# Proposals for an International Currency Union

## (Second Draft, November 18, 1941)

In my previous paper I made no attempt to explain or advocate my proposals and merely set out the bare bones of a scheme. It may be useful that I should now clothe it with a little flesh. This paper should be regarded as superseding my earlier proposals.

# I

The practical difficulties in the way of Anglo-American economic co-operation after the war should not dissuade us from attaching the highest importance to it. We must do our utmost to secure it, and much will depend on the method of our approach.

It would be a mistake just to set forth the extent and extremity of our post-war difficulties and follow up this complaint with a plea that there is nothing to be done except to leave us a free hand to use all those expedients which we may find useful and necessary in our self-regarding interests. Any statement on these lines should be introduced only in the shape of a warning that we must not be asked to abandon possible safeguards until something better is definitely in sight, or in the shape of a hint of the unsatisfactory outcome to which the failure of a constructive plan might drive us.

It would also be a mistake to invite, of our own motion, direct financial assistance after the war from the United States to ourselves, whether as a gift or a loan without interest or a gratuitous redistribution of gold reserves. The U.S. will consider that we have had our whack in the shape of lend lease and a generous settlement of `consideration'. If the British Commonwealth stands astride the world with the vast prestige of victors, some natural jealousy will not be absent. We in particular, in a distressed and ruined continent, will not bear the guise of the most suitable claimant for a dole, however real and heavy our difficulties. The assistance for which we can hope must be *indirect* and a consequence of setting the world as a whole on its feet and of laying the foundations of a sounder political economy between all nations.

Finally, it would be a mistake in approaching the United States to put in the forefront proposals for an increased solidarity and significance for the British Commonwealth or the sterling area in isolation from the rest of the world, which would arouse both prejudice and suspicion. Such proposals must be ancillary to, and part of, a more general international scheme.

On the contrary. If we are to attract the interest and enthusiasm of the Americans, we must come with an ambitious plan of an international complexion, suitable to serve the interests of others besides ourselves, which to a hopeful spirit may carry a chance of making the post-war economy of the world more reasonable and promising than it was before,-something capable of wide and various application. I have confidence that Americans can be brought to a sympathetic understanding of our difficulties. But, however hardup we may be for the time being, we-on the assumption which underlies all our post-war plans-shall be standing on the top of the world, one of the two or three masters of the future. It is not with our problems of ways and means that idealistic and internationally-minded Americans will be particularly concerned.

I am ready to admit that I share in these respects the purposes which I attribute to such Americans. I am not much interested in patching up something which is as like as possible to what we are doing now and may with luck and skill just serve our turn. If we sincerely wish to collaborate with them to larger ends, as I do, they will soon discover it, and they would soon discover the opposite, if that were to be true. This, therefore, is the first criterion on which our proposals must be judged.

But further, it is not as if we had another plan which was, from our own point of view, just right. Nothing of the kind. The more we look at the alternatives, the less we like them. They are neither one thing nor the other, but a patched up contrivance, mainly based on abnormal war experience, which might do well enough to carry us through a transitional period, but are not very likely to evolve into a satisfactory permanent system or one which will fit in with (or help) what may be happening in the rest of the world. The most attractive version assumes a high degree of economic solidarity within the British Commonwealth. With so broad a bottom we might (perhaps) safely stand on it without support from outside. But we should run the risk of isolating ourselves from the United States and the rest of the world without real security that we had constructed a reliable economic union within the Empire.

# II

The idea underlying my proposals for a Currency Union is simple, namely to generalise the essential principle of bank ing, as it is exhibited within any closed system, through the establishment of an International Clearing Bank. This principle is the necessary equality of credits and debits, of assets and liabilities. If no credits can be removed outside the banking system but only transferred within it, the Bank *itself* can never be in difficulties. It can with safety make what advances it wishes to any of its customers with the assurance that the proceeds can only be transferred to the bank account of another customer. Its problem is solely to see to it that its customers behave themselves and that the advances made to each of them are prudent and advisable from the point of view of its customers as a whole.

In only one important respect must an International Bank differ from the model suitable to a national bank within a closed system, namely that much more must be settled by rules and by general principles agreed beforehand and much less by day-to-day discretion. To give confidence in, and understanding of, what is afoot, it is necessary to prescribe beforehand certain definite principles of policy, particularly in regard to the maximum limits of permitted overdraft and the provisions proposed to keep the scale of individual credits and debits within a reasonable amount, so that the system is in stable equilibrium with proper and sufficient measures taken in good time to reverse excessive movements of individual balances in either direction.

The fundamental provisions proposed are given in an Appendix. These are substantially the same as those which I gave in my previous paper. It is now suggested, however, that the International Clearing Bank should be founded by the U.S. and U.K. in the first instance; and more detailed provisions are, therefore, necessary for transactions between members of the Currency Union and non-member banks.

These fundamental provisions cover a somewhat narrower ground than the previous draft, other relevant matters being dealt with in the subsequent sections of the main part of this paper.

I now proceed on the assumption that the reader has already a general acquaintance with the nature of the plan or has first referred to the Appendix-to expound in more detail the primary objects in view and the secondary objects which it could be used to promote.

# III

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

Many countries, including ourselves, will find a difficulty in paying for their imports, and will need time and resources before they can establish a re-adjustment. 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 problem 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.

Now this can only be accomplished by the countries whoever they may turn out to be, which are for the time being in the creditor position, showing themselves ready to remain so without exercising a pressure towards contraction, pending the establishment of a new equilibrium.

There are one or two other ways of effecting this. For example, U.S.A. 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.

The objection to particular arrangements of this kind is that they are likely to be influenced by extraneous, political reasons and put specific countries into a position of particular obligation towards others; and also that the distribution of the assistance between different countries may not correspond to need and to the actual requirements as they will ultimately develop.

Moreover, for reasons already given, we are not likely to be specially eligible applicants for bounty of this kind. If, for example, the problem were to be met by a redistribution of America's gold, it is unlikely that we should get any of it, partly because we should have so lately received assistance under lend lease, partly because the British Commonwealth are the largest producers of gold, which output would be regarded, rightly or wrongly, as ours at one remove.

It should be much easier, and surely more satisfactory, to persuade the U.S. 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 o f the world as a whole* should enter into an obligation to dispose of this credit balance and not to allow it meanwhile to exercise a contractionist pressure against the world economy and, by repercussion, against the economy of the creditor country itself. This would give us, and all others, the great assistance of multilateral clearing, whereby (for example) we could offset favourable balances arising out of our exports to Europe against unfavourable balances due to the U.S. or South America or elsewhere. I cannot see how we can hope to afford to start up trade with Europe (which will be of vast importance to us) during the relief and reconstruction period on any other terms.

These advantages of the proposed International Clearing Bank are surely so great that they overshadow most reasons of objection on lesser grounds.

It has been suggested that we should mainly depend on the restriction or prohibition of imports as a means of preserving equilibrium in the international balance of payments. When the Bank of England felt that our gold and dollar resources were falling dangerously low, instead of raising the Bank rate to attract foreign funds or restricting domestic credit to cause a deflation of incomes, or depreciating the exchange to stimulate a more favourable balance, the Bank would notify the Board of Trade that another £25 million or £5o million or £ 100 million of imports must be cut off. Perhaps this would be the worst method of control of all, since it would have no obvious or direct tendency to reverse the forces which had led up to the dangerous situation and so permit of removal of the restrictions later on.

Apart from this, the opposite remedy is surely the right one. If, indeed, we lack the productive capacity to maintain our standard of life, then a reduction in this standard is not avoidable. If our price levels are hopelessly wrong, a change in the rate of exchange is inevitable. But if we possess the productive capacity and the difficulty is the lack of markets as a result of restrictive policies throughout the world, then the remedy lies in expanding opportunities for export by removal of restrictive pressure, not in contracting imports. I believe that there is great force in Prof. Hansen's contention that the problem of surpluses and unwanted exports will largely disappear if active employment and ample purchasing power can be sustained in the main centres of world trade.

I see no means of offering an inducement to the general expansion of international trade in the right degree except by a broadly based international organisation.

# IV

The arrangement by which the members of the Currency Union start with substantial overdraft facilities in hand will be mainly useful in the initial period. Obviously it does not by itself provide any long-term solution; for in due course the more improvident and the more impecunious will have run through their resources. The purpose of the overdraft facilities is mainly to give time for the necessary adjustments to be effected, and to secure prior agreement that they will be made. It is essential, therefore, that there should be a machinery for making such adjustments.

The proposal differs from the existing state of affairs by putting at least as much pressure of adjustment on the creditor country, as on the debtor. This is an attempt to return to the state of affairs which existed in the nineteenth century when a favourable balance in favour of London and Paris, which were the main creditor centres, immediately produced an expansionist pressure in those markets, but which has been lost since New York succeeded to the position of main creditor, aggravated by the break-down of international borrowing credit and by the flight of loose funds from one depository to another.

I did not contemplate that the sanction, proposed in the first version of this scheme, by which creditor balances in excess of a stipulated amount were confiscated, would ever come into force in practice. For obviously it would always be t6 the interest of the country concerned to find some way of dealing with the surplus other than that. The object of this and of further provisions was to make sure that some other way could be found. The main point is that the creditor should not be allowed to remain passive. For if he is, an impossible task is laid on the debtor country, which is for that very reason in the weaker position, so that the evils with which we are familiar are very likely to ensue.

There is, moreover, great advantage in an automatic register of the size and the whereabouts of the aggregate debtor and creditor positions respectively. The danger signal is shown to all concerned, clearly for all to see and definitely for all to interpret.

By making possible rules as to when changes in the rates of exchange of a national currency are allowed or prescribed, it much increases the efficacy of small changes such as 5 or io per cent. In the first place, it makes the creditor contribute to the change by appreciating his currency, which countries, left to themselves, will very seldom do. In the second place, it protects any permitted change from being neutralised by an unjustified competitive depreciation elsewhere.

The criticism least easily answered is that the means of disciplining a recalcitrant and misbehaving debtor country are inadequate. To answer this fully would lead us into more detail than is appropriate to this stage of the discussion. But broadly the answer would be

(i) that we should have better powers of discipline than at present;

(ii) that the force of a collective sanction and the injury of expulsion from the system, even though it means an escape from past obligations, are very great;

(iii) that the expenses of failure in a particular case are no more than the system can easily afford; and

(iv) that a small expenditure of faith and a readiness to allow actual experience to decide are not too much to ask, when so much else is at stake.

# V

In general, the automatic register of the size and the whereabouts of the debtor and creditor positions allows definite criteria of which countries are entitled to special protection until they have readjusted their positions, and which are not.

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.

Thus the new system should make possible undertakings not to use protective expedients except when they are required. There should be a general agreement amongst members of the Union to the following effect against every version of discriminatory action:

(1) No tariffs or preferences* exceeding 25 per cent *ad valorem*;

> * The formula I prefer for preferences is that they are permitted up to a figure of 25 per cent between members of political and geographical groups,

(2) No export subsidies either direct or by supplying exporting manufacturers with raw material etc. at prices below the prices at which they are available (apart from differences in cost of transport) for export;

(3) No import quotas or prohibitions;

(4) No barter agreements;

(5) No restrictions on the disposal of receipts arising out of current trade.

This forswearing of discriminatory policies would apply to all states subject-

(1) to their being allowed three (or five) years in which to bring the new policy into full effect;

(2) to their being allowed, if they wish to do so, to fall back on the forbidden protective devices in the event of their central bank becoming a Deficiency Bank.

It should be noted that no rule is proposed against subsidies in favour of domestic producers for domestic consumption, with a countervailing levy when such subsidised goods are exported. This is a necessary safety-valve which provides for protective expedients called for on political, social and industrial grounds. Such subsidies would become the approved way of giving purely domestic protection to an industry which for special reasons ought to be maintained for domestic purposes only.

This provision should enable us to give complete satisfaction to Mr Cordell Hull, since we should be accepting a non-discriminatory international system as the normal and desirable state of affairs.

# VI

It is a great advantage of the proposed Currency Union that it restores unfettered multilateral clearing between its members; so that nothing has to be done except where a country is out of balance with the system as a whole.

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 *generalised* 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 Currency 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.

Thus we should not only return to the advantages of an international gold currency, but we might enjoy them 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.

# VII

I share the view that central control of capital movements, both inward and outward, should be a permanent feature of the post-war system.

If this is to be effective, it involves the *machinery* of exchange control for *all* transactions, even though a general open licence is given for all remittances in respect of current trade. Thus I accept in its entirety what I understand to be the conclusion of the Bank of England on this aspect of the problem.

But control of this kind will be much harder to work, especially in the absence of a postal censorship, by unilateral action than as part of a uniform multilateral agreement by which movements of capital can be controlled *at both ends*. We should, therefore, urge the United States and all other members of the Currency Union to adopt machinery similar to that which we have now gone a long way towards perfecting in this country.

This does not mean that the era of international investment should now be brought to an end. On the contrary, the system proposed should greatly facilitate the restoration of international credit for loan purposes in ways to be discussed below.

The object, and it is a vital object, is to have a means of distinguishing

(a) between movements of floating funds and genuine new investment for developing the world's resources; and

(b) between movements, which will help to maintain equilibrium, from surplus countries, to deficiency countries and speculative movements or flights out of deficiency countries or from one surplus country to another.

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 cannot safely be used for fixed investment and might turn it into a deficiency country against its will and contrary to the real facts. The following general principles are, therefore, essential:

(i) All remittances must be canalised through central banks and the resulting balances cleared by them through the International Clearing Bank.

(ii) No remittances in respect of the outstanding capital of existing or future assets owned by non-residents shall be made except under licence of both the central banks concerned.

(iii) The ownership of such assets may be freely shifted between non-residents, and non-residents may exchange one investment for another within a country.

(iv) The net current income of such assets may be freely remitted together with an annual amortisation of capital not exceeding (say) 5 per cent.

(v) The offer of investments or assets to non-residents to be newly acquired by them shall require the approval of both the central banks concerned.

(vi) Floating and liquid funds, apart from those required to finance current trade through bills and acceptances and in connection with current banking business approved by the central bank concerned (much as in this country under present conditions) shall only be lent and borrowed between central banks.

These rules would not preclude the issue of general licences of indefinite duration by agreement between the central banks concerned.

# VIII

We shall not be the only country which may find difficulties with its balance of payments after the war. Our post-war currency and exchange system should, therefore, be one which is capable of wide, indeed of universal, extension as further countries become ready for it.

I conceive of the new Bank as being brought into existence in the first instance by the United States and the United Kingdom as joint founders of the Club, covering the United States and its possessions and the members of the British Commonwealth. Other members would then be brought in -some from the outset; some as soon as they had established an internal organisation capable of sustaining the obligations of membership. This approach has the great advantage that the United States and the United Kingdom (the latter in consultation with the other members of the British Commonwealth) could settle the charter and the main details of the new body without being subjected to the delays and confused counsels of an international conference. It would also mean that considerable progress could be made irrespective of the nature of the European political settlement and before the conditions of adherence of the European members could be finally determined. Moreover, membership would be thus established as a privilege only open to those who conformed to certain general principles and standards of international economic conduct. I conceive of the management and the effective voting power as being permanently Anglo-American.

An important matter for decision is whether and how far there should be currency unions *within* the international system, or whether individual countries should be accepted for membership. Either system is possible, but there is much to be said in favour of currency unions within the general framework.

One view of the post-war world which I find sympathetic and attractive and fruitful of good consequences is that we should encourage small political and cultural units, combined into larger, and more or less closely knit, economic units. It would be a fine thing to have thirty or forty capital cities in Europe, each the centre of a self-governing country entirely free from national minorities (who would be dealt with by migrations where necessary) and the seat of a government and a parliament and a cultural and university centre, each with their own pride and glory and their own characteristics and excellent gifts. But it would be ruinous to have thirty or forty entirely independent economic and currency units. Therefore I would encourage customs unions and customs preferences covering groups of political and geographical units, and also currency unions, railway unions and the like.

Thus it would be preferable, if it were possible, that the members should, in some cases at least, be groups of countries rather than separate units. But this provision is not essential to the scheme. We might start with mixed modes, and it might sometimes be better to begin with separate units with the intention of encouraging subsequent combination rather than to force premature inter-arrangements for which those concerned were not ready. For we have to face the fact that the pooling of balances within a limited area as against the rest of the world represents a high degree of mutual trust and dependence and might be difficult without a single central bank and uniform currency and banking within the whole group.

(Subject to these reserves and hesitations, the ideal arrangement might be one of grouped membership comprising the following:

1. North America comprising the United States, Canada, Newfoundland and the West Indies.

2. South and Central America comprising South America, Central America and Mexico.

3. The sterling area comprising the United Kingdom, the Crown Colonies (outside N. America), India, Australia, New Zealand, and South Africa.

4. The U.S.S.R.

5. The Germanic countries, including Switzerland, Holland and Austria and the constituents of the former Reich (better than a purely German Union excluding Switzerland and Holland).

6. The Scandinavian countries (Norway, Sweden, Denmark, Finland, the Baltic States-if there be such).

7. The Latin Union (France, Belgium, Italy, Spain, Portugal).

8. Central Europe (Poland, Silesia, Bohemia, Slovakia, Hungary).

9. The Balkan Union.

10. The Middle East (Turkey, Egypt, North Africa, the Soudan, Ethiopia, Palestine, Syria, Iraq, Iran).

11. The Far East (China, Japan and Siam).

I beg the reader to consider this passage as a highly substantive proposal. The Currency Union could be developed either along separate nationalistic or along economic federationist lines, according to the way the world works out. My point is that it is not incompatible with a new pattern for the post-war world and can be adjusted either to older or to newer notions.)

Meanwhile there should be no obstacles in the way of the voluntary formation of such groups. In particular, we ourselves should be free to develop special arrangements within the sterling area, provided they were compatible with the general obligations and the provisions against discrimination which we had undertaken towards the membership as a whole. The United States would be equally free to develop special Pan-American economic links. And so would the other members in groups amongst themselves, voluntarily selected or prescribed under the Treaty of Peace.

# IX

It has been suggested that so ambitious a proposal is open to criticism on the ground that it requires from the members of the Currency Union a greater surrender of their sovereign rights than they will readily concede.

But, in the first place, no greater surrender is required in point of form than is required in any commercial treatycertainly not much greater than in the binding undertakings against discrimination which the U.S. is inviting us to make. The obligations will be entered into voluntarily and can be terminated on certain conditions by giving notice.

In the second place a greater surrender of sovereign rights must be in order in the post-war world than has been accepted hitherto. The arrangements proposed could be described as a measure of financial disarmament. They are very mild in comparison with the measures of military disarmament which, it is to be hoped, the world will be asked to accept.

Surely it is an advantage, rather than a disadvantage, of the scheme that it invites the member states and groups to abandon that licence to promote indiscipline, disorder and bad-neighbourliness which, to the general disadvantage, they have been free to exercise hitherto.

There is nothing here which we need be reluctant to accept ourselves or to ask of others. Or if there be anything such, let it be amended.

# X

An International Bank might become the instrument and the support of international policies apart from those which it is its primary purpose to promote.

I recapitulate below certain suggestions from my previous paper and make some additions to them. Obviously these suggestions are in no way a necessary part of the plan. But they are illustrations of the additional purposes of high importance and value which the Bank, once established, might be able to serve.

(1) The Bank might set up an account in favour of the international body charged with post-war relief and reconstruction. If necessary, it might supplement contributions received from other sources by granting overdraft facilities in favour of this body, financing relief and reconstruction, so to speak, out of the fiduciary issue of the new currency system, this overdraft being discharged over a period of years out of a levy on the credit balances of Surplus Banks. By this means it is 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 balances on their 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) If the United States were to wish to effect a redistribution of gold reserves, the Bank would provide a suitable channel for the purpose, the gold so re-distributed being credited (e.g.) to the account of the Relief and Reconstruction Authority.

(3) The Bank might set up an account in favour of the supranational policing body 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 Bank to hold the Clearing Account of the central bank 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.

(4) The Bank 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 holding pools and `ever-normal' granaries would be satisfactorily solved.

(5) The Bank might be closely linked up with a Board for International Investment of the kind proposed by Professors Hansen and Gulick. It might act as the bankers of this 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 banks would give a clear 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. It might be provided that Surplus Banks of countries which were indebted to the Board should automatically use their surplus to discharge such indebtedness, and that Surplus Banks accumulating credits beyond a stipulated percentage of their quota should advance such surplus to the Board for further investment by them. (This would be preferable to the previous proposal for the cancellation of such super-surplus balances.)

(6) The Bank might also be closely associated with the Anti-Depression Board, acting in collaboration with this Board and with the International Investment Board and the Commodity Pools to exercise contractionist or expansionist influence on the system as a whole or on particular

sections according to the circumstances. It would be easier to give reality and some measure of authority to the advice of the Anti-Depression Board through the International Bank than in any other way.

(7) There are also other methods by which the Clearing Bank could use its influence and its powers to maintain stability of prices and to control the trade cycle.

# XI

I conceive of the Bank as essentially under Anglo-American management, especially in its early days. It would be easy to give it a constitution which would ensure this.

Two head offices in New York and in London would be appropriate. The Head Office in London under an English Chairman would deal with the business of banks situated in the British Commonwealth (apart from Canada), Europe and the Middle East. The Head Office in New York under an American Chairman would deal with the business of banks situated in North and South America and the Far East.

The Board of Managers would meet alternately at each of the Head Offices. With modern means of transport and communication by air and with (one would hope) no need for joint meetings more frequently than once a quarter this double-headedness should lead to no practical inconvenience.

Members of the Board would be appointed by the member banks each of which would have a vote in proportion to its quota. But there might be some provision, at any rate for some years, by which the British and American members when acting in agreement could outvote the rest of the Board.

J. M. KEYNES 18 *November 1941*

## Appendix

### A

A. I. An International Clearing Bank to be founded by the U.S. and the U.K. This Bank will be entrusted with the management of an International Currency Union to provide bank money, to be designated grammor, for the settlement of international balances, which will be universally accepted as the equivalent of gold and will be ultimately based on it (see A.5 below).

A.2. Other states will be admitted on suitable conditions as full members of the Union, entitled to the facilities from the Clearing Bank to be set forth in B below. Meanwhile all central banks will be entitled to keep an account with the Clearing Bank, and will, indeed, be expected to do so if they wish to do exchange business with members of the Union.

A.3. Within any state (or group of states), which is a member of the Union, the provision of foreign exchange for remittance either to member or non-member states will be concentrated in the hands of its central bank which would deal with the public through the usual banks. That is to say, a member of the public here desiring to obtain dollars for a specified purpose would instruct his bank to make application to the Bank of England-much as at present.

A.4. The balances due to or from any foreign state will be cleared between the central banks concerned, operating on their accounts with the Clearing Bank.

A.5. The national currency of each member state to have a fixed value (subject to what follows about provisions for change) in terms of the bank money (or grammor) of the Clearing Bank, which would be itself expressed in terms of a unit of gold. The central bank of a non-member state may fix the value of its national currency for the purpose of transactions with member states at any figure it wishes in terms of grammor, provided that this figure is the same at any given time in respect of all transactions with member states.

A.6. Any central bank (member or non-member) to be entitled to replenish its Clearing Account by paying in gold to the Clearing Bank, but the balance on its Account only to be employed for the purpose of making a transfer to another Clearing Account; so that it cannot withdraw gold.

A.7. Any gold held by the Clearing Bank at the end of each year in excess of the amount of its Reserve Fund may be distributed to those central banks whose Clearing Accounts are in credit in proportion to the amounts of their credit balances, their Clearing Accounts being debited accordingly; no Clearing Bank of a member state to be entitled to acquire gold otherwise except from its own nationals (including those of its own Commonwealth or dependencies) or for industrial purposes.

**B**

The following provisions relate only to the central banks of states which are full members of the Union, and are a recapitulation of my previous proposals.

B. I . Each central bank to be allotted an index-quota equal to half the sum of its imports and exports (both reckoned exclusive of re-exports) on the average of the previous five years (starting with the five pre-war years, the most remote pre-war year in the average being replaced each year by the latest available post-war year), and to be allowed to overdraw its Clearing Account up to a maximum amount equal to its index-quota, provided that it shall not increase its overdraft by more than a quarter of its index-quota in any year.

B.2. A central bank whose Clearing Account has been in debit for more than a year by an amount exceeding a *quarter* of its index-quota shall be designated a Deficiency Bank. A Deficiency Bank shall be allowed to reduce the value of its national currency in terms of grammor by an amount not exceeding 5 per cent within any year. A Deficiency Bank may borrow from the Clearing Account of a Surplus Bank (see below) .on any terms which may be mutually agreed.

B.3. A central bank whose Clearing Account has been in debit for more than a year by an amount exceeding a *half* of its index-quota shall be designated a Supervised Bank. A Supervised Bank may be *required* by the Governors of the Clearing Bank to reduce the grammor value of its national currency by amounts not exceeding 5 per cent in any year; to hand over in reduction of its deficiency any free gold in the possession of itself or its Government; and to prohibit outward capital transactions except with the permission of the Governors, who may also disallow at their discretion any other requirement from it for foreign exchange. A Supervised Bank may be requested by the Governors to withdraw from the system in which event its debit balance shall be transferred to the Reserve Fund (see below) of the Clearing Bank.

B.4. A Central Bank whose Clearing Account has been in credit for more than a year by an amount exceeding a *quarter* of its index-quota shall be designated a Surplus Bank. A Surplus Bank may increase the exchange value of its national currency by an amount not exceeding 5 per cent within any year. A Surplus Bank *shall* grant a general licence for the withdrawal of foreign-owned balances and investments within its jurisdiction. A Surplus Bank may make advances to the Clearing Account of a Deficiency Bank.

B.5. A central bank whose Clearing Account has been in credit for more than a year by an amount exceeding a half of its index-quota shall be *required* by the Governors of the Clearing Bank to increase the exchange value of its national currency by 5 per cent, and the requirement shall be repeated after any subsequent year in which the average credit balance has increased by a further 10 per cent of its index-quota since the previous upward adjustment.

B.6. If at the end of any year the credit balance on the Clearing Account of any central bank exceeds *the full amount* of its index-quota, the excess shall be transferred to the Reserve Fund of the Clearing Bank, unless steps have been taken to dispose of it by placing it at the disposal of the International Investment Board or otherwise.

B.7. A central bank having a credit balance on its Clearing Account may withdraw from the system on a year's notice, but shall surrender its credit balance to the reserve fund of the Clearing Bank.

B.8. At the request of the central bank of the borrower the International Clearing Bank may act as trustee for any foreign loan, including loans between central banks, in which case it shall debit the service of the loan without further specific instruction to the Clearing Account of the central bank of the lender, so long as the debtor is not a Supervised Bank, in which case further transfers shall be at the discretion of the Governors of the Clearing Bank.

B.9. The International Clearing Bank shall establish a Reserve Fund.

(i) The reserve fund shall be employed as already provided in B.3, 6 and 7 above.

(ii) 5 per cent of the average annual excess of the Clearing Account of a Surplus Bank above a quarter of its index-quota and 1 o per cent of the excess above a half of its index-quota shall be transferred to the Reserve Fund of the Clearing Bank.

(iii) No interest shall be allowed by the Clearing Bank on credit balances. But interest shall be charged on debit balances at rates fixed by the Governors which shall be increased as the size of the central bank's debit is increased in proportion to its index-quota. The excess of the interest earnings of the Clearing Bank over its expenses shall be transferred to the Reserve Fund.

(iv) The Reserve Fund may be applied at the discretion of the Board of Governors for the relief of any central bank in difficulties for special causes beyond its own control or for any other purpose.

**C**

C.I. There shall be free and unlimited facilities of foreign remittance between member states in respect of all transactions arising out of current trade and current income, widely interpreted so as to cover all items, `visible' and `invisible', usually reckoned to be on current income account, subject only to the indulgences proposed in V above in favour of Deficiency Banks, if they should desire to exercise them (or, in case of Supervised Banks, if they are required to exercise them).

C.2. But each member bank shall have unqualified control over the capital transactions of its residents both outward and inward (subject to the obligations of a Surplus Bank), and it shall be entitled to call on the collaboration of other member banks to prevent unlicensed movements. A member bank will be free to give open general licences, provided they do not conflict with the policy of another central bank, in favour of capital transactions of a particular character or to particular destinations. The control of capital transactions will require the machinery of exchange control over all transactions if it is to be effective, but the arrangements made will be at the discretion of the member bank concerned.

C.3. Non-resident balances and investments held within the jurisdiction of a member bank at the date of the establishment of the Clearing Bank shall be frozen in the sense that they shall not be withdrawn thereafter except by permission of the member bank concerned or under the general licence to be granted by a Surplus Bank. The same shall apply to subsequent withdrawals on capital account. But the title to such balances and investments may be freely transferred between holders, resident or non-resident.

C.4. A member bank shall be entitled at the initiation of the scheme to discharge foreign-owned assets within its jurisdiction held in the form of cash or bank deposits or the securities of its Government by paying an equivalent sum in gold to the member bank of the foreign nationals concerned; and the latter bank shall be entitled to require such a discharge if the former bank and its Government possess a gold reserve in excess of its index quota.

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