Chapter X

EXCHANGE CONTROL AFTER THE WAR

The Sterling Area

See also SEC 23. Post-War Policy Cee Sir C. Bolton's Report

In contemplating the future, and the shape which exchange control might be expected to take after the war - a large measure of it having been accepted as inevitable - the continued existence of the Sterling Area was taken for granted.

The "Sterling Bloc", or "Sterling Area", was a term which originated after the departure of the U.K. from the Gold Standard in September 1931. It consisted of those countries who were accustomed to retain their reserves in London and wished to continue to do so, in spite of the fact that sterling was no longer exchangeable by law at a fixed rate with gold. Gold, however, could be obtained, as a free market in the metal was preserved. The association of countries in the Sterling Area with the U.K. was a loose and informal one; the U.K. did not select the members of the Area, but each member country had become so on its own initiative.

Events strengthened the ties between members, who found themselves insulated from the deflation which continued in the remaining gold countries; and exchange stability was a great advantage to countries who conducted a large part of their external trade with each other, and especially with the U.K. Another special reason for the maintenance of exchange stability was the fact that most of the countries concerned were short-term creditors and long-term debtors in sterling of the U.K. Exchange stability, however, did not mean that exchange rates of member countries with the U.K. and other parts of the Area could not be changed, and in fact there were several changes of parities, e.g., by New Zealand and Denmark. These changes, too, were made entirely on the initiative of the countries concerned and without consultation with other members.

Another favourable influence was the fact that the balance of payments of the Area as a whole tended to be more or less in equilibrium with the rest of the world.

The policy of Imperial Preference introduced at Ottawa in 1932 increased the economic ties between the other countries of the Empire and the U.K. But the Ottawa Conference laid down no general policy for the Area except in a resolution which indicated

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that the objective should be stability of sterling prices.

On the outbreak of war the character of the Sterling Area changed in certain respects. The Exchange Control ring was drawn round the Area as a whole*; inside the ring transfer and payments were free, outside it every payment by a resident of the Area was subject to scrutiny and authorisation. This introduced a new sharpness of distinction between the Sterling Area and other countries and, for the purpose of administering the Regulations, if for no other reason, required a statutory definition of the Area members. Similarly, as the complete freedom of transfer within the Area would have made any loop-hole in the Exchange Control of an individual member a loop-hole for the whole, membership had to be confined to countries whose administration could be relied on or could be supervised by British banks or officials. Members would have been free to withdraw from the Area at any time (none, in fact did so during the war), but for their adherence more was now required than a mere readiness to hold reserves in London; all were expected to adopt a form of exchange control which would at least be in conformity with, if not exactly similar to, that of the U.K.

This war-time development of the Sterling Area was not, as was sometimes supposed abroad, designed as an instrument of economic warfare. Its origin lay, in part, in the common readiness of the Sterling Dominions, India and the Colonies to leave their gold and foreign exchange accruals centralised in the hands of the U.K. for the purposes of the common war. The development, in fact, came about because it was inevitable. To administer a control over an international currency is in itself a difficult problem, the international banking relationships being so many and so close; but to attempt to interpose a barrier between London and the sterling monetary system centred on London would have been to invite chaos, with local banks cut off from their Head Offices and from the market on which they depended for their liquidity, and with merchants and traders restricted from maintaining free accounts current in their books with their own branches in the Empire.

Before the Bank had completed their Regulations, having the object of segregating the Sterling Area from other currencies

* An area now smaller, however, since the withdrawal of the Scandinavian Countries, Finland, Esthonia, Portugal and Argentina.

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without affecting the free transferability of funds within the Area, they had begun to think about exchange control after the war, and the future status of the Sterling Area. Their first discussions with the Treasury on the subject concerned the Keynes' proposals for an International Currency Union in the Autumn of 1941;* their chief objection to which, and to the counter proposals from the U.S.A., was a fear that their adoption might lead to a disintegration of the Sterling Area. But even before that the Bank's Advisers and others were busy on the future of exchange control in all its aspects. Numerous memoranda were written and discussed with the Treasury, and especially with Lord Keynes, whom the Bank ~~felt~~ knew did not fully understand the Sterling Area system - he seemed to them to be unduly pessimistic as regards its future continuance.

In the midst of this activity, in August 1941, a committee was set up to go into the whole question; but as it did not begin work, as a committee, for some little time (its first interim report was made in June 1942) some reference will first be made to the extensive work of individual members, a great deal of which was done in the Autumn of 1941, and to the views of Lord Keynes at about the same time - all concentrated on the future of the Sterling Area.

Efforts to remove current misconceptions as to the Area's origin, to define its constitution and to assess its advantages were natural enough. The Bank never wavered in their desire for its continuance or shirked the need to do everything possible to strenthen it: indeed, as already mentioned, their chief objection to the proposed (Keynes-White) Plans for a Currency Union or Stabilisation Fund was a fear that their adoption might lead to the Area's disintegration. The following selection from a very large volume of (recorded) opinion expressed during a quite short period is intended to illustrate the intense desire for its survival - in the right form.

Some of the first views expressed by the Bank (internally) on the future status of the Area are embodied in a memorandum (25.9.1941) by Mr.Bolton, who regarded as fundamental the understanding by the units of the Area of its concept and objective......."Membership of the Sterling Area implies pooling of resources, mutual responsibility and acceptance of the principle of leadership". Beyond the

*The Currency Union and Stabilisation Fund proposals are dealt with in "Bretton Woods"

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encouragement of the free flow of trade and investment inside the Area, he thought that H.M.G.might give exchange guarantees in order to maintain maximum stability. Weak elements (e.g.Egypt and Iraq) might be rejected. The type of Agreement which the U.K.had made with the Netherlands "might be in the end a more enduring form of association" and reduce some of the political and administrative problems that would arise from the inclusion of incompatible Continental governments. Canada's enormous purchasing power within the Empire should be considered.

About two months later Mr.Bolton was urging that an important point had not been, and should be, made clear. The Bank envisaged two kinds of sterling ultimately - one for the external use of non-residents ~~internally~~ internationally (including the Sterling Area), the other for the Area only......."This means that sterling surpluses will ultimately be available for transfer to any country" (with a sterling deficit) "providing the deficit country has something to offer the seller". But countries without adequate exchange control would make transfer of external sterling difficult.

Sir Henry Clay saw no reason why the Sterling Area balances of imports and exports should (as the U.K.balances surely would) be so dislocated as to require any revolutionary change of policy. Even if the U.K.could discriminate against the U.S.A., it would be politically difficult to do so against Australia and India. Yet the policy of discrimination must cover the whole external trade of the U.K.or collapse. Independent monetary policy had been facilitated by the establishment of Central Banks, and was being stimulated by the war. Communication between Dominions could now be direct instead of through London

In September 1941 the Treasury (Lord Keynes) prepared a memorandum on "Post-War Monetary and Financial Policy", intended as a basis for discussions with the Americans in the Spring of 1942, which were in fact not held. The document went through much re-drafting, including some by the Bank. The process drew a number of characteristic (some idealistic) comments from Lord Keynes (memo.9.11.1941). In the first place he doubted if a scheme based

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on a mere continuance of war-time arrangements would be other than precarious. He was sceptical about the ability to maintain exchange control and import restriction in the Dominions.

On the question of currency he was clear that a start must not be made with an over-valued pound......"we cannot expect the rest of the Sterling Area to accommodate themselves to a level adapted to suit our own domestic exigencies" if they were different from the de facto position. A low rate might have an inflationary influence on other parts of the Area. The Area itself must have a stable rate.

The permanent exclusion of Canada would be unfortunate. Was some form of Customs Union out of the question - free trade within British Commonwealth industries, which needed protection from competition within the Commonwealth itself; and guaranteed minimum purchases at current world prices? Something on these lines, possibly more practicable than a currency union, would strengthen our hand in reaching satisfactory arrangements with America......"which is too much inclined to regard the British Commonwealth as a unit when it suits her, and as a collection of independent countries when that suits her".

Lord Keynes saw great difficulties for the Area as a firm Currency Union (if that were intended) in the absence of the support of an international clearing bank. With such a Union each member's capital movements out of the Area would be restricted according to the unfavourable balance of the Area as a whole. From this it followed that members having a favourable balance, whether within the Area or outside it, would be making forced loans to members with an unfavourable balance. Restrictions of capital movements within the Area, and limited restriction out of it, would involve the whole apparatus of exchange control and still do nothing to solve the question of how to settle current adverse balances within the Area.

Again, if import control were exercised according to the balance with the outside world of the Area as a whole irrespective of that of a particular member, it would involve discrimination in an extreme form: if on the basis of an individual member's balance with the outside world......"the reality of the Sterling area begins to wear very thin". The question of control and organisation drew the

following

following warning....."...An arrangement to pool an Area's balance against the rest of the world represents a very high degree of economic solidarity within it. Unless this high degree.......really exists I doubt if a pooling system can be safely undertaken except under the collective and comprehensive authority of an international body, which can impose some measure of discipline without any particular country having the odium of it.......".

Concessions might easily leave the U.K.to support weaker members and carry their adverse balance, without full assistance from stronger members. It was hardly the time (the end of 1941) to suggest to, e.g., India and South Africa, that they should pool, under London management, their gold and overseas balances after the war. And yet, without such assurances that all members had made up their minds as to what they understood the Area to mean, an approach could not be made to the Americans "with the assumption of continuing a Sterling Area which offers a uniform currency front to the rest of the world".

Was it not "a delusion to suppose that the de facto but somewhat flimsy and unsatisfactory arrangements which are carrying us through the war, on the basis that we do our best to find the other members of the Area a limited amount of dollars provided that they lend us a very much larger sum in sterling, can be carried over into the Peace.....?"

Finally, the following two statements (separate though they might be complementary) might well be quoted as a standard refutation of misjudged charges of heterodoxy in Lord Keynes Monetary Review. The first was made to Mr.Cobbold (17.12.1941), the second to the Governor two days later.

> "The one chance of holding the Sterling Area together is a multilateral scheme which allows everything to go on as before. One of the worst features of bilateral arrangements is the difficulty of how these in the long run can be made applicable to major Dominions, who will desire and no doubt obtain their own arrangements."

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"A multilateral system, by giving us something similar to the Gold Standard in its best 19th Century days, allows international banking (apart from capital controls) to go on just as before. A series of bilateral agreements, to which all the members of the Sterling Area would have to be parties, seems to me quite impracticable - and very dangerous."

Mr.Siepmann had views on the bilateralism condemned by Lord Keynes:

"We should like to reserve the question of bilateralism..... ...As an American term of abuse, it may mean anything, but in this Memorandum it seems to mean at least two things, viz., Payments Agreements and Trade Agreements.......We may be able to renounce Special Account procedure.......but we shall need Trade Agreements both inside and outside the Sterling Area and we must not help the Americans to throw away the baby with the bath..........we need both to retain our freedom of action and to convince the Americans that this freedom can be used constructively....."(note 3.11.1941).

A considerable contribution at the time to collective thought on the Sterling Area was a ten-page memorandum (14.10.1941) by Mr.Thompson McCausland of which the following is a précis (by Mr.Siepmann:

"<u>THE STERLING AREA</u>

1. The sterling area is not an island of laissez-faire nor are its internal transactions necessarily more innocuous than those in hard currencies. During the war, relative freedom within the area has been made possible by the readiness of all constituent parts to accumulate sterling. This in turn has been due to (i) deliberate economy of dollars, (ii) lack of opportunity to spend dollars on buying things unobtainable in the U.K., (iii) the possibility of repaying sterling debts. All this may cease when the war ends.

2. The more permanent attractions of sterling are due to (i) the large U.K.market for Empire produce (both for consumption and for distribution, e.g., rubber, tin and gold), (ii) the wide range of U.K.manufactures, (iii) the financial services offered by the

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exchange, money and stock markets in London. The Empire has been able through London to find uses for its money in good times and a source of money in bad times - a combination particularly valuable to primary producers.

3. But these attractions depend (i) upon the security of sterling itself, i.e., of the United Kingdom's own currency and balance of payments, and (ii) upon that security being achieved by making the most of reciprocal trade within the area, so that the U.K. may find a market besides providing one. There will then remain a residue of things which the area must have but cannot provide, and these must be paid for by area exports to the rest of the world. The system breaks down if area members want to sell here but to buy elsewhere, or to market their agricultural produce but also produce their own manufactures.

4. (i) This suggests quota agreements to establish reciprocal trade at a high level and consequently (1) import licensing both here and in the Dominions, (2) enough exchange control to link the agreed quotas with the agreed allotments or sources of payment - a kind of Special Account procedure at our end and a check on hard currency expenditure at their end.

(ii) Short-term unevenness could be taken care of by advances to the Special Account, while long-term finance would be controlled by the Capital Issues Committee.

(iii) War-time accumulations of sterling ought not to be repatriated but funded for reconstruction in order that we should not have to find more exports in replacement of invisible income, and so reduce the turnover of area trade. This would help us to retain the Dominion market for capital equipment, which we must have now that the Americans have ousted us with motor cars, wireless, etc. The competition between our own reconstruction needs and those of the Empire would be eased by Reparation deliveries.

(iv) Standardised exports would help to swell the volume and make it easier to enter into bulk export agreements and the London export commodity markets are more important than Liverpool."

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Some six months later Mr.Mynors put in a cautionary note (24.4.1942) in which he questioned a perhaps too readily accepted belief in clockwork functioning of Control through Area.

The holding of sterling, accumulated through custom and convenience could only be enforced where the U.K.was in a position of command. In war, the piling up of surpluses or deficits as between allies was unconditional: in peace it implied the condition of convertibility into restricted currencies.

Members of the Sterling Area thus had a relative freedom which would make evasion of control possible by triangular dealing: capital transfers of political origin were potentially unbalancing factors in balances of payments - which in fact never balanced. The current balance of payments of a member could probably not be expected to be even "reasonably in balance", for which, in the post-war world industrial under-development and unbalanced capital development ~~would offer sufficient reasons~~ would offer sufficient reasons. Swings might be smaller than pre-war owing to increased control; but a synchronisation of the deficits of several members would lead to an unavoidable drain of dollars. We had no sovereignty over these countries, and their material progress, ~~though~~ was not at an end, and was discontinued.

The U.K.could clearly not be indifferent to the kind of exchange control exercised by an individual Area member. The machinery necessary to ensure understanding might be minimized, no doubt, but had its political implications. We could not enforce complete loyalty, but we should at least press for full disclosure of members' other reserves (it was up to our internal policy, of course, to make sterling always worth holding).

Post-war Exchange Policy Committee

On 22nd August 1941 the Governor appointed a Committee of four......"to consider on what lines Exchange Policy should be directed and what changes in the Defence (Finance) Regulations, in form and application, will be required in the immediate post-war period, and in particular:

(a) What

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(a) What preparatory action will be necessary;

(b) At what stage recommendations should be made to H.M.G.

The members of the Committee were:

Mr.Siepmann

Sir Henry (then Mr.) Clay

Mr.Bolton

Mr.Thompson-McCausland

Mr.Mynors replaced Sir Henry Clay in the Spring of 1942.

The Committee appear to have begun the work for which they were appointed in February 1942, and Minutes were kept from 13th February 1942 to 12th March 1943. Almost immediately on appointment, however, as is evident from the fore-going, they began to consider post-war financial, monetary and trade policy.

An Interim Report was drafted (5th June 1942) and given confidentially and on a personal basis to Sir Frederick Phillips. It was accepted generally as being in conformity with Bank policy, and the Committee were asked to continue the work on the assumption that exchange control might be necessary to balance payments on current as well as on capital account.

On 2nd March 1943 the Committee produced a revised Interim Report, but the Bank considered it contained one or two instances of "unresolved conflict of ideas". Accordingly, Mr. Cobbold revised it and on 7th April sent it to the Treasury in the form of the following memorandum, with the request to "regard it as quite informal and unofficial....mainly an effort to clear our own minds here, and only for discussion between us":

STERLING AFTER THE WAR

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STERLING AFTER THE WAR

1. In considering any international monetary arrangements it must always be remembered that many of the fundamentals lie in the political and not in the monetary field. No international monetary arrangements will work unless there is a will to, and a reasonable expectation of, peace, and unless the richer and more powerful nations are prepared to shoulder their responsibilities and guide their economic policies with regard to international consequences.

2. This memorandum is concerned with the underlying and technical measures to be adopted by this country as the "foreground" for any international organisation which may come into existence. An international organisation on Clearing Union or Stabilisation Fund lines will provide machinery to help in clearing final balances between central authorities and in supporting countries whose balance is adverse; but under any of the plans now contemplated it will leave the daily business of the world to be conducted through other channels. We shall therefore need a structure, both domestic and external, to carry the settlement of day-to-day transactions. Until an international organisation comes into being, this structure will have to stand on its own feet and provide its own discipline.

3. Even if no agreement can be reached on details of an international monetary mechanism and if no international organisation can be established at an early date, it is most desirable to reach agreement between the principal nations on certain fundamental matters of monetary policy. The objectives of the White Paper and of the U.S. Stabilisation Fund proposals are broadly the same: agreement on, and acceptance by the public of, these general objectives would be a great step forward. It would seem reasonable to hope for general agreement at least on the following points, which appear to be common both to the White Paper and to the U.S. Stabilisation Fund proposals:

(a) Exchange rates should be kept as stable as possible, and should not be altered by unilateral action.

(b) Currency speculation and dislocation by mass movements of capital from one centre to another must be prevented.

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(c) Currency should be made as freely convertible as possible for current payments.

(d) Means must be found to get international trade moving, and to finance reconstruction in occupied and devastated countries.

4. Agreement on these points seems to require two major decisions, which are assumed through this memorandum:-

(a) Settlement of international payments and exchange of currencies will not again be left to the free market of supply and demand: some degree of controlled structure will therefore be necessary and in many countries all foreign exchange will be held by or for account of the Government.

(b) At the other end of the scale, every attempt should be made to avoid putting international transactions into a strait jacket on the German model and forcing every individual deal through a national or international clearing office. When we speak of the desirability of international clearing, we mean the clearing of balances over a period between central monetary authorities after the great bulk of day-to-day transactions have been settled both through commercial and financial channels and with the local central authority. Even where bilateral trade agreements are necessary we should seek to avoid strictly bilateral clearing of payments.

5. If agreement can be reached on these principles there is no reason to expect or insist on world-wide uniformity of technical monetary practice. Indeed there is much more hope of achieving a working system by building on what exists and making bridges where necessary than by knocking everything down and starting again.

6. After a victory by the United Nations, sterling and the dollar will for some time be the only international currencies. Judging by monetary reserves and economic resources it might be supposed that the dollar would everywhere be predominant: but there may well be counterbalancing factors both of a political and technical order, which will make sterling attractive. Although other currencies will doubtless come back into international use (e.g. guilders, belgas, Swiss francs and French francs) the process is likely to be gradual owing to the degree of interruption their use has suffered. Whether or not a clearing institution is in existence

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we may therefore expect to see the vast bulk of international payments settled in, or cleared through, dollars and/or sterling.

7. It is evidently in our interest, and we may perhaps claim in the general interest, that sterling should resume its place as an international currency and should not leave the whole field to the dollar. Our first concern therefore in, and perhaps our greatest contribution to, the international monetary field will be to make sterling as stable and serviceable a currency as possible whilst preventing its use as a medium of domestic capital flight or of undesirable capital movements between other countries.

8. To achieve this in the weak "reserve" position in which we shall find ourselves at the end of the war will need careful handling, first and foremost (thought it is outside the scope of this memorandum) in our domestic policy, which will always be the prime factor in the foreigners' estimate of sterling, and secondly in our technical arrangements for the international use of sterling.

OBJECTIVES.

9. Our objectives in the technical field should be to ensure that sterling will buy goods and services over as wide an area as possible, to keep the purchasing power of sterling as stable as possible and to make the use and interchange of "current account" sterling as easy and free from formality as possible. The development since 1939 of a policy of negotiated bilateral payments agreements and the growth of various kinds of blocked accounts has led to the creation of many different kinds of non-resident sterling. It will take time to develop this system into an international system but our ultimate objective is clear, viz., to establish one kind of non-resident sterling which we describe as "external sterling". It should be the continuous aim of exchange policy to ensure that "external sterling" becomes a currency of international settlement and has a constant value in all parts of the world. In particular we should release as soon as possible all forms of "blocked" sterling held by foreign commercial banks, traders and individuals. While there will be no international "free" market in sterling in the old sense, we shall encourage the growth of limited markets in "external sterling" and the clearing of external sterling through London banks.

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10. As far as can now be foreseen, complete freedom of transfer between the sterling area and the rest of the world is not an early objective: it seems more likely that, in order to prevent violent movements of capital from one centre to another, the "barrier" between "resident" and "external" sterling will have to be maintained. The necessary means are inevitably restrictive; but it should be possible to show that they are necessary and that the system itself can become an active instrument of "expansion".

STERLING AREA.

11. ~~Sterling Area~~ Fundamental to the system is the conception of the "sterling area". It should be a stabilising factor in the international system, but its cohesion depends partly upon whether our own domestic policy succeeds in giving to sterling a relatively stable international purchasing power and partly upon political developments. Although no definite rules can be laid down about membership of the sterling area, it pre-supposes a willingness to follow in large measure the lead given by Great Britain both in policy and administration: it is therefore generally undesirable that membership should be extended to foreign nations where there is not an essentially similar domestic outlook.

The technical essentials are that members should maintain fixed rates based upon sterling, hold sterling without limit and adopt an exchange control vis-à-vis the rest of the world compatible with our own. The first of these tacit undertakings implies that, before proposing any change in the rate on London, members will apply all possible corrective measures of their own, whether of financial or trade control. The second implies that they will so manage their affairs as to avoid not only running seriously into deficit but also accumulating an unwieldy surplus of sterling balances. The third means that, while London is called upon to co-ordinate control practices throughout the area, each member will conform to the general pattern.

12. In return, London not only manages the sterling assets of members and the machinery to provide for temporary deficits of sterling, but also takes over all external exchange risks and looks after the gold and foreign exchange resources of the area that are centrally pooled. These resources are at the disposal of all

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members for current expenditure outside the area against payment in sterling, but so long as the general obligations are observed, there is no reason why (if they wish to, and can) the independent members should not manage their own current resources in gold and exchange, and only call upon London to take over surpluses and deficits.

13. In the last resort, an independent member of the area (e.g., a Dominion) might be forced by a chronic deficit in the balance of payments or by a weak capital position, to take independent measures of self-protection. When the need was seen to exist, and every other corrective had failed, the remedy of a local barrier against the rest of the area would have to be unwillingly accepted. But in no circumstances could we in the United Kingdom put up a barrier between ourselves and a single member of the area, for it would be technically ineffective unless the whole area followed suit, and this would be equivalent to expelling the member concerned (which may happen in the case of, e.g., South Africa).

14. A natural consequence of the development and integration of the sterling area will be the need for continuous contact on questions of policy and administration. There will be a constant and urgent need for compiling and exchanging information and statistics - a task which can only be done effectively if each member produces his share of the information and it is all centralised in London. Members of an area may be expected to communicate with one another more confidently and confidentially than different currency groups or international centres. The balance of payments of the sterling area as a whole and of its individual members will need to be the common concern of all members and not merely of the United Kingdom.

15. The problem of "abnormal war balances" will need to be dealt with separately. Heavy sterling balances will doubtless be left, at the end of the war, in the hands of many sterling area countries. We shall doubtless be pressed to convert a part of these balances into gold or dollars, and the amounts happen to be the largest where that risk is greatest. South Africa and Eire may not accumulate an unmanageable quantity of sterling, and both Australia and New Zealand are amply covered by early debt maturities and repayment options.

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But India and Egypt will have claims which may revive, inside the sterling area itself, the familiar transfer problems of inter-allied war debts. As such, the problem may be susceptible of special treatment. In any case we shall be bound to refuse to allow their transfer out of sterling into gold or other assets for purposes other than current requirements. We may then at least be sure that, so long as there is a shortage of materials, these large amounts cannot be spent in a hurry, since a sterling area country which concentrates its reserves in sterling can only draw on its sterling balances to the extent that it runs into deficit on its balance of payments with the world as a whole. But, in the absence of a radical solution, some arrangement will be necessary to ensure that the U.K.'s current balance of payments is not too heavily weighted by discharging these liabilities over a short period.

16. Relations between sterling area and rest of world

If conditions of peace should be restored, either universally or in a substantial part of the world, before any international clearing organisation is in force, provisional agreements will be necessary to govern payments between the sterling area and other areas. The pattern of such agreements need not be uniform and should take account both of existing arrangements and of the monetary system and level of administrative efficiency in the other area concerned.

17. United States

The existing "registered sterling" arrangements provide a basis for post-war relations between the sterling area and U.S.A. Indeed U.S. registered sterling is the prototype of the "external" sterling which we should hope eventually to see in universal use. The arrangements would have to be reviewed in the light of post-war conditions: in particular the exchange guarantee on individual accounts at a named rate of exchange is not a satisfactory permanent feature, and might be modified if a general agreement about rates were possible. But broadly speaking current financial business between U.S.A. and sterling area can now be carried out with little formality either in U.S. dollars or in sterling, with the two currencies freely convertible at a fixed rate. The technical

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points on which we should wish to press the Americans, in addition to (or more exactly in execution of) approval of the general principles set out above are -

(a) That they should continue to buy foreign gold freely at present prices.

(b) That they should be prepared to hold considerable quantities of the other currencies in international use without claiming to have them reimbursed at short notice.

(c) That they should give active co-operation in controlling capital movements in both directions.

18. Canada

The existing technical machinery is adequate for "current account" transfers between the sterling area and Canada. It would not be difficult to fit this machinery into a wider system of "external" sterling. The probable method would be to make Canadian sterling interchangeable with U.S. registered sterling. When the time comes there will be political factors to consider and also the war-time position to clear up; but on the technical side the efficiency of the Canadian authorities, their close co-operation with us and their known desire to get away from bilateral payments agreements should make adaptation reasonably easy.

19. Europe

It may be assumed that the first bridge to be built will be with the Western European allies, i.e., Holland, Belgium and France. In the case of the first two we have the advantage of the presence in London of competent representatives who can speak for the Dutch and Belgian Empires; with the last we can also have prior discussions, though without the same assurance. There is little doubt that the Dutch, Belgian and French Empires will in the early post-war years maintain a tight exchange control whatever is done elsewhere. We are moreover familiar with the pattern of control they have in mind, which does not differ substantially from our own: a basis of agreement should therefore not prove difficult.

20. Incorporation within the sterling area does not seem the right solution for these countries. It would involve an obligation to follow London's lead which might later be embarrassing to them and

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to us, and it would have the political disadvantages of a "clique". A preferable solution would be to link these areas to the sterling area and to each other by an adaptation of the Simon-Reynaud and the existing Anglo-Dutch agreements, the main lines of which would be adapted, in a variable form, from the following headings:

(a) The agreement to be for an experimental term of, say, 3 - 5 years, or alternatively to run at six months' notice.

(b) Rate of exchange not to be changed without the agreement of the other party.

(c) Each party to be prepared to sell to the other against the other's currency such amounts of its own currency as the other may need for current expenditure.

(d) Each party to hold the currency of the other party either without specified limit (if the agreement is for a short period) or with provision for reconsideration when agreed limits are reached. Each party to have the automatic right to extinguish liabilities by sale to the other of gold or of the other party's currency.

(e) Each party to undertake not to transfer exchange resources from one country to another for the purpose of seeking capital safety and to take measures to control the external movements of private capital.

(f) All balances held by the central authority under (c) above to carry a gold guarantee operative on the termination of the agreement.

(g) Every effort to be made to allow the use of currencies so held over as wide an area as possible for the settlement of current transactions.

(h) Investment of balances to be with agreement of other party.

(i) Provision for frequent consultation and exchange of information with a view to joint action to prevent chronic surplus or deficit.

These agreements might take the form of (or be capable of later absorption into) a master agreement between the sterling area, the Dutch, Belgian and French Empires to which other countries similarly placed might later adhere. In the event of a wider international organisation coming into being the "policy" clauses of the subsidiary agreements would presumably be replaced by the rules

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of the organisation, though many of the technical arrangements could conveniently be maintained.

The practical result would be that sterling held by one of these countries could be used not only throughout the sterling area but also throughout the Dutch, Belgian and French Empires, a not inconsiderable territory. How quickly it would be possible to move a stage further and give to sterling held by these countries an unlimited right of use in the U.S.A. and/or in South America cannot now be judged. Although we should insist on reciprocity we should probably gain little advantage from use of these currencies outside the Western European area. Nothing in these arrangements would prejudice the right or ability of the Dutch, etc., to deal direct with other currency centres: indeed, although their probable tendency would be to clear for the most part in sterling, they would doubtless maintain balances and do business in all the other principal currencies.

21. Of the other European allies Norway is a probable adherent to some scheme on these lines, though she may wish to stress her freedom to look to the dollar as much as to sterling; and Greece will probably wish in some way or other to link her fortunes with sterling. It does not seem useful at this stage to consider arrangements with Russia, Poland, Czechoslovakia or Jugoslavia nor, on the other hand, with Germany, Italy or their satellites; in the case of enemies, who will have been deprived of all their exchange resources, it is difficult to see how we can avoid a strictly bilateral clearing procedure in the initial stages.

22. So far as the European neutrals are concerned we need be in no great hurry to give them the advantages of a multilateral system, at least so far as existing balances are concerned. It is to be hoped that the United Nations will take the steps necessary to neutralise the excessive purchasing power which the neutrals will have amassed during the war and to ensure that they take a low place in the queue for available supplies. For the future Sweden, Spain and Portugal might fall naturally into a "Western European" system, though Switzerland might well do her best to stand out as an independent and "free" currency centre.

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23. South America

The existing payments agreements between the sterling area and South America are strictly bilateral, although sales of sterling between one Central Bank and another have often been arranged. These agreements were devised to meet war-time needs before the entry of U.S.A. into the war, their principal objectives being to ensure that the sterling area could buy in sterling and that there should be no "free" market in sterling at a discount. These agreements will not be suitable in their present form for post-war conditions, as they will not provide either for other non-resident sterling to be utilisable in South America or, e.g., for Brazilian sterling to be utilisable in Argentina. It is probable that before we reach the final objective of a single "external" sterling revised arrangements will be necessary, at least for the interim period.

24. Agreements on Simon-Reynaud lines are not suitable for South America. Their currencies are in no sense international and we shall not wish to hold them in large quantities; nor are their exchange authorities sufficiently competent or reliable to make full reciprocity desirable. The most convenient solution for the West Coast and smaller countries who hold little sterling may well be to have no inter-Governmental agreement but to throw them with the existing Central American pool into the U.S. dollar area, thus dealing with them on the basis of U.S. registered sterling and U.S. dollars. With Argentina and Brazil, however, and possibly with others, we have various major interests which should be covered by agreements: in particular we shall wish to see sterling as the currency of settlement, to be able to acquire local currency against sterling and prevent these countries from manipulating exchange rates to our detriment. War-time accumulations of sterling will have to be dealt with specially: in some form or another they should be funded over a period, preferably and if it is not an obstacle to relations with U.S.A. for use in redemption of sterling debt and for special purchases in the sterling area. For future payments we should, in the overriding interest of seeing sterling freely and widely acceptable, resist the temptation to link bilateral payments

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agreements directly with commercial agreements. We should therefore make South American sterling freely transferable throughout the South American area and as far as possible in Europe; and if we are to see it freely used there is little doubt that we shall have to give it convertibility into U.S. dollars through the channel of U.S. registered sterling. This can probably be achieved better by adjusting the existing payments agreements than by introducing an entirely new form of agreement.

25. In the case of South America particularly there are two alternative methods of approach. Given the importance of generalising the use of sterling, we could either make gradual moves towards this objective or we could wait until the opportune moment and then make new agreements as part of more general arrangements. At first sight there is much to be said for making a move at this stage, so as to improve the status and prospects of sterling in South American eyes. But when we come to look at individual cases the difficulties are formidable: Brazil is considering a debt settlement which would mop up sterling balances, any concession of gold or U.S. dollars to Argentina at this moment would wake American suspicions, both countries are willing takers of sterling on present terms and nobody can tell whether we should be able to maintain for the duration of the war a commitment in gold or U.S. dollars taken now. Moreover, any gold or U.S. dollar concession in any particular quarter might whet appetites elsewhere and involve us in wrangles which we should wish to avoid at least during the war. A better solution may therefore be to let things run as they are and start at a given moment with a clean slate, isolating the past from the future. In any case, it would seem that little can be done at the present moment, and that as the war develops we should keep these two alternatives in mind.

26. <u>China and the Far East (excluding British, Dutch and French Empires)</u>

It is perhaps too early to consider where China and the Far East will fit in under post-war conditions, but it would seem reasonable to suppose that it will fall largely under the economic aegis of the United States and that relations with other monetary systems will mainly be through U.S. dollar.

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27. Banking Machinery

In a system on these lines all banks and a large number of firms in the sterling area would be allowed to retain and work with their currency balances while in the same way the banks and nationals of other countries would be allowed to hold sterling subject in some cases to report and, when required, sale to their monetary authority. Thus the commercial banks would handle the great bulk of transactions between themselves and with their overseas correspondents, coming to the central authority only to settle an eventual surplus or deficit.

28. Credit

To the extent that agreements for reciprocal holding of currencies are in force the banking system should have no difficulty in providing the necessary short-term credit to finance international trade (though we shall wish to ensure that London is in a position to provide its proper share of such credit). The transfer risk would be taken off the shoulders of the credit-giver by the monetary authority, leaving him to bear only the credit risk. It is to be hoped that international short-term credit will be strictly limited to these inter-Governmental currency arrangements and to genuine commercial business.

29. Capital Investment

There will doubtless be many demands for provision of finance for capital expenditure overseas, both for the sterling area and elsewhere. Such investment will have to be rationed and directed as a part of general policy on capital investment: in application of the policy close co-operation will be needed between the exchange control authority and the Capital Issues Committee or its successor. It is most important that adequate capital should early be made available for the development and re-adjustment after the war of British enterprises abroad.

30. "Involuntary" capital movements

In addition to voluntary movements of capital there will be heavy involuntary movements caused by changes in the terms and direction of trade which will greatly affect the balance of payments. War-time international trade is on an artificial basis, and a swing over to normal conditions, including the use of international

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banking credit, may make a difference of many millions of pounds on the debtor and creditor position of nations on merchandise account with a profound effect on current balances of payments.

31. Statistics

If movement of capital is to be intelligently directed and if the necessity of correctives on current account is to appear before it is too late, a highly developed statistical service and exchange of statistics between the principal countries will be essential (though exchange of information about individual accounts should be avoided).

32. Correctives and adjustments

In considering monetary agreements the emphasis in this memorandum has been on the importance of stability of exchange rates and of free interchange of currencies on current account. The true correctives of disequilibrium in balances of payments (except in so far as panic capital movements are concerned) lie in the political and economic field, and experience suggests that both the "monetary" remedies applied between the wars, i.e., exchange depreciation and bilateral clearing agreements are ineffective, except in the destructive sense, and harmful. Exchange control machinery may be able to do something here and there to rectify persistent disequilibrium, but by and large unless rich countries can be induced to spend enough and poor countries not to spend too much there is no technical short-cut to equilibrium. Adjustments of exchange rates must obviously not be ruled out where other correctives fail but in the immediate post-war years stability is likely to do more than anything else to get trade going and there would seem much to be said for determining fixed rates of exchange for a period of years and leaving the possible necessity of adjustments to be considered at a later date.

33. Domestic legislation and mechanism

In the following paragraphs a brief description is given of the technical measures necessary to implement the policy outlined above. Certain particular problems arise which will call for more detailed treatment, e.g., international commodity markets, bank notes and travel.

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34. Legislation

The Defence (Finance) Regulations will need to be re-enacted, substantially as they stand, in more permanent form. Parallel legislation will be required in all countries incorporated in the sterling area. Preparation for this legislation should be put in hand as early as possible.

35. Direction of policy

It is essential that exchange policy should be closely co-ordinated with foreign policy generally and particularly with foreign commercial policy. Moreover, some body with adequate authority will be needed to watch the exchange position and ensure that due weight is given to it in the framing of Government policy as a whole.

36. Administration

The twin functions of buying, holding and selling foreign exchange and of administering the exchange control regulations have during the war been carried out, on behalf and for account of the Treasury, by the Bank of England working through the banks. There is no reason to contemplate changes in this system beyond a further decentralisation among wider categories of authorised dealers.

37. The exchange control will continue to operate a monopoly of foreign exchange. Official rates will be published and no dealing in exchange by residents except with an authorised dealer will be permitted. All holdings of exchange will be liable to surrender on demand, but it will be desirable to extend the present system by which traders are allowed to keep balances subject to periodical return: it may also prove desirable to allow the banks to hold foreign balances for their own account rather than as agents and to deal with each other, coming to the Bank of England only to surrender surpluses or to cover deficits. The exchange control on its side must be prepared to buy at official rates, both spot and forward, all foreign exchange accruing to residents.

38. Since capital transactions cannot be distinguished except by inspection, their control entails an examination of all dealings in foreign currency by residents and the supervision of all sterling transactions between a resident and a non-resident. This may seem

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to require an administrative apparatus that might easily become burdensome to the trading and financial community. The remedy is decentralisation. All transactions connected with current trade and ancillary services must be dealt with by authorised dealers without reference to higher authority. We shall need to widen and unify the existing lists of authorised dealers. The responsibility for deciding whether a private institution which applies for full authorisation is to be considered as a bank or not must be assumed by the Treasury and the Bank of England. But a uniform list of authorised dealers comprising the whole Market need not prevent some differentiation between them as regards the facilities they enjoy by way of foreign exchange allocation, forward transactions, etc. Institutions not on the list would be forbidden (even if they call themselves banks or describe themselves as bankers) to do foreign banking business without obtaining permission for each transaction.

39. In peace-time conditions it will be necessary to ride exchange control on as light a rein as possible. But even so it will involve considerable interference with the private affairs and preferences of the public: particularly in such matters as travel and private investment abroad the public must accept restrictions if the ends of stability are to be achieved. Detection and prevention of evasion will be more difficult, particularly if we must contemplate abolition of postal and telegraph censorship which has during the war provided our principal means of detecting evasion. The two most obvious means of capital flight are by way of bank notes and of bearer securities. It should therefore be a first objective both to reduce to a minimum the issue of high sum notes and to discourage by international agreement the marketing of one country's notes in another territory and also to proceed both by domestic action and by international agreement to restrict as far as possible the use and issue of bearer securities. Beyond precautionary measures of this sort we shall be forced to rely to a great extent on co-operation with the banks, the Stock Exchange and the various international markets, but more particularly on accepted standards of conduct by the public and on constant preventive education in the aims and purposes of the control.

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40. Control of outward capital movements

Our present administration attempts to detect all capital movements, whether voluntary or not, and to restrict voluntary movements to those permitted by the Control. For these purposes, residents in the United Kingdom are forbidden, without permission to -

(a) Purchase or otherwise deal in any foreign exchange or transfer sterling to a non-resident.

(b) Pay a non-resident for goods which are not promptly imported into the sterling area, or for services not immediately required there.

(c) Export goods without promptly disposing of them and repatriating the proceeds.

(d) Enter into a commodity transaction with a non-resident without making immediate arrangements to hand to the Exchange Control the proceeds of any sale, or asking the approval of the Exchange Control for the contingent transfer of any purchase price.

(e) Lend a sterling area currency to a non-resident or enter into any transaction or contract giving a non-resident the right to acquire the use of sterling. This covers all forms of credit facility, discounting, guarantees, and such banking services as are normally given by banks to foreign customers.

(f) Purchase securities expressed in foreign currencies in a market outside the sterling area.

(g) Purchase a sterling area security belonging to a non-resident; lend, transfer or assign sterling securities to a non-resident. This ban includes the floating of new issues in a sterling area market, the proceeds of which might in any form be used for the benefit of a non-resident.

(h) Lend, transfer or assign sterling insurance policies, mortgages or similar titles to a non-resident.

(i) Purchase any real estate or fixed asset situated outside the sterling area.

(j) Export bank notes or securities.

41. The banking machinery provided by the authorised dealers and the Customs Import and Export Control is the technical means of ensuring that restrictions (a) to (e) are enforced: though current

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adaptation and modification will always be necessary the general principles are well-known and accepted and the machinery works smoothly. The machinery for enforcing the restrictions under (f) and (g) is mainly provided by the Stock Exchange. Although the existing machinery works reasonably well in war-time conditions it will need strengthening for peace-time. All dealers in securities should be registered and licensed on the lines of a severer "Bucket Shop Bill", we should call for formal undertakings from the various Stock Exchanges as regards transactions with non-residents and dealings in foreign securities, and the Stock Exchange Committees should have formal powers to give binding undertakings on behalf of their members and assume responsibility for their observance. All issues and transfers of title of insurance policies mentioned in (h) are covered by direct arrangements made between the Bank of England, the Insurance Companies and Lloyd's, and these also will need to be substantially maintained. For the restriction under (j) we rely mainly on the Customs and the Censorship.

42. Control of inward capital movements

Exchange control has hitherto been used as a defensive weapon to safeguard resources: thus it has been concerned only to prevent outward movements. But if exchange control is to be used co-operatively in the interest of general stability then the prevention of undesirable inward movements becomes almost equally important. The purpose of control will therefore not be merely to collect foreign exchange without question as to the source, but to enquire into the origin of payments as much in collecting as in distributing, and to impose such limitations on capital transfers to the sterling area as may from time to time seem expedient.

43. As in the case of outward movements the control will rely on the banking machinery to control purchase of sterling in cash form and on dealers in securities to control purchase of sterling securities. The same problems of smuggling will arise as in the reverse direction, and we shall have to rely mainly (in the absence of postal censorship) on the Customs and on international measures to restrict traffic in high sum bank notes and bearer securities.

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44. It is evidently in the interest of stability and confidence that we should limit the intake of capital rather than take it in freely and then refuse to let it out. It should be a definite objective to free as early as possible the sterling assets held by non-residents which are now blocked. So long as non-resident assets are blocked sterling will always remain under a cloud and there will always be a premium on evasion. This is particularly true of blocked sterling accounts (i.e., cash) and we are already taking steps to free such accounts: it is most important that when the time comes for a new drive to re-establish sterling as an international currency there should be no sterling left blocked in private non-resident hands. The blocking of sterling securities owned by non-residents is only a degree less harmful and measures should be taken as early as possible to remove the block: a start might usefully be made with British Government securities.

45. Control of "current" items

One of our principal objectives is to allow "current account" transfers through the "exchange control" net with as little formality as possible. A cardinal rule of the war-time control, which should obviously be maintained, has been that where evidence of an import is shown payment is allowed without question. This implies a close link between the Exchange Control and the Customs to establish the fact of import: but it does not necessarily imply a control of imports by a licensing authority. In the case of invisible imports, the practice of the Exchange Control is to allow, through delegated authority as far as possible, payment of normal current items (e.g., freights, insurance, interest, royalties, etc.) without selective limitation. Again in the case of exports exchange control implies a Customs control over the proceeds of exports so as to ensure that they are repatriated: but it does not necessarily imply a quantitative or directional control of exports by a licensing authority.

46. It may be that when mass capital movements have been eliminated, no positive control of "current account" items will be called for. But if, as seems probable, the need of full employment dominates this country's internal economy after the war and if full

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employment is achieved mainly by means of reconstruction and public works, a heavy pressure may be placed on sterling through the distribution of purchasing power at home without any corresponding increase in output for the export markets. If America and other great industrial nations were to follow a similar policy of full employment, our own demand for imports might be offset by a similar demand for British goods elsewhere. But the risks are plain and in certain circumstances direct licensing of imports and selective limitation of current invisibles may prove necessary in order to discriminate in favour of the more essential supplies. This essentially restrictive weapon, unrelieved by a vigorous export policy, could not fail to make exchange control more burdensome and detailed than it otherwise need be. The more buoyant and secure our export trade, the fewer will be the restraints called for on our imports. But general or selective depreciation of exchange is to be forsworn, and bilateral monetary arrangements for the forcing of exports should be adopted only as a last resource. They may promote exports in a particular direction, but they tend to reduce the turnover of trade by leaving other countries either with too much sterling (in which case, they will avoid exporting to us) or too little (in which case, we shall avoid selling to them).

47. Preparatory action

It is suggested that the following action might be taken forthwith:-

(a) Examine with the Dutch, Belgian and possibly French experts the possibilities of linking up their areas with the sterling area and each other on Simon-Reynaud lines, in such a way that the arrangements could be incorporated in any wider scheme which might come into play.

(b) Draft the permanent legislation to take the place of Defence (Finance) Regulations.

(c) Consider the departmental arrangements for linking exchange policy with other branches of foreign policy.

(d) Consider in more detail arrangements for control of inward capital movements.

(e) Intensify efforts to get rid of blocked sterling.

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~~To-day~~ The Memorandum seems hardly less remarkable for its vision into the two or three immediate post-war years and the conditions that would then have to be faced, than for its application of the accumulated wisdom and experience of the Bank and the City to devising the best means to meet these conditions. Indeed, in less than three years after the end of the war a large measure of the principles set out in the Memorandum had become accepted practice - which, admittedly, the future may modify considerably.

omit?

To mention some of these: Treatment of the more unwieldy sterling balances foreseen (India, Egypt) had become the subject of periodical negotiation to settle in advance the amounts to be released over future periods, usually a year at a time; the principles under which bilateral Payments Agreements had been extended or new ones made ~~have~~ had been more or less standardised as suggested; the issue of high-sum bank notes had (in two stages) been reduced to a minimum. The re-enactment of the Defence (Finance) Regulations took the form of the Exchange Control Act of 1947, which among other things gave power to the Bank to rationalise further the functions of Authorised Dealers, as also suggested.

In the field of statistics, apart from the voluminous collections of the International Monetary Fund, a great deal of progress had been made, mainly through the collaboration of Dominion Central Banks, towards removing anomalies and inconsistencies in balances of payments as set out respectively by the Dominions and Bank of England. The number of returns which banks had been called upon to make was not greatly increased, since that service was already pretty fully developed by 1943.

Less promising, no doubt, was progress towards linking the Sterling Area with the French, Belgian and Dutch Monetary systems.

"The Sterling Area", a memorandum dated 28th March 1944, and circulated confidentially within the Bank, is a particularly clear exposition of its subject - historical and descriptive and without specific recommendations.

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Among other matters on which the Committee or its members expressed views were Censorship, Travel and Emigration.

Censorship

In a note (13.10.1941) Mr.Siepmann said that though the censorship yielded most information about currency not surrendered and securities not registered, the Control relied more on discipline by consent than on enforcement by prosecution. After the war, though self-imposed discipline might be less strict it would still be desirable to avoid cast-iron control. Information about existing resident holdings would be all but complete, and registration could be dispensed with if new acquisitions were made subject to licence.

There should also be less eagerness to get in currency balances, so long as the Control ultimately secured the benefits accruing to holders: panic movements of vagrant capital and tax evasion by way of nominee companies were two inducements to retention which should be out of the way after the war.

"....It is therefore possible to envisage a system of exchange control resting upon tacit and (we may hope) progressively more deliberate assent......relying chiefly upon the direct control exercised by the Customs and very little upon prosecution and penalties for monetary offences..........At the same time it would be advisable to retain very comprehensive powers."

Mr.Thompson-McCausland distinguished between two kinds of censorship in relation to the Control: general, in the form of a check on existing checks (e.g.C.D.3 forms), dropping which would merely be doing without one of several sources of information; and particular, where it provided the only available check. Here it applied to -

(a) Currency surrender and Securities registration, already dealt with by Mr.Siepmann; and

(b) Compensation deals.

For a compensation deal to be possible a resident must be entitled to receive a payment on invisible account* from a non-resident, a large part of which would be unsuitable for the purpose -

insurance

*Export trade being assumed to be adequately covered by C.D.3 procedure and Regulation 5B.

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insurance payments, freights and other reputable business payments. Compensation deals through such payments would not be impossible, but there would be little incentive for them. Admittedly there remained a substantial flow of payments from non-residents outside the above classes of business, but the risk of large-scale compensation traffic through them seemed small.

The one channel which seemed at all dangerous was the "permitted account" accorded, at the Control's discretion, to certain industrial concerns; and on these it was suggested that the exchange control should tighten up its check. (Note: 17.11.1941).

Two years elapsed before the Committee submitted recommendations on travel and emigration. These were sent to the Treasury in the form of memoranda (16.10.1943 and 19.11.1943) and are summarised here.

Travel

The Bank did not consider the question of granting foreign exchange for travel, apart from business reasons, as one to be approached strictly from the point of view of whether the luxury could be afforded or not. (The probability of charges of insularity, and the contacts made with Allied and Dominion troops during the war seem to have influenced a disposition, at the time, towards leniency.)

At least three stages were anticipated:

1. Travel still restricted by war-time legislation;
2. Some freedom of travel to Europe and the Americas;
3. Complete freedom, with adequate transport available.

Any arrangements for 3. would suit 1. and 2. equally well.

Exit Permits, if required for exchange control purposes alone, were not counted on; nor censorship - its value would be destroyed by the personal contacts possible with reasonably free travel. Compensation was left for more general consideration elsewhere.

There should be uniformity throughout the Sterling Area so that evasion of one Control could not take place through another;

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but the possibility was not overlooked that one member might find it convenient to restrict travel less, or another more, than the U.K.

With the <u>business</u> applicant, whose purposes could so easily be supported (by himself, his business, Government Departments, etc.) and which might be "based on the most nebulous subjects", appraisal was very difficult. It was recommended that applications (to be made out not by the traveller but by the business on his behalf) should be judged by his bank on its knowledge of their customer. Travel agencies should be excluded, but could provide exchange on approved applications.

On <u>pleasure</u> travel there should be no differentiation between one class of traveller and another, or relation of its amount, or the amount of exchange granted, to the applicant's standard of life or to his means.

For <u>education</u> the Bank recommended a fixed allocation (for education as a whole) in consultation with the Board of Trade, whose approval of individual applications would be required.

<u>Health</u> applications would need more than the single certificate of a private practicioner, and frivolous applications must clearly be discouraged. A small panel should possibly be set up by the B.M.A......"the Exchange Control would need a buffer to take the responsibility for disregarding medical advice". Treatment should be in the Sterling Area wherever possible.

There were no exchange grounds for discrimination between countries to which travel would be permitted. "Shortage of exchange of a particular sort could not, except in the extreme case, be sufficient justification for refusal of travel facilities."*

Two main scales of allowances were proposed, one for business and one for pleasure. The former should be divided so as to allow a higher scale for America than for Europe (£10 a day might perhaps, it was thought, be over-generous for peace time?). The pleasure allowance should be based on one month's stay irrespective of destination

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*Though this ~~may~~ might read rather strangely ~~to-day~~ later, the dollar (and other hard currencies) situation when the words were drafted was far less strained than after the war

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destination, cruises and luxury tours to be subject to special arrangements with organisers.

All passages (steamship or air) should be bookable in London for sterling.

Banks and travel agencies alike should be allowed to supply exchange. Duplicate applications would be prevented by entry on a special page in passports. Banks and agencies were to issue an F.E.Travel Control Card to each traveller, as a check on the amount of exchange spent and the duration of stay abroad.*

Holders of blocked currencies were not to exceed normal travel rations on their applications, but by arrangement foreign governments could liquidate further amounts for travel purposes. Two kinds of sterling Letters of Credit - Sterling Area (with no restriction as to amount) and World-wide - were recommended.

A very large measure of these recommendations was, in fact, adopted after the war.

Emigration

Views on emigration were hampered by lack of knowledge of what H.M.G.'s policy would be, and recommendations were consequently less specific than in the case of travel.

The letter to H.M.T.which went with the memorandum pointed out that the personal motives behind emigration made the subject extremely difficult; it would therefore be treated only in the widest sense of the word. The Bank already felt, however, that emigration from the sterling to the non-sterling area should be discouraged, and if permitted an emigrant "should not be allowed to transfer his money abroad purely for personal reasons except in accordance with rules laid down by us with due consideration to the state of the national reserves."

The memorandum expressed fears of "compensation" arising from restriction on the transfer of emigrants' funds....."the public must be prepared to accept the need for controls over the assets of emigrants as an essential part of any peace-time Exchange Control".

But

*This was not adopted.

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But in the Bank's opinion, and subject to any restrictions imposed on a quota basis, "....anyone who wants to go, should be allowed to do so irrespective of destination". Their first objective therefore was to fix a basic scale.

In most cases time alone would sort out the genuine emigrant, and transition to non-resident status should therefore not be made too easy. The Bank suggested a four-years period of probation, with a fixed annual allowance (the proposition was expressed as £X per annum or £4X for the 4 years), during which period the Control would keep watch over his assets. After four years the emigrant would be eligible for full recognition as a non-resident.

Persons going abroad to take up permanent posts or "suitable" cases taking the opportunity to make money outside the Sterling Area, might get their ~~4~~ four years allowance in advance.

Certain cases might be granted non-resident status forthwith, e.g. persons who had been non-resident for ~~4~~ four years pre-war, transmigrant aliens and health cases with special medical reports.

Aliens who had been full residents of the U.K. would receive no treatment preferential to that accorded to U.K. residents.

In the treatment of assets, full statements would be required of income, property, etc., sterling or foreign; but permitted transfers could be from either income or capital without question so long as they were within the basic quota. To prevent compensation, and to avoid formal blocking, an emigrant's sterling account would be classified "emigrant to country X", and payments due to him credited to that account only; payments other than known income or from known assets would require permission. Debits would be allowed without enquiry up to an agreed limit, settled in advance.

Foreign currency securities would remain controlled until the emigrant became a non-resident, any specified currencies which he had been allowed to retain must be sold to the Treasury before his departure.

During

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During the probationary period the emigrant, being regarded as still resident, could receive no preferential treatment with regard to death duties (to which he might therefore be liable in two countries).

Pseudo-emigrants (returning with changed minds after an extended holiday!) would require firm treatment.

Applications would be dealt with by the Bank of England only.

Here again the eventual treatment, details of which are a matter of post-war history, did not vary materially from that recommended in 1943.

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