MEETING AT TREASURY - DECEMBER 30, 1943

Present: White, Bernstein, Southworth, Luxford, Betterman, Mrs. Sundelson, Angell, Currie, Livesey, Stinebower, Brown, Goldenweiser, Gardner, Bourneuf.

White said we would discuss the British non-unitas version and commented that most of the differences between the two British versions were unintentional. White distributed a two page typed document containing the points in the British non-unitas version that the Treasury felt it was important to change.

In commenting on 3(2) White said the British have agreed to give up their idea that gold subscriptions should be held as a pledge.

There was a rather lengthy discussion of the use of "net official holdings" in 3 (2), 4 (2) and elsewhere. White seemed ready to agree to this language at first but later changed his mind. He said this definition would reduce Britain's gold and foreign exchange holdings from about $1.7 billion to about $1.4 billion but would make very little difference for other countries. He also said England was about to give Portugal gold for some of her balances.

Mr. Gardner commented that the definition of holdings would directly affect the time at which the repurchase clause would become effective. England, for example, could give a gold guarantee on more of her foreign liabilities and postpone repurchasing. Mr. Gardner also commented that the idea that certain liabilities are 100 per cent gold-convertible and others not gold-convertible at all had no basis in economic reasoning. Mr. Goldenweiser said a clear definition of net would be absolutely necessary. Mr. Angell said that all exchange liabilities were presumably gold-convertible under the plans.

White proposed that we might define exactly which liabilities they could deduct at the outset as those liabilities which they have guaranteed to meet in gold. White said all liabilities are not gold-convertible under the plans - members don't promise to sell gold at a fixed price - they only promise to maintain the par values of their currencies. Bernstein suggested at one point that the deductible liabilities would all be obligations of the Treasury, not of the Central Bank. Mr. Gardner pointed out that all members would have certain gold guaranteed liabilities to the Fund.

At this stage White suggested dropping the whole "net" concept. He said it would really only make about $30 millions difference to the British anyway.

Angell asked if a clear definition of foreign balances had been reached. White said it was understood that Treasury bills were included in balances but not long-term governments. He said the definition could be changed if countries went in for governments suddenly.

White then said he was willing to accept the term gold-convertible exchange instead of free foreign exchange. He said the British didn't want certain Empire balances classified as not free. The term gold-convertible exchange means holdings which can be converted into any other currency which is in practice convertible into gold that can be freely exported. The term gold-convertible currency would not do. White said if individuals can buy gold in England and export it or if they can buy dollars with sterling (under present American regulations) then sterling is gold-convertible.

White then said that the British felt they could accept the American notice provision on the broader definition they propose as to when the Fund can act. White said that the words appropriate notice had no fixed meaning such as 6 months or a year.

Bernstein then said that in 4 (2) the words "in exchange for its own currency" are deleted in the latest U. S. typed document since half payments may have to be made in gold. Bernstein also said that the British left out the half gold payment provision in the non-unitas version by mistake. It was mentioned here that the word "net" must be deleted in several places.

Mr. Gardner pointed out that the British omitted the sentence in 4 (5) about "free of exchange restrictions" and that this was inconsistent with allowing control of capital transactions. White agreed eventually that a proviso should be inserted here.

Bernstein said he thought the term "local funds" was acceptable.

On 4 (6) White pointed out that "directly or indirectly" are really needed after "obtain".

On 4 (8) White explained that the added sentence was intended to cover increased holdings of <u>non</u> gold-convertible currencies. Just what increase was referred to in the new sentence was hard to ascertain. White did say that he thought it needed rephrasing and that it wasn't very important anyway. In connection with the required quarterly statements White said he assumed that if the Fund didn't require repurchases at the time the increases took place, the Fund could not go back and do so later.

On the last sentence of 4 (8) White said he thought the 75 per cent limit was a reasonable compromise and meant that no country would be required to convert more than 25 per cent of its subscription into gold. Mr. Gardner saw no reason why a country that had more than its quota to draw upon and independent reserves equal to its full quota should not utilize half of its increase in reserves beyond that amount to raise its original gold contribution to 50 per cent of its quota. In short the 75 per cent in local currency should be restored to 50 per cent - the amount named in White's December proposal to the British. Bernstein commented that the favorable balance countries would not have much currency in the Fund anyway and the 50-50 payment provision would catch the unfavorable balance countries.

On 5 (1) White said he thought it was important that transactions with the Fund should not be "at par" - he thought a spread between buying and selling prices would help to prevent undue use of the Fund. Bernstein said the Fund certainly could not sell gold to the United States at par on account of the 1/4 of 1 per cent charge.

On 6 (1) there was considerable discussion of the compromise suggestion of the Treasury. Mr. Gardner felt that the added sentence was going much too far and that it was inconsistent with the general control provision and also implied acceptance of the questionable British idea that part of the balance of payments could be tagged as financed through the Fund and another part as financed with independent reserves.

Bernstein and White seemed to feel that they might go back to the earlier position and just insist that the words "in moderate amounts" be reinserted in the last sentence where the British deleted them.

Mr. White then had quite a lot to say about the new British section on Transitional Arrangements. The first paragraph seemed highly unsuitable and unnecessary and the second paragraph was intended to leave the door open for all sorts of bilateral clearing agreements. White read several paragraphs from Keynes' letter to him which explained that England wanted to make payments agreements with various members of the sterling area and inter-central-bank credit arrangements similar to the Belgian-Dutch agreement.

White said the last clause about giving the benefit of reasonable doubt to a country requesting a change in rates was unacceptable.

It was hard to tell from what White said whether he was satisfied with the typed version in the Treasury two-page document but it appeared not.

White said in answer to a question of Mr. Gardner's that he would have Keynes' letter copied and sent to the Committee.

White asked those present if they were disposed to yield on the monetized unitas point. None of them were. Mr. White said he had no fear that the British would not yield. Mr. White said it would be much harder to sell to Congress and would put the United States in the position either of accepting more unitas or refusing to do so after the quota limit was passed -- either of which would be bad. White then commented on the name -- he said the Treasury did not want the words "Union" or "Clearing" but did want "International". The British don't want the word "Stabilization".

At the end of the meeting White pointed out that there remained some uncertainty on the 75 per cent clause and on the section about transitional arrangements. He did not mention the capital provision at that point or the "net" and "gold-convertible" problems.

A.B.
Dec. 31, 1943