he expressed the fear that they might end with a mere statement of principles. He does not expect a great deal from this quarter. If there is an intelligent commercial program, it will make the task of the Fund easier. In the absence of an intelligent commercial program the Fund will be more necessary.

The Fund cannot "break down," he said. All that could happen would be increased pressure on the Fund which would make it necessary for those in control to exercise tougher judgments, to consider swings of disequilibrium over longer periods; or the creditor nations might refuse to supply more foreign exchange when

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their original commitments have been exhausted. These factors, he pointed out, would also create pressure for a more sensible commercial policy.

Dr. White stated that the trade agreement program is going forward. That program, he said, has two parts, one of which is applicable here and the other is not. That which might affect the Fund is the design to raise the level of trade; and this is desirable. Referring to tariff concessions, he expressed the view that the concessions usually granted would not affect the balance of payments because in most cases one of the following conditions exist: (1) the concessions are meaningless, (2) the concessions involve goods which we do not produce at all, and thus result merely in shifts of imports from one country to another, or, (3) where the concessions involve an increase in our imports, there is usually a _quid pro quo_ for such increase in the form of other changes designed to increase our exports. The other aspects of the trade agreement program, he said, is the elimination of discriminatory trade practices, the principal result of which has been to increase the ability of this country to compete. It has not in the past resulted in any diminution of the excess payments to this country. He said that the pressure to increase our imports in relation to exports does not necessarily result from trade discussions, and that pressure to reduce tarriffs would not come from international discussion; nor does a reasonable tariff policy aim at or achieve a correction of disequilibrium. If there were no tariffs the swings in the balance of payments would be much greater than they are now. Too much should not be expected from commercial policy.

Dr. White stated that although the stabilization of international commodity prices would help in the stabilization of currency and should come in for a great deal of public discussion in the future, he feels that the task of getting stability of prime materials is difficult to achieve and the results in this field will not be overwhelmingly effective. This, he said, would only make the task of the Fund greater.

Dr. White said it is important to make progress in all of these fields. The fewer results are obtained in any one field the more important it is to obtain

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good results in others. The problems in the various fields are handled by so many different agencies and people that a start must be made with respect to one thing at a time. Currency stabilization is the most important field because it is in a relatively simple area where national interests play a smaller role. If the technicians agree and their agreement is accepted by the people, it should be easier to reach agreements in the other areas; and since the problems must be approached one at a time (because no men are capable of grasping all of them simultaneously) the field of monetary stabilization is an excellent place to start. If we fail to attain agreement in other areas it is all the more important to have agreement in this area.

Mr. Fraser inquired what Dr. White meant when he said that the Fund could not break down. Dr. White replied that it could never cease to function,* or go bankrupt. It would always be able to assist some countries. The worst that could happen, he said, would be pressure upon one or two currencies. In that case the Fund would have to decide whether it wished to provide such currencies, and the countries whose currencies were involved would have to decide whether to make the currencies available. For example, in the case of exhaustion of United States dollars in the Fund the Reserve Banks, the Board of Governors or the Treasury, would have to decide whether to supply additional dollars to the Fund. If dollars were not made available the Fund would become inactive in this currency but would be active in other currencies. This would be bad, he stated; and these conditions would prevail until United States authorities were willing to make more dollars available or the Fund should impose conditions on the debtor countries, or suggest action by the United States which would result in a correction of the disequilibrium. In this connection, Dr. White pointed out that if, in the opinion of the directors of the Fund, the reason for the disequilibrium is some aspect of the United States internal policy it would be the duty of the Fund to point that out and to recommend corrective measures.

*Dr. White subsequently stated that the Fund might break down and cease to function if one or more of the major countries withdrew.

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Mr. Fraser inquired why some such conditions are not laid down in advance. Dr. White replied that they are, that certain phrases and clauses give the Fund authority from the start. Then, said Mr. Fraser, does this not show an impingement upon the sovereignty of the participating countries.

Referring to question 1(c), Dr. White stated that the powers of the Fund come from two sources. In the first instance, the countries agree to abide by certain principles, which agreement has the same effect as far as sovereign powers are concerned that trade agreements and other treaties have always had. In addition, a country (except one in default) is always free to withdraw from the Fund on one year's notice. If the United States or another major country were to withdraw the Fund would break down. Although a small country might legally withdraw it would be in a far different position if the large countries stayed in. A small country, he said, would not always be able to withdraw with impunity because of the possible adverse effect upon its international credit status. Adherence to the Fund, Dr. White said, does not constitute a "surrender of sovereignty" as those words are generally understood. The Fund is a multilateral arrangement with power to put more pressure on the participating countries.

The other source of the Fund's power comes when a country seeks to buy exchange in excess of the amount of gold contributed by it In this connection Dr. White pointed out that in the absence of a Fund this gold could be used to buy exchange. When the country has drawn upon the Fund to the extent of its gold contribution, the Fund's holdings of that currency will equal the country's quota. As soon as this is the case the Fund may set conditions for further sales of exchange. It is not necessary that these conditions be written or formal. Knowing the condition of the country the Fund could say that it believed the country should not buy that much currency, or that the Fund will not let it have that much currency unless it changes its policies. The fund might say that the country should do various internal acts designed to correct the disequilibrium in that country's balance of payments.

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The Fund must protect its assest and encourage the participating countries to pursue those policies which in the long run seem most likely to maintain equilibrium in the balance of payments. If a country (which has exceeded its quota) wants to get aid from the Fund, it is in the same position as a business man coming to a commercial bank for credit. The country may have to modify its policy as the price of getting assistance. The country, however, still has the choice of not coming to the Fund and operating as if the Fund did not exist.

The direcotrs of the Fund, Dr. White said, would be in an excellent position to suggest appropriate policies because of the opportunity to draw upon the best minds in the member countries and the access of the Fund to more detailed information than would otherwise be available. The Fund will make mistakes, he said, for human beings are no smarter in the Fund than outside. The Fund, however, would hesitate to make recommendations unless it felt clearly that it was right. Dr. White stated that much better results would be obtained from the standpoint of encouraging a country to pursue a proper policy when that policy is determined by a group of men, representing a number of countries, who are experts removed from political pressure and without close political interests in that country. The Fund need not be a de facto world political organization.

With reference to creditor countries, Dr. White pointed out that if the Fund directors, having studied the matter, prepare a report to the effect that the disequilibrium is the result of practices or policies of a creditor country which should be corrected, that would be a powerful factor in bringing about the correction. Many people in the particular country would agree with the recommendations of the Fund and this would bring about pressure towards the desired action. However, he stated, the correction could only come about as a result of unilateral action upon the part of the creditor country.

In such a case or in the case of conditions laid down to debtor countries, a political problem of the first magnitude is presented to the country involved.

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but, he said, that would not be a political problem for the Fund. Any question of policy which is significant is a political one for the country involved.

Dr. White stated that one of the things the countries agree to in advance is that they will not indulge in competitive depreciation of their exchange. They agree not to make any change in exchange rates without the approval of the Fund. In the past the easy way out for a country with a constant adverse balance of payments was to depreciate its currency, which action is frequently followed by similar offsetting action elsewhere, with disrupting results. This agreement to abide by the decision of the Fund regarding exchange rates, he stated, constitutes more nearly a surrender of sovereignty. In so far as the United States is concerned, this is not very important because we are not interested in depreciating the dollar. We are, however, very much interested in seeing that other countries do not depreciate their currencies. We should, therefore, be behind this principle. He stated that certain other countries are concerned over this provision because they feel that they could never alter their rates. As to this he pointed out that they can do so with the approval of a three-fourths vote of the Fund, which presumably would be forthcoming in a case where such action is deemed appropriate. He also pointed out that such action could not be taken if the British and United States representatives felt that it was not appropriate because they would control substantially more than one-fourth of the votes. The requirement of a three-fourths vote, to which considerable opposition has been expressed, should go a long way to bring home to governments the need of refraining from taking the easy road.

In conclusion, Dr. White expressed the view that this provision is a long step toward preventing a scramble of currency depreciation after the war.

Dr. Goldenweiser expressed the view that this prevention of currency depreciation is the heart of the whole problem.

Mr. Sproul stated that when the Fund has created a political problem for a country it is difficult to say that the Fund has not exercised a political power.

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He pointed out that there is a difference between an agreement between two countries on certain principles and an agreement which also sets up an international body with power to interpret those principles and to require compliance therewith.

Mr. Sproul also stated that he wondered whether the Greeks, for example, understand, or if they do understand whether they accept, the idea that they will be restricted in their use of the Fund. He said he felt that some at least might feel that having made their currency available it is up to others to buy Greek goods.

Dr. White stated that it is clearly expressed in the plan, and it has been pointed out to the Greek delegate and other delegates, that when in the judgment of the Fund a country has exceeded its quota and is exhausting its permissible quota more rapidly than it should the Fund may place conditions on the sale of exchange to such country.

Mr. Fraser inquired whether it would not be more likely that the Plan would go forward if it is frankly stated that adherence does involve a modification to some extent of what people commonly think of as sovereignty, as distinguished from the technical legal sense of that term. In many cases the conditions which might be imposed by the Fund would relate to major political and social internal policies of the countries involved. If the people of any such country disagree with the Fund they may say the Fund is interfering with their internal affairs. They may also say that the trouble is not with them but with some other country the policies of which are affecting their trade and the balance of payments.

Having emphasized the point that the agreement not to depreciate is most desirable, Mr. Fraser inquired further as to what would happen if a currency were to depreciate in the open market without any legal change so far as the Fund is concerned. In fact, he said, this would appear to be the most likely thing that would happen in practice.

With reference to Mr. Fraser's first inquiry, Dr. White replied that countries might well resent the Fund's conditions and suggestions as an infringement. The plan makes some attempt to cover this possibility by providing that the

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country involved must suggest measures to the satisfaction of the Fund. If the country asserts that the trouble is the fault of some other country, and the Fund directors disagree the country could not get exchange from the Fund. If the Fund directors agree and the second country does not take steps recommended by the Fund, it is not possible for the Fund to protect the first country from the consequences of the other country's action. In such a case the Fund would probably make the needed exchange available to a certain extent and would try to exert pressure on the other country. Dr. White agreed that it is desirable that each country understand this before coming into the plan; and he stated that there has been prepared, and will be made available to each country, a list of questions and answers covering many of these points.

Referring to Mr. Fraser's second inquiry regarding currency depreciation in the open market, Dr. White stated that certain provisions of the plan require a country to use those resources which in the judgment of the Fund it should use to protect its rate of exchange and that as long as they are used the rate would be maintained. If in the opinion of the Fund they cannot be used, the Fund has a responsibility to suggest a way out and to continue to give assistance as long as the country pursues the suggested policies. If the country refuses to accept the suggestions it might be declared in default, but Dr. White assumed that a wise board would do that only after very careful consideration. If the conclusion were perfectly clear, the country would probably be declared in default and certain consequences which it did not like would follow. On the other hand, if the conclusion were not perfectly clear, the Fund would agree to altering the exchange rate.

Mr. Ruml inquired whether there would be any significant relinquishment by a member country of its capacity to regulate its internal economic affairs, either upon adherence to the plan or at such time as situations requiring correction might arise. He referred to the fact that countries may not unilaterally alter exchange rates and inquired whether they might unilaterally discriminate between certain classes of imports.

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Dr. White said that this raised a troublesome point. The only advance agreement is that the countries will not undertake that type of discriminatory trade practice which reduces the amount of its total trade. Questions relating to restrictions for reasons other than exchange control remain to be determined in the field of commercial policy. By way of example, said Dr. White, suppose Argentina restricts automobile imports (primarily an American product) and does not restrict electrical machinery (primarily purchased from Germany). If the purpose is to conserve foreign exchange Argentina has the right to determine what it can afford and what it cannot. That type of discrimination is a matter for commercial negotiations. The Fund approaches the problem from the view of total imports and total exchange.

In answer to Mr. Ruml's question, Dr. White stated that the plan did not attempt to prevent a nation from imposing export controls.

Dr. White stated, in answer to a question by Mr. Ruml, that a member country may, and should, seek foreign exchange outside of the Fund. The Fund is not intended to interfere with the regular transactions. Countries resorting to the Fund should first exhaust the usual sources of exchange.

In response to Mr. Ruml's inquiry as to whether a country might subsidize its exports to obtain foreign exchange, Dr. White stated that under the plan there is nothing to stop it. He said it had been covered in a prior draft, but subsequently it was agreed that it did not belong there. He stated that this is a knotty problem that commercial policy will have to deal with and expressed the opinion that it would not be successful. Mr. Bernstein pointed out that subsidies by the use of multiple currency rates are prohibited under the plan except that tourist expenditures might be encouraged in this manner.

Mr. Brown referred to the provision prohibiting discriminatory trade practices reducing the level of trade and inquired whether the Fund would have any power to correct such a discrimination. Dr. White replied that it would not except in so far as discriminatory exchange practices were involved. He stated that this

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point had been left out of the draft of the plan because it proved too difficult a problem, but with the expectation that it would be given further consideration in subsequent negotiations.

In answer to Mr. Brown's inquiry as to whether information in the possession of the Fund will be made public, Dr. White stated that he believed the factual information should be made public although with perhaps some lapse of time in certain cases at the discretion of the directors, but that evaluations and reports by the Fund's staff probably should not be made public. He pointed out that each participating government would have the information available to it through its representative on the board of the Fund; and he stated that amount of the balances in each country's account probably should be made public. Dr. White expressed the view that the advantages of publicity outweigh the disadvantages.

Mr. Fraser stated his belief that there is a great deal of feeling that the plan is not quite frank in indicating where, if at all, it impinges upon the social, as distinguished from the legal, sovereignty of a country, i.e. political action within the country. He pointed out that when an international body says to the world that a particular country should do thus and so the people addressed are likely to feel that this a matter that falls within their sovereign rights to decide. He expressed the view that it might be better to say frankly that a country coming in might be called upon to do certain things and that the plan would not work if they did not play the game.

Dr. White illustrated his reply to this point by giving examples of the three situations in which the Fund would be called upon to act. (1) In the case of a creditor country, the Fund's only power is to recommend and although its opinion might carry considerable weight the Congress, in the case of the United States, would decide whether or not to act upon the recommendation. (2) In the case of a powerful debtor country, such as Great Britain, coming to the Fund for exchange in excess of its permissible quota, the plan provides that when the amount of any currency in the Fund is reduced to 20 per cent of the original contribution that country has a veto

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power over any sale of additional currency. Under such circumstances the American member could refuse to permit the sale of additional dollars to Great Britain. The reason would be known to the British member and discussed by the board. If the board agrees with the English position no problem is presented so far as English sovereignty is concerned. If the board disagrees it might say to England that it would not make a sale at the prevailing rate but would at a reduced rate. At this point, the English member might inquire under what conditions dollars would be available, and the board, presumably in consultation with the American member, would make suggestions or ask England to do so. Dr. White expressed the view that this involves no relinquishment of English sovereignty, that England could pursue any policy she wants to although she could, of course, get no further dollars until she had met the conditions laid down. (3) In the case of a small debtor country which is not willing to accept the board's conditions, the country would not be in quite the same position as England because the threat of English withdrawal from the Fund would carry greater consequences to the Fund. Accordingly, there would be greater pressure on the smaller country to pursue the policy suggested by the Board, otherwise the situation would be the same. If the debtor country was not willing to adopt the measures suggested it would have to get along without additional dollars; which is what it would have to do in the circumstances in the absence of the Fund.

Mr. Ruml suggested that it might be desirable to have a technical memorandum prepared discussing the various points involved in this question of sovereignty; and Dr. White stated that he would be happy if a member of the bank's staff would prepare such a memorandum, and that the Treasury Department would be glad to do likewise.

At this point Mr. Ruml read to the meeting question 2 of topic I in the agenda as follows:

2. Should the problems of transition from war to peace and the problems of long run currency stability be encompassed in a single currency plan, or should they be dealt with separately? And if they should be dealt with separately, can they be dealt with concurrently in the immediate post-war years? Or should the transition problem be dealt with first as a projection of the wartime problem, a problem of credits of long term or no term, with currency stability maintained by exchange controls; to be gradually modified as underlying balance of payment positions make such modification possible?

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Mr. Ruml suggested that Mr. Williams elaborate on this question.

Mr. Williams stated that major emphasis seems to have been placed upon the difficult problems that will be presented in the immediate post-war period. He expressed the view that the fact that the British suggested a large fund and we a small fund indicates a recognition of this aspect of the problem. The plan, he said, is of a dual purpose character, intended to carry us over the bad post-war years and also to provide a mechanism for long-run currency stabilization. He questioned whether it is wise to attempt to do the two things in the same plan and posed the question whether anything within reason could be done to protect the long-run aspects of the plan from the things that might go wrong with it in the immediate post-war period. In other words, he said, there are inherent fundamental conflicts between the requirements of the post-war period and long-run currency stabilization. In the immediate period something in the nature of lend-lease or long-term loans for various purposes or some combination of the two seems to be required. If those needs are met by the Fund, the Fund is likely to emerge from the initial years in a very unbalanced situation; and, on the other hand, if the Fund is protected against those things it does not make its maximum contribution to the solution of the post-war problems. If after a few years the Fund is lopsided, some countries having exhausted their quotas and having to adopt restrictive measures not because of anything that their long-run situation requires, the creditor countries would have to consider whether they would put up something more or take the debits out of the Fund and fund them in some way. All of this might seriously jeopardize the Fund or render it unable to achieve its major purpose. It would be deplorable, he said, if another measure for international cooperation should come to grief in this fashion.

Mr. Williams pointed out that if one takes the position that the Fund should not start to function on its main purpose until after the immediate period of transition is over this suggests to many people that the Fund should not be set up at this time; and if the Fund were to be set up now but not given anything to do in the period

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of transition it would become a debating society and might be discredited as impotent before the time for action arrives. There is a dilemma he said, as to what the Fund should do. If it takes care of the transitional period, it may be overburdened and break down before the time for its normal functioning has arrived; but if it does not take care of the transitional period, it may become merely a debating society. This dilemma, he believes, has not been taken into account in any of the plans.

Dr. White stated that this is the most difficult problem for the Fund and that it has been given a great deal of consideration. He said that the Fund might be looked upon as designed to take care of the tide and the waves but not the storms at sea. He said that it was not the function of the Fund to do what Keynes provided for the clearing union in his plan, namely, to handle long-term investments. This was prevented, he said, by restricting the size of the Fund.

The problem of long-term investments or credits, he stated, is separate and it is hoped that it will be given separate consideration. He said that the Fund would be badly operated and its purpose distorted if it were used as a mechanism for long-term investment. The work of the Fund would be greatly facilitated by proper handling of this problem and it would be fine if a separate agency were provided for that purpose. Otherwise, he said, long-term credits would have to be obtained in the same manner as before the war.

With reference to relief and rehabilitation expenditures, Dr. White said that he felt sure that some relief would be provided although he did not know in what manner and felt that it would probably be insufficient. On the other hand, he said, the Fund would be able to protect itself against excessive use for this purpose through the substantial brakes provided in the plan. In the first place, the need for relief would exist during the first two or three years and no country can get more than a certain percentage of its quota during any one year. In addition, each borrowing country would have to pay for the assistance partly in gold, with which exchange for relief purposes could be purchased in the absence of any fund. Any country seeking to obtain exchange in excess of its quota could only do so at the

discretion of the directors of the Fund.

Dr. White expressed the view that the fact that the Fund, reasonably used, could make some contribution during the post-war period was a justification for its existence to begin with; that agencies to handle the problems of long-run investments and relief and rehabilitation were desirable; but that if they were not created there would be all the more need for the Fund in order to avoid the destructive effect on world economy of competition for exchange. The fact, he said, that the Fund was designed to make corrections during the stable periods does not indicate that it is not needed during the troublesome periods.

Mr. Williams inquired whether it was necessary to put the question in this fashion, namely: If we do not have these other agencies then we must have this one. Would it not be more desirable, he said, and in the interests of the Fund, to say to the public, as a part of the program of education, that machinery must be devised to meet the special problems of the transition period because the Fund is not designed to meet those problems and should not be used to do so. In the interests of long-run monetary stability the plan should be buttressed by some other plan or plans to take care of those special problems and to protect the Fund for the longer period.

Dr. White said, in effect, that he did not disagree. He said that a proposal for a United Nations relief administration has been under consideration for a year and a half and that while it had been expected to go forward rapidly it had been unduly delayed. He also said that he felt confident that relief in some form would be made available although he was not sure that Congress would extend lend-lease. It should be stressed, he said, that any stabilization arrangement is not a substitute for relief; but that does not mean that it could not be used for that purpose to a limited extent.

With reference to long-term investments, he said that the plan originally contained a second part providing for the creation of an instrumentality for that purpose, but that it was felt that the presentation of the two parts of the plan to the public at the same time would be complicated and confusing, and that attention would be likely to be focused on the latter instrumentality to the detriment of the currency stabilization plan.

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If and when there is a formal convention or conference, he said, it is to be expected that currency stabilization and long-term investments will be considered together and will be presented to Congress together.

Mr. Williams raised the question of intermediate credits involving neither relief nor long-term investments but funds needed for a short period pending the recapture of markets. Dr. White agreed that this question is important and troublesome.

Dr. White stated, by way of conclusion on question 2, his belief that there is too great a tendency to assume that the immediate post-war period will result in terrific demands for American goods and credit. He pointed out that many countries today have greater assets in the form of gold and foreign exchange than ever before, that export controls and limitations on shipping space will limit the amount of goods that can be sold during any period, that short-term credits by banks and merchants will be available, and that the prospects for a high degree of production and employment in this country are very good. This will enable us, he said, to make extensive purchases abroad and perhaps result in an outflow of investment capital and tourist trade. The outflow of investment capital will probably be on a large scale. Expenditures abroad by American tourists after the war may amount to between $800 million and $1 billion. Accordingly, taken together, the immediate post-war period may not result in the tremendous pressures on the Fund that have been visualized.

Under these circumstances, he admitted, the existence of the Fund would not be as necessary; but he pointed out that in such circumstances this country would take no risk in adhering to the Fund and that the Fund would be available in periods of future disequilibrium. In the absence of the Fund, he said, this country would probably be thrust into a multitude of bilateral stabilization arrangements.

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At this point Mr. Ruml read to the meeting question 3 of topic I in the agenda, as follows:

> 3. Is it necessary to undertake to stabilize all currencies immediately after the war? Are not the relationships between Great Britain and the United States, between the dollar and sterling, the heart and core of the immediate problem? Are not internal stability in these two countries and stability of the dollar-sterling rate the most important questions of international stabilization for nearly all countries? Would a beginning with these two currencies facilitate adherence of other countries to the currency stabilization program when they are both ready and able to observe the rules of the game? Would it be better to approach the British-American problems (including blocked balances) directly, instead of trying to impersonalize loans, or make borrowing anonymous, by means of an international organization?

Mr. Ruml stated that there is one point in this question he would like to stress. He said that one of the difficulties is the inability of the United States to have a policy or to administer one in the fiscal and monetary area. Concretely, he said, there are three committees of the Senate, four of the House, three or four divisions of the executive branch and the Federal Reserve System all interested, with no satisfactory channel of communication between them. He raised the point of whether this should not be considered as a part of the procedural problem involved in adherence to any stabilization arrangement that requires a monetary policy on the part of the United States and ability to administer it.

Dr. White said that obviously the development of an intelligent policy and harmonizing it between the executive and the legislative branches is desirable, and that the problems of the Fund will be more difficult in their absence. However, he does not believe, he said, that we can use the plan as a lever for the creation of an effective policy at home. In this connection, he said, he was sorry to see the disposal of the National Resources Planning Board because that agency might have presented this problem to the public for discussion. There is no agency now performing that function, though several agencies think the responsibility is theirs and may have a program. In this connection, he stated, that the Office of

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Economic Stabilization or the Federal Reserve System might be in a position to bring this question out for discussion.

Mr. Ruml suggested that studies regarding the internal program should go along at the same time as studies regarding the international program. Mr. White referred to a committee under the Secretary of State which has been studying problems of international commercial policy under a presidential d . ree, but he said that he did not know of any counterpart in the field of domestic olicy.

Referring to the key country approach, Mr. White said he felt it was a great error to assume that England and the United States are the only ones to be concerned in these matters and that their arrangements would shape the pattern for world monetary and trade arrangements. The policies of the two can prevent any international relations or break any arrangements, he said, but that is different from saying that by themselves they can set it up. The danger of currency depreciation is not from England or the United States but from a host of other countries. If a small country engages in that practice pressure is brought on other small countries, on parts of the British Empire and eventually upon Great Britain and the United States. If you intend to set up a code of principles to which you want countries to subscribe it is the small countries you want in. He expressed the view that an arrangement merely between England and the United States would not solve the later post-war problems and would not make it easier for the small countries to pursue appropriate policies or to get the assistance that they would want. It was an error to assume, he said, that stabilization of the sterling and dollar rate would solve the problems with which we would have to contend. The Fund, on the other hand, would make it possible to satisfy the needs of many countries.

Although we are in a position to extend the aid to other countries ourselves, he said, we would want those other countries that can to assist and would also want the countries aided to assume some responsibilities.

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The assumption that all the United States and England might have to do is to get together and tell the other countries how to behave is something, he said, that the other countries resist and would be a step in the wrong direction. The other countries want, and should have, some voice.

The other countries, said Dr. White, should feel a joint responsibility for the orderly conduct of monetary affairs throughout the world in which they share. He said that there might well be more reluctance about including a large number of nations if that increased the risk involved, but that the proposals in the plan would in fact reduce the risks. There is a general trend to greater international cooperation on mutual problems and this should be encouraged.

Mr. Sproul said that the idea underlying question 3 was that, since the principal problems involved relate to the United States and Great Britain the best starting place would appear to be a direct approach to those problems and that we can go on from there. He stated that the point is one of procedure and that it is felt by many that the solution of the problems of other countries would be assisted by the prior solution of the problems of Great Britain, and that without a solution of the latter problems there could be no satisfactory solution of the former.

Mr. Sproul also pointed out that one of the other thoughts behind this question was that if it should appear to the public that the plan is an attempt to make borrowing by Great Britain from the United States anonymous then there may be a considerable amount of resentment towards the plan.

Mr. White said that he did not know what was meant by "anonymous" borrowing, pointing out that when England comes to the Fund for dollars the Fund would receive additional sterling in return. Mr. Sproul pointed out that, although such dealings are between England and the Fund, if they are of substantial volume, they will be considered as borrowing in effect from the United States which furnishes the greatest proportion of the Fund's capital.

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Mr. Ruml said that he felt the confusion on this point was largely a result of mixing up the long-term investment problem with the stabilization operations and not knowing how each would work out. He expressed the view that the investment problems should be worked out directly between the countries involved.

The discussion was concluded at 1:05 o'clock p. m. with the understanding that it would be resumed upon the conclusion of the regular meeting of the board of directors scheduled to be held at 2 o'clock p. m.

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Following the adjournment of the regular meeting of the board of directors at 2:30 o'clock p. m., the discussion was resumed with the same persons present as were present during the morning.

Referring to question (3) of topic I on the agenda, Mr. Williams expressed the view that the issue is not between a two currency system and an international stabilization plan but that there are steps in between. The issue, he said, is procedural, the suggestion being that if one is going to develop a plan to embrace all or many countries one might proceed by steps. The first step would be to work out an understanding between the United States and Great Britain covering many things, not merely the sterling-dollar rate of exchange but also what should be done in the transition period and, perhaps, an exploration of internal policies and consideration of what might be done in cooperation to insure high employment and production in both countries. The next step would be to consider how to bring in other nations with perhaps consideration of whether certain criteria should be laid down to determine when a nation is ready to come into the long-run currency plan. To this one you might object on the ground that the other nations would not like to be waiting on the side line to be called in. That point, he said, has considerable force. One way to meet it is to have two plans. One for the transition period in which most of the nations might participate and in which their immediate problems would be considered. This would help prepare the various nations to come into the

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long range stabilization. The next step would be the long range plan itself.

Mr. Williams said that another way to state the problem is to say that the leading countries would always form some kind of inner circle because it is their currencies that all other countries use. Even at the outset, however, he said, a selection of principal countries could be made from this point of view and arrangements could be made for other countries to tie on to them. It is important to point out that it is not intended to stop short with an arrangement to stabilize the dollar and pound, and say that that covers the world.

Mr. Rouse entered the meeting at this point.

Dr. White said that the key country approach as outlined by Mr. Williams appeared to be cautious and conservative. He said he felt that many persons had adopted this approach as a means of justifying, under a cloak of conservatism, their opposition to this or any other plan. The establishment of the Fund would not, in his judgment, constitute a drastic innovation but would be a cautious, conservative step under the circumstances.

The Fund, he said, merely asks a group of countries to (1) subscribe to certain principles, (2) make a contribution to the Fund, and (3) become members in good standing. The Plan already has, or there can be added, sufficient protective devices so that the Fund could do nothing revolutionary or drastic. The principal difference would be the number of problems presented, but that should not constitute a difficulty or danger. No problems would be created, he said, that do not already exist; and the fact that all countries would bring their problems to the Fund would make them easier of solution in the long run. In addition, he said, the Fund would give the world a greater degree of assurance that the problems would be intelligently handled.

Dr. White stated that the objective should be to make the powers and resources of the Fund subject to conservative mangement and that there might be provisions of the Plan which should be modified with this in mind. The gradualness of

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the approach lies in conservative management rather than merely in the number of members. In this connection, he pointed out that the management would be in the hands of a few nations, with Great Britain and the United States controlling 40 per cent of the votes; that the most important decisions would require a three-fourths vote; and that where a majority is sufficient there are other controls; so that, in effect, no decisions could be made without the approval of the major countries. The existence of the other members merely provides an opportunity for the expression of additional judgments and points of view. A cautious approach, he said, does not necessarily mean limiting the number of participants at the outset, but rather having the right sort of brakes and controls.

Mr. Bernstein stated that he felt that not only had Mr. Williams' criticism of the Plan been the one best stated, but that it has become the popular criticism taken up by people who are looking for intellectual standards to support their opposition.

With reference to the merits of Mr. Williams' argument, Mr. Bernstein stated that there is the practical question of whether we can get international monetary cooperation of a satisfactory character through the key country approach. One question, he said, is how other countries will feel about it. He stated that many countries, including England, have indicated that it would be utterly undesirable if two great powers decide that they are going to determine policy for the whole world. The small countries recognize the important position that the great countries must occupy, but want to feel that they, too, have something to say about each policy affecting their well-being. For example, he said, Canada feels that it, too, is a major country and that its interests are not always identical with British and American interests, and it sees no reason why it should be left out. Even England herself, he said, does not feel happy about the proposal that we and it can get together and decide the questions. There is a feeling, he said, that if there is a question of the United States and Great Britain alone the United States will soon be the dominant element and that Great Britain will be secondary; and the

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English feel that through a body of international opinion there is a better chance that one country will not lay down the law for the whole world. Sir Frederick Phillips, he said, made the statement that he would never undertake to stabilize sterling on the basis of advances from a central bank because there is never enough under such an arrangement and there is uncertainty about getting each advance until the last minute. Mr. Bernstein made the point that the conditions which would be laid down if England and the United States agreed to consult would be the conditions that the dominant power laid down so that there would not be international cooperation. From the practical side, he concluded, very few countries would like the key country approach.

Mr. Bernstein said that another side of the question is form and substance. If, he said, what Mr. Williams is saying is that in substance there are such things as important currencies the behavior of which is of primary importance, and that those countries must take the lead, that could be well and perhaps better done through an international stabilization fund than in bilateral arrangements. He said that he could not see what disadvantage there is in having a fund to which other countries adhere. In a fund, he said, it is possible to obtain the substance of leadership by the leading countries together with a greater stability of the important currencies. In addition, the key countries would in effect control the general policies of the Fund.

With reference to the suggestion that, having started with the leading countries, other countries could be taken in when they met certain requirements, Mr. Bernstein said that the Fund provides safeguards of this character. Although each of the United Nations may join the Fund the exchange rate for each nation would be set by that nation in consultation with the Fund and must be satisfactory to the Fund, and, hence, to the key countries. If satisfactory rates cannot be set it is not the intention of the Fund to start supporting and maintaining a rate that is out of line. In this connection Mr. Bernstein read to those present the second paragraph of section IV 2a of the White Plan (Revision of July 10, 1943) which provides that no operations in a particular currency shall be undertaken by the Fund until a rate has been established which has the approval of the Fund and of the member country in question.

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Dr. White made the following observations:

(1) It would be a serious political error to have a fund which did not include from the beginning the four major allied powers: United States, United Kingdom, China and Russia.

(2) Any board of directors would profit by having upon it men from certain countries, such as the Netherlands.

(3) Smaller countries would be more reluctant to receive suggestions as to their policy from a particular country or group of countries than would be the case if recommendations emerged from an international body in which the smaller countries had representatives.

(4) It is politically desirable that more than the four major powers participate in a fund.

Dr. Goldenweiser said that this is a point on which he has a very definite conviction. He said he felt that an arrangement in which the United States and the United Kingdom participate, presupposes that they would agree on rates of exchange and a skeleton of other proposals. The point of the stabilization fund proposal, he said, is that these two countries are going to be in a position to be disturbed by developments in a large number of smaller countries and it seems much more realistic to start out with all of these countries having agreed to cooperate on a plan in which they all have a say. He also expressed the view that there is a considerable psychological advantage in having such countries feel that their interests are going to be considered along with the interests of the major countries.

Dr. White stated that the British had first suggested that the United States and Great Britain agree upon a plan before presenting it to the smaller countries; and he said that many representatives of the smaller countries had made a point of expressing their appreciation in being included in the preliminary discussions.

Mr. Conway inquired whether it is not essential for Great Britain and the United States to come to some agreement on certain fundamental questions affecting the sterling and dollar areas. He pointed out that the United States and the sterling and French areas, combined, contain a population of 800 million people and do 80% of the world's business. Thus, he said, a plan has little chance of acceptance unless it is made clear that agreement has been obtained among these areas. If this is emphasized he feels the situation would be much clearer to business men.

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Dr. White replied that there is not a complete identity of interest between various parts of the sterling area and the dollar area and he expressed the view that the Fund would make it easier to effect agreements covering these areas. He also stated that talks with Great Britain on these problems are going forward at the present time; and he said that one reason no arrangements have yet been made to hold a formal convention on the Plan is that they are awaiting agreement on the major points with the major countries, and that they do not intend to proceed until there is such agreement. The establishment of an international stabilization fund would not prevent and would in fact facilitate, he said, the bilateral discussions between the United States and Great Britain, and many important decisions would continue to be made outside of the Fund, the representatives of the respective countries then presenting those views to the Fund.

Mr. Fraser expressed the view that the key country approach does not involve merely the setting of a rate of exchange by Great Britain and the United States which would then be imposed upon the world, but that the point, as he sees it, is that if with or without the help of this country, Great Britain can get on its feet, that would be the greatest thing that could happen to the world and would automatically solve many of the problems that would come up before the Fund. Perhaps, he said, some of the other countries would not have the same problem, and we may talk too much about currency stabilization. Any world bank will break down unless the United States and Great Britain work together and are in reasonably good internal condition. He said that he was glad to hear Dr. White say that these problems are being discussed with the British, but he observed that we do not hear much about this in approaching the Plan. Mr. Fraser expressed the view that, in presenting the Plan to the public, emphasis should be placed upon the point that the United States and Great Britain must work together and that each must be in reasonably good internal condition.

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Dr. White expressed agreement with what Mr. Fraser had said, but added that he did not understand why the formation of the Fund would exclude or delay the wholly desirable objective of promoting prosperity in England and the United States. In so far as the Fund affects it at all, he said, it would be a contribution to that end.

Mr. Ruml expressed the view that if the Fund is to work the principal currencies must be so buttressed that they will stand up without the need of currency stabilization activity.

Mr. Williams said, with reference to his approach, that the thing that disturbed him most is that we might have the form without the substance. He pointed out that it is easy to set up a scheme or plan on paper that appears to provide an answer for every difficulty. When you get away from the paper, he said, and try to imagine how it will work you realize that the problems have merely been shifted from one group to another and he does not know whether there is sufficient realization of that fact or sufficient meeting of the minds to make it work. When I suggest a small group instead of a large group, he said, I am trying to get a higher degree of co-operation in smaller areas which would have decisive results for all.

Looking over the last twenty years, Mr. Williams said he is impressed by the fact that the leading countries never performed their function in the scheme of things. They were letting the other countries down. With reference to the measures which might be brought to bear on the small countries under the Plan, even if those countries do everything required of them, we might merely have a repetition of history. The basic difficulty which those countries faced in the past was the inability of the leading countries to maintain good markets and stable conditions. Mr. Williams said that the lesson he draws is not that we need more elaborate machinery, but that the most essential part of the economic problem is political and that what we have most need of economically is stability in world centers.

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Mr. Williams questioned whether there are ways of safeguarding the Plan to prevent the merger of the responsibilities of the leading countries into the responsibilities of the Fund from resulting in buck passing. Referring to the inability of the League of Nations to function better than it did, he questioned whether there are any real teeth in the Plan. In this connection, he referred to his article in the July, 1943, issue of Foreign Affairs Magazine in which he outlined the "teeth" in the Keynes Plan, and said that the imposition upon the smaller countries of the conditions which might be imposed under the Plan would be of no avail if conditions in the leading countries were not right.

Mr. Williams reported that representatives of several of the more sophisticated smaller contries have indicated to him that they would like to feel that there is going to be some central core to the plan to which they can adhere.

Mr. Roelse left the meeting at this point.

Mr. Sproul expressed the view that it is not a question of the cautious approach as against a bolder approach, but that the boldest approach would be to tackle directly the difficult British-American problems rather than to merge them into a number of others. If we get away, he said, from the idea of just setting exchange rates and concentrate upon the idea of a high degree of domestic prosperity in those two countries then the argument for bringing in a lot of other countries at the outset loses much of its point. Furthermore, he said, if you set up an organization in which those two countries have a veto power and a dominant position and those countries continue to take action outside the Fund with important consequences to the Fund, you may not have changed the situation but merely erected a facade.

Mr. Ruml read to the meeting question 4 of topic I, as follows:

4. Is it necessary, in trying to anticipate problems which may develop in the immediate post-war period, to put aside all existing machinery in favor of a new international organization for currency stabilization?

   (a) Lend-Lease.
   (b) Stabilization Loan Agreements.
   (c) Export-Import Bank Mechanism.
   (d) Tripartite Idea.
   (e) Bank for International Settlements.
   (f) Central Bank Cooperation.

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Mr. Ruml suggested that Mr. Fraser open the discussion on this question.

Mr. Fraser said that although he had been an internationalist professionally for thirty years he felt that the fundamental problems are not international but domestic; that sound domestic situations beget sound international situations; and that the original emphasis should be on the domestic situations in major countries whether other countries like it or not. He expressed the view that this has not been adequately emphasized in connection with the Plan. Sometimes, he said, we overemphasize international aspects and that is the vogue at the present time. He added that he felt we should consider very carefully whether it is necessary to create new international machinery at this time.

Mr. Fraser also stated that he has great difficulty reaching a view with respect to the Plan because it is so incomplete. One should see the whole package before one can conclude whether it will work. There is a great danger that people will think that the Plan will accomplish many things, he said; and he questioned whether it would not do more service to the Plan to say that it will work only if certain specified steps are taken, and that it will not work unless certain specified steps are taken.

I have come to the view, he said, that this currency mechanism is the least important of the various things that have to be done and that it should be handled subsequently rather than first. The great danger in setting it up first is that many may think nothing further is necessary. In this connection, he suggested that it might be possible to merge the international plan idea with the key country approach with happy results; and he suggested that much existing machinery might be used to effect this end. Mr. Fraser pointed out that the list set forth in question number 4 is not intended to be complete and might include, among other things, the stabilization fund and Regulation V loans somewhat revamped. He suggested that the Bank for International Settlements could easily be revamped

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and adapted on a scale less grand than the Plan, but that it would meet the point that many small countries want to and should be in the organization from the beginning.

Mr. Fraser also expressed the view that it is a mistake to think that when we talk of Great Britain we have in mind helping Great Britain alone. It is rather because the British problem is the greatest, and it would seem most appropriate to approach that problem first and to say that the Plan can give the results that people would expect of it only if this thing can be worked out between Great Britain and the United States first or concomitantly.

Mr. Fraser concluded by saying that since so many other problems need attention the monetary stabilization plan might be premature as step number one; and he suggested that the other problems might be approached through the medium of existing machinery, which includes the possibility of bringing the other countries in, and that a monetary stabilization plan should come in as a subsequent step.

Dr. White referred to the tendencies to speak of the Plan as elaborate and expressed the view that it was simple, though its technique might be considered elaborate.

Dr. White said that the repeated allusion to taking things up with Great Britain puzzled him. He had referred to the continuing discussions with Great Britain, he said, because it is necessary to reach an understanding with it on certain points as a prerequisite to any international arrangement. He said that similar discussions would have to take place with certain other countries, although if agreements were not arrived at the Plan could go through anyway. However, he said, these discussions relate to monetary policy as between ourselves and the British Treasury; and he did not understand what was meant by coming to grips with England and settling each other's problems. We and the British are going after our own problems, he stated, and looking for a higher level of prosperity, but all that has nothing to do with the machinery for international monetary stabilization.

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Dr. White agreed that monetary problems are secondary, but said that if there is prosperity the monetary problems should not be bothersome. Since, however, monetary problems do exist a contribution to their solution does accomplish something. Most existing agencies, he said, would probably go on, although he expressed some doubt concerning future functions of the Bank for International Settlements.

Dr. White characterized as unreal the assumption that the public will settle back if the Plan is adopted, although he agreed that the public may expect too much from the Plan.

Dr. White expressed his agreement with the view that the soundness of small countries depends upon the policy pursued by the major countries. The question for discussion, he said, is whether the existence of an institution such as the Fund contributes towards a more or less reasonable policy. He expressed his belief that the Fund would contribute toward a more reasonable policy because of two forms of pressure. In the first place, when, for instance, dollars in the Fund are nearly exhausted it is indicative of a disequilibrium; and at that point the governmental authorities in this country are confronted with the necessity for making a decision either to supply additional dollars or not. That will bring home the fact that we cannot supply dollars indefinitely and that something is wrong. It may be that something is wrong with us. If so, it would seem that there is a much stronger case to bring before the Congress or other appropriate body on the basis of which it may be urged that our policy should be modified. In the second place, there is the possibility of an international body presenting a report in which it points the finger at this country and says that the disequilibrium is our fault. This, he said, should be an aid in the adoption of appropriate policy here.

Dr. White concluded by agreeing that the establishment of sound policies and a high degree of prosperity in the major countries was desirable and stating that in his opinion the Fund is designed to bring to bear some pressure in that direction. He also expressed the view that the price of the Plan is very small and

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that its potentialities are pretty good.

Mr. Ruml suggested that the remaining time be devoted to whatever questions the directors might have.

Mr. Williamson inquired whether it would be possible for the Fund to change the value of the dollar in terms of gold, thereby affecting wages and prices in this country. Dr. White replied that, with the approval of this country, the value of the unitas in terms of gold might be changed. The reason for that, he said, was to meet the possibility that new discoveries or processes increasing the production or output of gold might make it desirable to discourage gold mining. He pointed out, however, that the value of the dollar would remain unchanged in terms of other currencies; and he emphasized that this change in the gold price could only be effected with the approval of the United States representative on the board.

Dr. White indicated that the operations of the Fund could affect price levels in the United States indirectly. If the Fund were to make additional purchasing power available to other countries, and such purchasing power were used to buy American goods, the prices of such goods might be bid up. He pointed out, however, that under the Plan only limited amounts of any currency may be made available by the Fund and only during limited periods.

Mr. Brown pointed out that the potential advantage of the Fund lies in the opportunity it affords to assist the expansion of international trade and that this would be offset if the accumulated credits were to be used in payment of old international debts, and he inquired how it is intended to treat these debts.

Dr. White said that the Plan does not permit a country to buy exchange from the Fund with which to pay debts now in default. He pointed out, however, that there may be occasions when debt defaults stand in the way to private capital coming into a particular country, and he stated that the Plan provides that on a three-fourths vote such country may be permitted access to the Fund for the purpose of paying off such debts.

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With reference to lend-lease, Dr. White stated that if England is expected to repay the result would affect any international economic arrangement. He said that the Fund should not be used to help other countries repay us, and that the pressure on the Fund would be greatly increased if repayment is required.

Dr. White said that the question of blocked balances also interferes with currency stabilization. There is a provision in the Plan, he said, for the alleviation of that problem, but that does not mean that England could not settle the balances outside the Fund. It is assumed that this problem will really have to be handled outside the Fund.

Mr. Williams inquired whether the Treasury has reviewed with the British the question of the desirability of handling these balances outside of the Fund; and Dr. White replied that this had been done only to the extent that at one of the meetings a Treasury representative said that that problem could not be settled by the Fund and that England would have to attempt to make other arrangements.

Referring to an inquiry by Dr. White earlier in the meeting as to what more could be done with England, Mr. Williams suggested that we ask of the British whether the Fund would not have better prospects of success if certain problems coming up in the immediate post-war period were handled in some other way. Dr. White replied that discussions along those lines are going on now, but he indicated that he was not sure whether it would be possible to reach decisions on these points. He expressed the view, however, that the Fund would be able to help on these problems.

Mr. Knoke stated that he has frequently heard the comment from bankers that they are disturbed over the possibility of the gradual deterioration of the assets of the Fund. The brakes of the Fund become effective very gradually, he said, and a country can purchase foreign exchange up to double its quota without the brakes becoming very effective, so that at the end of from three to five years the Fund may find that its good assets are scarce and have been supplanted by currencies for which there is little demand.

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Dr. White replied that it is true that if the United States continues to have a favorable trade balance with the rest of the world, dollars in the Fund will eventually be exhausted and if more dollars are put up the Fund will owe dollars to the Reserve System or to the Treasury; but, he pointed out, the Fund will have corresponding assets in the currencies of other countries which are just as good as gold because all you can do with gold is purchase other currencies.

Dr. Goldenweiser and Mr. Williams left the meeting at this point.

Mr. Ruml expressed to Dr. White and Mr. Bernstein the appreciation of the directors and officers of the bank for the opportunity of discussing these problems with them, and he said that as a result of these discussions the committee of directors on foreign relations will be in a better position to prepare an adequate report to the directors.

Mr. Sproul suggested that it might be desirable to invite Dr. White and Mr. Bernstein to attend another meeting in the future for the purpose of discussing these problems further. Dr. White replied that he would be glad to attend such a meeting but would not be available in the immediate future. He also expressed his appreciation of the opportunity to discuss these problems with the directors and officers of the bank.

The discussion was concluded at 4:30 o'clock p.m.

Secretary.

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CONFIDENTIAL

J. H. W.
September 24, 1943

INTERNATIONAL CURRENCY STABILIZATION

I. There has been general agreement that currency stabilization should be but one part of a broad program of post-war international economic reconstruction which must include as well such questions as trade policy, long- and short-term foreign lending, stabilization of raw material markets, and international price and cost adjustments, but there has been much disagreement as to the order in which the work on these various aspects of the general problem should be brought to maturity and presented for discussion by Congress and the public. Currency stabilization probably provides the most feasible and the most focal point of departure for work and discussion upon the whole range of topics, but, on the other hand, it presents a danger that the other aspects of the problem on which the success of any currency plan fundamentally depends will remain under-emphasized and under-developed, and even the danger that other countries and our own public might be misled into accepting a plan for currency stabilization as a cure-all.

At some stage in the discussion of currency stabilization, therefore, and certainly well before final decisions are reached, it seems to me a matter of the most fundamental importance to insist upon the fullest possible revelation of the other parts of the general plan. I recognize that this may be a counsel of perfection which asks for more than is reasonably feasible, and the concrete problem may well turn out to be to strike the best compromise between a comprehensive

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and thoroughgoing exploration of the entire field of post-war international economic reconstruction and the premature adoption of monetary plans. But it seems a fair and a fundamental criticism of the procedure thus far followed that the discussion of currency stabilization has been pushed out too far ahead.

II. Coming to the currency plans themselves, the most fundamental question about them in my mind is their failure to differentiate between problems of the transition period from war to peace and the longer run requirements of currency stabilization. Both the English and the American plans (and also the Canadian) appear to be dual purpose plans intended to deal with both sets of problems. This is revealed in the Keynes plan, both by the very large amount of foreign exchange resources he wishes to create and by his insistent and repeated emphasis upon the difficulties in which many nations will find themselves at the end of the war and the desirability of starting them off on a wave of expansion. It seems equally clear that the much more modest size of the White fund and its greater insistence on limiting this country's liability reflect concern about the possible effects upon us of using the fund to meet the requirements of the transition period as well as those of currency stabilization under the more normal long-run conditions. This concern is apparent as well in the provisions of the White plan regarding war balances.

These two purposes of the stabilization plans seem to me in fundamental conflict with each other, for an effective handling of the problems of the transition period will require lending and borrowing (or lend-lease) and thus the development of debtor-creditor

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relationships which may have to stand for a long period, whereas any effective plan for long-run currency stabilization must assume a tendency on the part of all participating countries toward an average zero debit-credit position analogous to the assumption of two-way gold flow in a properly working gold standard. The danger therefore is, if the currency plan is permitted to retain its dual-purpose character, that after a few years it will acquire such a lop-sided condition (if indeed it does not break down altogether) that all pretense at the maintenance of any even balance position would have to be given up.

I can see no escape from this dilemma so long as both purposes are adhered to, for trying to avoid a lop-sided condition in the fund in its early years would mean not doing the job of facilitating the transition to more normal conditions effectively and trying to correct the lop-sided condition in later years would mean imposing restraints and penalties upon both debtors and creditors arising not out of their long-run normal relationships but out of the handling of purely emergency problems which have really no bearing upon the longer run requirements.

My first general recommendation therefore with regard to currency stabilization is that a separate plan should be devised for dealing with the problems of the transition period and that no final action on any plan for long-run currency stabilization should be taken until after, or at the most concurrently with, the development or adoption of such a plan for the short-run period.

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III. Development of a separate program for the transition period implies no hostility to a plan for longer run currency stabilization. On the contrary, it is intended to promote the success of such a plan by providing the conditions under which the plan could operate. It is sometimes suggested that we must have a plan for currency stabilization to go into effect immediately after the war in order to avoid the period of currency chaos which followed the last war. But, in view of the development of exchange controls, the problem this time is not so much to avoid erratic fluctuations of currencies as to find the equilibrium rates at which the exchange controls can in general be removed, and one of the main purposes of the separate plan for the transition period would of course be to assist this process.

Some of the problems which should be explored in developing the short-run program are the following:

a. Plans for relief and reconstruction and for the continuance of lend-lease.

b. The need for a purely credit granting institution, as distinguished from an agency for currency stabilization. In this connection we should explore the possible use of the B.I.S. or some similar institution, stabilization loan agreements such as have been used in the past, the Export-Import Bank mechanism, and in general all machinery whether old or new which might be helpful for this purpose.

c. The desirability of a separate arrangement to take care of abnormal or blocked balances.

d. The relation of long range developmental loans to the needs of the transition period.

IV. In considering plans for long-run currency stabilization, a distinction should be made between the procedure to be followed in

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putting the plan into effect and the final form of the mechanism to be adopted. Such a distinction between procedure and final form might go far to reconcile some of the most important differences among those who favor different approaches to the problem. Whatever plan is finally adopted, its success would depend very largely upon the prior understandings reached among the principal participants. Of most fundamental importance would be such an understanding between our country and the British. It should embrace internal as well as external policies for maintaining economic stability, and would of course include a complete understanding with regard to how the problems of transition were to be handled in the separate plan to be devised. This first step in the procedure having been worked out, there should be a thorough exploration of the conditions and methods for tying in other countries. Once it is agreed that there is to be a short-run as well as a long-run plan, there ought not to be any difficulty in reaching an agreement, quite as much in the interest of the other countries as ourselves, upon the desirability of establishing criteria for determining when a country is ready to pass from the one stage to the other.

V. Adoption of the program I have outlined would go far to lessen my objections to the White plan. But what attitude to adopt toward it would remain, even so, a most difficult question. Should the plan, with these safeguards, be set up at the outset, or should it, though planned and agreed upon now, go into effect only after a transition period? Or would it be wiser to wait and see how necessary and desirable such a mechanism may prove to be after more normal conditions had been restored and more stable currency relations established among the leading countries?

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Those who favor the plan, but agree that the more immediate problems should be handled in other ways, argue that the only chance to get the nations to adopt it is under war-time conditions, before our ardor for international cooperation has had time to cool. On the other hand, there is the danger that if so pretentious a mechanism is set up prematurely it will again be tarred with the familiar reproach of being another world organization that doesn't do anything. Five years of innocuous desuetude would probably kill it.

I see no way of resolving this dilemma except by reexamining the grounds on which the plan is favored. Undoubtedly, as indicated earlier, the British have been much influenced by anxiety about their immediate post-war problems and their preference for "anonymous" borrowing. But if a separate plan were provided for that purpose, and White's resurrection of his bank plan following our meeting suggests we may be moving in that direction, this ground for preference of a world plan would be removed. From the American experts we have heard much about their plan's being in "the spirit of the times." But this is part of a much larger question. If there is to be a political organization of the United Nations, this will set the pattern for currency stabilization and many other post-war plans. But if this is the main ground for preferring a world currency plan we ought to settle the larger question first. So far we have had very little idea of what this political structure is to be, and the kind of cooperation which is being practiced in the war suggests much more a close association among leading countries than a United Nations world government; though this may not mean that such an

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association might not lead to some kind of broader structure, of which the leading countries would provide the core. The analogy for currency stabilization seems very close and suggests a similar process of development.

In previous memoranda I have argued that the key countries approach has many advantages. It permits of more intensive, and at the same time more flexible and informal, cooperation in the area of the problem which is most decisive, not only for the leading countries but for all the countries. It enables these countries to explore the problems without prematurely subjecting themselves to hard and fast rules and commitments. In particular, it permits them to explore possibilities of common action in the field of internal economic policy, which to my mind is a vastly more ambitious, more difficult, and more decisive area of co-operation in the interests of world stability than that envisaged in the currency plans. Unless the problem of international stabilization is approached in this way, I think it will probably end in another failure. Whether all this can still be done within the framework of the White plan or the Keynes plan I strongly doubt. It is in its nature a different kind of approach, even though it might later develop into some kind of world currency organization.

How different it is can perhaps best be illustrated by the way in which discussion has developed since the Keynes and White plans were published. Simultaneous publication of the two plans directed public attention toward their differences but the experts sought to emphasize their fundamental similarity, and for a time it seemed that there would

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be no great difficulty in reconciling differences and agreeing on a common plan, which in essence would be the White plan with concessions to the advocates of the Keynes plan. The revised White plan, when it appeared in August, made substantial concessions which I will not stop to review. But the British press expressed general disappointment, The Manchester Guardian going so far as to say that any British Government that adopted these proposals would not last beyond the first post-war election. At about the same time, the London Economist came out with the statement that it had heretofore withheld judgment but now had come to the conclusion that neither plan, nor any plan of this general type, would be workable in the conditions of the post-war world. In addition, we know that the British experts have come back to Washington with very different ideas about what they are prepared to accept from those with which they left in June.

This unfavorable turn, though perhaps touched off by the White plan revisions---even though these were favorable to the British side of the case---obviously reaches much deeper and indicates the need for a much more thorough understanding between the two principal countries. Whether in the meantime it was wise to invite the representatives of the Allied and Associated Governments to Washington indicates the kind of question I have had about the global approach to the problem and provides an early illustration of the essential difference between the two approaches. It seems clear that the English on second thought have become assailed with doubts. One kind of question raised is how in a general assembly you can decide upon a change of exchange rates without

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provoking speculation and disorder.. Another is that in a world organization there must be definite rules spelled out in an agreement; but if a country accepts such rules, it must consider carefully what may be the consequences. It seems clear to me that the inevitable result will be that each of the principal parties at interest will so protect itself that the rules will be of little use for any major purpose of currency stabilization. The English, for example, will gladly agree to a large stabilization fund since to them as a deficit country this can only mean more leeway for ordering their own affairs at home and abroad in their own fashion. But we as the principal creditor country will oppose a large fund because of the economic effects upon us and the international obligations which the debtors will wish to impose upon the surplus country. In proportion as we insist upon limiting the fund, England will insist upon retaining her freedom of action with regard to the exchange rate.

Until such fundamental difficulties are ironed out and agreement reached which really looks toward currency stabilization and provides the means and policies, externally and internally, to make it effective as between the principal countries, it will remain difficult to see what benefits the currency plan will confer upon the rest of the world or on the leading countries themselves. My principal point in advocating a key currencies approach has been that there would be a better chance of reaching such an understanding if we began with a more intensive and thoroughgoing, but at the same time more informal and experimental, attack upon the Anglo-American problems. My doubt has been whether this could be done effectively at the outset in terms of a formal and elaborate world currency plan with rules and regulations, pains and penalties, and a world governing body.

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Confidential

October 7, 1943.

Rouvre
L.F.

INTERNATIONAL CURRENCY STABILIZATION

1. The purposes which underlie proposals for an international currency stabilization mechanism will find general acceptance. International collaboration to promote increased productivity and a higher standard of living for all peoples is a natural world aspiration. The reduction of international barriers to the exchange of goods and services, whether those barriers are political, commercial, or monetary, is a desirable world goal. The question at issue, therefore, is not one of internationalism vs. isolationism, nor of multi-lateralism vs. bi-lateralism, but of how best to achieve our objective.

2. Proposals for an international currency stabilization fund or clearing union, which have been put forward in differing forms by monetary experts of Great Britain, Canada and the United States, all attempt to provide substitutes for the disciplines of an international gold standard, and a means of temporary moderation or avoidance of the disciplines which any workable international standard requires. The substitutes are the punitive or corrective measures which may be applied or suggested, by managers of the fund or union, to countries whose debit or credit balances become excessive. The means of moderation or avoidance of rigid adherence to an international monetary system are the credits which the fund or union will provide for countries needing temporary aid in meeting their external liabilities on current account. Acceptance of the disciplines of an international monetary system is urged upon all countries in preference to competitive exchange depreciation, exchange controls, bi-lateral trade agreements, and other measures of currency protection which tend to limit the volume of world production and trade. The inducement offered to countries which might not otherwise be willing to contribute their support to such a world program is the credit privilege which they obtain as members of the fund or union. The primary or distinctive feature of the operations of the fund or union would be the grant of temporary credits by an international agency on a prearranged basis. This is so whether credits be thought of in the usual sense or as a consequence of the "clearing principle," which places on the creditor country the burden of making it possible for the debtor country to pay its debts. The technical clearing function, as has been well said, can be handled by the existing private machinery with a dispatch and smoothness not likely to be matched by any new world institution.

3. In the preparation, and more clearly in the discussion, of these proposals, as is further developed below, it seems to us that insufficient attention has been paid to:
   (a) the primary importance of achieving internal stability at a high level of production in the principal trading nations of the world;
   (b) the key position of the United States and the United Kingdom in the field of international financial and commercial arrangements.

Until these questions have been further explored and discussed, and until there is a reasonable prospect of the adequate solution of the problems which they pose, international currency stabilization plans will not have a proper foundation for successful operation and, therefore, such plans seem to us to be premature.

4. More specifically, it is believed that an international currency stabilization fund (or clearing union), such as has been proposed, is not the best approach to the world's currency problems at this time for the following reasons:

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(a) We do not think that the long run requirements of currency stabilization and the shorter run problems of transition from war to peace can effectively be encompassed in the same plan, and we believe that presently suggested plans will lead to a confusion of these two problems. It is our view that certain problems of transition must be dealt with first, or at least separately, if an international currency stabilization fund is to have a world climate in which it can work successfully. The giving and receiving, or lending and borrowing, growing out of relief, reconstruction and readjustment, must be kept outside any currency stabilization fund, if it is long going to be able to perform its true function of smoothing out temporary disequilibria. This does not mean that we must resign ourselves to currency chaos in the transition period. During this period exchange controls will have to be maintained, but they can be progressively relaxed as the conditions necessary to exchange stability are more nearly achieved.

(b) We doubt whether the immediate and independent organization of an international currency stabilization fund will facilitate other and more important measures of international collaboration. It is more likely to facilitate avoidance and postponement of solution of more difficult problems, and to abate public concern for the solution of these problems, meanwhile loading the currency stabilization mechanism with burdens it cannot bear. Holding this view, we must reject the claim that if these other things are not done, it will be all the more necessary to have an international stabilization fund - that the fund will be better than nothing. The alternative is not "nothing" - there are other ways of meeting the problem. If the proper environment for the successful working of the fund does not exist or is not created, the fund will be a failure; a failure which will set back, not advance, the cause of international collaboration.

(c) We do not see how this country, or other countries, including the relatively undeveloped countries, can intelligently commit themselves to a currency stabilization plan, or any other international economic arrangements of this general character, until they know the rest of the international financial program. Until plans have been worked out, publicized and discussed, for dealing with other problems such as the transition period of relief and reconstruction at the end of the war, international long term lending and development, and the stabilization of prices of the principal raw materials of international trade, it is not possible to pass judgment upon a currency stabilization program. Certainly it would seem that the American people are entitled to know, in advance and in toto, approximately what and how much they are going to be asked to give or underwrite through these impersonal international agencies, the majority of whose members will be debtors and in which the United States is sure to be the largest creditor.

(d) In general, it is our experience that in international affairs more progress is made by breaking down each problem into its parts and building on the best materials available, than by trying to impose global solutions, in all cases, at the outset. Having regard for how the world is presently put together, we believe that international currency stability is more dependent upon internal stability than the other way round, and particularly upon the maintenance of a condition of high production, income, and employment in the leading countries;

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and second, that stability of the dollar-sterling rate is the crucial question for most other currencies. This suggests that problems of internal stability in the United States and the United Kingdom and of the dollar-sterling rate should be dealt with before attempting a United Nations Stabilization Fund. We believe it is correct to say that exchange disequilibrium is most likely to begin with the small, economically weak, countries. This is to mistake symptoms for the disease. Exchange disequilibrium is most likely to begin when the large, economically strong, countries fail in their broader international obligations.

(e) None of the proposed plans, nor any of the many comments upon them, suggests a practicable procedure for fixing a large number of exchange rates during the immediate post-war period. To select a past date, and to fix the rates as of that date with a large range of permitted deviation, is to beg the question. Nor can rates be set in a town meeting, after the fund is established, without provoking speculation and disorder. If, as appears certain, we must proceed by the method of trial and error, we should concentrate on a few principal currencies and let the lesser currencies adjust to them.

(f) None of the proposed plans gives serious attention to possible procedures for combatting inflationary tendencies which appear to be inherent in them all. It is not at all clear that the United States, for example, will find this desirable in all circumstances and at all times.

(g) Political considerations are interwoven with economic considerations in any international arrangements, but this is particularly so in the case of a world organization. An international stabilization fund would be an instrumentality of world government although there is no world government. If the controls which it must exercise (in the absence of a situation so stable as to make the mechanism of a fund a refinement, not a necessity) are to be effective, the international stabilization fund will also be a world political organization. It is believed that this is not the way to establish a world political organization. If there is to be a world political organization, it should set the pattern for world currency stabilization; the larger question should be settled first. Based on the war experience, close association among the leading countries (or some device such as that proposed for the United Nations Relief and Rehabilitation Administration) seems a more likely outcome than a United Nations World Government.

(h) We question the practicability of debtor country control of an institution of the international stabilization fund type, which is a credit granting agency. We also question the desirability of setting up an institution which attempts to give the appearance of democratic control when, in fact, it must be dominated by a few key countries, under existing world conditions, if it is to work properly. And finally, we believe that to hold out the promise, or what will be taken as the promise, to a large number of countries that they will, by right of membership, and the too ready assumption of certain policy obligations, establish a credit line for a substantial amount of United States dollars, or rather United States goods and services, in the immediate post-war years, may be a dangerous step. We should draw all possible lessons from the unhappy experience of the League of Nations in trying

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to grant large authorities and large powers, in the international sphere, to small, economically weak, nations. Either it is a fiction and leads to disappointment and bitterness, or it is a reality and leads to confusion and frustration.

(i) We do not raise the question of sovereignty in a narrow legal sense, but we do believe that there should be a more thorough exploration and explanation than has yet been undertaken or given, of the domestic controls (such as measures to achieve a high level of employment and production) which may have to be foresworn or moderated by countries adhering to currency stabilization plans if there is to be a fairly rigid international currency standard or internationally controlled flexibility. (This question appears to be particularly disturbing to the British at present.)

5. We suggest that the problems of currency stabilization in the period of transition from war to peace be approached as follows: (It is assumed that in this period other and more important questions of international political and economic collaboration will also be under development.)

(a) Extend lend-lease and/or other credit granting machinery to assist rehabilitation and reconstruction. The immediate post-war years will be a prolongation of the war, in the economic sense, and credits of long term or no term will be needed. This will chiefly be the burden of the United States, but other countries such as Canada, Switzerland, Sweden and Argentina should bear a share of the burden. It must be remembered, of course, that the resources of the United States are not inexhaustible, and that too great generosity in international financial affairs may bring a violent political reaction.

(b) During this period, exchange control should continue widespread and provide currency stability. It would be anticipated that such control would be relaxed gradually as more stable international conditions became established, and pressure to this end might be exerted in connection with whatever credits are extended.

(c) Establish a working relationship with Great Britain for collaboration and consultation in:

(1) Achieving and maintaining stability of the dollar-sterling rate (by the trial and error method until an equilibrium rate is found) which includes meeting the problem of blocked balances in sterling. This would provide the counterpart of the world money center about which trade has revolved in the past. It proceeds on the assumption that the international currency most nations want and need is either dollars or sterling (at their option) in final settlement of multi-angular trade.

(2) Achieving and maintaining internal stability at a high level of production in these two principal commercial nations. While this is primarily a matter of domestic concern, whatever steps are taken should be taken with a knowledge of and with regard for their international repercussions.

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MISC. 38.1-50M-10-42

FEDERAL RESERVE BANK
OF NEW YORK

OFFICE CORRESPONDENCE

DATE November 3, 1943.

To Mr. Sproul

FROM A. I. Bloomfield

SUBJECT International Financial Position of Great Britain, and World Gold Reserves.

In answer to your inquiry of a few days ago, I am submitting (1) some notes on the amount of international credits which Great Britain may require to tide it over the transition period; (2) a table giving the amount of frozen sterling balances at present held in London by different countries; and (3) a table giving the gold reserves of central banks and governments in August 1929 and in August 1943.

The problem of estimating the amount of international credits which Great Britain will require to meet its balance of payments deficit during the so-called transition period is one of great difficulty, in view of the extremely wide range of variables involved for which only limited information is available. These brief notes will, therefore, be concerned primarily with an enumeration of these variables, rather than with the attempted calculation of any specific amount of foreign credits which Britain may require. It is obvious, moreover, that the very word "requirements" is an elastic one, depending upon the standard of living and the level of activity that Britain proposes to maintain. By the word "requirements" we will assume, rather conservatively, an amount of international credits per year which, given the state of the other items in the British balance of payments, will make it possible to finance at least the same volume of goods which Britain imported on the average in the years 1936 to 1938.[1]

The logical starting point for any attempted estimate of the international credits which Britain may require lies in an examination of the likely

[1] I do not in this memorandum draw a distinction between Britain's postwar needs for dollar credits and for credits in other currencies. I deal simply with Great Britain's probable exchange requirements as a whole, such as would, for example, be extended to it through an international organization.

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pattern of the British balance of payments in the early postwar years. In the three prewar years, 1936 to 1938, Britain had an average annual merchandise import surplus of £388 million, which was "paid for" primarily by net receipts of £203 million from overseas investments, £105 million from shipping services, and £40 million from financial and other services. The remaining annual average deficit of £40 million (i.e., the deficit on current account transactions as a whole) was met by foreign repatriations of British overseas investments, by short-term capital inflows, and by net gold outflows.

At the conclusion of the war, the British balance of payments position on current account will have substantially deteriorated. As a result of wartime sales and losses of foreign investments, totaling at least £1,000 million and probably considerably more, and the sharply increased volume of foreign balances in London (which have already risen by over £800 million since the outbreak of the war), Britain's net receipts from overseas investments may have declined by as much as £100 million per year at the conclusion of the war. It is also believed that British net receipts from shipping services for several years after the war will have declined by about £40 million as compared with 1936-38. (This estimate is based on certain reasonable assumptions as to the absolute and relative size of Britain's merchant fleet in the early postwar years, the level of shipping rates, the demand for shipping services, etc.) Finally, net receipts from financial and other services may be expected to have declined by about £10 million per year.

In short, net annual receipts from overseas investments, shipping, and financial services are likely to be as much as £150 million less at the

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conclusion of the war than in the immediate prewar years, though the figure may, of course, vary somewhat, depending on the level of national income in the rest of the world and on other factors. If we assume that the value of exports and imports remains the same as in 1936-38, or that the difference between the two remains the same, and remembering that in 1936-38 Britain already had an average annual deficit on current account of £40 million, there will thus be an annual gap of some £200 million, or roughly $800 million, in the British balance of payments at the conclusion of the war.

However, there is no necessary reason to assume that the value of exports and imports will remain the same as in 1936-38 (or that the difference between them will remain the same). These two items are, in fact, the big question marks in the picture, and the size of each (which will intimately affect the amount of credits needed by Britain) will be determined by a wide range of variables which may be briefly outlined.

a. Imports: There is good reason to believe that the volume and value of goods which Britain would like to import, or, in the absence of special restrictions, would reasonably be expected to import, will tend to be higher in the early postwar years than in the years 1936 to 1938. One obvious reason lies in the increased requirements for capital goods and supplies for rebuilding and reconstruction purposes, while the high level of cash and liquid assets in the hands of consumers will tend to involve heavier purchases of imported consumers' goods than prevailed before the war. Moreover, if British plans for full employment are carried through, there will inevitably be a higher demand for imports. In addition, import prices will undoubtedly

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tend to be higher than in 1936-38, in view of the relative "shortage" of goods which will prevail on world markets after the war. The value of British imports after the war will thus tend to be substantially larger, due both to a higher volume and to higher prices.[2] This will tend to expand Britain's balance of payments deficit. If, however, Britain maintains, or even intensifies, its present import licensing, exchange control, and rationing systems, this increased demand can be prevented from becoming effective. Even if the British authorities do not permit a higher volume of imports than prevailed in 1936-38 (which, as noted earlier, we assume to be the bare "required" minimum), the very rise in import prices itself would increase the value of imports, thereby widening the "gap". If we assume, however, that the 1936-38 volume of imports is too low (as it undoubtedly is, in view of reconstruction needs, the higher level of population, etc.), then, of course, the volume of international credits needed by Britain would tend to be proportionately larger.

b. Exports: To what degree may an expansion in British exports after the war tend to offset the expansion of imports, and thereby keep down the volume of international credits which Great Britain may require? The answer to this question will depend, as in the case of the postwar pattern of imports, upon many variables. Certain factors will tend, on the one hand, to keep down the level of British exports in the early postwar years as compared with the 1936-38 levels. In this connection one might refer to the wartime industrialization of overseas markets and the disruption of British trade

2/ The increased postwar demand for imports, however, may be somewhat reduced by increased domestic production of goods previously imported, a development which has been stimulated by the war.

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connections due to the government's wartime policy of keeping exports at a minimum. Moreover, domestic requirements for the reconversion of war industry back to civilian uses, the reconstitution of damaged property, and the meeting of pent-up consumers' demands, may tend to leave fewer resources available for export than before the war. Nor should it be overlooked that some time will be required to reconvert industries to export uses. On the other hand, there are various factors which may tend to offset the above, and cause a higher level of British exports. One such factor is that the British Government, aware of its postwar shortage of foreign exchange, has stated on many occasions that after the war high priorities will be given to exports, and that every effort will be made to follow an aggressive export policy in order to recapture lost markets. The degree of success of this export drive, however, will depend on such variables as the level of national income abroad, the level of British export prices both in relative absolute terms and in relation to prices in competing sources of supply (here the question of the pound-dollar rate is partly involved), upon British ability to adapt its production of exportable goods to the types and qualities required by foreigners, etc. (We omit consideration of possible British resort to export subsidies, bilateral bargaining, etc.)

Although it may be that British exports will be maintained at a higher level in the early postwar years than in 1936-38, this is unlikely; certainly exports will fail at first to expand at a rate fast enough to offset the rise in merchandise imports and the loss of income from overseas investments, shipping, and financial services. The conclusion seems warranted,

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therefore, that for probably at least three years after the war (even making the conservative assumption that the volume of imports will be kept down to a level not higher than that of 1936-38) Britain will require international credits amounting to a minimum of £200 million, or $800 million, a year, and probably substantially more, in order to meet the deficit on its balance on current account.[3]

We have thus far assumed no changes in Britain's capital accounts as compared with 1936-38. This assumption seems to be a reasonable one, in view of the fact that the British intend to maintain their exchange control regulations for several years after the war. Mention must, however, be made of the massive volume of frozen sterling balances in London, now totaling over £1,000 million. If the owners of these balances were permitted freely to withdraw them at the conclusion of the war, then, of course, Britain's requirements for international credits would be enormously enhanced. Although it is obvious that Britain will not permit such an unfreezing of foreign balances, the possibility must not be overlooked that some arrangements may have to be worked out with the countries concerned, whereby a gradual liquidation will be permitted over a period of years. Inasmuch as we have no knowledge as to what the British plans in this regard are, we cannot say by how much British requirements for international credits would thereby be increased in the early postwar years. (We likewise omit consideration of the possibility of some Lend-Lease repayments.)

One final variable remains to be discussed, namely, the degree to which Britain will be able and willing to meet its postwar gap by drawing

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3/ Not all of this sum, of course, will be required to meet Britain's deficit vis-a-vis the United States; a sizable fraction will represent its deficit vis-a-vis Empire and other countries.

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down its accumulated stocks of gold and foreign exchange. The British authorities at present hold roughly $625 million of balances in the United States, while the Foreign Research Division has estimated that British gold holdings at present total about $1,150 million (both these figures are confidential). Assuming that at the end of the war Britain's total gold and dollar holdings aggregate about $2 billion, the British authorities could theoretically meet any anticipated balance of payments gap for at least two years. It is highly unlikely, however, that they would be willing to dip appreciably into these resources.

The problem of how long the British will require international credits likewise cannot be answered unambiguously. This will basically depend upon the time it will take to expand British exports and repair the loss in invisible income to a degree adequate to finance British requirements for imports and other purchases abroad. This, in turn, will depend on a wide variety of factors, as suggested above.

A.I.B.
AIB:DHF

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TABLE I

STERLING BALANCES IN LONDON

(millions of pounds sterling)

Country	Amount	Date
India	501	Aug. 1943
Canada	170*	Aug. 1943
Eire	126**	June 1943
Malaya	100***	Dec. 1941
Egypt	76	May 1943
Australia	69	Sept. 1943
Argentina	42	Sept. 1943
New Zealand	28****	July 1943
South Africa	12	Sept. 1943
	1,124	

*Of this sum, £157 million, or $700 million, represents the interest-free loan extended by the Canadian Government in 1942. The balance, or £13 million, represents sterling held by the Bank of Canada and the net sterling assets of the chartered banks.

**Of which £106 million represents the net sterling assets of the commercial banks, and £20 million the sterling holdings of the Central Bank of Ireland.

***Estimate

****Of which £21 million represents sterling held by the Reserve Bank of New Zealand and £7 million sterling held by the Trading Banks.

N.B. In addition to the above amounts, sterling balances for which no figures are available are held by Brazil, Chile, British West and East Africa, Iceland, Sweden, Switzerland, and Middle Eastern countries, such as Iraq and Palestine. The sums involved, however, are small in comparison with the figures given in the above table.

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TABLE II

GOLD RESERVES OF CENTRAL BANKS AND GOVERNMENTS*

(In millions of dollars)

	August 1929		August 1943
	At $20.67 per fine oz.	At $35 per fine oz.	
U. S.	$3,994	$6,764	$22,243
Other	6,285	10,641	12,260**
Total	$10,280	$17,405	$34,503

*Including holdings of U.S.S.R.
**Reported and estimated unreported holdings; reported holdings, according to the Federal Reserve Bulletin of October 1943, totaled $8,200 millions.

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Author(s): Dag Hammarskjold; Klas Book; Erik Lindahl; Arthur Montgomery; Ivar Rooth; Mats Lemne

Title: Bases for Sweden's Monetary Policy after the War: A Report Issued by Experts in the Bank of Sweden

Date: November 22, 1943

Page Numbers:

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Author(s):

Article Title: Monetary Plan Liked: First Reactions in London to the New Scheme Are Favorable

Journal Title: New York Times

Volume Number: Issue Number:

Date: April 23, 1944

Page Numbers:

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Author(s):

Article Title: Proposals of Monetary Experts in World Stabilization

Journal Title: New York Times

Volume Number: Issue Number:

Date: April 22, 1944

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Author(s):

Article Title: A World Monetary Plan

Journal Title: [New York Times]

Volume Number: Issue Number:

Date: [April 22, 1944]

Page Numbers:

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Statement

of

B. H. Beckhart

on

H. J. Res. 226

made before the

Committee on Foreign Affairs

of the

House of Representatives

Thursday, April 27, 1944

Mr. Chairman: In offering testimony on H. J. Res. 226 introduced by the Honorable Charles S. Dewey, I should make clear that whatever opinions I express represent my personal point of view and not that of any institution or organization with which I am associated.

Congressman Dewey's proposals can best be viewed against the background of the entire role of the United States in international financial and economic relationships in the post-war period. In other words they constitute one of a series of important actions which this Government might undertake in the extension of financial assistance to foreign nations.

Accordingly, I should like to set forth a few general principles which might be given consideration in the development of our international financial and trade policies:

1. In extending aid to foreign nations we should distinguish very carefully between gifts and loans, between the financial aid which we extend to relieve human suffering and distress and for which we do not expect repayment, and the financial aid which we extend for economically productive purposes and for which we expect repayment. Nations occupied by the Axis powers

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will stand in desperate need of food and clothing. These needs we should meet to the utmost of our ability and without thought of repayment.

2. Post-war loans, as opposed to relief grants, should be extended for definite projects of economic merit, or in the words of Congressman Dewey's resolution, for "sound economic objectives". The terms of each credit extension should be "tailored" to fit particular borrowing needs. Careful consideration should be given to the credit-worthiness of the borrowing country.

3. Preference should be given to loans, the proceeds of which will be so utilized as to increase the export ability of the borrowing nation.

   If borrowing needs associated with purely domestic requirements are financed through external loans, a heavy burden will be placed upon a nation's balance of payments without at the same time enhancing its ability to export goods and thus to repay its external debt.

4. In the extension of financial aid, the funds loaned should be similar in character to the funds required.

   The mistake committed in the decade of the 'Twenties of using short-term funds to finance long-term needs should not be repeated. Short-term funds should be used solely to finance short-term requirements and long-term credit needs should be met from investment funds.

5. The United States should stand ready to grant financial aid only if it is confident that borrowing nations at the earliest practicable moment will remove existing controls over import and export trade and foreign exchange transactions, and that they will not use such controls as instruments of national policy.

6. Credits should not be extended unless the United States is willing to absorb the amount of imports necessary to enable foreign debtors to meet interest and amortization charges on their indebtedness.

   In many nations, and more particularly in those which must resort to external borrowings, there will be an intense demand for dollars, a problem which can be eased if, in accordance with a recent recommendation of the United States Chamber of Commerce, this country pursues "a constructive, liberal and realistic tariff policy designed to prevent world-wide erection of excessive tariff walls such as followed the last war".

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Such then are a few of the general principles to which attention might be given when post-war lending policies are being formulated. Not all foreign nations will need to seek loans. Many possess dollar assets and gold in sufficient amount to stabilize their currencies and to purchase in this country the commodities, machinery and capital goods which they will require. Others will need to borrow for purposes of currency stabilization, economic rehabilitation and reconstruction. In certain instances, the loans that will be required can be secured from private sources; in other instances, they will have to be secured from the United States Government or from a government agency.

Post-war financial problems cannot be separated from those of the war itself. In fact, they represent an outgrowth of the war situation. Just as we are extending financial aid during the course of the war, so must we be prepared to continue this aid in the post-war period. Our responsibilities in this connection are implied in Congressman Dewey's resolution. In view, however, of our own internal monetary and fiscal situation, our ability to extend credits is not an unlimited one. Similarly, the ability of borrowing nations to repay is not unlimited. In consequence, credits should be extended largely for purposes which will increase the export ability of the borrowing country.

International capital movements on private account will take place and will increase in the post-war period if the political, financial and economic environment is a favorable one. The creation of a favorable environment presupposes that the United States will reduce trade barriers, that countries overrun by the Axis powers will achieve political stability, that the problem of post-war inflation will be handled successfully, and that controls over foreign trade and over the foreign exchanges will be removed at the earliest possible moment by those nations in which the system of private capitalism prevails.

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Moreover the creation of an environment favorable to private international finance requires that a constructive solution be found to questions concerning reparations and inter-allied debts. The United Nations should neither attempt to collect huge reparations nor insist upon the repayment of inter-governmental obligations resulting from the war effort. Though the enemy powers should be required to return looted goods and relinquish seized territory, reparation payments, except in limited amount, should not be demanded. The United States must take care to avoid being maneuvered into a position, where, as a result of loans extended to the defeated nations, it is in effect covering the reparation payments of those nations. A prompt settlement should be made of the obligations due to this country under the Lend-Lease Agreements. The terms and conditions of the settlement should, in the words of Article VII of the Master Agreement between the United States and the United Kingdom, "be such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations". A further necessary action in the clearing up of political obligations would be the repeal of the Johnson Act of 1934.

As the first step towards an international economic and political environment favorable to private enterprise, this country should stand ready, within the framework of the principles set forth above, to lend financial assistance abroad. Whether loans are extended for a short or a long period, whether they are extended privately, or by the Government, or by one of its agencies will depend upon the credit standing of the borrowing nation.

In general, post-war credits will be extended for the following four major purposes:

1. Trade finance.
2. Currency stabilization.

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3. Economic rehabilitation.

4. Economic development.

In each instance the funds required will differ as to length of life and as to the private or public character of the institution meeting the need.

Trade credits of a short-term self-liquidating character can and should be supplied by commercial banks. American commercial banks have close business relationships with American importers and exporters and, through their correspondents and branches, are in close touch with foreign business. American commercial banks can render a very important service in the financing of international trade, and every effort should be directed towards the building up of a discount market in New York to perform services of the sort rendered so ably and effectively by the London discount market prior to the first World War.

In order to prevent an over-extension of such credits in the aggregate to any one nation, the Federal Reserve Banks might maintain statistical records of all foreign credits extended by commercial banks, classified by countries. Aggregate data could be reported periodically to the lending banks so that they would be in a position to judge whether any nation were incurring too large an indebtedness on short-term account.

The second type of demand for funds arises in connection with currency stabilization. Although credits for this purpose can render an important service, it must be emphasized that currency stabilization is essentially an internal problem. It involves the balancing of governmental budgets, the severance of the commercial banking system from deficit financing, the refunding of the floating debt, the unpegging of interest rates, the re-establishment of free competitive markets, the restoration of a true balance in the cost-price structure, and the re-establishment of profit and loss as a guide to production and as a measure of efficiency.

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The United States itself will have an important responsibility in providing a dollar which will serve as a firm basis for the currency systems of other countries. To accomplish this, the dollar must be freed of all foreign exchange controls, gold coin redemption must be reintroduced, a balanced federal budget must be achieved, and commercial bank credit must not be used, as was the case in the decade of the 'Twenties, to meet the demand for long-term investment funds.

The United States can make a further contribution to world economic stabilization to the extent that it is able to prevent deep business depressions and exaggerated booms and the attendant erratic exports of capital.

Although the problem of currency stabilization is fundamentally an internal one and one which must be solved by the adoption of appropriate internal measures, stabilization credits in certain instances can prove helpful. Such credits are of two types: short-term credits required for seasonal or temporary emergency needs, and long-term credits required for the purpose of providing gold and foreign exchange reserves.

The first type of stabilization credit can best be granted by an international central bank, i.e., by an institution similar to the Bank for International Settlements, or by the Bank for International Settlements itself operating under a revised charter. Such an institution could serve a most important function not only by granting short-term stabilization credits but also by serving as a meeting place for central bankers and as an agency for research on world economic problems. The Bank for International Settlements, which was American in conception, has rendered important services in connection with these functions and its experience will be of great value in solving impending stabilization problems.

May I suggest that the Board of Governors of the Federal Reserve System give immediate attention to the problem of enlisting the cooperation of the

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officials of various other central banks in the establishment of an institution similar to the Bank for International Settlements, or in the revision of the charter of the present institution to make it an effective instrument in currency stabilization.

The second type of stabilization credit is that extended for a long period of time to provide the borrowing nation with gold or exchange reserves. Such a credit is exemplified in the Dawes loan of 800 million gold marks or about 190 million dollars, granted to Germany in 1924 to provide gold reserves for the new central bank, to contribute towards the establishment of a sound currency, and to prevent a complete suspension of payments to creditor nations during the period of economic rehabilitation. The bonds, offered in the markets of eight foreign countries, were 25-year obligations.

Although the Dawes loan was relatively small in amount, the proceeds were sufficiently large, along with the internal measures instituted by Germany, to provide a stable currency. This experience would seem to indicate that long-term stabilization credits following this war will not have to be large to achieve their purpose.

Experience with stabilization credits after this war will probably be similar to that after the last war. Not all nations will need to borrow to secure currency reserves. Many will possess a sufficient supply of gold and dollar exchange. Nations which stand in need of long-term stabilization credits will doubtless wish to obtain them in this country. Gold will probably not be available elsewhere, and the dollar may be the only important currency free of foreign exchange controls. If private funds are not available for such loans, the United States Government should doubtless assume the responsibility of providing the requisite funds.[1/] By doing so, this country can stimulate international trade of a multilateral character and promote world recovery.

1/ Within the framework of principles set forth at the outset of this statement.

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In order to facilitate the granting of long-term stabilization credits by our Government in the difficult period of transition from a war to a peace economy, I propose that a Foreign Credit Administration be established, operating under the direction of a Board of Governors chosen in the manner set forth by Congressman Dewey in H. J. Res. 226. The powers and duties assigned to this Board, however, would be somewhat broader than those delegated in Congressman Dewey's proposal. Among other duties, this body would have the responsibility of receiving and passing upon applications for long-term stabilization loans to be granted by our Government, and, if favorable action were taken, of recommending to Congress that the necessary appropriation bills be introduced.

The first step in any program of world currency stabilization is the stabilization of the British pound in terms of the American dollar. Once this is accomplished, an important initial step will have been taken towards the stabilization of all currencies and the reconstruction of world trade. If the Foreign Credit Administration were established in the near future, it could give immediate consideration to the problems involved in the stabilization of the British pound and to the role which this country should play in effecting such stabilization.

The third type of credit demand has to do with the loans that will be required for purposes of economic rehabilitation, i.e., to assist nations in building up inventories of raw materials and in repairing docks, factories, public utilities, railroads, etc. Such credits are closely related to relief activities inasmuch as they enable nations to resume their normal economic life and to become self-supporting. It is to this problem that Congressman Dewey has in particular addressed his proposal.

Not all nations will need to borrow abroad for such purposes. A number will possess gold or foreign assets. Some nations will be assisted by immigrant

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remittances and by the donations of philanthropic organizations. In certain instances, as the enemy withdraws from the occupied countries, the work of rehabilitation will be undertaken by the American and British armies in order to maintain the services of supply.

To the extent, however, that foreign nations must rely on the assistance of the United States Government to finance working capital needs,and the reconstruction of plant and equipment, I would suggest that the granting of such credits constitute another of the functions of the Foreign Credit Administration, and that such credits, in accordance with Congressman Dewey's suggestion, be extended on a joint-account basis. Inasmuch as the loans will tend to become long-term in character, the amount of the revolving fund will probably have to be somewhat larger than that proposed in H. J. Res. 226. Moreover, foreign nations cooperating in the joint-account arrangements should be permitted to participate with this country in supervising the use of the credits.

The fourth and final type of credit need will arise from the desire of nations to further their economic development, i.e., to expand capital equipment. The greater part of such expansion must be financed from internal sources, for much of it is of such a character that it will not increase the export balance and, in consequence, will not facilitate the repayment of funds borrowed abroad.

In certain instances, nations, by using their own gold holdings and foreign exchange assets, will be able to procure in the United States or elsewhere the capital equipment they desire. In other cases, capital expansion can be brought about by direct investments on the part of American individuals and corporations. This is the most desirable type of capital import, since it does not subject the balance of payments of a nation to fixed charges.

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To the extent that the assistance of the American Government is required and justified in financing capital development in other nations, I would suggest that the Export-Import Bank be used for this purpose, operating under the supervision of the Foreign Credit Administration. The experience which it has obtained in the granting of such credits will prove valuable in meeting somewhat similar needs in the post-war period.

By way of recapitulation, the funds required by various foreign countries in the post-war period (aside from relief grants) will be those needed to finance international trade, currency stabilization, economic rehabilitation, and economic development. A certain portion of the external credits required can be supplied privately, another portion may need to be supplied by governments or government agencies. In order to simplify and expedite the extension of the credits which may have to be granted by the American Government, I have suggested that a Foreign Credit Administration be established. This would be charged with the threefold responsibility of recommending to Congress appropriation measures in order to provide long-term stabilization credits, of participating with other nations in financing economic rehabilitation, and of directing the work of the Export-Import Bank.

This suggestion was based upon and grew out of the proposals made by Congressman Dewey. The Foreign Credit Administration differs from the Central Reconstruction Fund, proposed in H. J. Res. 226, in that it would possess somewhat broader powers and responsibilities, and its functions would be departmentalized in accordance with the type of credit granted. Its Board of Directors would be selected in accordance with the procedure set forth by Congressman Dewey.

In the post-war period, the United States will have a unique opportunity and a real responsibility in offering leadership in the formulation of constructive international financial and commercial policies. We must be prepared to accept this challenge and to develop policies and follow the course of action most

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conducive to the economic recovery of all nations and to the maintenance of world peace. In directing attention to the urgency of these questions, Congressman Dewey has rendered a signal service.

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