

A general survey of their growth, and developments arising from them*

As has been seen in the foregoing chapter, methods of control were first considered in the Bank of England about a year and a half before the war broke out. The Bank approached the Treasury when they had decided in their own minds what was required. But consultations with the Treasury went on over most of the period, and at the outbreak of war the Treasury had not accepted the Bank's point of view on non-resident sterling. By the middle of 1939, however, the form of the Defence (Finance) Regulations (largely embodying the proposals of the Bank) had been finally agreed and drafted to suit the requirements of Parliamentary Counsel. All the necessary forms and instructions to banks, etc., were ready. The Colonies had been advised and requested to introduce similar Regulations, and the Dominions asked to collaborate. Canada, Newfoundland and Hong Kong perforce remained outside the Sterling Area. New Zealand already had a Control, and Australia and New Zealand introduced satisfactory Regulations at the outbreak of war. South Africa agreed in principle but introduced control gradually.

In planning a system of control the Bank had before them the example of many Continental countries, especially Germany, and there was a fear, particularly at the Treasury, of building up an enormous staff as in that country. It was thought better to begin with a relatively simple system, to be tightened up as experience was gained. Thus, it was fully realised that the Regulations were not completely watertight when first introduced.

The foregoing chapter likewise described the Treasury's fear of disturbing international confidence in Sterling and their resistance to the blocking of non-resident sterling. Their attitude here was influenced by the idea that probably resentment in the U.S.A. would endanger American help in the war. The Treasury certainly wished to put as few obstacles as possible in the way of exporters and
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* In this chapter considerable use has been made of a Treasury memorandum (to which the Bank contributed amendments) of which there were four versions, dated April, July and October 1940 and April 1942. (It was prepared for the use of British Embassies, but like some other memoranda was never used for the purpose for which it was designed). Mr. Hawker's evidence before the Committee on Exchange Control Practice in July 1942 has also been drawn upon.

for this reason no Control over the proceeds of exports was introduced at the beginning of the war, and a considerable amount was thus lost to the U.K.reserves. The Bank, assuming that all exports would be invoiced in foreign currencies, had pressed for export control and only withdrew in the face of Treasury obstinacy.

Part of the Defence (Finance) Regulations was introduced before the outbreak of war, the Treasury issuing Statutory Rules and Orders on the 25/26 August requiring the registration of securities marketable outside the U.K. and empowering the Treasury to take them over. The main restrictions imposed on the 3rd September were:-

- (a) control over dealings in all currencies;
- (b) the requisitioning of gold and balances in specified currencies, often called "hard" currencies, in the hands of residents and an obligation to surrender any acquired in the future;
- (c) control of the export of British and foreign bank notes and securities;
- (d) control over the crediting of non-resident accounts by residents. On the other hand non-residents could transfer sterling to any account whatsoever, whether for a resident or non-resident;
- (e) control of credits and of the granting of overdrafts to non-residents.

The chief effect of the regulations imposed at the outbreak of war was to prevent at once capital transfers by residents and to bring exchange speculation to an end. The prohibition of the export of bank notes was an essential factor but one difficult to enforce and largely dependent on efficient censorship. Prohibition of the import of bank notes came later (20 Aug.1940); evasion through the export of notes was dealt with subsequently.*

A full account of the evolution of Securities Control is given in Appendix.^{VII}...

The Treasury, acting through the Bank of England, became the ultimate dealer in gold and all hard currencies (i.e., American and Canadian dollars and other currencies of which the U.K.were, or were likely to become, short) at rates which it fixed and maintained.

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*Prohibition of both to Import and Export are dealt with in Appendix...

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At the outbreak of war the Sterling/Dollar rate was fixed at \$4.03*. It had been held at $\$4.68\frac{1}{8}$ through August down to the 24th, falling to \$4.52 on the 25th, and to \$4.21 on 2nd Sept. To see through a long war on a rate of \$4.60 or higher was felt to be out of the question. A short discussion between two or three of the Bank Authorities, with drastic measures in mind, led finally to a decision to devalue to \$4.00, a figure which, it was thought, would stimulate requisition of gold and dollar assets, enable the Bank to organise an exchange control, and indeed represent the greatest common factor among many. On adopting this level the Governor decided that the odd 3 cents would avoid the appearance of stabilisation. The decision was based on no calculations of any kind; it was purely a matter of judgment by the Bank. The Bank of England bought and sold from and to "authorised dealers"^Ø who in turn dealt with the ultimate buyers and sellers.

As a consequence of fixing the new dollar rate the price of gold was fixed at 168/- per fine ounce. The exact translation of the American official buying price for gold (\$35 per fine oz.) at the rate of \$4.03 was a sterling price of 173/8.367d., the difference[†] being adopted to cover risks of loss in transit to New York.

Not all transactions with hard currency countries passed at the official rate. There was a free market in centres without import control (New York - by far the most important, Amsterdam, Zurich and Shanghai), where a non-resident wishing to pay a sterling debt could buy his sterling at a more

favourable

*At first with a spread \$4.06 - 4.02, soon narrowed to \$4.04 - 4.02, and finally (in Jan.1940) to $\$4.03\frac{1}{2}$ - $4.02\frac{1}{2}$.

ØFor an account of whom, see section on "Authorised Dealers" in Appendix VI.

†The discrepancy caused the S.African gold producers to complain later, at the time when gold was being sold by the U.K. and U.S.A. in India.

favourable rate; so that the non-resident seller of sterling, and not the Control, got the dollars or other foreign exchange from the transaction. The free rate remained for some time only a point or two below the official rate, which was enough, however, to attract the non-resident with a sterling debt to pay.

The Regulations, and similar regulations imposed by other members of the Sterling Area, were a sufficient check on Sterling Area residents' transactions; and a great part of the international standing of sterling and some goodwill were retained. But there was still a large indirect loss (non-receipt) of dollars.

It was most necessary to husband resources, and hard currencies were paid out only for essential imports and other vital purposes. For imports the essential factor was Import Control, not Exchange Control. Once an import was permitted provision of the necessary exchange normally followed. For invisible items exchange would usually be granted if they represented current transactions; for capital, only exceptionally. A flight from sterling by residents, but not by non-residents, was thus prevented. For all other payments to non-residents sterling was provided, and the resulting increase in the free market tended to depress the rate.

The constitution of the Sterling Area* as a solid block with interlocking control was the first development of the system. Before the war the Bank would no doubt have defined the Sterling Area as countries keeping their reserves in sterling and clearing their international transactions through London. In wartime, under Control, it would comprise those countries requiring a minimum of regulation and restriction of transfers of sterling or local currency.

The system

*At first composed of the Empire (except Canada and Newfoundland and Hong Kong), but its composition was changed six times before the end of 1942. The first S.R. & O. defining the Area itself, residents and non-residents, in detail was dated 17th July 1940. No. 1256

The system of control was not uniform throughout the Sterling Area; Colonies could be instructed as to their action but the U.K. could not dictate to the Dominions or other independent members. Thus the stringency of the Control varied. In South Africa imports were not at first controlled. For political reasons the Egyptian Control was less strict than most, and Iraq at first had no exchange control at all; later (May 1941) it was removed from the Sterling Area, to return in November, and thenceforward had a Control which was regarded as satisfactory.

Experience showed that leakage through those members with weaker controls had not seriously endangered the Control as a whole. In Eire, potentially the most dangerous perhaps, the Eire Treasury gave excellent co-operation. Once set up, the local controls worked in co-operation with the U.K. Control, under similar regulations, and the conduct of their affairs was left to their own discretion, not subject to questioning by the U.K. Though there were no restrictions in the U.K. on the currencies of Dominions, Australia and New Zealand treated sterling as a "specified currency" which had to be applied for like dollars.

From its inception the Control was gradually tightened, especially in the matter of capital items. Sterling transfers of capital were regarded less severely so long as the free market for sterling existed, as at that time the loss of reserves which might follow was not a direct one.

The first major step to prevent the indirect leak of dollars through the availability of non-resident free sterling was taken, at the instance of the Bank, on the 7th March 1940 (Regulation 5B). This provided that some important exports^ø

to hard

^øRubber, tin, jute and whisky, as principal dollar earners.
 ? Later the Customs recommended adding furs, as a potential means of evasion. These commodities were also thought to be easily dealt with; in the event quite the reverse was found to be the case with rubber, tin and whisky. (See further on Rubber and Tin in "Special Arrangements" for 5 industries: Appendix VIII B.)

Some were included in the first order.

to hard currency countries (including S.America) could only be paid for in certain hard currencies or in sterling bought for them from the U.K.Control at the official rate.

An effect of this Regulation was to restrict the demand for free sterling, but not its supply. There was an abrupt drop in the free rate and a cheapening in terms of hard currencies of other goods and services for which sterling could be paid.

This in turn affected our relations with other countries, the sterling rate for the majority of which (particularly in S.America) was the cross rate between their dollar rate and the free dollar/sterling rate; and the latter was determined in a very narrow market as well as by political factors. Thus sterling became unduly depreciated in terms of these local currencies and liable to abrupt changes outside the U.K.Control. The U.K. bought dearly from these other countries and sold cheaply to them.

The hard currency invoicing system (7 March 1940) was extended three months later to cover all exports from the Sterling Area to the U.S.A. and dependencies and to Switzerland; and these countries could thenceforward make use of their free sterling only to settle debts with the Sterling Area other than for exports or for payments to third countries. The resulting smaller demand for free sterling might have been expected to cause a further fall in the free rate had not other measures taken by the Control at a slightly earlier date led to a restriction of supply also. Permission had been withdrawn (apart from such small capital payments, e.g., in respect of legacies, drawn bonds, etc., as residents in the Sterling Area were allowed to make) to pay sterling to the U.S.A. and Switzerland for any current transactions, commercial or financial. Further, the sale of securities by non-residents

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was prohibited (12 May 1940). Two considerations encouraged the U.K. to adopt this measure; less fear of American resentment, and a new fear that with the collapse of France the Germans would try to dispose of large quantities of sterling securities. At the same time a ban on the issue of Bearer Bonds (Regulation 3B) rendered the supervision of transferable securities much easier.

The most difficult source of supply to control remained - the sale of sterling balances by third countries. This was dealt with a little later, by degrees, under the Special Account and Registered Account systems set up under Regulations introduced on 17 July 1940. Arrangements of this kind were possible when the U.K. Exchange Control could negotiate with an exchange control in another country which was prepared to hold sterling balances, thus making it possible to stabilise the rate at which transactions were settled. The essential requirement was that there must be a residual purchaser of sterling in the country concerned who would hold sterling balances not wanted at the moment.

The Special Account system (and Sterling Area Accounts) are dealt with in detail in the chapter and Appendix on Payments Agreements.

Under the Regulations of 17th July 1940 the Treasury were empowered to set up "Treasury Special Accounts" in respect of any territory and to provide that all payments by residents should be made only to these accounts. Where a debt was due in the other country's currency the Treasury might prescribe the rate of exchange to be adopted. The balances on these accounts might be distributed either by agreement with the country concerned or unilaterally by the Treasury - a useful sanction, although the U.K. were anxious to avoid using it, and in fact it was never used. (It had been found in the past that a unilateral clearing imposed problems of distribution of the funds collected that were almost insoluble - sums would pile up in the account and trade would languish.)

Before

Before the 7th June the question of the free rate and free sterling had been dealt with directly in the case of Canada, Newfoundland, France, Belgium and Holland. With these countries agreements were made providing that they would not buy or sell sterling on the free market and stabilising the sterling rate of exchange in harmony with the local dollar rate. Similar arrangements were later made to cover the Belgian Congo and the Dutch Indies.

Registered Accounts were in many ways the most important development. They were accounts opened in the first case by the American banks with U.K. banks, to be used for all transfers between the Sterling Area and the U.S.A., dealings to be only at the official rate. The control credited sterling to these accounts against dollars and sold dollars against Registered Account sterling. Dollars and Registered Account sterling (and by similar means, sterling and Swiss francs) were thus made interchangeable. Transfers could be made between one U.S. (or Swiss) Registered Account and another, but not between U.S. and Swiss accounts.

Measures had thus been taken to dry up the market in free sterling in the U.S.A., Switzerland and Payments Agreement countries, and also in Canada and Newfoundland and the Belgian and Dutch Monetary Areas. Sterling could no longer be credited to the free accounts of residents of these countries by Sterling Area and "third" countries.

Under these arrangements payments for invisibles and occasional third-country payments quickly reduced the supply of free sterling, and its short supply in New York soon raised the free rate there to parity with the official rate. A new free market in Havana and an increase in free sterling on offer in Shanghai succ^wumbed respectively to Central American Account arrangements (see below) and occupation by the Japanese. With

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the free rate in Switzerland applying only to dealings in existing balances and the rate being no longer quoted in Special Account countries, the scope of the free market became very limited.

"Old Sterling" Accounts

Holders of surviving free sterling were under no compulsion under the Payments Agreement system to canalise it; though on application the Control was always willing to transfer free sterling to special accounts (except in the case of Sweden). Untransferred balances were known as "Old Sterling" accounts, on which no fresh credits could be raised; and no fresh accounts could be opened. No transfers from them to Registered Accounts were permitted, the Control not being anxious to add to its liabilities in hard currencies or gold* (The holder of "old sterling" retained one advantage only; he could transfer his sterling to countries which had no Payments Agreements with the U.K.)

Thus as the Bank proceeded to restrict the use of free sterling the policy of blocking non-resident sterling, which it had so strongly advocated when war seemed probable, and which the Treasury would not accept, was secured by the series of measures now taken. The present blocking, it is true, limited transferability to the Sterling Area, whereas before the war the Bank had in mind restriction within the U.K.

There was no fundamental change in the system of Exchange Control after the Summer of 1940, but the process of canalising sterling and closing gaps in the system continued for some time.

Sterling

*An exception was made in January 1943 when all American "old sterling" accounts, the total sterling on which was quite small, were re-designated "Registered Accounts".

Sterling balances could still arise from the purchase of sterling by one non-resident from another. With a view to encouraging the investment of such sterling balances in registered or inscribed sterling securities it was decided on the 10th January 1941 to licence the re-sale of securities so purchased, provided they were acquired on the Stock Exchanges of the U.K., and to permit the proceeds to be recredited to the particular type of non-resident account from which the funds had originally been drawn. Permission for re-sale could be applied for at the time of the investment, and the form then issued (Form M) indicated the type of non-resident account to which the proceeds of any sale might be credited. The Bank would consider issuing Form M in respect of securities purchased by a non-resident from such funds at any time after the 3rd September 1939.

Canada and Newfoundland

From the beginning the Canadian Control co-operated with the Bank in maintaining fixed rates; that is to say, they were prepared to provide Canadian dollars in exchange for sterling received by residents in Canada. The right to receive Canadian dollars in this way was, however, to some extent restricted: a person migrating from this country to Canada was not necessarily accorded residential status, and if he failed to secure it he was unable to get Canadian dollars for his sterling or to use it to pay for goods from the U.K. But for normal purposes net income could be transferred and Canada and Newfoundland would provide the corresponding Canadian dollars.

Before June 1941 the Control had not intervened in free sterling markets, except during a short period when

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the free rate in New York threatened to appreciate above the level of the official rate. From June 1941 to 1st February 1943 the Bank arranged, through the Bank of Canada (with the Royal Bank of Canada supporting, secretly) to maintain the rate on the quite small free market in New York at $4.02\frac{1}{2}$ - $4.03\frac{1}{2}$.

Later, Canada made special arrangements by way of gift and loan to put very substantial sums in Canadian dollars at the disposal of the U.K. to cover past accumulations of sterling and to make provision for future needs.

Netherlands Indies and the Far East

In the middle of 1940 Agreements were reached between H.M.G. and the Royal Netherlands Government. The exchange rate was put on a basis of 7.60 guilders to the £, and it was agreed that the U.K. Control on the one side and the Netherlands East Indies and Netherlands West Indies Authorities on the other, should accept each other's currency without limit at this rate.

The Far Eastern market centred on Shanghai now remained the only important area for free sterling, and measures for its elimination had been under consideration for some time. It had not been thought desirable to restrict the availability of Chinese sterling in view of the possible effects on her economy, and attempts to secure a Payments Agreement with Japan had failed. However, on the 29th July 1941, with the Japanese entry into Indo China, the U.S. and U.K. took joint action to block Japanese dollars and sterling balances. By the end of the month, at the Chinese Government's request, similar action had been taken with regard to China, the object being a desire not so much to stop sales of sterling against dollars as to prevent the Japanese from acquiring sterling and dollars for local Chinese currency.

The Control then gave permission for the following classes of payments:

- (a) Payments in the Sterling Area by the 4 Chinese Government Banks and by certain Government Agencies;
- (b) Debits for pre-zero contracts;
- (c) Debits for permitted imports from the Sterling Area;
- (d) Debits from accounts of British subjects or firms in China for payments in the Sterling Area;
- (e) Debits for normal expenses in China (i.e., the bank taking over the sterling on its own account and paying out the Chinese currency needed).

London sterling balances of the big banks operating in China were unblocked so long as they would freeze local sterling accounts in Shanghai. British banks were instructed "to co-operate in all respects with the Chinese Stabilisation Board and the Chinese Exchange Control in the application of measures for the protection of the Chinese Exchange".

The Free China Authorities announced the official buying and selling rates for foreign currency for approved purposes, e.g., permitted imports. Though outwardly successful in establishing these rates and stopping free market transactions in Shanghai, these measures by themselves were bound to lead to barter transactions or other arrangements by which China lost the proceeds of exports, which were used to finance traffic the other way. Thus, China was losing foreign exchange for permitted purposes but failing to gain foreign exchange income to replenish her resources.

On the 13th November the British and Americans by administrative action gave China in effect an Exchange Control operating outside that country, under which all sterling payments to and from China were made through certain approved banks in China. // Payments by residents of China could only be made with the approval of the Stabilisation Board of China, who took over all incoming foreign exchange. All remaining Chinese sterling accounts were
blocked

//In the case of the U.K. these channels were the offices in China of a number of banks, the best known of which were the Chinese Government Banks and leading British, American and Dutch Banks operating in the Far East.

blocked and could only be operated with the permission of a local branch of the T.W.E.Dept. under Treasury direction. (In practice the Bank assisted). They could be drawn on in local Chinese currency if their owners were prepared to pay their sterling over to the Central Bank of China.

Goods sent to and imported from China had to be paid for through an approved bank, and the Customs machinery ensured that payment was in fact being made, and that trade was not conducted on an illicit barter basis. No import licence for goods from China would be granted without a formal undertaking that the applicant would make payment to an approved bank within a specified period of the date of import; a new development in Control technique, and designed to protect the Chinese exchange position, not our own.

The difference in motive explains the distinction between the Chinese arrangements and those made with other countries. To ensure that the foreign exchange holdings of Free China were maintained at a reasonable level we first blocked a vast number of Chinese accounts as regards payment to the sterling area (an innovation done under Regulation 2A) and then insisted that payment had to be made for goods imported.

The Japanese advance soon cut off most of our trade with China and also cut off the Netherlands East Indies. Arrangements with the Netherlands West Indies continued.

CENTRAL AMERICA

In May 1941 a system of Central American sterling accounts* was introduced by unilateral action on the part of the U.K. The position had been unsatisfactory because the U.K. were being charged dollars for what they bought but received only free sterling for what they sold. All the countries involved were short of sterling, so that an agreement with each Central American country or with the Area as a whole was not necessary; and the question of a residual holder of

*The countries concerned were:-

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| Colombia | Dominican Republic | Haiti | Panama |
| Costa Rica | Ecuador | Honduras | Salvador |
| Cuba | Guatemala | Mexico | Venezuela |
| | | Nicaragua | |

of sterling did not arise. (The countries with which Special Account agreements had been made either had or were likely to have a surplus of sterling, often a large surplus).

The Central American countries might have been put into the dollar area under the Registered Account system, for the currencies of all of them were based on the dollar; but at the risk of political friction with South American countries, which would also no doubt have preferred a dollar to a sterling basis. The U.K. did not wish sterling to disappear from their dealings with this part of the world.

The sterling on Central American accounts was freely transferable between all residents of Central America. All sterling payments through the Sterling Area to these countries now went to a Central American account. Any existing free sterling owned by residents of Central America could be transferred to such an account, to countries with which there was no agreement, or to countries of the Sterling Area except in payment for exports to Central America. Payment for such exports had to be made from a Central American account, in U.S.dollars or Registered sterling, or in sterling bought from the U.K.Control for U.S. dollars.

Payment for imports from Central America was normally made to a Central American account, but the Control were prepared to give dollars for essential imports for which sterling would not be accepted, and for financial payments due in dollars.

Confidential arrangements were also made with certain banks operating in Central America to buy up any surplus or make up any deficit in sterling against U.S.dollars, in order to maintain the rate of \$4.03.

In effect, these arrangements put Central America into the dollar area without the fact being published; so long as Central American account sterling was convertible into U.S.dollars residents in that area could not object to accepting sterling. A Central American account could be opened in the name of any person or business resident in the Central American countries named. Sterling could be credited to such an account if it came from (a) the pre-existing sterling account of a resident in those countries, (b) a resident in the Sterling Area, with permission from the Control, (c) another Central American account,

or (d) in exchange for dollars paid to an Authorised Dealer.

Canalisation of sterling was now so nearly completed that action to include the remaining countries was not felt to be necessary. There remained, in fact, (a) the residuary purchaser of sterling at the official rates, i.e., Exchange Control or Central Bank in the other country operating an agreement (Special Account countries, Dutch Empire, Canada and Newfoundland, China); (b) the U.K. Control itself, which was prepared to sell on demand U.S. dollars and Swiss francs against registered sterling; and (c) countries to whom payment in sterling was not directly restricted and who could pay sterling freely to one another and to approved banks in China, i.e., Russia, Persia, Afghanistan, Saudi Arabia, Tangier and Liberia.

Closing Loopholes

The most important measures taken to close gaps in the Control were: the ban on the import of (a) Bank Notes on 20th August 1940 (Regulation 2B*) and (b) Sterling Bearer Securities on 27th September 1940 (Regulation 2C), in order to prevent the enemy from obtaining value for the large quantities of these instruments known to be held in over-run Europe, principally in France. Regulation 2C was also intended to prevent sterling bonds being sent by non-residents to settle debts to residents payable in hard currency, or for the proceeds of their sale (by residents) to meet non-resident commitments in the Sterling Area. These two Regulations were imposed at the instance also of the T.W.E. Department.

Regulation 5C (19th November 1940) was directed against residents who had set up nominee companies abroad before the war, chiefly in the U.S.A. and Canada, partly to avoid taxation, partly with a view to evading possible exchange difficulties. Technically non-residents, such companies did not have to comply with the D.(F) R. as applied to residents. Under Regulation 5C the U.K. owners or controllers became legally bound to cause their companies abroad to place specified currencies and securities at the disposal of the Treasury

The same Regulation also applied to U.K. trading companies with subsidiaries abroad, though the Treasury could exempt companies whose shares were quoted on the stock exchange. (The exemption could be withdrawn in individual cases, but this power was not altogether satisfactory and was rarely used).

*See Appendix

Blocked Sterling [See also Appendix IIc]

It is not proposed to deal at length here with a series of measures which did not become a major instrument of Exchange Control, and which only deferred the liabilities concerned. The total of blocked sterling, even including film sterling (released in 1942/3) was never as much as £20 million during the war years.

The types of account which came under the relevant restrictions and the measures taken in 1942/43 to release a large proportion of the sterling so accumulated are described in some detail in Appendix .

Under Regulation 2A (24 July 1940) Chinese accounts were blocked (see above), and under Regulation 3E (19 Nov. 1940) certain payments to non-residents (e.g., proceeds of sale or redemption of securities, legacies from resident estates, proceeds of the sale of real estate or movable assets in the U.K., the surrender of assurance policies before maturity, etc.) could only be credited to blocked accounts.

Accounts of ex-enemies and pseudo-enemies (e.g. former residents of enemy territories who had left them before they had become "enemy"); later, those of British subjects who had gone abroad temporarily before the outbreak of war and had decided to remain abroad and showed no signs of complying with D.(F.)R. ("quitters"); foreigners who had resided for a time in the U.K. and subsequently taken up permanent residence outside the Sterling Area, and other foreign nationals who had left the U.K. to live in a country not their own - all these were blocked under Regulations coming into force between August and November 1941, of which 3E accounted for the bulk of the sterling so controlled.

Blocking was intended to prevent the transfer of securities, real estate, etc.; to protect foreign exchange which the Control could not afford to pay out* and to sit on the sterling of quitters - a penal rather than a Control measure.

*In this category were included ex-enemies' etc. sterling, the proceeds of commercial companies, film royalties and the proceeds of securities sold or redeemed.

Co-operation by U.K. banks on the introduction of the U.S. Freezing Order (June 1941) may be regarded as another form of blocking: only on permission from the U.K. Control could U.K. banks act on instructions regarding U.S. \$ balances etc. held for non-residents.

A landmark in the course of blocked sterling was reached in the autumn of 1942. Several months of Lend-lease had by that time brought about a substantial increase in our reserves of U.S. dollars and gold: total reserves were upwards of £200 million and were expected to double in another year. The prospect of virtual bankruptcy had given place to anxiety lest the growth in our international resources should be so rapid as to provoke American criticism to the extent of cutting down Lend-lease aid; and some release of blocked sterling figured among proposals to avert this contingency.

Although the Bank favoured the ultimate disposal of all blocked accounts, those responsible for making decisions had clearly in mind two species of blocked sterling: (a) sterling arising from capital realisations (maturities, sales, etc.) and (b) payments legally due by residents to non-residents (legacies, alimony, etc.) - the first difficult to release, the second causing resentment abroad and desirable to release.

Much discussion and negotiation led to the release of all sterling held by the eight largest American film companies on the 24th October 1942, a decision made public on the 30th October. This sterling[£] had accumulated under restrictions imposed in connection with the Film Agreements of the previous three years. In May 1943 the U.K. subsidiaries were made individually responsible for securing their requirements by the ordinary means open to them under D(F)R., i.e., by permission, through their own bankers, from the Bank of
England

[£]£12.5 million of which £11.9 million was released in November 1942.

England. The policy now was to deal with these liabilities as they arose, not to defer them.

Other releases followed under decisions taken also in May 1943 and revised in October. Individuals who had taken up permanent residence in non-enemy territory; British nationals returning to the Sterling Area; the pre-war balances of foreign nationals resident in the U.K. but now taking up residence outside the Sterling Area; proceeds of real estate, houses, furniture and personal effects (with a £5,000 limit); legacies on resident estates; the proceeds of drawn and matured sterling bonds held by non-residents - these were the main types of blocked sterling which could now be released.

Notwithstanding, as the following figures (from returns relating to blocked accounts on 31st January each year) will show, the total of "Blocked Sterling" (apart from the release of film sterling in 1942, which is not included) increased steadily:-*

Sterling Blocked under Regulation 3E

(£ millions)

	<u>Balances</u>	<u>Invested Funds</u>	<u>Total</u>
On 31 Jan. 1942	1.4	2.0	3.4
1943	2.8	5.4	8.2
1944	2.8	10.3	13.1
1945	3.4	12.6	16.0
1946	3.7	15.7	19.4
1947	3.6	17.5	21.1
1948	4.9	19.7	24.6

Bank Notes (High Sums)

Bank notes of £10 and upwards were withdrawn from circulation on 30th April 1945; none had been issued for two years. Withdrawal had been desired by the Exchange Control as such notes afforded a relatively easy means of exporting capital, which would become still more difficult to control if, as was expected, the Postal Censorship should be removed after the war. Power to call in the notes was given by Regulation 7AB of the 24th January 1945.

"American Accounts"

*At least half of an increase of £6 million between October 1942 and October 1943 represented the blocked proceeds of sales of assets by nominee companies (almost all Canadian), a considerable though diminishing factor in the later growth of these accounts. Legacies were another large, continuing item.

"American Accounts"

By mid-1945 it was felt that the Registered Account system had served its purpose, and as an appropriate step in a series of adjustments towards more normal conditions - a step involving no change of policy and having no implications for the future sterling/dollar rate - it was decided that after 30th June Sterling Accounts of the U.S.A. and Dependencies and of Central American countries should in future be known as "American Accounts". Sterling on these accounts was to be freely transferable to any other American Account and for payments to the sterling area.

Holders of U.S. Registered Accounts had the option until the 30th September 1945 to remit their balances at the 30th June at the rate of 4.02½ (subject to banking charges).

In like manner Swiss Registered Accounts became "Swiss Accounts" with a similar option for residents of Switzerland and Liechtenstein to remit Swiss francs at 17.30 to the £.

Other Agents of Control

The machinery employed by the Government and the Bank for enforcing the various restrictions consisted for the most part of the banks and other "Authorised Dealers", but the Stock Exchange were responsible for regulating dealings in securities and the issue and transfer of insurance policies were controlled under arrangements made by the Bank with the Insurance Companies and Lloyd's. After the war, while many restrictions might be removed, the volume of transactions would be far greater and the Bank felt that a further devolution of responsibilities upon the banks and other agents would then be the only practicable method of maintaining a sufficient control.

No amount of preliminary work, such as had been undertaken before the war, could make provision for the innumerable problems facing the Bank in a situation without precedent. Considering the need of giving decisions daily and without delay, and the necessity of co-ordination with the Treasury and other Government Departments, it seems that the record of the Bank as the agents of the Treasury in administering the Control was one of which they might well be proud.

Various aspects of the Control and its administration, and of the special arrangements found necessary in dealing with certain industries, commodities and classes of persons form the subject of other chapters in Part II.