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QUESTIONS ON THE STABILISATION FUND

(Submitted by Sir Frederick Phillips and
Mr. Redvers Opie)

1. What is the technique contemplated to control capital movements? The Clearing Union provides for the submission of all exchange transactions to prior scrutiny by an authority which is the only legal source and repository of foreign exchange. Operations on current account would take place freely under general licence but a complete record would be available to ensure adequate control of capital movements. Does the Stabilisation Fund likewise contemplate a scrutiny of all exchange transactions and a monopoly of foreign exchange dealings?

2. What kind of action is it contemplated would be recommended under II (6) to a country whose currency was in scarce supply?

3. Are the provisions for drawing on the resources of the Fund (II (3)) independent of the proportion of the "quota contributions" that has been called up?

Is it assumed that the maximum facilities that the Fund can put at the disposal of the members is equal to half the sum of the maximum permissible net acquisitions by the Fund of the currency of the respective countries, which after two years would be 200% of the quotas and therefore at least $5 billion?

4. Are Unitas merely a convenient unit of account or would the Stabilisation Fund create Unitas in using the resources of the Fund?

It would appear that, while in the Clearing Union quotas represent a claim to overdraw on international account and therefore bancor would be created, in the Stabilisation Fund quotas represent a right to purchase currencies of other members and therefore do not require the creation of Unitas.

5. If quotas are to be directly proportional to the holding of gold and foreign exchange, would not this give most facilities to those members needing them least and vice versa?

Is Stabilisation Fund I (5) intended, after the initial subscription has been made, to empower the Board to call up quotas of members which are poor in gold and foreign exchange exclusively in local currency or securities?

6. Is it not a weakness of the Stabilisation Fund that it provides for no quasi-automatic increase in quotas to facilitate the financing of an increasing volume of international trade and that a revision of quotas in the aggregate as provided in Stabilisation Fund I (6) is left entirely to the discretion of the Board?

7. Is the Stabilisation Fund intended to provide for international expansion of production and exchange which is one of the objectives stated in Article VII of the Mutual Aid Agreement? If so, which provisions are intended to achieve the purpose? Similarly, is it intended to introduce measures for controlling the trade cycle?

8. What are the objectives in requiring that a proportion of the contributions to the quotas be made in gold?

9. Would the Stabilisation Fund contribute in any way to the maintenance of a market for gold? In particular, does II (8) apply to newly mined gold?

10. What grounds are there for believing that action under Stabilisation Fund II (6) and (7) would be adequate to prevent an embarrassing shortage of particular currencies? Would it not be advisable to amend II (6), line 2, to read _before_ instead of _after_, etc.

11. Is action by creditor countries to correct international disequilibrium contemplated under the Stabilisation Fund scheme as under the Clearing Union?

12. In fixing the rates of exchange is it intended that the majority of the Board should agree the rate with each country or impose it on each country unilaterally?

13. Might it not be advisable to refer to "abnormal war balances" in II (9) instead of blocked balances in order to avoid giving an incentive to declare balances blocked?

14. Is the intention if II (14) to assist a country with its internal fiscal problems and, if so, why should the funds of the Stabilisation Fund be risked for this purpose?

15. Does the Stabilisation Fund deliberately exclude facilities for collaboration with other international bodies?

16. What is it proposed to do with currencies of non-member countries after sixty days?

17. Is there not a danger that the proposed voting powers might give a state that reaches a maximum of 25 per cent of the total votes a _liberum veto_ over all significant decisions without giving it positive power and responsibility corresponding to this negative power?

SIMILARITIES BETWEEN THE CLEARING UNION AND THE STABILISATION FUND.

(Submitted by Sir Frederick Phillips and Mr. Redvers Opie)

1. Both schemes aim at stability of exchange rates without interference by exchange control with payments on current account. Both schemes assume that capital transfers will be subject to special control.

2. Both face the difficulty that after the war few countries will have the gold and exchange reserves necessary if they are to maintain by their own resources stability of exchange rates while permitting freedom of transfer on current account; or will be able to secure unaided the credits in foreign currencies which are the only alternative to reserves of their own.

3. Both meet the difficulty by an arrangement by which

(a) All the balances, favourable and adverse, of a country with other countries are brought into a single account with an international clearing agency or pool, so that favourable balances can be set against unfavourable and a net balance in the relations of the country with all other countries established: and

(b) Creditor countries are no longer required to hold particular currencies but are given a claim on other currencies in general at fixed rates of exchange.

4. The mechanism by which effect is given to this arrangement is different in the two cases. The Stabilisation Fund creates a pool of gold and currencies to which each contributes and on which each can draw; the Clearing Union registers net claims of each country on others in an international unit of account, thereby substituting claims on the Union expressed in the international unit for claims on countries expressed in national currencies. But the differences are less than appears at first sight.

5. Both limit the facilities they offer to member states to temporary short-term assistance. They do so (a) by limiting rights (whether to buy national currencies from the Stabilisation Fund or to incur debit balances with the Clearing Union) by reference to quotas, based on an assessment (on a common basis) of needs; (b) by imposing conditions directed to compelling members to correct any persistent disequilibrium in their relations with the rest of the membership, even before they have exhausted their quota.

6. In both schemes the effective limit to facilities is set by the aggregate of quotas. In the Stabilisation Fund this amounts to more than the contributions to the Fund itself. Ordinarily the "deficiency" members will be able to draw more than their subscription because the "surplus" members will draw less, and also there are provisions for supplementing the Fund in general or its supply of particular currencies by borrowing or by additional calls. On the other

hand the Clearing Union, though theoretically it might create unlimited rights by crediting members with balances, is just as effectively limited in practice by the aggregate of quotas. This aggregate is determined by facts that belong to the past (the volume of past trade); although the existence of the Union may have influenced the volume of trade, at any moment of decision the Union is limited by a figure of aggregate quotas which it cannot change.

7. The establishment of quotas is therefore the basic practical consideration in putting either scheme into effect. The form of the scheme is largely a matter of political expediency.