

Declassified E.O. 12356 Section 3.3/NND No. 785017

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10000/109/890



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BRITISH LOAN  
DEC. 1945 - MAR. 1946



785017

HEADQUARTERS ALLIED COMMISSION  
APO 394  
ECONOMIC SECTION

13242/F

29 MARCH 1946

SUBJECT : The British Loan

MAY 6 1946

TO : The Chief Commissioner

1. From the published documents and the public statements of responsible American and British Government Officials, it is clear that the proposed U.S. loan to Britain, the International Monetary Fund, the International Bank of Reconstruction, and the proposed International Trade Organization are each to be viewed as part of an integrated Anglo-American program for the expansion of trade, production, employment, and consumption in all countries, and the creation of a high, stable level of a multilateral and non-discriminatory international trade.

2. The terms of the financial agreement between the U.S. and the U.K., to come into force when the funds for the proposed \$ 3,750,000,000 loan are available, are attached at Appendix "A".

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3. Briefly, the facts of Britain's financial position are these:

- (a) Britain's exports in 1938 were valued at £. 470 million. The announced British target is to expand exports as soon as possible to 175 % of this figure, in order to pay for her necessary imports. An increase of 75 % would be a figure (at 1938 prices) of approximately £. 350 million. Very little increase in exports can be looked for in the categories of food, drink, and raw materials (chiefly coal). It is likely that the whole of the £ 350 million increase will have to come in manufactures, which amounted to £ 365 million in 1938. This class of exports, in short,



will have to be doubled if the target is to be reached. British manufactured exports, at the 1938 figure, were almost 1/5 of the total world trade in this class. Britain would thus have to raise her share from 1/5 to 2/5 of a stationary volume; even with an expanding total of world trade, Britain will encounter strong competition in her efforts to increase, or even maintain, her share.

- (b) The U.K. is faced with an increasingly serious problem arising out of the deterioration in her overseas financial position on capital account. This has taken the form partly of a reduction in overseas capital assets through sales and repatriations during the war, partly of the accumulation of very large external liabilities. The following tables show the growth of U.K. external liabilities:

External Liabilities of the United Kingdom

£ millions

|                          | Net Quick<br>External<br>Liabilities<br>(2)+ | Overseas<br>Loans | Total<br>External<br>Liabilities |
|--------------------------|----------------------------------------------|-------------------|----------------------------------|
| 31st August, 1938(1)+.   | 760                                          | ---               | 760                              |
| " , 1939.1...            | 476                                          | ---               | 476                              |
| 31st December, 1939.(1)+ | 556                                          | ---               | 556                              |
| " 1940.."                | 733                                          | 2                 | 735                              |
| " 1941..                 | 1,192                                        | 107               | 1,299                            |
| " 1942..                 | 1,515                                        | 303               | 1,818                            |
| " 1943..                 | 2,158                                        | 307               | 2,465                            |
| " 1944..                 | 2,773                                        | 300               | 3,073                            |
| 30th June, 1945.....     | 3,052                                        | 303               | 3,355                            |

(1)+ Figures for earlier years are subject to a greater degree of uncertainty in estimating than those for later years.

(2)+ Comprising banking liabilities less assets, and funds held in the United Kingdom as cover for overseas currencies, etc.



External Liabilities of the United Kingdom:  
by areas

£ millions

|                                       | Outstanding on:- |               |               |               |               |
|---------------------------------------|------------------|---------------|---------------|---------------|---------------|
|                                       | 31 Dec.<br>41    | 31 Dec.<br>42 | 31 Dec.<br>43 | 31 Dec.<br>44 | 30 June<br>45 |
| <b>Sterling Area</b>                  |                  |               |               |               |               |
| Dominions.....                        | 139              | 189           | 236           | 342           | 384           |
| India, Burma, and<br>Middle East..... | 399              | 695           | 1,141         | 1,537         | 1,732         |
| Other Sterling Area<br>Countries..... | 318              | 388           | 473           | 555           | 607           |
| <b>Total Sterling Area</b>            | <b>856</b>       | <b>1,272</b>  | <b>1,850</b>  | <b>2,434</b>  | <b>2,723</b>  |
| <b>North and South America.</b>       | <b>240</b>       | <b>256</b>    | <b>278</b>    | <b>280</b>    | <b>303</b>    |
| <b>Europe (1)+.....</b>               | <b>180</b>       | <b>242</b>    | <b>281</b>    | <b>299</b>    | <b>267</b>    |
| <b>Rest of World.....</b>             | <b>23</b>        | <b>48</b>     | <b>56</b>     | <b>60</b>     | <b>62</b>     |
| <b>Total Liabilities</b>              | <b>1,299</b>     | <b>1,818</b>  | <b>2,073</b>  | <b>3,073</b>  | <b>3,355</b>  |

(1)+ Including dependencies of European countries.

In September, 1939, the U.K. had a net total of about £ 4000 million of overseas assets. The British Government has officially estimated U.K. external disinvestment (loss of overseas wealth) from 1939 to 1945 as follows:

United Kingdom External Disinvestment  
(as far as recorded: probably an under estimate)



£ millions

|                                         | Realization<br>of External<br>Capital<br>Assets | Increase<br>in<br>External<br>Liabilities | Decrease<br>or in-<br>crease (-)<br>in Gold<br>and U.S.<br>Dollar<br>Reserves<br>(1) | Un-<br>allocated | Total |
|-----------------------------------------|-------------------------------------------------|-------------------------------------------|--------------------------------------------------------------------------------------|------------------|-------|
| Sept. to Dec. 1939.                     | 58                                              | 80                                        | 57                                                                                   | 17               | 212   |
| Jan. to Dec. 1940.                      | 154                                             | 179                                       | 474                                                                                  | - 6              | 811   |
| " " 1941.                               | 274                                             | 564                                       | -23                                                                                  | 5                | 820   |
| " " 1942.                               | 227                                             | 519                                       | -75                                                                                  | 3                | 674   |
| " " 1943.                               | 189                                             | 647                                       | -150                                                                                 | 3                | 689   |
| " " 1944.                               | 143                                             | 608                                       | -99                                                                                  | 11               | 663   |
| Jan. to June 1945.                      | 63                                              | 282                                       | -32                                                                                  | 16               | 329   |
| Total, (Sept. 1939<br>to June, 1945)... | 1,118                                           | 2,879                                     | 152                                                                                  | 43               | 4,198 |

(1)+ Gold valued at 172/3d. per ounce fine and dollars at £1 = \$4.03.

This loss took the form of selling investments, **4198** incurring debts in the form of sterling balances, and the running down of gold and dollar reserves. The story of the net dollar and gold reserves of the U.K. is told in the following table:

Net Gold and U.S. dollar Reserves of the United Kingdom

£ millions

|                     |                   |
|---------------------|-------------------|
| 31st August, 1938   | 864 (1)+          |
| " 1939              | 605 (1)+          |
| 31st December, 1939 | 548 (1)+          |
| " 1940              | 74                |
| " 1941              | 97                |
| " 1942              | 172               |
| " 1943              | 322               |
| " 1944              | 421               |
| 30th June, 1945     | 453               |
| 31st October, 1945  | 453 (provisional) |

(1)+ Including an estimate of private holdings of gold and dollars subsequently requisitioned.



4. Thus Britain's problems are:

- (a) the deficit in the external balance of payments, which deficit may continue for from 3 to 5 years.
- (b) the indebtedness of the U.K. to overseas countries, in the shape of sterling balances.

The current account deficit arises from the abandonment of U.K. export trade during the war, with the result that British exports fell to 1/3 of their previous volume (see Appendix "B"), and the loss of shipping and overseas investments (the income from which Britain used to purchase her food and raw materials). The increase in overseas debt resulted from Britain's heavy expenditure in India, Egypt, Palestine, etc., for troop pay, supplies, local labor, and military construction. Payment has in the main been effected by crediting blocked sterling accounts in London. These debts may well reach £ 4,000 million in 1946. Further, the dollar/gold position outlook is not favourable, for the reserves have largely been built up by the pay of U.S. forces in the sterling area, a source of income now being eliminated.

5. The order of magnitude of the U.K. deficit in 1946 is estimated to be £ 750 million. In 1947 and 1948 the deficit is estimated at 1500 for the two years together, a total for the three years of some £ 1,250. To meet this deficit while restoring her international trade position, the U.K. has to rely on its own reserves, and, in the main, further external credits (for ready comparison, the proposed loan of \$ 3,750 million is approximately £ 935 million).

6. The International Monetary Fund is not designed to provide the kind of credit Britain needs during the next five years. These are two major conditions to be fulfilled before any international currency system can be expected to work. First, the nations must take steps, outside the currency system, to ensure that their international accounts - their buying and selling - are in at least rough equilibrium. An international currency system will accommodate small and temporary surpluses and deficits (the commercial bank "clearing-house" principle on a world-wide scale), but it cannot



be expected to provide a permanent subsidy to debtor nations nor to allow creditor countries to accumulate international credits without ever taking them in goods. Second, the major countries must prevent the development and spread of another world depression. For in time of economic crisis, the inevitable tendency is for industrial nations to export their unemployment - to stop imports and dump exports. It is clear that the International Monetary Fund cannot meet the problem of financing the U.K. deficit over a possible three to five year period, as the maximum British drawings from the Fund could not exceed £ 200/250 million during 1946 - 1951. In point of fact, the British dollar deficit must be faced and solved before the Bretton Woods system can become a practical possibility, particularly since Britain faces not only a current account deficit, but must also begin to "free" (i.e., make convertible into non-sterling area currencies) the blocked sterling balances (which are already free for transactions within the sterling area). In fact it can be strongly argued that even with the proposed £ 935 million loan and drawings from the International Monetary Fund, the British deficit is not covered. The figures projected from 1946 to 1951 are:

| <u>Resources</u><br>(£ million) |      | <u>Payments</u><br>(£ million) |       |
|---------------------------------|------|--------------------------------|-------|
| U.S. loan proceeds              | 935  | Current account deficit        | 1,250 |
| U.K. exchange reserves          | 400  | Blocked sterling releases      | 350   |
| Fund drawings                   | 200  | (2 % p.a. of £ 3500            |       |
| Canadian loan                   | 225  | million for 5 years)           |       |
| Total                           | 1760 | Total                          | 1600  |

Obviously this slight favourable position could be wiped out and a total deficit incurred by a larger current account deficit or by a higher rate of release of blocked sterling.



7. In return for the loan Britain has agreed to modify her exchange control so as not to restrict payments to residents of the United States or the use by such persons of their sterling balances. This is to become effective immediately. In addition, Britain has undertaken to make arrangements within one year after the effective date of the loan, whereby the sterling receipts of all sterling area countries on current account will be freely available for current transactions in any currency area without discrimination. This ends the so-called "sterling area dollar pool". Within a year the same principle will also be applied to transactions with all countries.

8. In conclusion, the British loan (the purpose of which can be compared to the functions of a commercial paper acceptance house - except that the American Government is providing gigantic credit on a long-term, world-wide basis) is an important and necessary step in the Anglo-American program for achieving a large volume of international trade and for setting up an international financial system which will act as a world-wide clearing house for credits and debits. But as previously pointed out, the International Monetary Fund cannot in itself provide an unending supply of the world's scarce currencies to those countries having a balance-of-payments deficit. In the final analysis the future of international trade in 1946 and after will depend upon whether the U.S. can create an import surplus large enough to prevent a chronic shortage of dollars. The provision of dollars to the rest of the world (in exchange for their goods and services, in order that they may in turn buy U.S. goods and service their debts) depends upon (a) the level of income and employment in the U.S., and, (b) the acceptance of an import surplus by the U.S. In the twenty-one years between 1919 and 1939, the U.S. imported a net value of nearly \$ 11,000 million of gold, thus providing an equal quantity of dollars to the rest of the world. ■

■ In spite of the fact that in the ten years 1930-1939 the U.S. had an import surplus (considering only goods and current services) averaging \$ 100 million per year, the U.S. economy did not provide enough dollars to the rest of the world to offset interest receipts, repatriation of



U.S.-owned capital, and the very large inflow of foreign capital into the U.S. The excess of demand for dollars over the supply has been estimated by the Department of Commerce to have amounted to over \$ 500 million each year from 1930 to 1939. International lending is not a long-term substitute for an import surplus; it should not be allowed to conceal the inexorable logic of economics which requires the largest creditor nation to have the largest import surplus. (International trade in the 19th century flourished when Britain, a free-trade nation, was the world's greatest creditor and the world's greatest importer; it is a grave error, however, to assume that the U.S. has merely to lower tariffs to assume in the 20th century the role Britain played in the 19th century. The hard truth is that Britain had an import surplus because her resource position required it. Considering only the U.S. resource position, to the exclusion of other factors, there is no compulsion for the U.S. to create an import surplus). But to discuss the economics and politics of tariff reductions (as well as the other economic and trade proposals embodied in the plan for the International Trade Organization) is outside the scope of this paper.

9. It is only fair to say that the whole loan-Fund-Trade Organization program has not gone unchallenged by a large body of economic thought on both sides of the Atlantic (see examples in Appendix "C"), which feels that the transition from war-time controls to multilateralism and free exchanges should be carried out over a much longer period of time, lest a world-wide depression find nations stripped of their protective covering which, it must be admitted, can in any one country mitigate, if not cure, the effects of a depression. But if the British loan is approved by the Congress, the U.S. and U.K. Governments will apparently be committed to a program of complete multilateralism, as opposed to regional groupings;

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dollar, sterling, and rouble blocs; and exchange controls. The economic consequence of the coming peace will largely be determined by the success or failure of this program.

*B.E.L. Timmons*  
B.E.L. TIMMONS, Lt.Col.  
CHIEF FINANCIAL ADVISER

Encls.

Appendix "A"  
" " "B"  
" " "C"

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## FINANCIAL AGREEMENT BETWEEN THE GOVERNMENTS OF THE UNITED STATES AND

## THE UNITED KINGDOM

It is hereby agreed between the Government of the United States of America and the Government of the United Kingdom of Great Britain and Northern Ireland as follows:-

1. Effective date of the Agreement.

The effective date of this Agreement shall be the date on which the Government of the United States notifies the Government of the United Kingdom that the Congress of the United States has made available the funds necessary to extend to the Government of the United Kingdom the line of credit in accordance with the provisions of this Agreement.

2. Line of Credit.

The Government of the United States will extend to the Government of the United Kingdom a line of credit of \$ 3,750,000,000 which may be drawn upon at any time between the effective date of this Agreement and 31st December, 1951, inclusive.

3. Purpose of the Line of Credit.

The purpose of the line of credit is to facilitate purchases by the United Kingdom of goods and services in the United States, to assist the United Kingdom to meet transitional post-war deficits in its current balance of payments, to help the United Kingdom to maintain adequate reserves of gold and dollars and to assist the Government of the United Kingdom to assume the obligations of multilateral trade, as defined in this and other agreements.

4. Amortisation and Interest.

(1) The amount of the line of credit drawn by 31st December, 1951, shall be repaid in 50 annual instalments beginning on 31st December, 1951, with interest at the rate of 2 per cent. per annum.

Interest for the year 1951 shall be computed on the amount outstanding on 31st December, 1951, and for each year thereafter interest shall be computed on the amount outstanding on 1st January of each such year.

49 annual instalments of principal repayments and interest shall be equal, calculated at the rate of \$ 31,823,000 per year of \$ 1,000,000,000 of the line of the credit drawn by 31st December, 1951, and the fiftieth annual instalment shall be at the rate of \$ 31,840,736.65



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49 annual instalments of principal repayments and interest shall be equal, calculated at the rate of \$ 31,823,000 for each \$ 1,000,000,000 of the line of the credit drawn by 31st December, 1951, and the fiftieth annual instalment shall be at the rate of \$ 31,820,736.65 for each such \$ 1,000,000,000.

Each instalment shall consist of the full amount of the interest due and the remainder of the instalment shall be the principal to be repaid in that year. Payments required by this section are subject to the provisions of Section 5.

(ii) The Government of the United Kingdom may accelerate repayment of the amount drawn under this line of credit.



# 5. Waiver of Interest Payments.

In any year in which the Government of the United Kingdom requests the Government of the United States to waive the amount of the interest due in the instalment of that year, the Government of the United States will grant the waiver if:-

- (a) the Government of the United Kingdom finds that a waiver is necessary in view of the present and prospective conditions of international exchange and the level of the gold and foreign exchange reserves, and
- (b) the International Monetary Fund certifies that the income of the United Kingdom from base-produced exports plus its net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936-8 fixed at £ 666,000,000, as such figure may be adjusted for changes in the price level of these imports. Any amount in excess of £ 63,750,000 released or paid in any year on account of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks before the effective date of this Agreement shall be regarded as a capital transaction and therefore shall not be included in the above calculation of the net income from invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

# 6. Relation of this line of credit to other obligations.

- (i) It is understood that any amounts required to discharge obligations of the United Kingdom to third countries outstanding on the effective date of this agreement will be found from resources other than this line of credit.

(ii) The Government of the United Kingdom will not arrange any long term loans from Governments within the British Commonwealth after 6th December, 1945, and before the end of 1951 on terms more favourable to the lender than the terms of this line of credit.

(iii) Waiver of interest will not be requested or allowed under Section 5 in any year unless the aggregate of the releases or payments in that year of sterling balances accumulated to the credit of overseas governments, monetary authorities and banks (except in the case of colonial dependencies) before the effective date of this agreement, is reduced proportionately, and unless interest payments due in that year on loans referred to in (ii) above are waived. The proportionate reduction of the releases or payments of sterling balances shall be calculated in relation to the aggregate released and paid in the most recent year in which waiver of interest was not requested.



of the United Kingdom from base-produced exports plus the net income from invisible current transactions in its balance of payments was on the average over the five preceding calendar years less than the average annual amount of United Kingdom imports during 1936-8 fixed at £ 666,000,000, as such figure may be adjusted for changes in the price level of these imports. Any amount in excess of £ 43,750,000 released or paid in any year in account of sterling balances accumulated to the credit of overseas Governments, monetary authorities and banks before the effective date of this Agreement shall not be included in the above calculation therefore shall not be included in the above calculation of the net income from invisible current transactions for that year. If waiver is requested for an interest payment prior to that due in 1955, the average income shall be computed for the calendar years from 1950 through the year preceding that in which the request is made.

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(iv) The application of the principles set forth in this section shall be the subject of full consultation between the two Governments as occasion may arise.



## 7. Sterling Area Exchange Arrangements.

The Government of the United Kingdom will complete arrangements as early as practicable and in any case not later than one year after the effective date of this agreement, unless in exceptional cases a later date is agreed upon after consultation, under which immediately after the completion of such arrangements the sterling receipts from current transactions of all sterling area countries (apart from any receipts arising out of military expenditure by the Government of the United Kingdom prior to 31st December, 1948, to the extent to which they are treated by agreement with the countries concerned on the same basis as the balances accumulated during the war) will be freely available for current transactions in any currency area without discrimination with the result that any discrimination arising from the so-called sterling area dollar pool will be entirely removed and that each member of the sterling area will have its current sterling and dollar receipts at its free disposition for current transactions anywhere.

## 8. Other Exchange Arrangements.

(i) The Government of the United Kingdom agrees that after the effective date of this agreement it will not apply exchange controls in such a manner as to restrict

(a) payments or transfers in respect of production of the United States permitted to be imported into the United Kingdom or other current transactions between the two countries or

(b) the use of sterling balances to the credit of the United States arising out of current transactions.

Nothing in this paragraph (i) shall affect provisions of Article VII of the Articles of Agreement of the International Monetary Fund when those Articles have come into force.

(ii) The Government of the United States and the United Kingdom agree that no later than one year after the effective date of this agreement, unless in exceptional cases a later date is agreed upon after consultation, they will impose no restrictions on payments and transfers for current transactions. The obligations of this paragraph (ii) shall not apply

(a) to balances to kind countries and their nationals accumulated before this paragraph (ii) becomes effective; or

(b) to restrictions imposed in conformity with the Articles of Agreement of the International Monetary Fund, provided that the Governments of the United Kingdom and the United States will not continue to invoke the provision of Article XIV Section 2 of those Articles after this paragraph (ii) becomes



### 8. Other Exchange Arrangements.

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(b) the use of sterling balances to the credit of the United States arising out of current transactions.

Nothing in this paragraph (i) shall affect provisions of Article VII of the Articles of Agreement of the International Monetary Fund when those Articles have come into force.

(ii) The Governments of the United States and the United Kingdom agree that no later than one year after the effective date of this agreement, unless in exceptional cases a later date is agreed upon after consultation, they will impose no restrictions on payments and transfers for current transactions. The obligations of this paragraph (ii) shall not apply

(a) to balances to third countries and their nationals accumulated before this paragraph (ii) becomes effective; or

(b) to restrictions imposed in conformity with the Articles of Agreement of the International Monetary Fund, provided that the Governments of the United Kingdom and the United States will not continue to invoke the provisions of Article XIV Section 2 of these Articles after this paragraph (ii) becomes effective unless in exceptional cases after consultation they agree otherwise; or

(c), to restrictions imposed in connection with measures designed to uncover and dispose of assets of Germany and Japan.

(iii) This Section and Section 9 which are in anticipation of more comprehensive arrangements by multilateral agreement shall operate until 31st December, 1951.



## 9. Import Arrangements.

If either the Government of the United States or the Government of the United Kingdom imposes or maintains quantitative import restrictions, such restrictions shall be administered on a basis which does not discriminate against imports from the other country in respect of any product; provided that this undertaking shall not apply in cases in which:

- (a) its application would have the effect of preventing the country imposing such restrictions from utilizing, for the purchase of needed imports, inconvertible currencies accumulated up to 31st December, 1945; or
- (b) there may be special necessity for the country imposing such restrictions to assist, by measures not involving a substantial departure from the general rule of non-discrimination, a country whose economy has been disrupted by war; or
- (c) either Government imposes quantitative restrictions having equivalent effect to any exchange restrictions which that Government is authorized to impose in conformity with Article VII of the Articles of Agreement of the International Monetary Fund.

The provisions of this Section shall become effective as soon as practicable, but no later than 31st December, 1946.

## 10. Accumulated Sterling Balances.

- (1) The Government of the United Kingdom intends to make agreements with the countries concerned, varying according to the circumstances of each case, for an early settlement covering the sterling balances accumulated by sterling area and other countries prior to such settlement (together with any future receipts arising out of military expenditure by the Government of the United Kingdom to the extent to which they are treated on the same basis by agreement with the countries concerned). The settlement with the sterling area countries will be on the basis of dividing these accumulated balances into three categories:

- (a) balances to be released at once and convertible into any currency for current transactions;
- (b) balances to be similarly released by instalments over a period of years beginning in 1951; and
- (c) balances to be adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a



the country imposing such restrictions from utilizing, for the purchase of needed imports, inconvertible currencies accumulated up to 31st December, 1946; or

- (b) there may be special necessity for the country imposing such restrictions to assist, by measures not involving a substantial departure from the general rule of non-discrimination, a country whose economy has been disrupted by war; or

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- (c) either Government imposes quantitative restrictions having equivalent effect to any exchange restrictions which that Government is authorized to impose in conformity with Article VII of the Articles of Agreement of the International Monetary Fund.

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(a) balances to be released at once and convertible into any currency for current transactions;

(b) balances to be similarly released by instalments over a period of years beginning in 1951; and

(c) balances to be adjusted as a contribution to the settlement of war and post-war indebtedness and in recognition of the benefits which the countries concerned might be expected to gain from such a settlement.



The Government of the United Kingdom will make every endeavour to secure the early completion of these arrangements.

(ii) In consideration of the fact that an important purpose of the present line of credit is to promote the development of multi-lateral trade and facilitate its early resumption on a non-discriminatory basis, the Government of the United Kingdom agrees that any sterling balances released or otherwise available for current payments will, not later than one year after the effective date of this agreement, unless in special cases a later date is agreed upon after consultation, be freely available for current transactions in any currency area without discrimination.

#### 11. Definitions.

For the purposes of this agreement:

(i) The term "current transactions" shall have the meaning prescribed in article XIX (i) of the articles of agreement of the International Monetary Fund.

(ii) The term "sterling area" means the United Kingdom and the other territories declared by the Defence (Finance) (Definition of Sterling Area) (No.2), Order, 1944, to be included in the sterling area, namely the following territories excluding Canada and Newfoundland, that is to say;

- (a) any Dominion
- (b) any other part of His Majesty's dominions,
- (c) any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Majesty and is being exercised by His Majesty's Government in the United Kingdom, or in any Dominion,

- (d) any British Protectorate or Protected State,
- (e) Egypt, the Anglo-Egyptian Sudan and Iraq,
- (f) Iceland and the Faroe Islands.

#### 12. Consultation on Agreement.

Either Government shall be entitled to approach the other for a re-consideration of any of the provisions of this agreement, if in its opinion the prevailing conditions of international exchange justify such re-consideration with a view to agreeing upon modifications and amendments to their respective legislatures.

Signed in duplicate at Washington, District of Columbia,  
this 6th day of December, 1945.

...rate is agreed upon after consultation, be freely available for current transactions in any currency area without discrimination.

#### 11. Definitions.

For the purposes of this agreement:

- (i) The term "current transactions" shall have the meaning prescribed in article XIV (i) of the articles of agreement of the International Monetary Fund.
- (ii) The term "sterling area" means the United Kingdom and the other territories declared by the Finance (Finance) (Definition of Sterling Area) (No.2), Order, 1944, to be included in the sterling area, namely "the following Territories (excluding Canada and Newfoundland, that is to say;

- (a) any Dominion  
(b) any other part of His Majesty's dominions,  
(c) any territory in respect of which a mandate on behalf of the League of Nations has been accepted by His Majesty and is being exercised by His Majesty's Government in the United Kingdom, or in any Dominion,

- (d) any British Protectorate or Protected State,  
(e) Egypt, the Anglo-Egyptian Sudan and Iraq,  
(f) Iceland and the Faroe Islands."

#### 12. Consultation on Agreement.

Either Government shall be entitled to approach the other for a re-consideration of any of the provisions of this agreement, if in its opinion the prevailing conditions of international exchange justify such re-consideration with a view to agreeing upon modifications for presentation to their respective legislatures.

Signed in duplicate at Washington, District of Columbia,  
this 6th day of December, 1945.

For the Government of the United States of America:

FRANK M. VINSON,

Secretary of the Treasury of the United States of America.

For the Government of the United Kingdom of Great Britain and Northern Ireland:

FALLENAX,

His Majesty's Ambassador Extraordinary and Plenipotentiary at Washington.

APPENDIX "B"

## UNITED KINGDOM COMMERCIAL EXPORTS

|         |            |      |      | £ millions | Index of<br>Volume |
|---------|------------|------|------|------------|--------------------|
| 1938... | ....       | .... | .... | 471        | 100                |
| 1939... | ....       | .... | .... | 440        | 94                 |
| 1940... | ....       | .... | .... | 411        | 73                 |
| 1941... | ....       | .... | .... | 365        | 56                 |
| 1942... | ....       | .... | .... | 270        | 36                 |
| 1943... | ....       | .... | .... | 233        | 29                 |
| 1944... | ....       | .... | .... | 258        | 30                 |
| 1945,   | Jan./Sept. | .... | .... | 272        | 42 (1)             |

(1) Increase of exports in 1945 is partly due to exports for relief purposes.

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Copied from the London "Times" of 12 December 1945

THE WASHINGTON AGREEMENTS

CONDITIONS OF LOAN

CONSEQUENCES FOR EMPIRE TRADE

To the Editor of the Times

Sir,--The financial agreement with the United States is for a loan upon conditions which are calculated to ensure default. Though the sum we are entitled to borrow may seem large, it will not last long unless we can bring our balance of external payments quickly back to equilibrium. Yet the conditions attached must serve to prevent our doing this.

The readjustment of our balance of payments is a most formidable task, requiring, as the Prime Minister has pointed out, an export trade about 75 per cent. greater in volume than before the war, if our imports are not to be curtailed. Readjustments on this huge scale can never be effected by the free play of market forces alone. We need every aid which deliberate arrangement and planning can supply. More the less we have promised to eschew such aids and to leave everything, or almost everything, to the chances of international competition.

By the convertibility undertakings of the financial agreement all incentive to other countries to buy from us because we buy from them will be removed in about a year from now. Moreover, any part of the huge accumulated sterling balances which countries in the sterling area are allowed to spend at all must be made equally available for dollar as for sterling purchases. We undertake not to restrict our imports of any commodity from the United States, unless we curtail proportionately our imports from the Commonwealth, though we may, it appears, exempt imports from countries with "inconvertible currencies" from such restrictions. Thus if we were to curtail our imports of American tobacco, we should have to reduce our imports of Rhodesian tobacco in the same proportion, though we reserve the right to import Turkish tobacco without restriction. This reservation is doubtless reasonable in itself, but, taken in conjunction with the other undertakings, it tends

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APP. "C"

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To these renunciations, it should be noted, we are already pledged by the terms of the financial agreement. Our ability to pay our way is likely to be further impaired by the project. Surely, it is a dangerous illusion to suppose that it may prove our salvation, because it purports to aim at reducing trade barriers. There is not a syllable in the document to which our Government has declared its "full agreement on all important points" to suggest that a country with a strongly favourable balance of payments should be content with a lower tariff than a country with



an adverse balance. On the contrary, it is clearly contemplated that tariff systems which have hitherto been comparatively high may remain higher than those which have been comparatively low. With the steady progress of American industrial efficiency much of the United States tariff has become far higher than is needed for complete protection against outside competition. It would be easy, therefore, for the United States to offer a reduction of duties which might look "substantial", but which would do little in practice to increase her imports. Nor is it cynical to suggest that this, or something like this, is what she is likely to offer; the need to secure the support of Congress makes the adoption of this criterion virtually inevitable.

In return for this we are expected to "eliminate" Imperial preference. Nearly half our exports before the war went to Empire markets. In most of these markets, and in most lines of trade, we had the benefit of preferential rates of duty, and in some of them we were further assisted by a system of "quotas" on foreign imports which will now be outlawed. On the other side, many Empire countries received great benefit from the preferential treatment they enjoyed in the British market. For example, our sugar colonies in the West Indies and elsewhere were rescued from probable disaster by the substantial preferences on sugar which were granted by the United Kingdom and by Canada, though the preferential price that they received (about £11 5s. a ton in 1938) was far lower than the price obtained by the neighbouring American island of Porto Rico (about £16) through the mechanism of a customs union. While preferences are now to be eliminated as discriminatory, customs unions, which may be far more discriminatory, are to be allowed. We may thus drift towards the position of an economic Little England in a customs union world. It is wishful thinking to pretend that such conditions are likely to help us to maintain our export trade 75 per cent. larger than before the war.

The decision to accept the financial agreement has already been taken by the Government. It can be defended by an appeal to the many grave and obvious disadvantages which would have ensued if the negotiations had broken down. In all the circumstances this argument may be decisive. But this is not a good reason for optimistic distortions of the consequences of what has been arranged. The disillusionment and recriminations which inevitably lie ahead will be the greater in proportion as we cultivate illusions now.

I am, Sir, yours faithfully,

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I am, Sir, yours faithfully,

HUBERT E. HENDERSON.

All Souls College, Oxford, Dec. 10.

Sir,--The outcome of the negotiations in Washington confirms the fears of those who opposed the approach to international reconstruction adopted by the late Government. Despite the repeated assurances made, the conversations on the "official level" have so deeply committed this country that no escape could be found in the last lap by an obviously anxious Cabinet. The lesson of the 1920's has not been learned.



Once more the country is committed on the international terrain (of such vital importance to this country) to the almost immediate restoration of a free market mechanism which has been clearly shown in the inter-war period to be incapable of reestablishing and maintaining economic equilibrium-full employment-and steady progress. This fateful decision was forced upon us by the failure of our experts to concentrate during the war on the problems of the immediate transition period.

No alternative approach was even envisaged. The shock with which the termination of lendlease was received in the highest quarters bears eloquent testimony to this improvidence. In the absence of alternatives or transitional arrangements a substantial immediate loan from the United States was forced on us, at whatever long-run cost. So it came about that the British Government was persuaded to sign an agreement pledging this country to monetary *laissez faire* and severe fiscal limitations, with a House of Commons the overwhelming majority of which is committed to a planned reconstruction of our war-weakened economic system. This, surely, is the travesty of democratic deliberation and decision.

The consequences of the Agreement are serious: (a) It brings to an end within a year the sterling area which permitted the automatic finance of multilateral trade within the Commonwealth and its associated territories, and this without the assurance that the world-wide system dominated by the United States will not be flung into a deflationary spiral when the war-caused shortages end. No monetary agreements or quantitative regulations with like-minded countries are permitted to facilitate our exports.

(b) By making sterling prematurely convertible into dollars the agreement forces us to default upon a large part, and to block almost the whole of the rest, of the sterling balances owned largely by poor countries, balances which are now freely available within the sterling area. The release of a fraction convertible into dollars (while speeding the exhaustion of the loan) cannot possibly offset the injury inflicted by this procedure.

The principles and rules of the proposed commercial organization, if not modified and suitably reinterpreted, would render any long-term development programme for Europe and the Commonwealth impossible because that area is an oceanic conglomeration of loosely associated countries. Yet it permits continental empires to isolate themselves. This is the result of the illogical prohibition of preferential

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The principles and rules of the proposed commercial organization, if not modified and suitably reinterpreted, would render any longterm development programme for Europe and the Commonwealth impossible because that area is an oceanic conglomeration of loosely associated countries. Yet it permits continental empires to isolate themselves. This is the result of the illogical prohibition of preferential and reciprocal purchase agreements while permitting any arbitrary regulations within customs unions which represent nothing but 100 per cent. preference. The restrictions on the reciprocal exchange of goods between "independent" countries, and on State trading, expose us to the full force of the bargaining power of the United States, which rests on her lending capacity, and make a planned expansion of our foreign trade impossible. They stabilize the technical superiority of continental America based on mass-production, which poorer and smaller areas cannot introduce without forming regional arrangements for their economic planning.

Yours, &c.,

THOMAS BALOGH.

The Reform Club, Pall Mall, S.W. 1, Dec. 9.

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