



Lufford

# INTERNATIONAL CLEARING UNION

TEXT OF A PAPER CONTAINING  
PROPOSALS BY BRITISH EXPERTS  
FOR AN INTERNATIONAL CLEAR-  
ING UNION.

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In Parliament on February 2nd, the Chancellor of the Exchequer mentioned the need, after the war, of "an international monetary mechanism which will serve the requirements of international trade and avoid any need for unilateral action in competitive exchange depreciation . . . a system in which blocked balances and unilateral clearances would be unnecessary . . . an orderly and agreed method of determining the value of national currency units . . . we want to free the international monetary system from those arbitrary, unpredictable and undesirable influences which have operated in the past as a result of large scale speculative movements of short-term capital."

On the directions of H. M. Government, this problem has been under close examination by the Treasury in consultation with other Departments. The present paper has been prepared, and the Government has decided that it should be published, as a preliminary contribution to the solution of one of the problems of international economic co-operation after the war.

H.M. Government is not committed to the principles or details of the scheme. Any proposals for a satisfactory international monetary mechanism after the war can only be framed after full consideration of all aspects of a very difficult problem. It is hoped that these proposals will afford a basis for discussion, criticism and constructive amendment, together with similar plans having similar objectives which may be prepared by experts of other Governments.

On these terms it has been presented for technical examination by experts of the U. S. Government. On these terms also it has been discussed in an informal and exploratory manner with officials of the Governments of the Dominions and of India. These discussions were on the expert plane, and did not commit the Governments concerned in any way. It has also been discussed with representatives of the European Allies, and has been communicated to representatives of the other United Nations.

# PROPOSALS FOR AN INTERNATIONAL CLEARING UNION

## PREFACE

Immediately after the war, all countries which have been engaged will be concerned with the pressure of relief and urgent reconstruction. The transition out of this into the normal world of the future cannot be wisely effected unless we know into what we are moving. It is therefore not too soon to consider what is to come after. In the field of national activity occupied by production, trade and finance, both the nature of the problem and the experience of the period between wars suggest four main lines of approach.

1. The mechanism of currency and exchange.
2. The framework of a commercial policy regulating conditions for exchange of goods, tariffs, preferences, subsidies, import regulations and the like.
3. Orderly conduct of production, distribution and price of primary products so as to protect both producers and consumers from the loss and risk for which extravagant fluctuations of market conditions have been responsible in recent times.
4. Investment aid, both medium and long term, for countries whose economic development needs assistance from outside.

If the principles of these measures and the form of institutions to give effect to them can be settled in advance, in order that they may be in operation when need arises, it is possible that taken together they may help the world to control the ebb and flow of the tides of economic activity which have, in the past, destroyed security of livelihood and endangered international peace.

All these matters will need to be handled in due course. The proposal that follows relates only to the mechanism of currency and exchange in international trading. It appears on the whole convenient to give it priority, because some general conclusions have to be reached under this head before much progress can be made with other topics.

In preparing these proposals care has been taken to regard certain conditions, which the groundwork of an international economic system to be set up after the war should satisfy if it is to prove durable.

(1) There should be the least possible interference with internal national policies, and the plan should not wander from the international *terrain*. Since such policies may have important repercussions on international relations they cannot be left out of account. Nevertheless, in the realm of internal policy, the authority of the governing board of the proposed institution should be limited to recommendations, or, at most, to imposing conditions for more extended enjoyment of the facilities which the institution offers.

(2) The technique of the plan must be capable of application irrespective of the type and principle of government and the economic policy existing in the prospective member States.

(3) Management of the institution must be genuinely international, without preponderant power of veto or enforcement lying with any country or group. And the rights and privileges of smaller countries must be safeguarded.

(4) Some qualification of the right to act at pleasure is required by any agreement or treaty between Nations. But in order that such arrangements may be fully voluntary so long as they last and terminable when they have become irksome, provision must be made for voiding the obligation at due notice. If many member States were to take advantage of this, the plan would have broken down, but if they are free to escape from its provisions if necessary, they may be more willing to go on accepting them.

(5) The plan must operate not only to the general advantage but also to the individual advantage of each of the participants, and must not require a special economic or financial sacrifice from certain countries. No participant must be asked to do or offer anything which is not to his own true long-term interest.

It must be emphasized that it is not for the Clearing Union to assume the burden of long term lending which is the proper task of some other institution. It is also necessary for it to have the means of restraining improvident borrowers. But the Clearing Union must also seek to discourage creditor countries from having unused large liquid balances which ought to be devoted to some positive purpose. For excessive credit balances necessarily create excessive debit balances for some other party. In recognising that the creditor as well as the debtor may be responsible for a want of balance, the proposed institution would be breaking new ground.

## I.—THE OBJECTS OF THE PLAN

ABOUT the primary objects of an improved system of International Currency there is, to-day, a wide measure of agreement:—

- (a) We need an instrument of international currency having general acceptability between nations, so that blocked balances and bilateral clearings are unnecessary; that is to say, an instrument of currency used by each nation in its transactions with other nations, operating through whatever national organ, such as a Treasury or a Central Bank, is most appropriate, private individuals, businesses and banks other than Central Banks, each continuing to use their own national currency as heretofore.
- (b) We need an orderly and agreed method of determining the relative exchange values of national currency units, so that unilateral action and competitive exchange depreciations are prevented.
- (c) We need a *quantum* of international currency, which is neither determined in an unpredictable and irrelevant manner as, for example, by the technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries; but is governed by the actual current requirements of world commerce, and is also capable of deliberate expansion and contraction to offset deflationary and inflationary tendencies in effective world demand.
- (d) We need a system possessed of an internal stabilising mechanism, by which pressure is exercised on any country whose balance of payments with the rest of the world is departing from equilibrium in either direction, so as to prevent movements which must create for its neighbours an equal but opposite want of balance.
- (e) We need an agreed plan for starting off every country after the war with a stock of reserves appropriate to its importance in world commerce, so that without due anxiety it can set its house in order during the transitional period to full peace-time conditions.
- (f) We need a central institution, of a purely technical and non-political character, to aid and support other international institutions concerned with the planning and regulation of the world's economic life.
- (g) More generally, we need a means of reassurance to a troubled world, by which any country whose own affairs are conducted with due prudence is relieved of anxiety, for causes which are not of its own making, concerning its ability to meet its international liabilities; and which will, therefore, make unnecessary those methods of restriction and discrimination which countries have adopted hitherto, not on their merits, but as measures of self-protection from disruptive outside forces.

2. There is also a growing measure of agreement about the general character of any solution of the problem likely to be successful. The particular proposals set forth below lay no claim to originality.

They are an attempt to reduce to practical shape certain general ideas belonging to the contemporary climate of economic opinion, which have been given publicity in recent months by writers of several different nationalities. It is difficult to see how any plan can be successful which does not use these general ideas, which are born of the spirit of the age. The actual details put forward below are offered, with no dogmatic intention, as the basis of discussion for criticism and improvement. For we cannot make progress without embodying the general underlying idea in a frame of actual working, which will bring out the practical and political difficulties to be faced and met if the breath of life is to inform it.

3. In one respect this particular plan will be found to be more ambitious and yet, at the same time, perhaps more workable than some of the variant versions of the same basic idea, in that it is fully international, being based on one general agreement and not on a multiplicity of bilateral arrangements. Doubtless proposals might be made by which bilateral arrangements could be fitted together so as to obtain some of the advantages of a multilateral scheme. But there will be many difficulties attendant on such adjustments. It may be doubted whether a comprehensive scheme will ever in fact be worked out, unless it can come into existence through a single act of creation made possible by the unity of purpose and energy of hope for better things to come, springing from the victory of the United Nations, when they have attained it, over immediate evil. That these proposals are ambitious is claimed, therefore to be not a drawback but an advantage.

4. The proposal is to establish a Currency Union, here designated an *International Clearing Union*, based on international bank-money, called (let us say) *bancor*, fixed (but not unalterably) in terms of gold and accepted as the equivalent of gold by the British Commonwealth and the United States and all the other members of the Union for the purpose of settling international balances. The Central Banks of all member States (and also of non-members) would keep accounts with the International Clearing Union through which they would be entitled to settle their exchange balances with one another at their par value as defined in terms of *bancor*. Countries having a favourable balance of payments with the rest of the world as a whole would find themselves in possession of a credit account with the Clearing Union, and those having an unfavourable balance would have a debit account. Measures would be necessary (see below) to prevent the piling up of credit and debit balances without limit, and the system would have failed in the long run if it did not possess sufficient capacity for self-equilibrium to secure this.

5. The idea underlying such a Union is simple, namely, to generalise the essential principle of banking as it is exhibited within any closed system. This principle is the necessary equality of credits and debits. If no credits can be removed outside the clearing system, but only transferred within it, the Union can never be in any difficulty as regards the honouring of cheques drawn upon it. It can make what advances it wishes to any of its members with the assurance that the proceeds can only be transferred to the clearing account of another member. Its sole task is to see to it that its members keep the rules and that the advances made to each of them are prudent and advisable for the Union as a whole.

## II.—THE PROVISIONS OF THE PLAN.

6. The provisions proposed (the particular proportions and other details suggested being tentative as a basis of discussion) are the following:—

(1) All the United Nations will be invited to become original members of the International Clearing Union. Other States may be invited to join subsequently. If ex-enemy States are invited to join, special conditions may be applied to them.

(2) The Governing Board of the Clearing Union shall be appointed by the Governments of the several member States, as provided in (12) below; the daily business with the Union and the technical arrangements being carried out through their Central Banks or other appropriate authorities.

(3) The member States will agree between themselves the initial values of their own currencies in terms of *bancor*. A member State may not subsequently alter the value of its currency in terms of *bancor* without the permission of the Governing Board except under the conditions stated below; but during the first five years after the inception of the system the Governing Board shall give special consideration to appeals for an adjustment in the exchange value of a national currency unit on the ground of unforeseen circumstances.

(4) The value of *bancor* in terms of gold shall be fixed by the Governing Board. Member States shall not purchase or acquire gold, directly or indirectly, at a price in terms of their national currencies in excess of the parity which corresponds to the value of their currency in terms of *bancor* and to the value of *bancor* in terms of gold. Their sales and purchases of gold shall not be otherwise restricted.

(5) Each member State shall have assigned to it a *quota*, which shall determine the measure of its responsibility in the management of the Union and of its right to enjoy the credit facilities provided by the Union. The initial quotas might be fixed by reference to the sum of each country's exports and imports on the average of (say) the three pre-war years, and might be (say) 75 per cent. of this amount, a special assessment being substituted in cases (of which there might be several) where this formula would be, for any reason, inappropriate. Subsequently, after the elapse of the transitional period, the quotas should be revised annually in accordance with the running average of each country's actual volume of trade in the three preceding years, rising to a five-year average when figures for five post-war years are available. The determination of a country's quota primarily by reference to the value of its foreign trade seems to offer the criterion most relevant to a plan which is chiefly concerned with the regulation of the foreign exchanges and of a country's international trade balance. It is, however, a matter for discussion whether the formula for fixing quotas should also take account of other factors.

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(6) Member States shall agree to accept payment of currency balances, due to them from other members, by a transfer of *bancor* to their credit in the books of the Clearing Union. They shall be entitled, subject to the conditions set forth below, to make transfers of *bancor* to other members which have the effect of overdrawing their own accounts with the Union, provided that the maximum



debit balances thus created do not exceed their quota. The Clearing Union may, at its discretion, charge a small commission or transfer fee in respect of transactions in its books for the purpose of meeting its current expenses or any other outgoings approved by the Governing Board.

(7) A member State shall pay to the Reserve Fund of the Clearing Union a charge of 1 per cent. per annum on the amount of its average balance in bancor, whether it is a credit or a debit balance, in excess of a quarter of its quota; and a further charge of 1 per cent. on its average balance, whether credit or debit, in excess of a half of its quota. Thus, only a country which keeps as nearly as possible in a state of international balance on the average of the year will escape this contribution. These charges are not absolutely essential to the scheme. But if they are found acceptable, they would be valuable and important inducements towards keeping a level balance, and a significant indication that the system looks on excessive credit balances with as critical an eye as on excessive debit balances, each being, indeed, the inevitable concomitant of the other. Any member State in debit may, after consultation with the Governing Board, borrow bancor from the balances of any member State in credit on such terms as may be mutually agreed, by which means each would avoid these contributions. The Governing Board may, at its discretion, 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.

(8)—(a) A member State may not increase its debit balance by more than a *quarter* of its quota within a year without the permission of the Governing Board. If its debit balance has exceeded a quarter of its quota on the average of at least two years, it shall be entitled to reduce the value of its currency in terms of bancor provided that the reduction shall not exceed 5 per cent. without the consent of the Governing Board; but it shall not be entitled to repeat this procedure unless the Board is satisfied that this procedure is appropriate.

(b) The Governing Board may require from a member State having a debit balance reaching a *half* of its quota the deposit of suitable collateral against its debit balance. Such collateral shall, at the discretion of the Governing Board, take the form of gold, foreign or domestic currency or Government bonds, within the capacity of the member State. As a condition of allowing a member State to increase its debit balance to a figure in excess of a half of its quota, the Governing Board may require all or any of the following measures:—

- (i) a stated reduction in the value of the member's currency, if it deems that to be the suitable remedy;
- (ii) the control of outward capital transactions if not already in force; and
- (iii) the outright surrender of a suitable proportion of any separate gold or other liquid reserve in reduction of its debit balance.

Furthermore, the Governing Board may recommend to the Government of the member State any internal measures affecting its

domestic economy which may appear to be appropriate to restore the equilibrium of its international balance.

(c) If a member State's debit balance has exceeded *three-quarters* of its quota on the average of at least a year and is excessive in the opinion of the Governing Board in relation to the total debit balances outstanding on the books of the Clearing Union, or is increasing at an excessive rate, it may, in addition, be asked by the Governing Board to take measures to improve its position, and, in the event of its failing to reduce its debit balance accordingly within two years, the Governing Board may declare that it is in default and no longer entitled to draw against its account except with the permission of the Governing Board.

(d) Each member State, on joining the system, shall agree to pay to the Clearing Union any payments due from it to a country in default towards the discharge of the latter's debit balance and to accept this arrangement in the event of falling into default itself. A member State which resigns from the Clearing Union without making approved arrangements for the discharge of any debit balance shall also be treated as in default.

(9) A member State whose credit balance has exceeded *half* of its quota on the average of at least a year shall discuss with the Governing Board (but shall retain the ultimate decision in its own hands) what measures would be appropriate to restore the equilibrium of its international balances, including—

(a) Measures for the expansion of domestic credit and domestic demand.

(b) The appreciation of its local currency in terms of *bancor*, or, alternatively, the encouragement of an increase in money rates of earnings.

(c) The reduction of tariffs and other discouragements against imports.

(d) International development loans.

(10) A member State shall be entitled to obtain a credit balance in terms of *bancor* by paying in gold to the Clearing Union for the credit of its clearing account. But no one is entitled to demand gold from the Union against a balance of *bancor*, since such balance is available only for transfer to another clearing account. The Governing Board of the Union shall, however, have the discretion to distribute any gold in the possession of the Union between the members possessing credit balances in excess of a specified proportion of their quotas, proportionately to such balances, in reduction of their amount in excess of that proportion.

(11) The monetary reserves of a member State, viz., the Central Bank or other bank or Treasury deposits in excess of a working balance, shall not be held in another country except with the approval of the monetary authorities of that country.

(12) The Governing Board shall be appointed by the Governments of the member States, those with the larger quotas being entitled to appoint a member individually, and those with smaller quotas appointing in convenient political or geographical groups, so that the members would not exceed (say) 12 or 15 in number. Each representative on the Governing Board shall have a vote in pro-

portion to the quotas of the State (or States) appointing him, except that on a proposal to increase a particular quota, a representative's voting power shall be measured by the quotas of the member States appointing him, increased by their credit balance or decreased by their debit balance, averaged in each case over the past two years. Each member State, which is not individually represented on the Governing Board, shall be entitled to appoint a permanent delegate to the Union to maintain contact with the Board and to act as *liaison* for daily business and for the exchange of information with the Executive of the Union. Such delegate shall be entitled to be present at the Governing Board when any matter is under consideration which specially concerns the State he represents, and to take part in the discussion.

(13) The Governing Board shall be entitled to reduce the quotas of members, all in the same specified proportion, if it seems necessary to correct in this manner an excess of world purchasing power. In that event, the provisions of 6 (8) shall be held to apply to the quotas as so reduced, provided that no member shall be required to reduce his actual overdraft at the date of the change, or be entitled by reason of this reduction to alter the value of his currency under 6 (8) (a), except after the expiry of two years. If the Governing Board subsequently desires to correct a potential deficiency of world purchasing power, it shall be entitled to restore the general level of quotas towards the original level.

(14) The Governing Board shall be entitled to ask and receive from each member State any relevant statistical or other information, including a full disclosure of gold, external credit and debit balances and other external assets and liabilities, both public and private. So far as circumstances permit, it will be desirable that the member States shall consult with the Governing Board on important matters of policy likely to affect substantially their bancor balances or their financial relations with other members.

(15) The executive offices of the Union shall be situated in London and New York, with the Governing Board meeting alternately in London and Washington.

(16) Members shall be entitled to withdraw from the Union on a year's notice, subject to their making satisfactory arrangements to discharge any debit balance. They would not, of course, be able to employ any credit balance except by making transfers from it, either before or after their withdrawal, to the Clearing Accounts of other Central Banks. Similarly, it should be within the power of the Governing Board to require the withdrawal of a member, subject to the same notice, if the latter is in breach of agreements relating to the Clearing Union.

(17) The Central Banks of non-member States would be allowed to keep credit clearing accounts with the Union; and, indeed, it would be advisable for them to do so for the conduct of their trade with member States. But they would have no right to overdrafts and no say in the management.

(18) The Governing Board shall make an annual Report and shall convene an annual Assembly at which every member State shall be entitled to be represented individually and to move proposals. The

principles and governing rules of the Union shall be the subject of reconsideration after five years' experience, if a majority of the Assembly desire it.

### III.—WHAT LIABILITIES OUGHT THE PLAN TO PLACE ON CREDITOR COUNTRIES?

7. It is not contemplated that either the debit or the credit balance of an individual country ought to exceed a certain maximum—let us say, its *quota*. In the case of debit balances this maximum has been made a rigid one, and, indeed, counter-measures are called for long before the maximum is reached. In the case of credit balances no rigid maximum has been proposed. For the appropriate provision might be to require the eventual cancellation or compulsory investment of persistent *bancor* credit balances accumulating in excess of a member's quota; and, however desirable this may be in principle, it might be felt to impose on creditor countries a heavier burden than they can be asked to accept before having had experience of the benefit to them of the working of the plan as a whole. If, on the other hand, the limitation were to take the form of the creditor country not being required to accept *bancor* in excess of a prescribed figure, this might impair the general acceptability of *bancor*, whilst at the same time conferring no real benefit on the creditor country itself. For, if it chose to avail itself of the limitation, it must either restrict its exports or be driven back on some form of bilateral payments agreements outside the Clearing Union, thus substituting a less acceptable asset for *bancor* balances which are based on the collective credit of all the member States and are available for payments to any of them, or attempt the probably temporary expedient of refusing to trade except on a gold basis.

8. The absence of a rigid maximum to credit balances does not impose on any member State, as might be supposed at first sight, an unlimited liability outside its own control. The liability of an individual member is determined, not by the quotas of the other members, but by its own policy in controlling its favourable balance of payments. The existence of the Clearing Union does not deprive a member State of any of the facilities which it now possesses for receiving payment for its exports. In the absence of the Clearing Union a creditor country can employ the proceeds of its exports to buy goods or to buy investments, or to make temporary advances and to hold temporary overseas balances, or to buy gold in the market. All these facilities will remain at its disposal. The difference is that in the absence of the Clearing Union, more or less automatic factors come into play to restrict the volume of its exports after the above means of receiving payment for them have been exhausted. Certain countries become unable to buy and, in addition to this, there is an automatic tendency towards a general slump in international trade and, as a result, a reduction in the exports of the creditor country. Thus, the effect of the Clearing Union is to give the creditor country a choice between voluntarily curtailing its exports to the same extent that they would have been involuntarily curtailed in the absence of the Clearing Union, or, alternatively, of allowing its exports to continue and accumulating the excess receipts in the form of *bancor* balances for the time being. Unless the

removal of a factor causing the involuntary reduction of exports is reckoned a disadvantage, a creditor country incurs no burden but is, on the contrary, relieved, by being offered the additional option of receiving payment for its exports through the accumulation of a bancor balance.

9. If, therefore, a member State asks what governs the maximum liability which it incurs by entering the system, the answer is that this lies entirely within its own control. No more is asked of it than that it should hold in bancor such surplus of its favourable balance of payments as it does not itself choose to employ in any other way, and only for so long as it does not so choose.

#### IV.—SOME ADVANTAGES OF THE PLAN.

10. The plan aims at the substitution of an expansionist, in place of a contractionist, pressure on world trade.

11. It effects this by allowing to each member State overdraft facilities of a defined amount. Thus each country is allowed a certain margin of resources and a certain interval of time within which to effect a balance in its economic relations with the rest of the world. These facilities are made possible by the constitution of the system itself and do not involve particular indebtedness between one member State and another. A country is in credit or debit with the Clearing Union as a whole. This means that the overdraft facilities, whilst a relief to some, are not a real burden to others. For the accumulation of a credit balance with the Clearing Union would resemble the importation of gold in signifying that the country holding it is abstaining voluntarily from the immediate use of purchasing power. But it would not involve, as would the importation of gold, the withdrawal of this purchasing power from circulation or the exercise of a deflationary and contractionist pressure on the whole world, including in the end the creditor country itself. Under the proposed plan, therefore, no country suffers injury (but on the contrary) by the fact that the command over resources, which it does not itself choose to employ for the time being, is not withdrawn from use. The accumulation of bancor credit does not curtail in the least its capacity or inducement either to produce or to consume.

12. In short, the analogy with a national banking system is complete. No depositor in a local bank suffers because the balances, which he leaves idle, are employed to finance the business of someone else. Just as the development of national banking systems served to offset a deflationary pressure which would have prevented otherwise the development of modern industry, so by extending the same principle into the international field we may hope to offset the contractionist pressure which might otherwise overwhelm in social disorder and disappointment the good hopes of our modern world. The substitution of a credit mechanism in place of hoarding would have repeated in the international field the same miracle, already performed in the domestic field, of turning a stone into bread.

13. There might be other ways of effecting the same objects temporarily or in part. For example, the United States might redistribute her gold. Or there might be a number of bilateral arrangements having the effect of providing international overdrafts,

as, for example, an agreement by the Federal Reserve Board to accumulate, if necessary, a large sterling balance at the Bank of England, accompanied by a great number of similar bilateral arrangements, amounting to some hundreds altogether, between these and all the other banks in the world. The objection to particular arrangements of this kind, in addition to their greater complexity, is that they are likely to be influenced by extraneous, political reasons; that they put individual countries in a position of particular obligation towards others; and that the distribution of the assistance between different countries may not correspond to need and to the real requirements, which are extremely difficult to foresee.

14. It should be much easier, and surely more satisfactory for all of us, to enter into a general and collective responsibility, applying to all countries alike, that a country finding itself in a creditor position *against the rest of the world as a whole* should enter into an arrangement not to allow this credit balance to exercise a contractionist pressure against world economy and, by repercussion, against the economy of the creditor country itself. This would give everyone the great assistance of multilateral clearing, whereby (for example) Great Britain could offset favourable balances arising out of her exports to Europe against unfavourable balances due to the United States or South America or elsewhere. How, indeed, can any country hope to start up trade with Europe during the relief and reconstruction period on any other terms?

15. The facilities offered will be of particular importance in the transitional period after the war, as soon as the initial shortages of supply have been overcome. Many countries will find a difficulty in paying for their imports, and will need time and resources before they can establish a readjustment. The efforts of each of these debtor countries to preserve its own equilibrium, by forcing its exports and by cutting off all imports which are not strictly necessary, will aggravate the problems of all the others. On the other hand, if each feels free from undue pressure, the volume of international exchange will be increased and everyone will find it easier to re-establish equilibrium without injury to the standard of life anywhere. The creditor countries will benefit, hardly less than the debtors, by being given an interval of *time* in which to adjust their economies, during which they can safely move at their own pace without the result of exercising deflationary pressure on the rest of the world, and, by repercussion, on themselves.

16. It must, however, be emphasized that the provision by which the members of the Clearing Union start with substantial overdraft facilities in hand will be mainly useful, just as the possession of any kind of reserve is useful, to allow time and method for necessary adjustments and a comfortable safeguard behind which the unforeseen and the unexpected can be faced with equanimity. Obviously, it does not by itself provide any long-term solution against a continuing disequilibrium, for in due course the more improvident and the more impecunious, left to themselves, would have run through their resources. But, if the purpose of the overdraft facilities is mainly to give time for adjustments, we have to make sure, so far as possible, that they *will* be made. We must have, therefore, some rules and some machinery to secure that equilibrium is restored. A

tentative attempt to provide for this has been made above. Perhaps it might be strengthened and improved.

17. The provisions suggested differ in one important respect from the pre-war system because they aim at putting some part of the responsibility for adjustment on the creditor country as well as on the debtor. This is an attempt to recover one of the advantages which were enjoyed in the nineteenth century, when a flow of gold due to a favourable balance in favour of London and Paris, which were then the main creditor centres, immediately produced an expansionist pressure and increased foreign lending in those markets, but which has been lost since New York succeeded to the position of main creditor, as a result of gold movements failing in their effect, of the breakdown of international borrowing and of the frequent flight of loose funds from one depository to another. The object is that the creditor should not be allowed to remain entirely passive. For if he is, an intolerably heavy task may be laid on the debtor country, which is already for that very reason in the weaker position.

18. If, indeed, a country lacks the productive capacity to maintain its standard of life, then a reduction in this standard is not avoidable. If its wage and price levels in terms of money are out of line with those elsewhere, a change in the rate of its foreign exchange is inevitable. But if, possessing the productive capacity, it lacks markets because of restrictive policies throughout the world, then the remedy lies in expanding its opportunities for export by removal of the restrictive pressure. We are too ready to-day to assume the inevitability of unbalanced trade positions, thus making the opposite error to those who assumed the tendency of exports and imports to equality. It used to be supposed, without sufficient reason, that effective demand is always properly adjusted throughout the world; we now tend to assume, equally without sufficient reason, that it never can be. On the contrary, there is great force in the contention that, if active employment and ample purchasing power can be sustained in the main centres of the world trade, the problem of surpluses and unwanted exports will largely disappear, even though, under the most prosperous conditions, there may remain some disturbances of trade and unforeseen situations requiring special remedies.

#### V.—THE DAILY MANAGEMENT OF THE EXCHANGES UNDER THE PLAN.

19. The Clearing Union restores unfettered multilateral clearing between its members. Compare this with the difficulties and complications of a large number of bilateral agreements. Compare, above all, the provisions by which a country, taking improper advantage of a payments agreement (for the system is, in fact, a *generalized* payments agreement), as Germany did before the war, is dealt with not by a single country (which may not be strong enough to act effectively in isolation or cannot afford to incur the diplomatic odium of isolated action), but by the system as a whole. If the argument is used that the Clearing Union may have difficulty in disciplining a misbehaving country and in avoiding consequential loss, with what much greater force can we urge this objection against a multiplicity of separate bilateral payments agreements.

20. Thus we should not only obtain the advantages, without the disadvantages, of an international gold currency, but we might enjoy these advantages more widely than was ever possible in practice with the old system under which at any given time only a minority of countries were actually working with free exchanges. In conditions of multilateral clearing, exchange dealings would be carried on as freely as in the best days of the gold standard, without its being necessary to ask anyone to accept special or onerous conditions.

21. The principles governing transactions are: first, that the Clearing Union is set up, not for the transaction of daily business between individual traders or banks, but for the clearing and settlement of the ultimate outstanding balances between Central Banks (and certain other super-national Institutions), such as would have been settled under the old gold standard by the shipment or the earmarking of gold, and should not trespass unnecessarily beyond this field; and, second, that its purpose is to increase *freedom* in international commerce and not to multiply interferences or compulsions.

22. Many Central Banks have found great advantage in centralising with themselves or with an Exchange Control the supply and demand of all foreign exchange, thus dispensing with an outside exchange market, though continuing to accommodate individuals through the existing banks and not directly. The further extension of such arrangements would be consonant with the general purposes of the Clearing Union, inasmuch as they would promote order and discipline in international exchange transactions in detail as well as in general. The same is true of the control of capital movements, further described below, which many States are likely to wish to impose on their own nationals. But the structure of the proposed Clearing Union does not *require* such measures of centralisation or of control on the part of a member State. It is, for example, consistent alike with the type of Exchange Control now established in the United Kingdom or with the system now operating in the United States. The Union does not prevent private holdings of foreign currency or private dealings in exchange or international capital movements, if these have been approved or allowed by the member States concerned. Central Banks can deal direct with one another as heretofore. No transaction in *bancor* will take place except when a member State or its Central Bank is exercising the right to pay in it. In no case is there any direct control on capital movements by the Union, even in the case of 6 (8) (b) (ii) above, but only by the member States themselves through their own institutions. Thus the fabric of international banking organisation, built up by long experience to satisfy practical needs, would be left as undisturbed as possible.

23. It is not necessary to interfere with the discretion of countries which desire to maintain a special intimacy within a particular group of countries associated by geographical or political ties, such as the existing sterling area, or groups, like the Latin Union of former days, which may come into existence covering, for example, the countries of North America or those of South America, or the groups now under active discussion, including Poland and Czechoslovakia or certain of the Balkan States. There is no reason why such countries



should not be allowed a double position, both as members of the Clearing Union in their own right with their proper quota, and also as making use of another financial centre along traditional lines, as, for example, Australia and India with London, or certain American countries with New York. In this case, their accounts with the Clearing Union would be in exactly the same position as the independent gold reserves which they now maintain, and they would have no occasion to modify in any way their present practices in the conduct of daily business.

24. There might be other cases, however, in which a dependency or a member of a federal union would merge its currency identity in that of a mother country, with a quota appropriately adjusted to the merged currency area as a whole, and *not* enjoy a separate individual membership of the Clearing Union, as, for example, the States of a Federal Union, the French colonies or the British Crown Colonies.

25. At the same time countries, which do not belong to a special geographical or political group, would be expected to keep their reserve balances with the Clearing Union and not with one another. It has, therefore, been laid down that balances may not be held in another country except with the approval of the monetary authorities of that country; and, in order that sterling and dollars might not appear to compete with *bancor* for the purpose of reserve balances, the United Kingdom and the United States might agree together that they would not accept the reserve balances of other countries in excess of normal working balances except in the case of banks definitely belonging to a Sterling Area or Dollar Area group.

## VI.—THE POSITION OF GOLD UNDER THE PLAN.

26. Gold still possesses great psychological value which is not being diminished by current events; and the desire to possess a gold reserve against unforeseen contingencies is likely to remain. Gold also has the merit of providing in point of form (whatever the underlying realities may be) an uncontroversial standard of value for international purposes, for which it would not yet be easy to find a serviceable substitute. Moreover, by supplying an automatic means for settling some part of the favourable balances of the creditor countries, the current gold production of the world and the remnant of gold reserves held outside the United States may still have a useful part to play. Nor is it reasonable to ask the United States to de-monetise the stock of gold which is the basis of its impregnable liquidity. What, in the long run, the world may decide to do with gold is another matter. The purpose of the Clearing Union is to supplant gold as a governing factor, but not to dispense with it.

27. The international bank-money which we have designated *bancor* is defined in terms of a weight of gold. Since the national currencies of the member States are given a defined exchange value in terms of *bancor*, it follows that they would each have a defined gold content which would be their official buying price for gold, above which they must not pay. The fact that a member State is entitled to obtain a credit in terms of *bancor* by paying actual gold to the credit of its clearing account, secures a steady and ascertained purchaser

for the output of the gold-producing countries, and for countries holding a large reserve of gold. Thus the position of producers and holders of gold is not affected adversely, and is, indeed, improved.

28. Central Banks would be entitled to retain their separate gold reserves and ship gold to one another, provided they did not pay a price above parity; they could coin gold and put it into circulation, and, generally speaking, do what they liked with it.

29. One limitation only would be, for obvious reasons, essential. No member State would be entitled to demand gold from the Clearing Union against its balance of bancor; for bancor is available only for transfer to another clearing account. Thus between gold and bancor itself there would be a one-way convertibility, such as ruled frequently before the war with national currencies which were on what was called a "gold exchange standard." This need not mean that the Clearing Union would only receive gold and never pay it out. It has been provided above that, if the Clearing Union finds itself in possession of a stock of gold, the Governing Board shall have discretion to distribute the surplus between those possessing credit balances in bancor, proportionately to such balances, in reduction of their amount.

30. The question has been raised whether these arrangements are compatible with the retention by individual member States of a full gold standard with two-way convertibility, so that, for example, any foreign central bank acquiring dollars could use them to obtain gold for export. It is not evident that a good purpose would be served by this. But it need not be prohibited, and if any member State should prefer to maintain full convertibility for internal purposes it could protect itself from any abuse of the system or inconvenient consequences by providing that gold could only be exported under licence.

31. The value of bancor in terms of gold is fixed but not unalterably. The power to vary its value might have to be exercised if the stocks of gold tendered to the Union were to be excessive. No object would be served by attempting further to peer into the future or to prophesy the ultimate outcome.

## VII.—THE CONTROL OF CAPITAL MOVEMENTS

32. There is no country which can, in future, safely allow the flight of funds for political reasons or to evade domestic taxation or in anticipation of the owner turning refugee. Equally, there is no country that can safely receive fugitive funds, which constitute an unwanted import of capital, yet cannot safely be used for fixed investment.

33. For these reasons it is widely held that control of capital movements, both inward and outward, should be a permanent feature of the post-war system. It is an objection to this that control, if it is to be effective, probably requires the machinery of exchange control for *all* transactions, even though a general permission is given to all remittances in respect of current trade. Thus those countries which have for the time being no reason to fear, and may indeed welcome, outward capital movements, may be reluctant to impose this machinery, even though a general permission for capital,

as well as current transactions reduces it to being no more than a machinery of record. On the other hand, such control will be more difficult to work by unilateral action on the part of those countries which cannot afford to dispense with it, especially in the absence of a postal censorship, if movements of capital cannot be controlled *at both ends*. It would, therefore, be of great advantage if the United States, as well as other members of the Clearing Union, would adopt machinery similar to that which the British Exchange Control has now gone a long way towards perfecting. Nevertheless, the universal establishment of a control of capital movements cannot be regarded as essential to the operation of the Clearing Union; and the method and degree of such control should therefore be left to the decision of each member State. Some less drastic way might be found by which countries, not themselves controlling outward capital movements can deter inward movements not approved by the countries from which they originate.

34. The position of abnormal balances in overseas ownership held in various countries at the end of the war presents a problem of considerable importance and special difficulty. A country in which a large volume of such balances is held could not, unless it is in a creditor position, afford the risk of having to redeem them in *bancor* on a substantial scale, if this would have the effect of depleting its *bancor* resources at the outset. At the same time, it is very desirable that the countries owning these balances should be able to regard them as liquid, at any rate over and above the amounts which they can afford to lock up under an agreed programme of funding or long-term expenditure. Perhaps there should be some special over-riding provision for dealing with the transitional period only by which, through the aid of the Clearing Union, such balances would remain liquid and convertible into *bancor* by the creditor country whilst there would be no corresponding strain on the *bancor* resources of the debtor country, or, at any rate, the resulting strain would be spread over a period.

35. The advocacy of a control of capital movements must not be taken to mean that the era of international investment should be brought to an end. On the contrary, the system contemplated should greatly facilitate the restoration of international loans and credits for legitimate purposes in ways to be discussed below. The object, and it is a vital object, is to have a means—

- (a) of distinguishing long-term loans by creditor countries, which help to maintain equilibrium and develop the world's resources, from movements of funds out of debtor countries which lack the means to finance them; and
- (b) of controlling short-term speculative movements or flights of currency whether out of debtor countries or from one creditor country to another.

36. It should be emphasised that the purpose of the overdrafts of *bancor* permitted by the Clearing Union is, not to facilitate long-term, or even medium-term, credits to be made by debtor countries which cannot afford them, but to allow time and a breathing space for adjustments and for averaging one period with another to all member States alike, whether in the long run they are well-placed to develop a forward international loan policy or whether their

prospects of profitable new development in excess of their own resources justifies them in long-term borrowing. The machinery and organisation of international medium-term and long-term lending is another aspect of post-war economic policy, not less important than the purposes which the Clearing Union seeks to serve, but requiring another, complementary institution.

#### VIII.—RELATION OF THE CLEARING UNION TO COMMERCIAL POLICY

37. The special protective expedients which were developed between the two wars were sometimes due to political, social or industrial reasons. But frequently they were nothing more than forced and undesired dodges to protect an unbalanced position of a country's overseas payments. The new system, by helping to provide a register of the size and whereabouts of the aggregate debtor and creditor positions respectively, and an indication whether it is reasonable for a particular country to adopt special expedients as a temporary measure to assist in regaining equilibrium in its balance of payments, would make it possible to establish a general rule *not* to adopt them, subject to the indicated exceptions.

38. The existence of the Clearing Union would make it possible for member States contracting commercial agreements to use their respective debit and credit positions with the Clearing Union as a test, though this test by itself would not be complete. Thus, the contracting parties, whilst agreeing to clauses in a commercial agreement forbidding, in general, the use of certain measures or expedients in their mutual trade relations, might make this agreement subject to special relaxations if the state of their respective clearing accounts satisfied an agreed criterion. For example, an agreement might provide that, in the event of one of the contracting States having a debit balance with the Clearing Union exceeding a specified proportion of its quota on the average of a period, it should be free to resort to import regulation to barter trade agreements or to higher import duties of a type which was restricted under the agreement in normal circumstances. Protected by the possibility of such temporary indulgences, the members of the Clearing Union should feel much more confidence in moving towards the withdrawal of other and more dislocating forms of protection and discrimination and in accepting the prohibition of the worst of them from the outset. In any case, it should be laid down that members of the Union would not allow or suffer among themselves any restrictions on the disposal of receipts arising out of current trade or "invisible" income.

#### IX.—THE USE OF THE CLEARING UNION FOR OTHER INTERNATIONAL PURPOSES.

39. The Clearing Union might become the instrument and the support of international policies in addition to those which it is its primary purpose to promote. This deserves the greatest possible emphasis. The Union might become the pivot of the future economic government of the world. Without it, other more desirable developments will find themselves impeded and unsupported. With it, they

will fall into their place as parts of an ordered scheme. No one of the following suggestions is a necessary part of the plan. But they are illustrations of the additional purposes of high importance and value which the Union, once established, might be able to serve:—

(1) The Union might set up a clearing account in favour of international bodies charged with post-war relief, rehabilitation and reconstruction. But it could go much further than this. For it might supplement contributions received from other sources by granting preliminary overdraft facilities in favour of these bodies, the overdraft being discharged over a period of years out of the Reserve Fund of the Union, or, if necessary, out of a levy on surplus credit balances. So far as this method is adopted it would be possible to avoid asking any country to assume a burdensome commitment for relief and reconstruction, since the resources would be provided in the first instance by those countries having credit clearing accounts for which they have no immediate use and are voluntarily leaving idle, and in the long run by those countries which have a chronic international surplus for which they have no beneficial employment.

(2) The Union might set up an account in favour of any super-national policing body which may be charged with the duty of preserving the peace and maintaining international order. If any country were to infringe its properly authorised orders, the policing body might be entitled to request the Governors of the Clearing Union to hold the clearing account of the delinquent country to its order and permit no further transactions on the account except by its authority. This would provide an excellent machinery for enforcing a financial blockade.

(3) The Union might set up an account in favour of international bodies charged with the management of a Commodity Control, and might finance stocks of commodities held by such bodies, allowing them overdraft facilities on their accounts up to an agreed maximum. By this means the financial problem of buffer stocks and "ever-normal granaries" could be effectively attacked.

(4) The Union might be linked up with a Board for International Investment. It might act on behalf of such a Board and collect for them the annual service of their loans by automatically debiting the clearing account of the country concerned. The statistics of the clearing accounts of the member States would give a reliable indication as to which countries were in a position to finance the Investment Board, with the advantage of shifting the whole system of clearing credits and debits nearer to equilibrium.

(5) There are various methods by which the Clearing Union could use its influence and its powers to maintain stability of prices and to control the Trade Cycle. If an International Economic Board is established, this Board and the Clearing Union might be expected to work in close collaboration to their mutual advantage. If an International Investment or Development Corporation is also set up together with a scheme of Commodity Controls for the control of stocks of the staple primary products, we might come to possess in these three Institutions a powerful means of combating the evils of the Trade Cycle, by exercising contractionist or expansionist influence on the system as a whole or on particular sections. This is a large

and important question which cannot be discussed adequately in this paper; and need not be examined at length in this place because it does not raise any important issues affecting the fundamental constitution of the proposed Union. It is mentioned here to complete the picture of the wider purposes which the foundation of the Clearing Union might be made to serve.

40. The facility of applying the Clearing Union plan to these several purposes arises out of a fundamental characteristic which is worth pointing out, since it distinguishes the plan from those proposals which try to develop the same basic principle along bilateral lines and is one of the grounds on which the Plan can claim superior merit. This might be described as its "anonymous" or "impersonal" quality. No particular member States have to engage their own resources as such to the support of other particular States or of any of the international projects or policies adopted. They have only to agree in general that, if they find themselves with surplus resources which for the time being they do not themselves wish to employ, these resources may go into the general pool and be put to work on approved purposes. This costs the surplus country nothing because it is not asked to part permanently, or even for any specified period, with such resources, which it remains free to expend and employ for its own purposes whenever it chooses; in which case the burden of finance is passed on to the next recipient, again for only so long as the recipient has no use for the money. As pointed out above, this merely amounts to extending to the international sphere the methods of any domestic banking system, which are in the same sense "impersonal" inasmuch as there is no call on the particular depositor either to support as such the purposes for which his banker makes advances or to forgo permanently the use of his deposit. There is no countervailing objection except that which applies equally to the technique of domestic banking, namely that it is capable of the abuse of creating excessive purchasing power and hence an inflation of prices. In our efforts to avoid the opposite evil, we must not lose sight of this risk, to which there is an allusion in 39 (5) above. But it is no more reason for refusing the advantages of international banking than the similar risk in the domestic field is a reason to return to the practices of the seventeenth century goldsmiths (which are what we are still following in the international field) and to forgo the vast expansion of production which banking principles have made possible. Where financial contributions are required for some purpose of general advantage it is a great facility not to have to ask for specific contributions from any named country, but to depend rather on the anonymous and impersonal aid of the system as a whole. We have here a genuine organ of truly international government.

## X.—THE TRANSITIONAL ARRANGEMENTS

41. It would be of great advantage to agree the general principles of the Clearing Union before the end of the war, with a view to bringing it into operation at an early date after the termination of hostilities. Major plans will be more easily brought to birth in the

first energy of victory and whilst the active spirit of united action still persists, than in the days of exhaustion and reaction from so much effort which may well follow a little later. Such a proposal presents, however, something of a dilemma. On the one hand, many countries will be in particular need of reserves of overseas resources in the period immediately after the war. On the other hand, goods will be in short supply and the prevention of inflationary international conditions of much more importance for the time being than the opposite. The expansionist tendency of the plan, which is a leading recommendation of it as soon as peace-time output is restored and the productive capacity of the world is in running order, might be a danger in the early days of a sellers' market and an excess of demand over supply.

42. A reconciliation of these divergent purposes is not easily found until we know more than is known at present about the means to be adopted to finance post-war relief and reconstruction. If the intention is to provide resources on liberal and comprehensive lines outside the resources made available by the Clearing Union and additional to them, it might be better for such specific aid to take the place of the proposed overdrafts during the "relief" period of (say) two years. In this case credit clearing balances would be limited to the amount of gold delivered to the Union, and the overdraft facilities created by the Union in favour of the Relief Council, the International Investment Board or the Commodity Controls. Nevertheless, the immediate establishment of the Clearing Union would not be incompatible with provisional arrangements, which could take alternative forms according to the character of the other "relief" arrangements, qualifying and limiting the overdraft quotas. Overdraft quotas might be allowed on a reduced scale during the transitional period. Or it might be proper to provide that countries in receipt of relief or Lend-Lease assistance should not have access at the same time to overdraft facilities, and that the latter should only become available when the former had come to an end. If, on the other hand, relief from outside sources looks like being inadequate from the outset, the overdraft quotas may be even more necessary at the outset than later on.

43. We must not be over-cautious. A rapid economic restoration may lighten the tasks of the diplomatists and the politicians in the resettlement of the world and the restoration of social order. For Great Britain and other countries outside the "relief" areas the possibility of exports sufficient to sustain their standard of life is bound up with good and expanding markets. We cannot afford to wait too long for this, and we must not allow excessive caution to condemn us to perdition. Unless the Union is a going concern, the problem of proper "timing" will be nearly insoluble. It is sufficient at this stage to point out that the problem of timing must not be overlooked, but that the Union is capable of being used so as to aid rather than impede its solution.

## XI.—CONCLUSION

44. It has been suggested that so ambitious a proposal is open to criticism on the ground that it requires from the members of the Union a greater surrender of their sovereign rights than they will readily concede. But no greater surrender is required than in a commercial treaty. The obligations will be entered into voluntarily and can be terminated on certain conditions by giving notice.

45. A greater readiness to accept super-national arrangements must be required in the post-war world. If the arrangements proposed can be described as a measure of financial disarmament, there is nothing here which we need be reluctant to accept ourselves or to ask of others. It is an advantage, and not a disadvantage, of the scheme that it invites the member States to abandon that licence to promote indiscipline, disorder and bad-neighbourliness which, to the general disadvantage, they have been free to exercise hitherto.

46. The plan makes a beginning at the future economic ordering of the world between nations and "the winning of the peace." It might help to create the conditions and the atmosphere in which much else would be made easier.