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Miss Bourneuf

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Governor Szymczak

Copy in Files Section

Keynes Plan: original and revised

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Attached is my memorandum on the Keynes Plan. This morning shortly after the memorandum had been typed I received a revised version of the Plan embodying the modifications which Keynes made as a result of questions raised by the American technical committee. On the whole the revisions do not appear to be very important. On the basis of a hasty reading, the following appear to be the most noteworthy.

1. The original plan fixed the initial quotas in proportion to the total foreign trade of the member countries but did not state a specific proportion. The revised plan suggests that the quota should be equivalent to 75 per cent of each country's exports and imports. If the United States, the United Kingdom, the British Dominions, and Latin America were the only members of the plan, aggregate quotas would amount to 15 billion dollars, of which more than 10 billion would represent foreign quotas. If the rest of the non-Axis world became members, total quotas would amount to nearly 30 billion dollars, of which 25 billion would belong to foreign countries. These are tremendous sums to add to the central gold reserves of the world and the annual output of gold from the mines. The potential flow of reserves to the United States would be far greater than the extraordinary movement which took place in the 1930's.

2. The obligation upon members to maintain their currencies at a fixed rate in terms of bancor is somewhat tightened. Under the original plan a nation whose average debit balance had exceeded a fourth of its quota for more than one year was permitted to reduce the value of its currency in terms of bancor by as much as 5 per cent a year without permission of the Governing Board. Under the revised plan the excess debit must run for two years and the initial 5 per cent reduction cannot be repeated in succeeding years unless the permission of the Board is obtained.

3. The powers of the Governing Board to prevent excessive use of bancor quotas are considerably increased.

a) Under the original plan if a country's average debit balance exceeded 3/4 of its quota for at least a year, the Governing Board could require it to eliminate the excess within two years and could declare it in default if it failed to do so. In the revised plan the Governing Board can take such action if it regards the member's debit balance as excessive. It does not have to wait until the 3/4 point is passed. The Board may determine what is a reasonable debit balance and the member must conform within two years or be declared in default.

b) Under the original plan a progressive interest rate was charged on both credit and debit balances according to their size. Under the revised plan the Governing Board is given discretion to 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. This would act as a deterrent to the further use of quotas by debtor countries.

c) The Governing Board is entitled to reduce the quotas of all members in the same proportion if it seems necessary to correct in this manner an excess of world purchasing power; but no member shall be required to reduce his actual overdraft at the date of the change. This new power, because of the reservation in the last half of it, can be employed only to reduce unused quotas.

4. While the powers of the Governing Board to combat excessive use of quotas are increased, the power of creditor countries on the Governing Board is increased only to a minor extent. If consideration is being given to increasing the quota of an individual country, voting power under the revised plan will be in proportion to the quotas of the member countries increased by their credit balance or decreased by their debit balance averaged over the past two years. Except for this special case, voting power continues to be in proportion to quotas based upon foreign trade. The United States might supply 90 per cent of the funds required to finance the debtor countries and have only a minority voice on the Governing Board, which alone can take steps to prevent debtor countries from using their full quotas.

5. A whole new section is added in the revised plan (Part III, Sections 8-10) to develop the thesis that creditor countries are really making no sacrifice however much they are drawn upon. It is argued that they are free to use their bancors to buy abroad whenever they want to, or they may voluntarily curtail their exports, hence the system enables them to do voluntarily what in its absence they would be compelled to do by force of circumstances.

This argument of Keynes overlooks entirely the fact that the plan equips foreign countries with additional purchasing power and hence would make it extremely difficult for the United States to sell less merchandise to foreigners than it buys from them, particularly as the foreigners equipped with this purchasing power will be in dire physical need in the post-war period.

Attachment

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