Copy in Files Section

Committee 2

Istel, Rasminsky, de Iongh, Pazos, Monteros, Morozov

Ned Brown, Edmiston, Bourneuf, Mikesell, Maffry, Richardson, Collado, Gardner, Pasvolsky.

Monteros - Large holdings of silver in many countries. Suggest following be added to Agenda at Conference - not in Joint Statement which is present agenda:

1. Fund shall determine proper role of silver
2. Fund authorized to carry out appropriate policies for silver
3. Member countries shall be obligated to

Istel - asks if any one opposed to putting this on Agenda.

Mikesell - says secretariat intends to put it on Agenda.

Flimsy on Capital Movements - June 23, 1944

Changed "require" of Joint Statement to "request" in first statement of flimsy. Because only sanction is Fund's ability to deny access to the Fund. That is why second sentence is added in flimsy.

Istel - says IX-3 directly related to V-1. Practically impossible to control capital movements without also controlling current transactions. Czech said had this experience. Canada said had no great difficulty - because no strong capital movements. Mr. de Iongh agrees with Basch.

Rasminsky - can control current transactions merely as supervisor - not restrict them. Of course may be some illicit movement of securities. - Could comply with spirit of V-1 as in flimsy.

Istel - When fear psychology at work - effect of control may be the opposite of that desired.

Rasminsky - controls should not be necessary unless fundamental disorder. When serious fears - controls cannot be watertight. Must eliminate such fears.

Pasvolsky - sometimes the more watertight you try to make your control the less effective it is. Furthermore, if capital flight in form of export of commodities must move on to controlling commodity trade.

An outflow of capital which equals an over-investment can be controlled, however. If eliminates controls in this order -

1) trade, 2) services, 3) capital
Certainly should be able to introduce in the opposite order.

Istel and Pasvolsky emphasize that controls to prevent panic flight may keep money out of that country.

Edmiston - therefore should retain mechanism of controls, not have to reintroduce.

Rasminsky- can prevent controls from keeping money out of the country.

We allowed American holders of Canadian securities to take them out physically but didn't allow them to sell the securities on the Canadian market. We serviced them in the holder's currency.

This applied to pre-zero holdings of securities. If bought securities after controls introduced - new money - Canada registered them and promised to allow them to sell and withdraw funds.

Istel - Does this apply to sending U. S. checks to Canada - then can withdraw - No, says Rasminsky - can't get official exchange-take chances on free rate.

Pasvolsky -Where are funds that feed the free market?

Rasminsky -Free market very narrow - 2 major sources - 1) non-resident Canadian dollar balances held in Canada at outbreak of war; 2) items for which we don't provide official exchange, mostly payment at maturity of Canadian obligations, partly also Canadian dollar mortgages, or proceeds of sales of real estate.

Istel - British later discovered this transfer had some effect on exchange market.

Rasminsky -British made mistake of allowing nonresident sterling to be used to pay for British exports. That is why they got into trouble. Canada said Canadians wouldn't accept similar Canadian dollars.

Rasminsky -Always gave official exchange for interest and dividends whether obligated to pay in foreign exchange or not. Uses to which unofficial Canadian dollars be put. All exports must produce U. S. funds - also all services except tourist. Tourist could pay in unofficial Canadian dollars. Most important use, however, is for capital investment in Canada. Unofficial market transactions always between two nonresidents.

Second type of encouragement of foreign investment if investment represents actual bricks and mortar, not just title, can withdraw in the currency he paid in - will not give capital profit official exchange, however, only amount invested.

Istel - England couldn't allow Yugoslavia to sell sterling to Greece - same effect on gold resources of England if withdrew.

No, says Rasminsky - only if use the sterling to pay for British goods.

Yes, says Istel - but only bought sterling to make payments in sterling. No one wanted to hold it.

Gardner - Can be forbidden to use the sterling to buy goods - exactly says de Iongh and Rasminsky.

Main question, says de Iongh, is what can nonresident do with sterling. Says British didn't quite do it by mistake - had a backlog to eliminate - also says Rasminsky - sterling was an international currency.

De Iongh- Very difficult to control capital flight when there is difference between internal and external value of a currency. Can use exchange controls without destroying confidence in that country. de Iongh says in NEI provided official conversion for amortization payments and profits. Must start eliminating exchange controls - with non-residents.

Rasminsky - To make exchange control effective don't have to restrict transfers between nonresidents, if have sufficient control over residents.

Ned Brown - Important to be able to sell balances in free market - have been lending money to Canada right along.

Gardner - Is Istel worrying about a constantly increasing amount of nonresident balances?

Mikesell - Goes back to V-1. Only have to prevent big or sustained outflow of capital. If find it necessary to control all exchange transactions, even current, a country is still meeting its obligations under IX-3. Only obligation in IX-3 is not to prevent repatriation of proceeds of exports. Could prevent exporter from selling importing country's currency for a third currency.

Exchange controls not synonomous with exchange restrictions.

Istel - If exporter refuses to sell the proceeds of his sales for his own currency - ?

Mikesell - This is a capital transaction. Must be a time concept.

Istel - What hurts the importing country is the fact that exporter doesn't repatriate.

Rasminsky - Country using the Fund must oblige the exporters to repatriate the proceeds of its exports - if large or sustained.

De Iongh - Is it a restriction only if forbid payment for exports?

Mikesell - If importer can get exchange necessary to pay for imports - then control but no restriction - also if exporters able to repatriate proceeds of exports.

De Iongh - Better to restrict by means other than exchange controls. De Iongh thinks Mikesell interpretation means Fund isn't doing enough to abolish controls.

Mikesell - Would violate if IX-3 said could buy one thing and not another. Also can't prevent reasonable amortization payments - refers to V-2.

Rasminsky -Disagrees with Mikesell. Members aren't deprived of liberty of having import control policy. Mikesell - O.K. as long as don't use exchange controls to do so.

Pasvolsky and Gardner - Fund may authorize exchange restrictions, of course.

Rasminsky -If Canada keeps controls after war, as they are, would it be a restriction on current account transactions to require that Canadian exports be paid in U.S. dollars.

Istel - thinks this is a current restriction.

Pasvolsky -May not be able to sell for U. S. dollars.

Collado - Are you saying irrespective of whether sell to U.S. or not?

Istel - This is a restriction on current transaction.

Rasminsky -Question of currency of payment - can do same thing without exchange controls. If Canada requires exporters to do this as part of foreign exchange control law - and also to repatriate the U. S. dollars.

Collado - Do commercial policy principles require more than that exporters be paid in own currency? Question whether requiring American or Bolivian to pay in U.S. dollars.

Rasminsky - Confine question to sale to U. S. buyer.

Collado - That is O. K. - if import policy doesn't make the two inconsistent - must provide U. S. dollars for purchases from U.S.

Rasminsky - Obligation to sell U. S. dollars for Canadian dollars.

Country in creditor position may not require repatriation.

If not using Fund - no problem says Ned Brown and Rasminsky.

Istel - Points to IX-3 - if compelled to repatriate, isn't this a restriction? No, says Rasminsky - no non-resident involved. Istel - forcing him to repatriate.

Pasvolsky - From a commercial policy point of view this is a restriction.

Rasminsky - Par value obligation - is maintenance of unofficial market in Canadian dollars entirely fed by capital transactions? Is this consistent with IX-2? No - says everyone.

Rasminsky - Transactions in Canadian markets would be at official rates.

Collado - IX-2 - at present strange - would require U. S. to prevent free market in U. S. in Canadian dollars.

Istel - IX-2 inconsistent with obligation to control capital exports.

Pasvolsky - Each country has obligation to maintain rate in its own market. Not allow free market to arise.

Mikesell - Getting into blockedbalance, kind of thing - say for what purposes a foreign country can use unofficial balances. No market in Canada - but will be market in U. S. Clearly U. S. has no obligation to maintain rate on this market. Canada is also meeting its obligation under present wording of IX-2.

Mikesell saying no one need control that market.

De Iongh - We're on wrong track - discussing way exchange controls implemented. Must aim to abolish exchange controls. Any impediments lead to block market.

Rasminsky - Nothing in Joint Statement implies trying to get rid of controls. Collado - we are trying to get multilateral clearing on current account. Pasvolsky - if exchange controls for capital movements are interfering with multilateral clearing - must use other methods.

Collado - Can't put obligation on U. S.

Rasminsky -Must reconsider whole question. There is a real problem. Our obligations mean that we must have confidence in future resources - enough to cover all outflow of non-resident capital - if interpret this article IX-2 in the other way - so as not to put headache on U. S.

Collado - Could have different kind of control of capital transactions - block them absolutely. Present Canadian system is a form of multiple currency practice.

Istel - Do we agree that IX-2 and IX-3 absolutely inconsistent. Must eliminate "for current international transactions" because implies can control capital movements.

Pasvolsky -Joint Experts slipped up.

Rasminsky and Mikesell - No.

Collado - If U. S. agrees to these propositions and Canada goes on with present system - U. S. would have to put on capital restriction or use up gold.

Istel - Doesn't get it.

Collado - Would prevent Americans from selling dollars to each other.

Gardner - Thinks Canada should give up system - See that such transactions don't take place.

Rasminsky -Will mean stricter control.

Mikesell - Off on track that if buy gold when offered - you are living up to your responsibility.

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Minskoff

We were told it would be given to Committee I.

Must prevent depreciation and appreciation in terms of gold.

Rasminsky - Would add to IX-2 "This obligation shall apply only to currency which, in accordance with Article III-5 can be redeemed by the member country."

Says if Canada has used up its quota - the United States has no obligation to maintain rate in Canada.

Rasminsky points out exceptions under III-5.

Istel - IX-2 is fundamentally inconsistent with Canadian type of control if capital transactions.

Gardner - Says Canada must tighten its system.

Collado - Question of greater evil.

Gardner - Fund may give permission to keep present system.

Rasminsky - Couldn't get answer before joined. At present exchange rate in unofficial market acts as deterrent to transfers.

Istel - Thinks Fund couldn't give approval.