ANGLO-AMERICAN INVESTMENT BOARD

PREFACE.

VERY SECRET.

It is hoped that after the war the United Kingdom and the United States, will enter a new era of close economic co-operation. What precisely does this mean? We cannot build on the possibility of achieving anything in the nature of a full customs union. A mere trade agreement, combined with a currency agreement, would bring us little nearer together than we were before the war.

It appears to me that the best hope is in the formation of new types of organisation such as an Anglo-American Clearing Bank, for which a plan has already been outlined, an Anglo-American Investment Board and an Anglo-American Buffer Stock Control.

Such bodies might be regarded as the nucleus of an Anglo-American condominium. They would not interfere either with the sovereign rights of the two countries or with those of other countries whose needs they met. The commitments required of the various states would be of the same nature as they normally make when signing Trade Agreements.

The organisations would derive their power from the fact that they would be providing a service that has not been provided in the world before, and which no single state, however powerful, could provide by itself.

It seems to follow that they should not be corporations registered under American or under English law, still less under Swiss law, but should be entirely autonomous and regulated only by the instrument of agreement between the two countries.

Whether Russia should be associated in the condominium or only come in as a member on the same basis as other countries would no doubt be decided after Anglo-American discussions. In either case, the Investment Board ought to appeal to Russia since it would give her an opportunity of acquiring foreign money for reconstruction without either having to enter into negotiations with foreign capitalists or becoming indebted to any particular foreign government.

I have not dealt with the position of the Dominions. I assume that they would eventually become partners in any Anglo-American scheme.

PURPOSE.

The case for an Anglo-American Investment Board depends upon the assumption that, after the post-war boom, the world will once more begin to suffer from under-employment of its man power and chronic depression. These maladies can only be cured if sufficient scope is found for the employment of man power on capital development.

This problem will not appear immediately after the war as there will be much work to be done on reconstruction and re-stocking. The richer countries will be expected to give some financial assistance. There would be great advantage in having this comparatively routine work handled by the same institution that will ultimately be expected to deal with the larger and more difficult problem problem. The English and American members of the institution would gain experience and mutual confidence.

There is indeed much to be said for having this institution together with the Clearing Bank in being on Armistice day. Our common dangers and common purpose provide the right atmosphere for securing an agreement of mutual accomodation on the basic principles. It is possible that if the matter is left until after victory, each country may feel it can afford the luxury of being obstinate about its own predjudices and narrower interests, differences of opinion may harden, and the great opportunity for establishing Anglo-American collaboration and joint leadership may be lost.

The main purpose of the Board is to secure a balanced world economy; to secure, that is, that unemployment shall not co-exist with want, nor great potential savings with development projects neglected for lack of money and enterprise, and its secondary purpose is to provide a radical cure for the lack of balance between credit and debit countries, for which the Clearing Bank would only provide a temporary, though none the less highly valuable, palliative.

One way in which a balance could be achieved would be if each country secured that enough capital work was undertaken at home to give full employment and absorb all the savings of its people when thus fully employed. If each country could do this not only would unemployment be terminated but credits and debits on current account in the international clearing could not arise.

Messrs. Hansen and Gulick have proposed to establish an "International Economic Board" to advise collaborating governments with respect to internal policy designed to promote full employment. This is of the first importance. If the Anglo-American Investment Board were adopted, the "International Economic Board" could be merged in it; or it could be set up as an independent institution.

By itself this does not create confidence that the unemployment problem will be solved; the "Economic Board" is and must only be advisory, if national sovereignties are to be respected, and with the best will each country might yet find it impossible for political or other reasons to implement the policy fully. Furthermore some foreign investment may be desirable in itself to promote sound projects in countries lacking sufficient capital.

It would be the duty of the Board to determine the amount and nature of the projects to be financed from its resources.

In determining the aggregate value of projects to be financed it would seek to maintain full world employment. The employment given by a development project is by no means confined to the beneficiary country. Tools and raw materials are required, and the labour employed spends its income on consumption goods. All this constitutes a new net demand for goods; much of it is directed to countries outside the project country; thus new employment is created outside which in turn gives rise to a further new demand, and so on, until a new equilibrium is reached in which the whole world is geared to a higher level of activity.

The Board would only accept subscriptions to its issues from the citizens (including corporate bodies) of credit countries. This flow of funds would tend to liquidate their credit. But it must not be supposed that credit countries would gain no benefit except the interest on their loans to the Board. Their exports, and thereby indirectly their whole internal level of employment, would be stimulated. And at the same time their imports would rise in consequence of the stimulus to internal purchasing power. In the new situation their credit position would, save in very exceptional cases, be reduced, for the loans plus the additional imports (both debits) would exceed the additional exports. It is important to emphasise that the credit countries would not only have found a means of earning interest on their credit balance but also have had their internal employment stimulated. The project countries, and almost certainly also those not subscribing to the loans, would have their debit position reduced.

In regard to the nature of the projects the Board would have the following points in mind:

1. The British and Americans would wish to have scrupulous regard to aspects of welfare other than economic. In the case of primitive peoples care would be taken to avoid interfering with family, communal and religious practices and traditions. It would be no part of the plan to tear village communities up by the roots, to proletarianise vast masses of natives or create new and dangerous social problems among them. There must be no suspicion of exploitation. To safeguard the position the Board could set up an independent advisory tribunal of eminent men, regardless of nationality, who are recognised authorities on this type of anthropological subject, and publish its reports.

2. The Board would take a long view. For many years there has been a strong tendency towards national autarky. This has been due to some extent no doubt to motives of security, but also to the growing obstructions and uncertainties in international trade and to periodic depressions. The better success the Board had in

maintaining the volume and balance of world trade, the less motive would countries have for seeking to obtain self-sufficiency.

Thus the Board would have regard to the most advantageous division of labour in the long run and not finance the development of industries inconsistent with that. For instance markets must be left for the export of manufactured goods from countries which cannot provide their own food and raw materials.

3. We do not yet know whether England and America will jointly or severally undertake the policing of world disarmament. This if taken seriously must have regard not only to finished weapons but also to the types of industry readily capable of conversion for armament purposes and to the production of key materials in regions which cannot be fully relied on to pursue a peace-loving policy. Before approving any project the Board would consult the policing authority.

These three considerations regarding the desirable direction of foreign investment are so serious as to give a *prima facie* case for prohibiting or licensing private foreign investment in the condominium countries.

It has been suggested that we should ask America to control capital movements in order to facilitate our own control of capital movements which we may wish to maintain after the war in order to safeguard our balance of payments. A request based on the desirability of preventing the exploitation of natives, maintaining the international division of labour and preserving peace might have greater weight.

A project regulating foreign investment based on these motives might also appeal to Russia.

If America would not agree to controlling private investment the Board might go far to achieving the same effect(1), by providing money for the approved projects at rates far below those which would attract the private investor and(2), by keeping things sufficiently humming on approved lines to deprive would-be borrowers of their appetite for less desirable projects. Having decided upon the best lines of development the Board would stultify itself fatally if it subsidised those lines.

FINANCE.

The United Kingdom and the United States would subscribe capital in equal amounts, making, say, £100 million together. This would be primarily a guarantee fund only to be called up if the need arose.

The main part, however, of the money required for the projects would come from two sources, (i) subscriptions of the citizens (including corporate bodies) of credit countries to bonds issued by the Board and (ii) the Clearing Bank. (In the event of there being no credit countries, i.e. only small maladjustments in the international balance of payments, citizens of all countries would be allowed to subscribe).

The value of new projects financed from time to time should be governed by economic circumstances in the manner described below; it is important that it should not be determined by the varying facility of raising new funds from time to time. The Board should, however, aim at securing over a period a defined proportion of the funds from public issue.

Loans for the projects would be made by the Board to the governments of the project countries, and the governments would be responsible for the direction of the projects (save as provided for by the Progress Committee, see below) and for the payment of interest and sinking fund on loans. In the case of Colonies and Mandated Territories the Metropolitan Government or Mandatory powers would be responsible. Where a single project entailed work in more than one country the responsibility would be divided in pre-arranged proportions.

In order to promote projects which would not otherwise be feasible it is important that the rate of interest charged should be low; by the same token it must not be so low as to offer too strong a temptation to governments to foist public works on to the Board which they would normally undertake themselves.

The following figures are very tentative and must only be taken as illustrative.

I suggest that the normal interest charge made by the Board for its loans should be $2\frac{1}{2}$ per cent. There would also be a Sinking Fund to redeem the loans over a term of years, the length of which would vary with the nature of the project.

What assurance can the Board have that these charges will be paid? Loans would only be made to State Members of the Clearing Bank. This Bank would debit the amount due each year for interest and sinking fund to the account of the Central Bank of the borrowing country. Thus this country could only endeavour to escape payment by withdrawing from the Clearing system, which would probably entail the collapse of its currency in the Forein Exchange markets. There would, therefore, be a strong incentive to her to fulfil her obligations and the temporary indulgence to debits allowed by the Clearing Bank arrangement would faclitate that fulfilment. Furthermore the Clearing Bank scheme will provide means for final liquidation of debits by members even if they withdraw from the Bank. Thus the Board should have reasonable confidence that, save in very exceptional cases, the obligations to her would be discharged.

Since the Clearing Bank would automatically and immediately receive back her contribution to the finance of the Board's loans in the form of additional interest-free deposits,* it would be sufficient for her to charge the Board an interest of 1 per cent, or less.

Consequently the Board could afford to raise money from the public at a rate above 2½ per cent. and at the same time set aside a fraction of its earnings to reserve.

What guarantee would the Board be able to give to subscribers? The British Government might well be unwilling to participate in a joint and several guarantee by the British and American Governments.

1. In virtue of the machinery of the Clearing Bank all interest and redemption money due to the Board should be recoverable save in very exceptional cases.

2. To meet these there would be the reserves accumulated by the Board together with the £100 million guarantee fund.

In these circumstances it should be possible to make the Clearing Bank the sole guarantor of the Investment Board's bonds.

Thus the investor would be absolutely safe so long as this foundation stone of Anglo-American collaboration lasted.

On this security it should be possible to raise money from investors on 25 year bonds at a rate not greatly exceeding the gilt edged rate for British or American government securities.

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* This follows inevitably from the position of the Clearing Bank as the Central Bank of Central Banks.

Constitution and Functions.

1. **The U.K. and U.S. Governments.**

The Board would have a Charter defining its functions and powers to run for a specified term of years. This could only be amended by agreement between the governments of the U.K. and the U.S.

Decisions of the statutory committees (see below) in the exercise of their proper powers could only be over-ridden by agreement between the two governments.

2. **The Governors.**

The Governors would consist of an equal number of British and Americans, one of each nation taking the chair in alternate years and having the casting vote. They would be appointed by the governments of the U.K. and the U.S.

The governors would have responsibility and control over:-

(i) The internal affairs and management of the Board.

(ii) Its relations with the Anglo-American Clearing Bank.

(iii) All matters relating to the public issue of bonds, including the amount, the timing, the rate of interest, the technical questions of issue etc., though they would give careful consideration to any representations made by the statutory Economic Committee.

(iv) The rate of interest charged for loans and the terms of redemption, subject to the two rules, which would be included in the charter (a) that the rate charged would be appreciably below that at which funds were raised from the public and (b) that a sinking Fund should be attached.

(v) All questions connected with the default of borrowers.

(vi) Execution of the decisions taken by the statutory committees in accordance with the terms of the charter, save as as provided for in the duties of the Progess Committee.

3. **The Statutory Committees.**

Three such Committees are proposed, namely, the Economic Committee, the Priorities Committee and the Progess Committee.

(i) Economic Committee.

In the event of the International Economic Board proposed by Messrs. Hansen and Gulick having been set up the functions of the Economic Committee could be delegated to that body.

It would be the duty of this Committee to determine the amount of capital outlay required from time to time to maintain a condition of full activity in the world.

It would be assisted by an expert staff of economists and statisticians (drawn from all nations), who would assemble all statistics relating to world production, trade and finance. It would examine such economic barometers as the trend of general prices, the relation between prices and costs, the relation between the prices of raw products and manufactured goods and the state of employment.

It would receive reports from the appropriate bodies in each country on its internal conditions and on the policy being pursued to maintain steady progress.

It would give advice to the Governments of all countries on the need for measures from time to time to prevent incipient depression or to check unhealthy expansion.

In the light of its information and of the prospective action of individual governments, it would give instructions as to the amount of outlay to be financed by the Board. At its discretion it could also give instructions regarding the zones in which the outlay would be most advantageous.

There would be an annex to the Charter specifying the average size of the aggregate of new loans to be allowed per annum. This might initially be of the same order of magnitude as the annual foreign investment by the United Kingdom in the years before 1914. The Committee would not be bound to confine itself to the specified sum in any one year, provided that it aimed at not exceeding this average over a period of ten years. It would be understood that the United Kingdom and United States Governments, would seriously consider revising this figure on a representation from the Economic Committee.

The Committee would consist of an equal number of British and Americans. They would be appointed by the governments of the U.K. and the U.S. and consist of economists and men of experience in business and administration. In the case of this, though not necessarily in that of other committees, it is desirable that economists should play a prominent part, since this committee is primarily concerned with the fundamental questions of the general balance between supply and demand, saving and investment etc.

ii. Priorities Committee.

In the event of the International Resources Survey proposed by Messrs. Hansen and Gulick having been set up, certain duties of the Priorities Committee could be delegated to that body.

This committee would be concerned with the choice of particular projects.

Projects might be put forward (i) by the governments of any state member of the Clearing Bank for capital outlay in their own countries, (ii) by the governments of the condominium countries, (ii) by the expert staff of the Priorities Committee and (iv) by the Clearing Bank. The Clearing Bank would be entitled to ask for an enquiry into the condition of excess debit countries; where the debit condition was due to exigent circumstances and not to irresponsible finance, the Priorities Committee would consider projects likely to redress the external balance of the debit countries.

The Priorities Committee would examine each project to assure itself that the project was practical and advantageous. In the case of a debit country it would be obliged to assure itself that the project was likely, either directly or by raising general efficiency in the country, to increase the value of its exports by an amount at least equal to the interest and the sinking fund on the project.

All projects would also be scrutinised in the light of the considerations referred to on pages 4-5 above. At this state the concurrence of both the British and American representatives would be required. (The Representatives would be apprised of the views of their Governments on the broad lines of investment policy).

If there were in existence any Anglo-American (or international) body responsible for policing or for the international control of armaments, all schemes would be passed to that body for vetting.

The Priorities Committee would then draw up a priority list having regard to the intrinsic merits of each scheme to any representations by the Economic Committee and to the importance of securing a reasonably even-handed distribution of favours among the different countries needing assistance.

The order of priority having been determined, the date of inception of each scheme would depend on the total value of outlay to be made in accordance with the directions of the Economic Committee from time to time.

The Priority Committee would consist mainly of men of experience in industry, commerce, public utilities or in national, local, or colonial administration. There should also be experts in social welfare and anthropological problems, and economists to examine long run implications.

It would be assisted by a staff of experts capable of examining the technical aspects of all schemes submitted, who could be drawn from all nationalities.

(iii) <u>Progress Committee</u>.

This Committee would have, in respect of each scheme, two duties, one optional and the other mandatory.

(a) In many cases the government of the project country might be well-qualified for assuming full responsibility for the execution of a scheme, as, for example, the British Government in the case of a project in a British colony. In such cases the Government would be allowed to take full responsibility. In other cases a government, for example that of Thailand, might lack not only the money but also disposal over the necessary technical and administrative skill. Such a government might prefer the Investment Board to take full responsibility for the whole execution of the scheme. There might be intermediate cases where a limited degree of technical assistance was required. The amount of technical and administrative assistance to be rendered should be stated in the scheme as passed by the Priorities Committee and agreed by the Government of the country concerned at that stage.

It would be the duty of the Progress Committee to assume the responsibilities required. It would draw its personnel as the demand arose from any country where suitably qualified experts could be found. In the long run it might build up a permanent civil service of such experts, who could be sent round from project to project.

(b) In every case it would be responsible for assuring itself that the money lent was actually expended upon the scheme. This might involve delicate problems, its powers of supervision would be limited by the sovereign rights of the states affected.

It would not be possible to <u>enforce</u> the execution of a scheme. In the event of bad reports representations could be made to the government concerned. If no satisfaction were obtained, the matter would be reported to the Governors, who would order the outlay to be stopped and would secure that the part of the loan already advanced was repaid over a reasonable term of years through the machinery of the Clearing Bank. To prevent the suspicion of arbitrary interference by the U.K. and the U.S. it is important that the Governors should take such action only on the recommendation of the Progress Committee. The professional qualifications required for membership of this Committee would be similar to those required for the Priorities Committee.

[Alternatively these three committees could be international in character. The question of how far it is wise to go in diluting the Anglo-American condominium by the international principle is perhaps one which can only be settled after discussion with America. If Russia were to become a third party to the condominium, her view would no doubt also have to be consulted.

All powers would be invited to become Associates of the Board, subject only to the condition that they were members of the Clearing Bank. Associated states would be represented on the statutory committees by rotation in proportion to their size, measured by some such economic yardstick as the value of their foreign trade.]

(Intd.) R.F.H.

12TH JANUARY, 1942.

VERY SECRET.

NOTES ON THIRD DRAFT (AS REVISED DECEMBER, 1941) OF PROPOSALS FOR AN INTERNATIONAL CURRENCY

1. The position of gold is ambiguous and perhaps not self consistent. On page 4 we are told that the bancor is fixed (but not unalterable) in terms of gold. On pages 17 and 18 we are told that the Clearing Bank must buy gold from the Central Banks at par, but that it is not obliged to sell gold. (Presumably a fortiori no Central Bank would be obliged to sell gold at par).

This means that while there is a mechanism for preventing the bancor value of gold falling, there is no mechanism for preventing its rising.

It follows that, unless some additional mechanism not specified in the Paper were adopted, the Bancor would not be fixed in terms of gold. And indeed, it would destroy the system to oblige the Clearing Bank or the Central Banks to sell gold at par. This being so, it seems that the international currency would have to be re-christened banco. (Unless this has undesirable associations, in which case a new word could be coined).

There is indeed one possible way out. The United States is at present on the gold standard and may wish to remain so. If the United States retained a selling price for gold, then the value of the international money would automatically be fixed in gold, and could be bancor. The United States might be willing to undertake to continue the gold standard as a contribution to the scheme. It would presumably have to be asked to do this explicitly. It would seem ~~anonymous~~ anomalous to have such a fundamental point dependent on only one of the founder states. I do not know whether this anomoly is a price worth paying for being able to call ~~a~~ the new money bancor. Economically there is no advantage in having the fixed selling price; without it the scheme still has the double advantage of (i) securing stable foreign exchanges, and (ii) maintaining the value of gold. (This second point must appeal to the United States as the greatest present holder and to the British Empire as the greatest producer of gold; also Russia might like it. Psychologically it would probably have a wide appeal).

(In my scheme there was no provision for a <u>selling</u> price for gold)

2. It may be obvious, but I think it ought to be explicitly stated that the Clearing Bank is obliged to buy and sell the currencies of all member countries against one another at par (or at buying and selling prices with a suitable margin between them.)

This provision is needed to secure that debits and credits in the international balances of payments shall in fact take the form of debits and credits at the Clearing Bank. Without this provision, and if Central Banks were merely obliged to have accounts at the Clearing Banks, the Clearing Bank might after an initial blast of trumpets, be side-tracked into doing no more clearing work than the Bank for International Settlements has done.

3. I regret that there is no special treatment for countries whose debits substantially exceed the average debit of the debit countries. We cannot treat ordinary debit countries or even Deficiency countries too severely without infringing the principle~~s~~ that when it is up to the credit countries to relieve the situation. But we could so treat a country whose debit (adjusted for the volume of its foreign trade) is abnormally large by reference to the average of debits.

4. I am against the proposal to make an interest charge on credit balances, theoretically attractive though this may be.

(1) There is danger that the insertion of this novelty may prejudice the scheme as a whole, for which it is so vitally important to gain acceptance.

The general scheme thus provides much that is new. To give it a fair chance we must prune away, however reluctantly, anything likely to distract attention from the main principles or to give its opponents a handle in argument.

(ii) I am not completely convinced that it is workable. Might not this visible charge lead the ~~States~~ credit countries to take undesirable ad hoc measures, such as the purchase of commodities for subsequent re-sale, which would have no tendancy to restore equilibrium and only serve to confuse the situation! ~~[illegible]~~

5. I am against urging the United States (page 19) to adopt machinery for controlling movements of capital~~s~~. Whether or not it is desirable that they should do so, it is unnecessary to the scheme and it is most unlikely that they will be willing to agree, and the proposal would be extremely repulsive to American individualists. While we may urge upon them more than we hope they will do, we should not include in our ~~proposals~~ plans that are violently antipathetic to their traditions. The same reasoning applies as in the case of interest on surpluses (See 4 (ii) above). And in this case we might also give the Americans the impression that we were approaching these great problems with studious disregard for what is possible and practicable there.

The foregoing points (especially 1.4 and 5) appear to me to be crucial. I add several further points

6. Page 11 "(2)". I suggest that "half" be substituted for "quarter" in the second line. The a-symmetry of the text seems unnecessary and ~~irrelevant~~ inelegant, and indeed, undesirable, since the purpose of the scheme is to give the debit countries a large margin of elbow room.

7. Page 11 "(5)". The wording of this clause seems to contradict the essential feature of the scheme that a debit is the automatic consequence of the transactions of a large number of individuals together with the obligation of the Clearing Bank to buy and sell at par. Must it not read, "In the event of a debit increasing ...... the governing board may frame conditions for the continued membership of the deficiency Bank?"

8. Page 11 "(6)". Personally I think that 2% in any one year would be sufficient depreciation without the permission of the governing board. Such movements are designed to deal with long run trends and not with (a) chance abberrations, (b) ~~and~~ disequilibria ~~coming~~ occurring in consequence of a particular and passing phase of the trade cycle (it is most undesirable that such disequilibria should be dealt with by exchange depreciation), ~~and~~ or (c) tendencies due to disorderly and profligate ~~contest~~ conduct (which must be given special treatment). For the long run trend 2% should be sufficient since a substantial change will be produced ~~from~~ cumulatively over a term of ~~orders~~ years. (For countries not exercising capital control the provision of forward buying and selling ~~points~~ prices, whether by the Clearing Bank or the Central Banks ~~would~~ could be used to prevent the speculative movements of funds in anticipation of the 2% change rendered possible by the state of the country's debit). It would be more difficult to deal with 5%).

9. Page 13 "(v)". I should be inclined to omit this for the reason given in 4 above. We may not like

export subsidies, but I do not see why there they are any worse than tariffs. Or one might insert "excessive" for before "export subsidies".

10. Page 23. For psychological reasons I should delete the reference to "the fissiary issue of the new currency system". This expression is only inserted for explanatory reasons, but ~~in doing so~~ gives the an unpleasant flavour not merited by the scheme. We never speak of the purchase of securities, or a ways and means advance by a Central Bank, payed for by cheque, as a fissiary issue and there is therefore no reason why we should use that expression of a similar operation by the Clearing Bank.

Draft of a Section.

....

....

It is not possible for us to pledge ourselves to pay a price above the competitive level for our staple food, four-fifths of which we have to import, until we can be assured that we shall be able to earn sufficient sums by our exports to enable us to pay our way. This will only be evident when we know the outcome of the discussions which we hope to have about the conditions governing the conduct of foreign trade after the war.

Meanwhile we have been working upon the problems which must be tackeld in such discussions, and we hope soon to have ready constructive proposals on an Internation Clearing Bank to regulate the foreign exchanges and the ~~stations~~ relations between creditor and debtor countries, on an International Buffer Stock Control for stabilising the prices of primary productions and the incomes of their producers, on an International Investment Board for securing that the world's savings can flow into projects for developing backward or penurious regions, on Commercial Relations and Treaties and the revival of multi-lateral trade, on Labour and Nutritional standards, and other topics.

We hope that these proposals after subjection to criticism and discussion, may form the basis of far reaching agreements between the United States and the United Kingdom tending not only to their common benefit but also to economic stability and prosperity in the world as a whole.

Any agreement reached now on a particular commodity, such as wheat, may cut across the principles which we subsequently agree upon as the best foundation of our system of world economy.

EITHER

If in spite of this you feel anxious that the Wheat Conference should reach conclusions including some public token of our willingness in post war collaboration to pay full regard to the specific interests of the United States, I propose that we should attach to our adhesion a reservation that it is subject to reaching, in the subsequent discussions, a satisfactory agreement about conditions governing post-war trade and the balance of payments.

OR

I therefore strongly urge that the attempt to reach final agreement on the wheat problem be deferred until after the discussions on the broader questions.

The attached plan for a Bank is based on the model of Mr. Keynes. It arose out of an attempt to enumerate proposals for amendment, but it is not easy to follow the drift of a list of separate amendments and it seemed more helpful to write out a new draft plan.

The points of difference from the Keynes plan are as follows:

1. It seems desirable that the initial plan should be as <u>simple</u> as possible. Many refinements will necessarily emerge from negotiations about it.

2. In view of the fact that the plan seems to call for a big concession from credit countries, it is important not to ask them to make more commitments than are absolutely necessary to secure the main purpose. In my plan the only commitment, apart from an undertaking not to alter exchange rates save by agreement or in defined circumstances, is that they should be willing to accept cheques on the Clearing Bank as full discharge of debt.

3. In particular, I do not think we ought to put pressure on credit countries if their credits become large. The important point is that any net credits accruing to them from international dealings can only be used for further importation and foreign lending. There will thus be an incentive to stimulate imports and lending. But if for political or other reasons they do not do this and prefer to let their credits accumulate, we do not wish them to be faced with unpalatable consequences. So long as their credit position cannot cause pressure elsewhere, there is no harm in allowing a further accumulation.

4. Consequently provisions for pressure on the credit countries have been removed from B; and new criteria have had to be devised for defining when the position of a debit country shall become subject to scrutiny.

P.T.O.

The following commitments required in the Keynes scheme have been deleted from mine.

(i) The international money (grammor) is abolished.

(ii) Member states not required to compel their citizens to conduct all foreign exchahge business through the central bank. (Though States may do this if they they wish).

(iii) Balances between member states not explicitly required to be cleared through the central banks (though this would happen automatically in the case of net balances in consequence of the willingness of the Clearing Bank to buy and sell currencies at par.)

(iv) Member states not restricted from acquiring gold by any channel they think fit.

(v) All special provisions imposing obligations on surplus credit countries removed.

(vi) Member states not required to have unqualified control over capital transactions (though they may do this).

(vii) Member states not required to freeze foreign assets within their jurisdiction.

The wording of my draft does not provide for the automatic application of sanctions to the two "Founder" states if either became an excess debit country. It appears to me that if this situation should ever arise the matter should be settled by direct negotiation between them.

A.

A.1. An International Clearing Bank to be founded by the U.S. and the U.K. The Bank of England and the Federal Reserve system to open accounts at it. This Bank will be entrusted with the management of an International Currency Union for the settlement of international balances.

A.2. Within x months from the end of the war the U.S. and the U.K. shall agree upon a sterling-dollar exchange rate, designed to promote the most advantageous flow of trade, and subject to revision by mutual agreement.

A.3. Other states will be admitted to the Union subject to the conditions set out here and in A.6. and B.4. They will be entitled Member States. On admission each state will agree with the Founder states the rate at which it wishes its currency to exchange against the dollar (and thereby against sterling and all the other currencies already in the Union), this rate to be subject to revision only by agreement with the Founders and a majority of members or in accordance with B.2. and B.4.. below.

A.4. The Central Bank of each Member state shall keep an account at the Clearing Bank, which may however, stand at zero; this shall be expressed in terms of the member's currency.

A.5. The Clearing Bank shall undertake to buy and sell the currency of each member for the currency of any other member without limit of quantity at the par rates. It may maintain a small margin between buying and selling prices. The Central banks shall make all foreign currencies available to their citizens at the selling prices, save that, in the event of a country wishing to control capital movements, she may take the necessary steps to ensure that the currencies are not required for that purpose.

A.6. The Central Banks of the Founder states and all Members shall receive cheques on the Clearing Bank as a full discharge of debt. And no Central Bank shall use its balance at the Clearing Bank save for the purchase of other currencies at par.

A.7. The consequence of A.5. and A.6. is that a Central Bank will acquire a credit balance at the Clearing Bank equal to the aggregated excess to date of the payments due to its country over those due by its country. Other Central Banks will be overdrawn by an equal amount. These overdrafts will take the form of deposits by the Clearing Bank at those Central Banks. The credit balances will however exceed the overdrafts, if the Clearing Bank buys gold or as a result of financial operations undertaken by it on behalf of other Anglo-American institutions (such as an Investment Board or a Buffer Stock control).

A.8. If any Founder or Member state is on the gold standard, the Clearing Bank shall name a price at which it will buy gold without limit of quantity. But it shall not be under an obligation to sell gold. Founder or member states may maintain a gold standard, but shall not revise the price of gold, save in accordance with changes in the exchange rates referred to in A.3. They shall not be under an obligation to maintain a gold standard.

A.9. Any member state may impose a control over the movement of capital in or out of its territory, and other Members and the Clearing Bank shall take such measures as they conveniently can to enable any Member to enforce such a control.

B.

B.1. If a Member has sold more foreign currency than it has bought, its balance will be in credit, in the opposite circumstances it will be in debit. A Member whose credit balance has exceeded for one year one tenth of the sum of its imports and exports (both reckoned exclusive of re-exports) on the average of the previous five years (starting with the five pre-war years, the most remote pre-war year in the average being replaced each year by the latest available post-war year) shall be called a credit country. A member in the opposite circumstances shall be called a debit country.

The figure arrived at by dividing the credit (or debit) of a country by the sum of its imports and exports etc., (as aforementioned) shall be called its credit- (or debt-) index.

A country whose debit index has for one year stood at more than three times the average of the debit indexes of the debit countries shall be called an excess-debit country.

B.2. A debit country shall be entitled, if it wishes, to reduce the rate at which its currency exchanges against other currencies (with a proportional reduction of its gold content, if it is on the gold standard) by an amount not exceeding 2 per cent within any year.

B.3. The Clearing Bank shall provide an up-to-date list of excess-debit countries, if any, either to an Anglo-American International Investment Board, if such there be, or to the Governments of the U.K. and the U.S. An examination shall then be made as to whether these countries have reached their position owing to lack of financial control and/or other forms of mis-management or owing to their specially unfavourable economic position (lack of natural resources, capital etc.) In the latter case consideration shall be given to the possibility of setting such "weak" countries on their feet by expert advice and by international loans for the provision of capital required to develop suitable forms of industry (including dairyfarming etc.). (This scheme does not imply that an International Investment Board shall have been debarred from helping such countries in this way at an earlier stage). During the period required for such reconstructive measures the excess debits shall be allowed to stand.

B.4. Sanctions shall be imposed on excess debit countries other than "weak" countries successively at intervals of one year in the following order:-

i. Their governments shall be required to prohibit all export of capital.

ii. The credit countries shall restrict exports to them.

iii. If their excess debit shows no sign of decrease, they shall be expelled from the Union.

During the first (and second) year the excess-debit country shall be allowed to depreciate its currency by more than 2% and to engage in any forms of restrictive practices (import quotas, barter agreements, etc.) likely to rectify its balance. (It is supposed that the normal use of such practices is prohibited not indeed in the Bank Charter but by some other instrument governing the trading relations of the Member states.)

Attention must also be given to the list of prohibitions and indulgences in Section V (page) of Mr. Keynes' introduction. I fear that "no tariffs exceeding 25%" would rule the scheme out of court. It would seem wiser to drop (1) and (2) and "or prohibitions" in (3). The list would then run:

1. No import quotas.
2. No barter agreements.

3. No restrictions on the disposal of receipts arising out of current trade.

I should have thought that in indulgence (2) we should substitute "excess-debit" (more or less equivalent to Mr. Keynes' "supervised") for "deficiency".