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Bundle	8/8/57
BUNDLE	10 FEB 1960

F.C.S.
2 OCT 1966

After completion refer to

ENTER NOTES OF RELATED FILES ON PAGE 2 OF JACKET.

(S.O.) 10/43 K & B Ltd. 31-6552

Prof. Robertson
Sir D. Waley
Sir W. Eady
Mr. Rowe-Dutton

Lord Keynes

Sir Cecil Kisch,
India Office,
Whitehall, S.W. 1.

March 11,1944

Dear Kisch,

The note which you sent me with your letter of March 8th seems to me to leave out one vital link in the argument.

When a Central Bank, which otherwise would be receiving gold, fails to receive it by reason of the clause which you are discussing, it follows that the holdings of that bank's currency by the Fund will be correspondingly reduced. This is an element of increased strength to the bank in question, and it should influence its policy not less than the fact that its gold reserves are correspondingly diminished. Moreover, there is a limit to this process. As soon as the Fund holds no more of the Central Bank's currency,then it may be expected to meet future demands for that bank's currency by selling gold to it. The whole idea of the Americans is that declaring currency to be scarce should be a last resort, when the demands for it are altogether out of proportion to the Fund's gold resources. They want the Fund to

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be normally possessed of a substantial stock of gold so that this gold can be used to acquire currencies. In the case of countries with relatively small quotas, this would, I should expect, be the normal procedure.

Is there not a great deal to be said for this? Up to a point it is desirable to strengthen the Fund. When a Central Bank's position with the Fund has become impeccably strong, then it will be in a position to replenish its stocks of gold. On the other had, if its existing stocks are very ample and its demands out of proportion, then the Fund will be in a position to decline to meet its exaggerated greed for gold.

Yours sincerely,

K

30/5/44

Sir D. Waley.
Sir W. Eady.

The Monetary Conference

I. The Scheme of the Conference

Dr. White's conception of all this seems to get "curiouser and curiouser". 42 nations, making 43 in all have been invited for July 1. They are to have no power of commitment or final decision and everything is to be ad referendum. Nevertheless it now appears that they are not even to have the semblance of doing any work, since that is to be done before they meet. I had been supposing that after meeting they would appoint two or more Committees, which would then do the work which it is now contemplated to do beforehand, reporting back to a larger body whenever necessary. The American newspapers have indicated that "the Conference beginning on July 1 may last several weeks". Unless this is a misprint for several days, it is not easy to see how the main monkey-house is going to occupy itself. It would seem probable that acute alcoholic poisoning would set in before the end.

II. Date for the meeting of the proposed Drafting Committee.

Dr. White proposes a date somewhere about June 10. Place unstated. This is clearly impossible. If the Drafting Committee is not going to be merely an Agenda Committee, but is to do the work, it would seem out of the question that it could meet early enough to have completed its work by July 1. Suppose, for example, it met a week earlier, which would be feasible, that would be

Article 10(iii). In these circumstances we could scarcely negotiate on the basis that we hoped to accept the obligation in three years or thereabouts. To accept the clause but state that it was a distant objective would arouse anxieties among holders rather quick going. There is no indication in Opie's telegram how the Reconstruction Bank is to be treated, i.e. whether it is to be handled by the Drafting Committee or is reserved for some subsequent Committee to be appointed by the main body. If it is agreed that it is not practicable for the Drafting Committee to have really completed its work before July 1, either the Committee should be appointed by the main body as I have previously contemplated, and should begin round about July 1; or alternatively, it might be assembled a week earlier than that and the main body a fortnight later. I hope that the Drafting Committee as well as the main body would meet in New Hampshire.

III. Membership of the Drafting Committee.

21 countries have been invited which clearly have nothing to contribute and will merely encumber the ground, namely, Colombia, Costa Rica, Dominica, Equador, Salvador, Guatemala, Haiti, Honduras, Liberia, Nicargua, Panama, Paraguay, Philippines, Venezuala, Peru, Uraguay, Ethiopia, Iceland, Iran, Iraq, Luxemburg. The most monstrous monkey-house assembled for years. These might perhaps be added: Egypt, Chile (and in present circumstances) Yugo-Slavia.

The U.K. have nominated 10 members of the Drafting Committee, namely: U.S., U.K., Russia, China, Canada, Belgium, Czechoslovakia, the French Committee, Brazil, and Mexico. They express no great enthusiasm for Czechoslovakia, but would like to add Cuba; do not object to the addition of Australia, and would take Holland instead of Belgium but not as well.

If the membership is brought up to twelve by the addition to the original ten of Australia and Cuba, then there remain only 7 countries with any serious claim to representation, namely: India, New Zealand, South Africa, Greece, Holland, Norway and Poland. I should select from these Greece and Holland for what they have to contribute. Certainly it would seem quite outrageous and hopelessly unreal to put on to the Committee not only a pack of countries which know nothing of international finance but even Cuba, whilst excluding Holland and her Empire.

Of Dr. White's Drafting Committee, Russia, China, Brazil, Mexico and Cuba, know little or nothing of international finance.

On the whole I think we should firmly resist Cuba; insist very firmly on Holland as well as Belgium; and suggest the substitution of Greece for Czechoslovakia on the ground of the particular contribution which Varvaressos might be able to make. If, however, Varvaressos would be unable to attend then Greece might reasonably be left out.

<u>30th May, 1944</u>.

Article 10(iii). In these circumstances we could scarcely negotiate on the basis that we hoped to accept the obligation in three years or thereabouts. To accept the clause but state that it was a distant objective would arouse anxieties among holders

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COPY

BANK OF ENGLAND.

7th June 1944.

Dear Mr.Chancellor,

The international monetary discussions are to be resumed shortly. They are likely to result in a draft international treaty for submission to governments. A document so important and with such a weight of authoritative and expert opinion behind it is likely to influence in an important degree the eventual decisions of governments and legislatures. It is therefore of the utmost importance that it should be framed upon lines that will be not only good in theory but workable in practice. For that reason, and with great respect, I feel I should bring to your attention certain fundamental aspects of this matter as it affects this country, in addition to those to which I referred in my memorandum enclosed in my letter to you of the 4th May in the hope that they may be of some assistance to you in drawing up the directive to the British Delegation. I do not need to tell you that we here are all in complete sympathy with the objectives of the Plan and that our anxieties are more in respect of obligations inherent in the present draft which we feel would be dangerous for this country to accept in the special circumstances in which it is placed.

1. The question of CONVERTIBILITY is a matter of special, indeed of vital, importance to this country. The United Kingdom alone amongst the major countries of the world will end the war with vast external currency liabilities in excess of our assets. This will be the case no matter how well we are able to negotiate funding agreements or arrange other ways of dealing with some of the larger amounts of sterling balances. The present draft Plan (Article 3(v)) provides that all sterling held by residents outside the United Kingdom and the Colonial Empire shall be convertible on demand into the currency of the member concerned or into gold. It is true that provision is made that this would only come into force after special arrangements had been made to deal with abnormal war balances and possibly with the balances accruing during the transitional period. But, in fact, we could not contemplate blocking the whole of non-resident balances at zero hour. To do this would disrupt the whole machinery of our trade. In order to work as the centre of the sterling area and as an international financial centre, London will always have considerable residual balances which we cannot block and to this there would have to be added balances accruing after zero hour. Pre-war experience would lead us to expect that overseas sterling balances in London at any normal time would be not less than £500 million and often much more: this figure would be exclusive of other assets held by non-residents and balances on traders' accounts.

Whatever arrangements may be made to deal with abnormal war balances and possibly the balances accruing during the transitional period, it would still be extremely dangerous to accept an obligation in the form indicated in Article 3(v) until our quick overseas assets were adequate to meet our liabilities, and there would seem to be little prospect that this is likely to happen in any period such as the three years referred to in Article 10(iii). In these circumstances we could scarcely negotiate on the basis that we hoped to accept the obligation in three years or thereabouts. To accept the clause but state that it was a distant objective would arouse anxieties among holders

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and potential holders of sterling and add to our difficulties in the transitional period; anxieties and difficulties which would only be increased by the second sentence of Article 3(v) giving us the option to refuse convertibility to sterling balances accruing during the transitional period.

But, in fact, is a convertibility clause in its present form at all necessary or indeed suited to the objectives of the Fund? The real objective is that earnings in one currency should be freely convertible for current expenditure in another country. Yet the clause as it now stands goes much beyond this and provides for demand convertibility so that one member could at any moment switch its reserves from one currency into another or into gold. The effect of this might be to encourage just those very violent movements from one currency into another which it is the purpose of the Fund to prevent.

I suggest, therefore, for your consideration that Article 3(v) should be replaced by a clause which would make convertibility on current account the objective but leave detailed methods to individual members. This might take the form of a new Article somewhat on the following lines:

> "To assure, so far as they are able, convertibility of their own currency held by other members into other currencies presently needed for payments which are consistent with the purposes of the Fund".

The new Article might also be strengthened by a general right to the Fund to refuse to extend further facilities to a member judged not to be fulfilling its obligations.

2. The present draft Plan is also extremely vague as to the stages by which it is intended to come into operation. Article 10 seems to indicate that the Fund is not intended to operate during the transitional period, whereas the whole of the first part seems to contradict this. Is it suggested that we would have to put up our subscriptions (whether in gold or in sterling) without enjoying the right to buy exchange from the Fund: for, if so, we should be weakening our overseas position rather than strengthening it.

Yours sincerely,

(Sd.) CATTO

The Rt.Hon.The Chancellor of the Exchequer.