

THE INTERNATIONAL
MONETARY FUND
1945-1965

Twenty Years of International Monetary Cooperation

VOLUME III: DOCUMENTS

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PREFATORY NOTE

This volume comprises documents relating to the history of the International Monetary Fund, including some which preceded the drafting of the Articles of Agreement. Among the latter are early versions of the plans for a Clearing Union (the Keynes Plan) and a Stabilization Fund (the White Plan) which have not hitherto been published.

The published documents of the Fund here reproduced include all those which are cited in Volumes I and II of this history, except for publications issued at regular intervals.

J.K.H.

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PART I

Before Bretton Woods

The Keynes Plan

The first draft of Lord Keynes' plan for a Clearing Union was circulated within the British Treasury on September 8, 1941. A fourth draft was given to Ministers on February 11, 1942, and this is reproduced in (A) below.

The final draft was issued by the British Government in April 1943 as a White Paper (Cmd. 6437); it is reproduced in (B) below.

(A) Proposals for an International Currency (or Clearing) Union [February 11, 1942]

1. 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 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 prevent this.

2. The idea underlying such a Currency 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, of assets and liabilities. If no credits can be removed outside the clearing system but only transferred within it, the Union *itself* can never be in difficulties. It can with safety 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 problem is solely to see to it that its members keep the rules and that the advances made to each of them are prudent and advisable for the Union as a whole.

3. It is proposed that the Currency Union should be founded by the United States and the United Kingdom, which would be designated founder-States and given a special position. Their representatives, and those of other members, on the Governing Board of the Clearing Bank would be appointed by the Governments of the several member-States; the daily business and technical arrangements being carried out, as at present, by their Central Banks.

* * *

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

5. It would effect this by allowing to each member-State overdraft facilities of a defined amount, proportionate to the importance of its foreign trade and subject to certain regulative provisions. That is to say, 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 nature 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 that the overdraft facilities, whilst a relief to some, are not a real burden to others. For credit balances, just like the importation of actual gold, represent those resources which a country voluntarily chooses to leave idle. They represent a potentiality of purchasing power, which it is entitled to use at any time. Meanwhile, the fact that the creditor country is not choosing to employ this purchasing power would not necessarily mean, as it does at present, that it is withdrawn from circulation and exerting a deflationary and contractionist pressure on the whole world including the creditor country itself. No country need be in possession of a credit balance unless it deliberately prefers to sell more than it buys (or lends); no country loses its liquidity or is prevented from employing its credit balance whenever it chooses to do so; and no country suffers injury (but on the contrary) by the fact that the balance, which it does not choose to employ for the time being, is not withdrawn from circulation. 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.

6. These facilities will be of particular importance as soon as the initial shortages of supply have been overcome. Many countries, including ourselves, 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 problem 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.

7. Now this can only be accomplished by the countries whoever they may turn out to be, which are for the time being in the creditor position, showing themselves ready to remain so without exercising a pressure towards contraction, pending the establishment of a new equilibrium. The fact that this costs them nothing deserves emphasising. The accumulation of a *bancor* credit, as compared with an accumulation of gold, does not curtail in the least their capacity or their inducement either to produce or to consume. The substitution of a credit mechanism for hoarding would have repeated

in the international field the same miracle already performed in the domestic field of turning a stone into bread.

8. There might be one or two other ways of effecting this temporarily or in part. For example, U.S.A. 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.

9. The objection to particular arrangements of this kind is that they are likely to be influenced by extraneous, political reasons and put individual countries into a position of particular obligation towards others; and also that the distribution of the assistance between different countries may not correspond to need and to the actual requirements as they ultimately develop. Moreover, for reasons already given, we are not likely to be specially eligible applicants for bounty of this kind. If, for example, the problem were to be met by a redistribution of America's gold, it is unlikely that we should get any of it, partly because we should have so lately received assistance under Lend-Lease, partly because the British Commonwealth are the largest producers of gold, which output would be regarded, rightly or wrongly, as ours at one remove.

10. It should be much easier, and surely more satisfactory both for them and for us, to persuade the United States 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 so long as it chooses to hold it, to exercise a contractionist pressure against world economy and, by repercussion, against the economy of the creditor country itself. This would give us, and all others, the great assistance of multilateral clearing, whereby (for example) we could offset favourable balances arising out of our exports to Europe against unfavourable balances due to the United States or South America or elsewhere. How, indeed, can we hope to afford to start up trade with Europe (which will be of vast importance to us) during the relief and reconstruction period on any other terms?

11. These advantages of the proposed International Clearing Union are so great that they surely overshadow most reasons of objection on lesser grounds.

12. If, indeed, we lack the productive capacity to maintain our standard of life, then a reduction in this standard is not avoidable. If our wage and price-levels are hopelessly wrong, a change in the rate of exchange is inevitable. But if we possess the productive capacity and the difficulty is the lack of markets as a result of restrictive policies throughout the world, then the remedy lies in expanding opportunities for export by removal of restrictive pressure. There is great force in the contention that, if active employment and ample purchasing power can be sustained in the main centres of 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.

13. There is no obvious means of offering a right measure of inducement to the general expansion of international trade except by a broadly based international organisation.

* * *

14. The arrangement 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 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 provide that equilibrium is restored.

15. Perhaps the most difficult question to determine is how much to decide by rule and how much to leave to discretion. If rule prevails, the liabilities attaching to membership of the system are definite, whilst the responsibilities of central management are reduced to a minimum. On the other hand, liabilities which would require the surrender by legislation of too much of the discretion, normally inherent in a Government, will not be readily undertaken by ourselves or by the United States. If discretion prevails, how far can the ultimate decision be left to the individual members and how far to the central management? If the individual members are too free, indiscipline may result and unwarrantable liberties be taken. But if it is to the central management that the discretions are given, too heavy a weight of responsibility may rest on it, and it may be assuming the exercise of powers which it has not the strength to implement. If rule prevails, the scheme can be made more water-tight theoretically. But if discretion prevails, it may work better in practice. All this is the typical problem of any super-national authority. An earlier draft of this proposal was criticised for leaning too much to the side of rule. In the provisions below the bias is in the other direction. For it may be better not to attempt to settle too much beforehand and to provide that the plan shall be reconsidered after an initial experimental period of (say) five years. Only by collective wisdom and discussion can the right compromise be reached between law and licence.

16. The proposal put forward below differs in one important respect from the pre-war system because it aims 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 the advantages which were enjoyed in the nineteenth century when a favourable balance in favour of London and Paris, which were the main creditor centres, immediately produced an expansionist pressure in those markets, but which have been lost since New York succeeded to the position of main creditor, the effect of this change being aggravated by the breakdown of international borrowing credit and by the 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.

17. The detailed provisions proposed (the particular proportions, &c., suggested being merely tentative as a basis of discussion) are the following:—

(1) The two founder States will agree between themselves the initial values of their own currencies in terms of *bancor* and the value of *bancor* in terms of gold; and the initial values of the currencies of other members will be fixed on their joining the system in agreement with them. 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 dealt with below; but during the first five years after the inception of the system the Governing Board shall give special consideration to appeals

for adjustments in the exchange-value of a national currency on the ground of unforeseen circumstances.

(2) The amount of the maximum debit balance allowed to any member-State shall be determined by reference to the amount of its foreign trade, and shall be designated its *quota*. There need be no limit to the amount of a credit balance.

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, being either equal or in a determined *lesser* proportion to this amount, a special assessment being substituted in cases where this formula would be, for any reason, inappropriate. Subsequently, after the elapse of the transitional period, the quotas might be revised annually in accordance with the actual volume of trade in the three preceding years.

(3) A charge of 1 per cent. per annum will be payable to the Reserve Fund of the Clearing Union on the average balance of a member-State, whether credit or debit, in excess of a quarter of its quota; and a further charge of 1 per cent. on the average balance, whether credit or debit, in excess of half 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 particular charges are, clearly, not essential to the scheme. But if they are found acceptable, they would be valuable 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, however, borrow 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.

(4)—(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 a year, 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. within a year without the permission of the Governing Board.

(b) As a condition of allowing a member-State to increase its debit balance in excess of a *half* of its quota, the Governing Board may require (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 surrender of a suitable proportion of any separate gold reserve it may hold in reduction of its debit balance.

(c) If a member-State's debit balance has exceeded *three-quarters* of its quota on the average of at least a year [or is excessive, as measured by some formula laid down by the Governing Board, in relation to the total debit balances outstanding on the books of the Clearing Union], it may 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 below the figure in question 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. 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 without making approved arrangements for the discharge of any debit balance shall also be treated as in default.

(5) A member-State whose credit balance has exceeded a *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, an increase in money-wages;
- (c) the reduction of excessive tariffs and other discouragements against imports;
- (d) international loans for the development of backward countries.



18. 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 providing an automatic register of the size and whereabouts of the aggregate debtor and creditor positions respectively, will give a clear 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, in spite of a general rule *not* to adopt them.

19. It is not proposed to incorporate any specific arrangements for such relaxations in the constitution of the Clearing Union itself. But the existence of the Clearing Union would make it possible for member States contracting Commercial Treaties to use their respective debit and credit positions with the Clearing Union as a test. Thus, the contracting parties, whilst agreeing to clauses in a Commercial Treaty 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, a Treaty 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 and the other having a credit balance of a specified amount, the former should be free to resort to import quotas or to barter trade agreements or to higher import duties of a type which was not permitted under the Treaty in normal circumstances. It might even provide that such exceptions should only be allowed subject to the approval of the governing Board of the Clearing Union, and in that case the possible grounds for exceptional action might cover a wider field and other contingencies.

20. Apart from such temporary indulgence, the members of the Clearing Union should feel sufficiently free from anxiety to contemplate the ultimate removal of the more dislocating forms of protection and discrimination and expect the prohibition of some of the worst of them from the outset. In any case, members of the Currency Union would not allow or suffer among themselves any restrictions on the disposal of receipts arising out of current trade or "invisible" income. It might also be possible to obtain recognition of the general principle that commercial treaties between members of the Union should, subject to any necessary safeguards and exceptions, exclude—

- (i) import restrictions, whether quantitative or in the form of "duty-quotas" (excluding, however, prohibitions genuinely designed to safeguard, *e.g.*, public health or morale or revenue collection);

- (ii) barter arrangements;
- (iii) export quotas and discriminatory export taxes;
- (iv) export subsidies either furnished directly by the State or indirectly under schemes supported or encouraged by the State; and
- (v) excessive tariffs.

21. Subsidies in favour of domestic producers for domestic consumption, with a countervailing levy when such subsidised goods are exported, would not be excluded. This is a necessary safety-valve which provides for protective expedients called for on political, social and industrial grounds. Such subsidies and tariffs would be a permitted way of giving purely domestic protection to an industry which for special reasons ought to be maintained for domestic purposes only. The question of preferences and of other relaxations from most-favoured-nation treatment, which would be of a normal and continuing character, does not fall within the scope of this paper, and must be settled on principles outside the sphere of the Clearing Union.

22. The above provisions might enable us to give some satisfaction to Mr. Cordell Hull over a wide field, since we should be accepting a non-discriminatory international system as the normal and desirable régime.



23. It is a great advantage of the proposed Currency Union that it restores unfettered multilateral clearing between its members; so that no action is necessary, except where a country is out of balance with the system as a whole.

24. 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 *generalised* 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 Currency 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.

25. Thus we should not only return to the advantages of an international gold currency, but we might enjoy them 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.

26. The advantages of multilateral clearing are of particular importance to London. It is not too much to say that this is an essential condition of the continued maintenance of London as the banking centre of the Sterling Area. Under a system of bilateral agreements it would seem inevitable that the sterling area, in the form in which it has been historically developed and as it has been understood and accepted by the Dominions and India, must fall to pieces.

27. In conditions of multilateral clearing everything would go on exactly as before without our having to ask anyone to accept special or onerous conditions. We should, in this respect, be back again in the best days of the gold standard. The traditional advantages of banking in London would be retained, precisely because London has

been built up on the basis of an international currency having universal validity. But if we try to make of the sterling area a compact currency union as against the rest of the world, we shall be putting a greater strain on arrangements, which have been essentially (even in time of war) *informal*, than they can be expected to bear.

28. It is possible to combine countries, some of which will be in a debtor and some in a creditor position, into a Currency Union which, substantially, covers the world. But, surely, it is impossible, unless they have a common banking and economic system also, to combine them into a Currency Union not with, but against, the world as a whole. If other members of the sterling area have a favourable balance against the world as a whole, they will lose nothing by keeping them in sterling, which will be interchangeable with *bancor* and hence with any other currency, until they have occasion to use them. But if the sterling area is turned into a Currency Union, the members in credit would have to make a forced and *non-liquid* loan of their favourable balances to the members in debit. Incidentally, they might find themselves involved in making between them an involuntary loan to London at the rate, perhaps, of £100,000,000 a year cumulative. They would have to impose import regulations and restraints on capital movements according as the area as a whole was in debit or credit, irrespective of their own positions. They would have to be bound by numerous bilateral agreements negotiated primarily (at least so they would believe) in the interests of London. The sterling resources of creditor Dominions might come to be represented by nothing but blocked balances in a number of doubtfully solvent countries with whom it suited *us* to trade. Moreover, it is difficult to see how the system could work without a pooling of gold reserves.

29. It is improbable that South Africa or India would accept such arrangements even if other Dominions were more complying. We should soon find ourselves, therefore, linked up only with those constituents which were running at a debit, apart from the Crown Colonies, which, perhaps, we could insist on keeping.

30. Is it not a delusion to suppose that the *de facto*, but somewhat flimsy and unsatisfactory, arrangements, which are carrying us through the war, on the basis that we do our best to find the other members of the area a limited amount of dollars provided that they lend us a very much larger sum in sterling, can be carried over into the peace and formalised into a working system based on a series of bilateral agreements with the rest of the world, accompanied by a strict control of capital movements outside the Area?

31. The sterling area, if we mean by this the system under which the members of the British Commonwealth do their international banking through London, grew up under conditions of freedom. It lives and breathes by being a voluntary system. It is only in that same atmosphere of the City of London as Liberty Hall dealing in a currency of general acceptability that we can expect to preserve it. The notion that a multilateral plan, based on an international standard, jeopardises the position of the Sterling Area must be based on a rigid and (one would think) politically impracticable version of the Sterling Area concept and not on its historical and actual significance. A multilateral plan would, therefore, be of great assistance in maintaining the position of London in relation both to the British Commonwealth and to many other countries which like our way of doing business and would give up most reluctantly the facilities we have given them.



32. It may be convenient at this point to note in more detail the position contemplated for centres of international banking such as London, New York or Paris, and for currency groups within the membership of the Clearing Union covering more than one country, 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 covering Poland and Czechoslovakia or certain of the Balkan States.

33. The governing principles should be: 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, secondly, that its purpose is to increase *freedom* in international commerce and not to multiply interferences or compulsions.

34. Thus the fabric of international banking organisation, built up by long experience to satisfy practical needs, should be left as undisturbed as possible. Except as regards a provision, explained below, concerning the balances of Central Banks themselves, there should be no obstacle in the way of the existing practices of international banking except those which necessarily arise through measures which individual Central Banks may choose to adopt for the control of movements of capital.

35. Nor should it be necessary to interfere with the discretion of Central Banks which desire to maintain a special intimacy within a particular group of countries associated by geographical or political ties. There is no reason why such Central Banks 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.

36. There would 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 Central Bank, with a quota appropriate to the merged currency unit as a whole, and *not* enjoy a separate individual membership of the Clearing Union, as, for example, the French colonies, the Federated States of the American Union or of Australia, and possibly the British Crown Colonies.

37. At the same time there should be a general encouragement to Central Banks, which do not belong to a special geographical or political group, to keep their reserve balances with the Clearing Union and not with one another, except in the case of a specific loan from a member-State in credit with the Clearing Union to a member-State in debit. It should, therefore, be laid down that overseas balances may not be held in another country except with the approval of the Central Bank of that country; and, in order that sterling and dollars might not appear to compete with *bancor* for the purpose of Central Bank reserve balances, the Founder States might agree together that they would not accept the reserve balances of other Central Banks in excess of normal working balances except in the case of Banks definitely belonging to a Sterling Area or Dollar Area group.



38. The position of gold would be left substantially unchanged. What, in the long run, the world may decide to do with gold is another matter. The establishment of an International Clearing Union does not require any significant or immediate change. Indeed, by providing an automatic means by which some part of the favourable balances of the creditor countries can be settled, the current gold production of the world and the remnant of gold reserves held outside the United States may yet have a useful part to play. Moreover, gold still possesses great psychological value which will not have been diminished by recent events; for 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.

39. It is conceived, therefore, that the international bank-money which we have designated *bancor* would be defined in terms of a weight of gold. Since the national currencies of the member-States would also be given a defined exchange value in terms of *bancor*, it follows that they would have a defined gold content which would also be their official buying price for gold above which they must not pay. Any Central Bank would be entitled to obtain a credit in terms of *bancor* by paying actual gold to the credit of its Clearing Account, thus securing a steady and ascertained purchaser for the output of the gold-producing countries and for countries holding a large reserve of gold.

40. Central Banks would be entitled to retain their separate gold reserves and ship gold to one another against a clearance between them in the books of the Clearing Union, 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.

41. One restriction only would be, for obvious reasons, essential. No Central Bank would be entitled to demand gold from the Clearing Union against its balance of *bancor*; for *bancor* would be available only for transfer to the Clearing Account of another Central Bank. Thus between gold and *bancor* itself there would be a one-way convertibility only, such as ruled frequently before the war with national currencies which were on what was usually called a "gold-exchange standard." This need not mean that the Clearing Union would only receive gold and never pay it out. If the Clearing Union found itself in possession of a stock of gold, the Governors of the Bank should have the discretion to distribute the surplus between all Central Banks possessing a credit balance with it, proportionately to such balances, in reduction of their amount.

42. 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 bank acquiring dollars through the Clearing Union could use them to obtain gold for export. It is not evident that a good purpose would be served by this. But 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.

43. The value of *bancor* in terms of gold should be fixed but not unalterably. The two founder States, the United States and the United Kingdom, acting in agreement, should have the power to change it. Clearly, they should exercise this power if the stocks of gold tendered to the bank were to be super-abundant for their legitimate

purposes. No object would be served by attempting further to peer into the future or to prophesy the ultimate policy of the founder States in this regard.

44. Changes in the value of the national currencies of member-States stand in a different category. For the real significance of such changes is to be found not in relation to gold itself but in relation to the values of national currencies amongst themselves. The general principles by which such changes should be governed have been discussed in a previous section. It would be undesirable, if it can be avoided, to lay down more precise rules in advance, since it is difficult to distinguish by means of a rigid formula the cases, in which a change in the rate of exchange will assist the restoration of equilibrium and is the right remedy, from those cases where some other type of measure is more appropriate.



45. It is widely held that control of capital movements, both inward and outward, should be a permanent feature of the post-war system—at least so far as we are concerned. If control is to be effective, it probably involves the *machinery* of exchange control for *all* transactions, even though a general open licence is given to all remittances in respect of current trade. But such control will be more difficult to work, especially in the absence of a postal censorship, by unilateral action than if movements of capital can be controlled *at both ends*. It would therefore be of great advantage if the United States and all other members of the Currency Union would adopt machinery similar to that which we have now gone a long way towards perfecting in this country; though this cannot be regarded as *essential* to the proposed Union.

46. This does not 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 credit for loan purposes in ways to be discussed below. The object, and it is a vital object, is to have a means of distinguishing—

- (a) Between movements of floating funds and genuine new investment for developing the world's resources; and
- (b) Between movements, which will help to maintain equilibrium, from surplus countries to deficiency countries and speculative movements or flights out of deficiency countries or from one surplus country to another.

47. 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 cannot safely be used for fixed investment and might turn it into a surplus country against its will and contrary to the real facts.

48. The general principles of the control of capital movements need not be discussed here. It is evident that the existence of an International Clearing Union would make such control easier.



49. It has been suggested that so ambitious a proposal is open to criticism on the ground that it requires from the members of the Currency Union a greater surrender of their sovereign rights than they will readily concede.

50. But, in the present version of the plan, no greater surrender is required than in any commercial treaty—certainly not greater than in the binding undertakings

against discrimination which the United States is inviting us to make. The obligations will be entered into voluntarily and can be terminated on certain conditions by giving notice.

51. In the second place a greater readiness to accept super-national arrangements must be required in the post-war world than hitherto. The arrangements proposed could be described as a measure of Financial Disarmament. They are very mild in comparison with the measures of Military Disarmament, which it is to be hoped the world may be asked to accept.

52. Surely it is an advantage, rather than a disadvantage, of the scheme that it invites the member States and groups to abandon that licence to promote indiscipline, disorder and bad-neighbourliness which, to the general disadvantage, they have been free to exercise hitherto.

53. There is nothing here which we need be reluctant to accept ourselves or to ask of others. Or if there be anything such, let it be amended.



54. An International Currency Union might become the instrument and the support of international policies apart from those which it is its primary purpose to promote. The following suggestions are not a necessary part of the plan. But they are illustrations of the additional purposes of high 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 the international body charged with post-war Relief and Reconstruction. If necessary, it might supplement contributions received from other sources by granting overdraft facilities in favour of this body, this overdraft being discharged over a period of years out of the Reserve Fund of the Union, or, if necessary, out of a levy on credit clearing balances. By this means it is 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) If the United States were to wish to effect a redistribution of gold reserves, the Clearing Union would provide a suitable channel for the purpose, the gold so re-distributed being credited (*e.g.*) to the account of the Relief and Reconstruction Authority.

(3) The Union might set up an account in favour of the Super-national policing body 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 Central Bank 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.

(4) 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 holding pools and "ever-normal granaries" would be satisfactorily solved.

(5) The Union might be closely linked up with the Board for International Investment. It might act on behalf of this 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. This important question is the subject of a separate paper.

(6) 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 great advantage. If an International Investment or Development Corporation is also set up together with a scheme of Commodity Boards for the control of stocks of the staple raw materials, we might come to possess in these four 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, again, 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 large purposes which the foundation of the Currency Union might be made to serve.



55. Our post-war currency and exchange system should be one which is capable of wide, indeed of universal, extension as further countries become ready for it. Nevertheless it would be an advantage if the proposed Union could be brought into existence by the United States and the United Kingdom as joint founder-States, covering the United States and its possessions and the members of the British Commonwealth. The position of Russia, which might be a third founder, if she can be a party to so capitalist-looking an institution, would need special consideration. Other members would then be brought in—some from the outset, some as soon as they had established an internal organisation capable of sustaining the obligations of membership. This approach would have the great advantage that the United States and the United Kingdom (the former in consultation with the Pan-American countries and the latter with the other members of the British Commonwealth) could settle the charter and the main details of the new body without being subjected to the delays and confused counsels of an international conference. It would also mean that considerable progress could be made irrespective of the nature of the European political settlement and before the conditions of adherence of the European members could be finally determined. Moreover, membership would be thus established as a privilege only open to those who conformed to certain general principles and standards of international economic conduct. The management and the effective voting power might inhere permanently in the founder-States.

56. In view of our experience and of our geographical and political position in relation to Europe, the United States and the British Commonwealth, we could justifiably ask that the head office should be situated in London with the Board of Managers meeting alternately here and in Washington.

57. Members of the Board would be appointed by the Governments of the member-States, each of which would have a vote in proportion to its quota. But there might be a provision, at any rate for the first five years, by which the British and American members when acting in agreement could outvote the rest of the Board.

58. There is no reason why the Central Banks of non-member States should not keep Credit Clearing Accounts with the Union; and indeed it would be advisable for them to do so for the conduct of their trade with member-States. But they would have no say in the management.

59. Members should 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.

60. The principles and governing rules of the Union should be the subject of general reconsideration after five years' experience, if a majority of the Governing Board desire it.

61. It would be of great advantage if the general principles of the International Clearing Union could be agreed beforehand, with a view to bringing it into operation at an early date after the termination of hostilities. Such a proposal presents, however, something of a dilemma. On the one hand, many countries, ourselves not least, 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 the first importance. The expansionist tendency of the proposed system, 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 easily be a danger in the early days of a sellers' market and a superabundance of demand over supply.

62. A reconciliation in detail 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 and particularly as to the intentions of the United States regarding a temporary continuance of Lease-Lend arrangements for food and raw materials after the termination of hostilities. If these intentions are on liberal and comprehensive lines, it might be better for relief and Lend-Lease arrangements to take the place of the proposed quotas during the "relief" period of (say) two years. The immediate establishment of the Clearing Union would be compatible with provisional arrangements regarding the overdraft quotas which could take alternative forms according to the character of the other "relief" arrangements.

63. If the finance of relief is actually furnished through the Clearing Union, which has been suggested above as one possibility, and if that, combined with some continuance of lend-leasing by the United States, appears likely to provide the world with as much purchasing power as is desirable in the early days, the coming into force of the overdraft quotas might be postponed until the Founder Members are agreed that the need for them is impending. 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. Alternatively overdraft quotas might be allowed on a reduced

scale during the transitional period. At any rate, 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.

64. If, on the other hand, relief and Lend-Lease facilities look like being inadequate from the outset, the overdraft quotas may be even more necessary at the outset than later on.

65. 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. In our case the possibility of exports sufficiently expanded to sustain our standard of life and our solvency 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 almost 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.



66. In most of its objectives and in many of its methods this paper is in fundamental accord with alternative proposals which have been or could be put forward. The special merits claimed for this particular version include the following:—

For ourselves.

(1) Our British problem of gaining enough receipts overseas to balance our import requirements is so acute that we can scarcely hope to solve it except through a scheme which—

- (a) by a strong expansionist stimulus throughout the world provides willing markets for a largely expanded volume of our exports;
- (b) offers facilities for the multilateral clearing of international payments, since we cannot afford to have any of the credit balances, which we may acquire overseas, to be blocked and unavailable as a set-off against our debit balances elsewhere;
- (c) provides us with a margin, during the period before we can re-establish equilibrium, by an international scheme which does not require us to ask particular favours or accommodations from the United States but merely gives to us, and requires of us, the same facilities for the expansion of international trade and the maintenance of international equilibrium which all the countries will be asked to receive and to allow;
- (d) affords us the possibility of subsequent rectifications of the rate of exchange against the rest of the world without the risk of competitive depreciations or of complaints by other countries in the event of the initial value of sterling proving to be higher than the level at which we can balance our overseas trade.

(2) A multilateral system preserves, to the full extent compatible with the control of capital movements, the traditional freedom of London as a financial centre. Above all it allows the historical continuity of the sterling area in the same form and with the same absence of restraint as heretofore. For it is evident that any system of

numerous bilateral agreements would put in great jeopardy not only the sterling area but the whole position of London as an international centre.

For the United States and the World at large.

(1) It provides a general framework by the aid of which *all* countries can hope to rehabilitate their currencies.

(2) It offers a criterion by the help of which we can satisfy American aspirations, which we ourselves share with Mr. Hull and Mr. Sumner Welles, for the greater freedom of international trade supported by firm undertakings.

(3) It is a plan which can be used to further such general world purposes as—

- (a) post-war relief and reconstruction;
- (b) international T.V.A.;
- (c) the finance of commodity agreements;
- (d) the preservation of peace;
- (e) the control of the Trade Cycle and the stabilisation of prices; and, generally,
- (f) the maintenance of active employment everywhere.

(4) It is capable of arousing enthusiasm because it makes a beginning at the future economic ordering of the world between nations and "the winning of the peace," and might help to create the conditions and the atmosphere in which much else would be made easier.

(B) Proposals for an International Clearing Union¹
(April 1943)

PREFACE

Immediately after the war all countries who 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 the wars suggest four main lines of approach:

1. The mechanism of currency and exchange;
2. The framework of a commercial policy regulating the conditions for the exchange of goods, tariffs, preferences, subsidies, import regulations and the like;
3. The 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 the extravagant fluctuations of market conditions have been responsible in recent times;
4. Investment aid, both medium and long term, for the countries whose economic development needs assistance from outside.

If the principles of these measures and the form of the institutions to give effect to them can be settled in advance, in order that they may be in operation when the 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 the 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:

(i) 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 the most to imposing conditions for the more extended enjoyment of the facilities which the Institution offers.

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

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(iii) The management of the Institution must be genuinely international without preponderant power of veto or enforcement to any country or group; and the rights and privileges of the smaller countries must be safeguarded.

(iv) 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 the more willing to go on accepting them.

(v) The plan must operate not only to the general advantage but also to the individual advantage of each of the participants, and must 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 emphasised 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 means of restraining improvident borrowers. But the Clearing Union must also seek to discourage creditor countries from leaving 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 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 advances made to each of them are prudent and advisable 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 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 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 a *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 delegate 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) Executives 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 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 pre-

scribed 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 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 multi-lateral 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 emphasised 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 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 *generalised* 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 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 of 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 de-monetise 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 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 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. 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 or 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 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 super-national 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 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 the 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-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.