

FINANCIAL RELATIONS WITH THE U.S.A.Pre-war: American Debt Settlement

In November 1938 some suggestions were put forward within the Bank for a new settlement of the Debt.

The last token payment on the Debt had been made in December 1933. In April 1934\* H.M. Government apparently decided that even if token payments were continued this country would be regarded as in default. The Americans themselves seem to have been in some doubt as to what constituted default, for they put the question to their Attorney-General, who in May gave it as his opinion that Great Britain was not in default. No doubt he expected this country to make a further token payment in June, but the U.K. did not respond to this encouragement.

The signing of a Trade Agreement\*\* created another psychological opportunity for endeavouring once more to make a debt settlement. The amount of resentment in the United States was very large, and the amount of goodwill to be gained if a settlement could be arrived at was correspondingly important.

The proposal briefly was to pay the whole of the principal of the Debt, but to cancel all interest - past payments of interest to be counted as principal - and to spread payments over, say, forty years (about £10 million a year). A lesser sum might be acceptable if the United Kingdom would lease to the U.S.A. one or two naval bases in the West Indies.

On 19th December Mr.Cobbold wrote the following memorandum:

- "1. The general political situation suggests that, whether or not there is to be a crisis in the Spring, we ought to go into 1939 as well armed as possible on the financial side.

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\*On 13 April 1934 the Johnson Act was passed - an Act primarily to make it unlawful for persons in the U.S.A. to deal in the securities, etc., of any foreign government in default on its obligations. During the Spanish Civil War it was invoked to prevent either side from buying arms from private U.S. manufacturers on credit. With the advent of a situation in Europe which made it virtually impossible for the U.S.A. to remain entirely neutral, a further interpretation of the Act stressed that it did not preclude the U.S. Government or its agencies from making such foreign loans, and thus prepared the way for Lend-Lease.

\*\*On 17 November 1938. (Cmd.5882)

2. Looked at solely from this point of view there is a great deal to be said for -

(a) Strengthening the E.E.A. gold reserves so as to make as nearly sure as possible that we shall not have to make a second transfer during the year.

(b) Increasing the liquid resources of the Issue Department (other than gold) to ensure that we can if necessary take care of the heavy new issues which will be required for defence purposes.

(c) Reaching a settlement with U.S. over war debts.

3. The only evident way of doing all three things at once would be by -

(a) Revaluation of gold in Issue.

(b) Set aside (in gold) of the profit on revaluation (less losses in E.E.A.) towards settlement of U.S. Debt.

(c) Increase of fiduciary issue (well beyond present limit of £260 million) against transfer of gold from Issue to E.E.A.

4. If nothing can be done about the U.S. Debt, there is still a case for meeting 2(a) and (b) by a larger transfer of gold to E.E.A. than at present proposed and a corresponding increase in the fiduciary issue limit, with or without revaluation."

The Governor decided not to take the Debt question up with the Treasury, partly because he had already done so some time previously, and partly because he understood that the U.S. Treasury as well as H.M. Treasury thought it best to leave things as they were.

The need for the closest possible financial relations with the United States, in war as in peace, needs no explanation. At first a matter simply of realising liquid and other assets to meet immediate and growing expenditure, the problem became, under Lend-Lease, one of moderating a resultant increase in resources which looked like growing so rapidly as to embarrass; and subsequently a long struggle to convince the Americans that, notwithstanding their substantial size these reserves were no more than adequate in the face of a much more rapid growth in liabilities

As with the Chapter on Reserves, the treatment of a long period of liaison, discussions and negotiations of agreements by division into shorter periods seems the clearest course to take - indeed the two chapters are so largely concerned with the protection of reserves that their close association (and a little inevitable overlapping) should perhaps be pointed out once more. The following five periods were fairly well defined, though pressure on those responsible for negotiation was greater in the fifth and much the longest period, which really contained several phases difficult to distinguish very clearly:-

1. "Cash and Carry": 1939-Summer 1940
2. From the fall of France to Lend-Lease: Summer 1940-March 1941
3. Lend-Lease to the entry of the U.S.A. into the war: March-December 1941
4. December 1941-autumn 1942
5. Autumn 1942-December 1945.

#### 1939-1940

In this, which became known as the "Cash and Carry", period - because in fact payment for a growing volume of contracts for war material of all kinds, and for its shipment, had to be made in cash - a large proportion of the required dollars was raised by the sale of gold, the remainder by the disposal of other assets.

Discussions between the British and American Treasuries about measures that might be taken on the outbreak of war appear to have begun in April 1939 - without commitments on either side. The Bank were kept informed, but were not directly involved. By this time the U.S. Treasury seems to have been in possession of a draft of the Defence (Finance) Regulations, and these would form a background for conversations about the liquidation of dollar securities, the sale of gold and the possibilities of borrowing. It seemed unlikely that borrowing would be possible (in view of the Johnson and Neutrality Acts) or that help would be forthcoming from the American Government on the liquidation of securities. America would hardly refuse to buy gold, provided it could be transferred to that country.

The French thought that there would be a reflux of capital to France on the outbreak of war, and were not concerned about the sale of securities; while Belgium, Holland and Switzerland were afraid to enter into discussions which might become known in Germany, where they would be accused of siding with the Democracies.

A little before the war Lord Riverdale recommended the establishment of a Purchasing Commission in the U.S.A. and Canada; and during the Summer of 1939 a barter transaction had been arranged under which rubber would be exchanged against cotton.

Towards the end of September there was talk of a mission to explore the possibilities of borrowing in America, and in November some discussion on a proposal, originating in the Treasury, that British banks should draw dollar bills on American banks, to be accepted and discounted in America, and renewable up to some fixed agreed date. Though communicated to the British Embassy in Washington this idea does not seem to have been put up to the U.S. Treasury.

In the late autumn of 1939 Mr. Whigham went to the United States to arrange for the raising of dollars against

*vested*

vested securities. After an interview with Mr.Morgenthau\* and the Securities and Exchange Commission\*\*, he reported that the U.S.Government was unable, directly or indirectly, to assist by loans; that borrowing on securities, even if possible to the extent necessary, would probably draw more immediate attention than sale; and that even if any other form of loan were possible it would have to be against securities. He therefore advised vesting by groups of securities, and their sale in suitable order. The U.S.Treasury and the Securities and Exchange Commission were of the same opinion.

Expectations of action by the U.K. had already caused several American banks to approach the Embassy, on which the Governor wrote to the Treasury (27.9.39):-

"....I can hardly believe the Embassy can have such contacts with the New York Banks.....without endangering the future...."

"....You cannot, in America any more than elsewhere, accept advice, help and introductions from highly competitive Bankers without the risk that eventually all but the favoured one will make charges and allegations of one sort and another against the Embassy."

The Embassy themselves saw danger but were glad to be warned by the Treasury to avoid entanglements. Moreover the American Ambassador in London (Mr.Kennedy) had approached the Chancellor and had offered his services, presumably on a temporary basis. The Governor suggested that Mr.McKenna\*\*\* should be asked to take charge of the liquidation of securities in the U.S.A., but by 27th October it had been decided to send Mr.Whigham. At this time, according to the Treasury estimates, foreign securities marketable in the U.S.A. amounted to about \$600 million, and in Canada to about Can.\$150 mn. (A list of these securities was shown to Mr.Kennedy and probably sent by him to Washington). The adverse balance of the U.K. with the U.S.A. was estimated at about £100 million - an estimate which was soon increased.

It was thought preferable to sell securities rather than to ship gold - which should be kept for use when the securities market was adverse. The Treasury were somewhat disappointed at the poor prospects of a loan against securities, enabling securities to be

retained

\*\*\* Chairman of the Midland Bank.

\* Secretary of U.S.Treasury (1933 - mid.1945).

\*\* A protecting body with a comprehensive programme (whose principles embody the "philosophy of disclosure and information") for the regulation and supervision of U.S.securities markets. Set up under the Exchange Act (1934). Five members appointed by President.

retained until prices were favourable; and if there were no loan they thought the shipment of securities would be apt to depress the market. But Mr. Kennedy thought the immediate future a favourable opportunity for sales, and the Governor was anxious to seize this advantage.

The French also had about £175 million securities to dispose of, and by mid-October had suggested that the two Governments should co-ordinate sales. They were not ready to vest, however, till December, and where owners had been mobilised not till February 1940, while the British hoped to market securities much earlier. Later, it appeared that the French were in no hurry to sell, preferring to unload gold on the U.S.A. in some apprehension that this might not always be possible.

Apart from political considerations the British would doubtless have entrusted their securities business to Messrs. J.P. Morgan & Co., as in the previous war, but the U.S. Treasury, the British Embassy and Mr. Kennedy were insistent that it should be conducted by a British agent. It was nevertheless desirable that he should have the benefit of Morgans' advice and that dealings should be handled by them, though without their name appearing.\* So important was it said to be to avoid disclosure of their activities that Mr. Whigham had to remove from Morgans' offices and take premises with the British Purchasing Commission (although his room remained easily accessible from Morgans' in the same building).\*\* As a depository for the securities the Bank of Montreal in New York was selected, but in order to avoid large transfers of securities from other banks seventeen of these were eventually appointed their agents. (H.M. Treasury did not require the Bank of Montreal to guarantee these agents, though the question of doing so was considered.)

Long

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\* Secrecy was preserved through the use of various brokers and by delivering securities from the Bank of Montreal or from one of its agents as thought advisable. (Tel. No. 16, 30.11.39).

\*\* In April 1940 a resolution came before Congress to vote money for an enquiry into foreign propaganda in the U.S.A. This led to the destruction of certain papers, to be on the safe side.

1939  
Long before a Vesting Order was made, a New York financial journal (4th November) stated that the British Government had been a steady but cautious seller of securities in the New York Stock Market during the past two weeks.

In the middle of November Mr. Whigham suggested that instead of issuing a Vesting Order, which might have an adverse effect on the market, a separate letter should be sent to each owner of selected securities, asking him whether he were willing to sell. When the replies were received a decision could be made as to which securities to accept. Each owner would only know that securities of his had been accepted, and no-one would have knowledge of how much had been requisitioned altogether. This idea was not thought very practicable by the Treasury or by the Bank and was later discarded by Mr. Whigham, as it was thought securities might not be offered in sufficient quantities.

On 21st November Mr. Whigham furnished a list of securities suggested for a first vesting, totalling about £200 million; he hoped the Vesting Order could be made at once. The list included no U.S. Government Bonds, which were reserved for use should vested securities not be sold quickly enough. H.M. Treasury, however, were now thinking of delaying, until early in 1940, the issue of an internal loan (3% War Loan) and did not wish to vest any securities before that operation. Individual private sales were proceeding steadily at the satisfactory rate of about £100 million a year, and it seemed risky to press a greater volume of sales on the market. Mr. Whigham still thought that a vesting of securities, though of smaller amount, should take place to enable him to take advantage of favourable market conditions. He pointed out that the funds in London resulting from vesting should support prices and assist the internal loan. Delay, in view of the considerable newspaper talk about the volume of foreign sales in New York, might be unfortunate. Morgans also thought that vesting should come at once. The market expected something of the sort, and if they saw that selling was to be orderly, the effect after the first reaction might, as likely as not, be good.

On 1st December the Treasury advised Mr. Whigham with the Governor's concurrence that they thought it best to defer a  
decision

before vesting Mr.Morganthau made a further suggestion. On 9th January he told the Financial Adviser to the Embassy that after discussion with the President and Mr.Jerome Frank (Chairman of the S.E.C.) he considered that it would be of material advantage to both sides if any securities of which substantial blocks were held could be kept off the market and sold instead to <sup>the</sup> issuing corporations. (In most American States the corporations were free to buy their own securities) (Tel.No.30 9.1.40). He attached special importance to joint action by the British, French and Canadian authorities on these lines. However, having reported that Morgans were unanimous in thinking the proposal impracticable, Mr.Gifford on 6th February submitted to Mr.Morganthau a "reasoned statement against his scheme", which the latter received well, and withdrew from the scheme altogether. In a private letter about a month later Mr.Gifford referred to the idea that to-day corporations would buy their own stocks on a large scale as "ridiculous".

Before proceeding to the first vesting, <sup>en</sup>quiries were made as to the possibility of action by the Union of South Africa on registration and vesting. It appeared that the Union Treasury had no information as to the amount of foreign securities held in the Union, but thought the total small and widely distributed. They did not propose to do anything at this time.

At the beginning of February the U.S.Treasury were apparently still relying on their understanding that the British would prefer to sell securities rather than gold, and the Embassy thought some further explanation of U.K.intentions might be necessary. The Treasury replied (Tel.191 7.2.40) that the adverse balance on current account was now put at £140 million or more. Since no money could be got from securities except by outright sale, it would be "futile now to think that we could meet demands without heavy shipments of gold". Moreover, it was very unlikely that markets would be good in the months <sup>h</sup> ahead and they were "not willing to see the securities slaughtered". The approach must be practicable and flexible, not theoretical. A good deal of information about the British and Empire balance of payments was supplied, to be given in confidence to Mr.Morganthau.

Meanwhile

decision until Mr. Kennedy arrived in New York in a few days for a joint consultation. There would be no difficulty in meeting payments in the first war year, private sales had been adequate and the market was becoming less favourable.

Mr. Kennedy confirmed the views of Mr. Whigham and Morgans on immediate vesting but suggested a much smaller amount. Mr. Whigham [redacted] now decided to return to London for a full discussion.

On 16th December the British Embassy reported that Mr. Morgenthau was disappointed that the recommendation to vest immediately 50 or 60 securities, though supported by himself and the S.E.C., had not been adopted. "He is inclined to suspect that H.M. Government may have changed their intention of selling securities rather than gold, and to complain that such a change would weaken his hand as against opponents of the Administration's gold purchase policy."

The Treasury replied (27th December) that they had never had any intention of selling securities to the exclusion of gold. "Our policy has been to cover at any rate a substantial part of our requirements by the sale of securities provided they can be absorbed by the market. Until fairly recently it looked as though voluntary sales of securities, which have totalled more than £25 million since the outbreak of war, would be maintained. There appears no doubt however that such sales are now falling off." Vesting was probable fairly early in the New Year.<sup>x</sup>

In January 1940 Mr. Carlyle Gifford took Mr. Whigham's place in New York.

By this time the French had given up their intention of requisitioning securities, and found the British expectation of doing so rather embarrassing. ("The Frenchman, it appears, will give up his life but not his foreign securities"). But  
before

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<sup>x</sup> The first Vesting Order was issued on 17th February 1940, covering a rather general list of 60 securities valued at \$120 million, all but two being common stocks, and representing 23,400 holdings, of which 6,100 were in the U.S.A.

risk either increasing their indebtedness to banks or facing the problems involved in recovering payment from foreign governments. The proposed new corporation would have had a capital of \$40-60 million, provided by American, English and French groups, with American management. Financed itself by the banks, it would in turn have financed the manufacturers during production, bought the planes on delivery, and re-sold them to the Allied governments. The scheme would have obviated an alternative of allowing the latter to postpone payment of about \$300 million for nine months. It was rejected as being, politically, an unwise proposal to make, and also because the advantages of postponing payment for nine months were not obvious at the time.\*

The general situation, however, was of course completely altered by the collapse of France, and the rush of orders which then ensued. During July and August gold had to be rapidly used up, and by the end of August it seemed doubtful whether U.K.reserves would last out until further assistance from the U.S.A.could be forthcoming.

At this point it should be helpful to have a representative view of the general situation, with particular reference to the reserves and their prospects. This is given in the memorandum which follows here, and which sets out the position as it appeared to the Treasury at the time\*\*.

In the Second World War the year 1940 corresponded in the financial field to 1917 in World War I, and the following memorandum recalls one by Lord Keynes written 23 years earlier. (A summary of the memorandum and an appendix on the Sterling Area are here omitted.)

GOLD

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\*A similar idea, put up by the French in 1939 had been rejected by Mr.Morganthau (Treasury L.18.4.1940).

\*\*The memorandum is undated but evidently belongs to the second half of August. It was possibly written for the Chancellor by Sir Richard Hopkins (Second Secretary to the Treasury).

•One or two of the figures have evidently been slightly amended by the Bank on more up-to-date information.

Meanwhile, some of the securities selected for vesting had risen to a premium of several points in London over New York. This was because U.K.residents, wishing to purchase dollar securities, could do so only from other U.K.residents. Certain securities were therefore eliminated from the vesting list and others substituted. The Bank told Mr.Gifford that after the Vesting Order they proposed to prohibit transactions in U.S.securities between U.K.residents. This would eliminate price differentials and encourage holders to sell in the U.S.A. - their only outlet.

There had been discussion as to whether American stamp taxes on deliveries and transfers of stocks would have to be paid by the British Government, but although the Bank of Montreal thought these might be avoided the State Department ruled that no exemption would be possible.

Three days after the first Vesting Order came into force the Bank telegraphed to Mr.Gifford that sales should not be hastened until we had seen how the market was developing. At the beginning of March the French were still unwilling to vest, and the Secretary of the U.S.Treasury disclaimed any intention of putting pressure on them or on the U.K.to do so.

In March it appeared that Australia was about to vest certain securities and the Treasury suggested, through the High Commissioner, that vesting should be limited to certain holdings of 19 industrials valued at \$5 million; that the proceeds should be paid over the British Control; and said that Mr.Gifford would be available to advise them if needed.

In April a proposal was made to set up a U.S. corporation to finance the manufacture of aeroplanes for the Allies, eventually to be turned down by both British and French. It arose out of the requirement (under the Neutrality laws) that such warlike purchases must be paid for before shipment, and also the inability (under the Johnson Act) to give credit to Allied governments. U.S.manufacturers had been exacting progress payments of 40-60 Per cent.of selling value: they were unwilling to risk

no body of residents, in the United States or any other foreign country, both willing and able to purchase them. Few even of our direct investments in the United States, such as the American branches of British companies, are such as could be sold except with the help of the American Administration. It would be regrettable if it were necessary to throw away to foreign competitors our industrial subsidiaries abroad at disastrous prices.

4. As the prospect presented itself in September last, the war chest as above described was extremely meagre for the financing of a long war. There was at that time no reliable prospect of large American credits or gifts. The war chest of the French was also meagre; they held some £800 millions in gold and probably no very great sum in realisable dollar securities. In these circumstances it was a primary object of policy in the early months to try to prevent the rapid dissipation of our means of making purchases outside the Sterling Area. Accordingly the maintenance of the export trade assumed paramount importance, while imports of superfluities of all kinds have been cut down with some ruthlessness. As regards war supplies, the policy tended towards the import of raw materials to be worked up in this country rather than the purchase of finished goods involving a much heavier burden for wages and profits to foreigners.

## II. Consequences of the collapse of France

5. The collapse of France changed the situation. Previously the only bulk order of first-class magnitude for American armaments had been the Anglo-French order for aeroplanes costing roughly £150 millions. But now the need of this country for American munitions became overmastering. Arrangements were made for the assignment to ourselves of French contracts with American manufacturers for aeroplanes, munitions and raw materials totalling some £200 millions; of these some £60 millions fell due for early payment in dollars to the credit of the "State of France" in reimbursement for outpayments already made by the French. Allowing for our obligations under these

French

## GOLD AND EXCHANGE RESOURCES

### 1. The War Chest: initial position

1. American armaments and many other vital imports into this country and other parts of the Sterling Area mean loss of gold or foreign exchanges: the reasons are shown in the Appendix. The gold and exchange resources with which we started the war are being rapidly used up.

2. At the outbreak of war, our holding of gold and dollars was roughly £450 million. We requisitioned from residents in this country their balances of useful foreign currencies and obtained returns of their foreign securities, with a view to their subsequent requisition. These returns disclosed American securities readily marketable in the United States to an amount of over £250 million. Some of the holders of these securities proceeded, with the approval of the authorities, to sell them for dollars which were surrendered to the Government. Owing partly to this, partly to the requisition of dollar balances and partly to Canadian help, the gold and dollar holding rose in the early months of the war, touching its highest point at the end of November at about £550 million. At 1st January 1940 our total resources, gold balances and securities were about £775 million (gold and balances £m.525 and securities £m.250) a figure which by mid-August has shrunk to £490 million (gold £m.290, securities £m.200).

3. The total holdings of overseas securities by British residents are extremely large, perhaps of the order of £3,500 million in face value. It is sometimes suggested that these should be realised for dollars or gold. The great bulk of them, however, are sterling investments in the Empire and to a lesser extent South America. Subject to some qualifications which in fact are of minor importance, none of them, except those which from the outset were marked out for registration and eventual requisition, are at all likely to be saleable for gold or dollars. There is

A recent announcement by the Head of the British Purchasing Commission refers to a modified scheme involving the purchase of 1,250 aeroplanes a month as being that now under consideration. No estimate of the cost of such a modified scheme, and in particular no estimate of the money which would have to be provided before June 1941, is available to the Treasury at present.

7. If all these schemes matured, the adverse balance of the year to June 1941 might grow from £m.410 to a figure in the region of £m.900.

### III. Recent heavy increase in the rate of loss

8. The new order of things was immediately reflected in a sharp increase in the rate of loss of our gold and dollar reserve, which fell in July from about £380 millions to about £320 millions. There has been a further loss of £28 millions in the first two weeks of August. By this time, moreover, as a result partly of sales and partly of loss of market value, our holdings of readily marketable American securities stand at about £200 millions. The New York stock market is quite incapable of absorbing more than very small amounts of securities, until war and election uncertainties are cleared up.

9. The swiftness and severity of the change exceeded anticipation and taken in conjunction with the immediate prospects creates new problems of serious character. The information until recently available to the Treasury did not suggest so serious a picture.

### IV. Attitude of the American Administration

10. The Secretary of the U.S. Treasury recently asked for a visit from a Treasury official to discuss inter alia the balance of payments with the United States. As a result Mr. Morgenthau is under no illusion that we shall want massive credits in 1941, and that before then we may need help in liquidating securities. His attention has since been drawn by the Financial Attache to the rapid increase in our commitments referred to in paragraph 6.

11. Mr. Morgenthau made it clear that the Administration would not enter at present into promises or commitments and it appears certain

French contracts, the position as known to the Treasury at the end of June (when our gold, apart from securities, stood at about £m.385) on the basis of the programme as altered by the Departments was that we might expect to lose as a minimum £410 millions of gold and exchange before June, 1941. This of course is an aggregate net figure taking account of all our needs including essential food and raw materials.

6. Since then there have been three developments -

- (a) Repeat orders for aeroplanes were placed in the United States, costing an additional £m.60 before June 1941.
- (b) The programme for the purchase of munitions and tanks which the British Purchasing Commission in New York has under consideration is much greater than was believed at the end of June, and, while no figures other than guesses are obtainable, it appears that orders already sanctioned actually or in principle from this side would carry a further cost of the order of £60 millions before June 1941. Much larger munitions orders which the British Purchasing Commission is tentatively exploring would appear to involve at a guess an addition of the order of £150 millions by June 1941. How far these schemes have received more than tentative discussion here is not known to the Treasury.
- (c) A further scheme for the purchase of aeroplanes in the United States on a great scale has been indicated. The first announcement took the form that the purchase would amount to 3,000 aeroplanes a month. The cost of a scheme of this character, estimated roughly by the British Purchasing Commission, is from £500 to £625 millions in the first twelve months and, say, £875 millions in the second twelve months. On a realistic view of the rate of deliveries which could be reached in practice, it is understood that such a scheme would involve expenditure before June, 1941, of the order of £246 millions,

desired as an end only by the decadent pluto-democracies. It will not be so easy to put a similar idea across other countries, some of which are professional gold producers and to all of which gold is an accepted medium.

V. Problem of the interval pending American help

14. We are meanwhile faced with an immediate and grave practical problem: are we certain to hold out financially till after the elections, i.e., till well into November in the case of a Democratic victory, or until January 20th, when the new President takes office, in the case of a Republican victory? At the end of June it appeared probable that we could, but the position is now very doubtful. We expected to lose some £470 millions, including the repeat orders for aircraft in the year from 1st July 1940 to 30th June 1941, but we have actually lost some £88 millions in the first six weeks, and the increased losses in respect of additional munitions, tanks and aircraft plans <sup>might</sup> easily account for another £400 millions or more in the period to June 1941, quite a substantial part of which would come before January. A mere continuance of losses at the rate we have experienced in the last six weeks would run us out of gold by the end of December. It is not safe to reckon on a slower rate of loss and it may prove higher. Moreover to avoid complete financial dependence it is most important that we keep some minimum reserve in hand even after American help has crystallised. It is essential that we should maintain confidence in our ability to fulfil engagements to other countries under payments agreements and the like: if we do not possess gold reserves we cannot expect such countries as the Argentine to accept and hold sterling. When denuded of gold our resources would be some £200 millions of securities which are at present and may then be unsaleable in quantity.

15. As regards this problem, the decisive factors are the sums we have to provide in the next six months for new capital construction and for down payments in placing orders. The British Purchasing Commission has been successful hitherto in limiting down payments to a figure which, though onerous, is not

impossibly

certain that no undertaking of any kind could be obtained before the elections.

12. That United States financial help will be forthcoming, however the election goes, appears to be the view of our representatives in America, though the time, extent and character of the help may depend on factors which cannot be forecast, the course of the war and the extent to which the body of opinion in America which is strongly opposed to entanglements succeed in influencing the electoral campaign.

13. It appears prima facie unlikely that American financial aid, when forthcoming, will be given (by a country not at war and to a country in default) without conditions and without limit. How far those conditions or that limit will interfere with the present tempo of our war effort and how far with our standard of life only the future can tell. The U.S.A. will settle both the extent to which and the conditions under which we can enjoy the products of American industry and agriculture and that way materially influence the character of the war. We shall be left anyhow to provide from our own resources for our adverse balance with Canada and foreign countries other than the U.S.A. That will be a most difficult task and quite impossible if we fail to obtain the current output of newly-mined gold from South Africa. How far does the willingness of South Africa to sell us her gold output for sterling, and the willingness of the other members of the sterling area to add without limit to their sterling balances in London, depend on the assumption that London remains what she set out to be, the central safe-keeper of the Empire's gold? Can we be certain that these convenient habits and practices would remain unchanged if London had once parted, or was on the verge of parting, with its last grain of gold to the United States? It has been easy for Hitler to persuade Germany, which never had much gold, that gold is a useless complication of the course of international trade, desired

difference between this gold and that in the possession of the United Kingdom Government. But the internal mechanics of the sterling area are a delicate affair. While the matter has not yet<sup>been</sup> fully explored, it seems likely that an attempt to secure possession of their monetary gold reserves would be attended by grave political difficulty. In any case it seems clear that we cannot count on it as a contribution to the immediate problem of tiding over till America~~s~~ is ready to lend.

19. Thirdly the Belgian, Dutch and Norwegian Governments all hold substantial amounts of gold, believed to amount to £m.200, £m.150 and £m.20 respectively. They must be pressed for substantial contributions but will be very reluctant to part with any.

20. Of much more importance from that point of view is the position of certain French gold. At the time of the collapse a French warship put into Halifax carrying a cargo of French gold which may have been worth some £60 millions. This escaped our clutches and is now at Martinique. There is, however, the £160 millions of French gold in Canada, (£70 millions in the custody of the Bank of Canada.) In addition, as already related, we are paying to the French some £60 millions in dollars in connection with the assignment to us of their American contracts; this payment is being made to an account of the Bank of Canada with the Federal Reserve Bank of New York. If France had survived, these gold and dollar reserves<sup>s</sup> would be part of the allied war chest; if they can now be secured for the prosecution of the war on which the future of the French nation depends, the immediate situation will be greatly alleviated.

21. Each of the foregoing expedients by which our reserves might be fortified will be made the subject of such action as may be possible. Action has already been started in regard to the French gold and dollars held by Canada. Nevertheless, save in the case of the £70 millions of French gold entrusted to the Bank of England, any early fruitful result is at best extremely uncertain.

VII. Vital importance of American help

22. This

impossibly high. On the other hand, we found, when we took over the French contracts, that American manufacturers had demanded and obtained from the French far and away heavier advances. Our position would be terribly complicated if, on placing new programmes in the next few months, we were faced with much worse terms in this respect than on our own recent contracts. American manufacturers know well enough what our resources were at the outbreak of war, as estimates were published by the Federal Reserve Board and received much attention: they know also that those resources are much lower now and are quite inadequate to meet the liabilities we are undertaking.

VI. Possible alleviations of the problem

16. It remains to consider whether alleviation may be looked for in any directions.

17. "Scraping the pot" for more resources will not produce much. Possibilities are the requisition of gold ornaments and ~~of~~ <sup>+</sup> works of art that could be sold abroad. The disposal of some direct investments in the U.S.A. may be considered, and also the possibility of selling some of our South American investments to that country. But the equities of these investments stand in great part at rubbish prices and generally what we can sell is sold more profitably to the South American countries themselves, though even then on bad enough terms. Finally the question of pushing exports to North America, so far as anti-dumping restrictions permit, is receiving attention. We should be deluding ourselves if we thought that these measures could in all produce more than a few millions this year.

18. Secondly, we must consider whether there is any other source from which our gold reserves could be augmented in the immediate future. Important quantities of gold, amounting at present prices to about £64 millions and £70 millions respectively, are owned by the Reserve Banks of India and South Africa. From the point of view of the American Administration there may seem to be little

difference

Summer 1940 - March 1941

One of the expedients referred to in this memorandum, the disposal of some direct investments in the U.S.A., was taken up when (on 27th August) Sir Richard Hopkins asked the Governor for help in tabulating and analysing such investments. On 4th September the Governor told the Committee of Treasury that he had arranged for Mr. Whigham, Sir Edward Peacock, Mr. Bernard and Mr. Hanbury Williams, with Lord Catto as Chairman, to act as a Committee to consider questions in connection with direct investments. This Committee was to help to obtain information and recommend procedure for dealing if required.

The Committee had completed its examination of the investments and of the information obtained from parent companies before the end of November. It appeared that in many cases the disposal of subsidiaries would have a grave effect on the world status and business of the parent. Some, perhaps, could be realised without such repercussions, but these might be difficult to sell. The Bank told Mr. Gifford that no negotiations for sale should be entered into without the prior knowledge of the parent companies, who had received assurance to that effect in some instances. (The Committee had also obtained particulars of British interests in South America.) One such realisation, however, was to assume importance and will be described a page or so later.

At the end of 1940 the War Cabinet considered the prevailing lack of co-ordination between Allied missions in making their purchases in North America. Those Allies who had their own dollars approached the British Purchasing Commission\* only when they were in difficulties, when they wanted something for which there was at the time no capacity available apart from that taken up by the U.S. Government or British orders. There seemed little likelihood that the U.S. Administration would force the Allies to co-ordinate their requirements. An attempt was now to be made to get the Allied Governments to keep the British informed of their requirements and

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\*The U.K. Government's purchasing agency in the U.S.A., which worked in conjunction with the British Supply Council (Canada).

22. This note has, of course, been written on the assumption that the confident expectation of abundant American help will not be falsified. Were help in the end refused we should be cast back far more fully than ever before upon the sole resources and capacities of our own race. To exhaust our gold reserves in payments on account for American armaments in the meantime would be a grave calamity, for we cannot survive without raw materials and food from overseas. This contingency, entirely remote as it may seem, lends high importance to the preservation of some reasonable balance of exchange reserves.

#### VIII. General recommendations

1. For the next six months at least the exchange position must be treated as a bottle-neck and dollar expenditure limited to vital needs including vital munitions of war for delivery not too far ahead. The greater ease in the shipping position should be used to bring goods from more distant sterling parts of the Commonwealth rather than America. All possible means of fostering the export trade, especially to North America, should be pursued.
2. Dollar expenditure for political and preemptive purposes and on schemes for acquiring world surpluses must be carefully controlled.
3. The alleviations above referred to must each be examined and pursued with a view to securing whatever help is possible before a dangerous situation matures.

progress in placing orders, and to obtain similar information confidentially from the U.S. and Canadian Governments.

During the latter part of the year reserves were being rapidly used up and had fallen to £82 million (£13½ million dollars and £68½ million gold) by the end of December, a position referred to in a Treasury memorandum as "theoretical bankruptcy".

By the autumn of 1940 a majority of the American people were undoubtedly in favour of the principle of "giving the utmost possible help to Britain short of war", an attitude born of the black days of May and June in Europe. Increased supplies of "surplus" war materials began to be shipped (but were soon stopped by Congress) and undertakings, e.g., to buy raw materials, entered into, which in effect helped H.M. Treasury to <sup>obtain</sup> dollars. But the process of wearing down "neutrality" without incurring the charge of overtness was necessarily difficult. Both candidates in the forthcoming presidential election, however, were agreed on the main issue, and whichever might be elected the prospect of large assistance in the future was not in doubt.

Official policy on both sides of the Atlantic avoided mention of the need for British credits, although that issue would have to come to the front sooner rather than later. And towards the end of November, the election over and Roosevelt again President, the problem of financing Britain's purchases was moving towards open discussion. The British Ambassador, Lord Lothian\*, opened the matter immediately on his return from a visit to London, and it was received favourably. Within three weeks the President's plan to lend or lease to Britain armaments manufactured in the U.S.A. was announced.

By mid-January 1941 a Bill was put before the U.S. Legislature to authorise the President to "sell transfer, exchange,

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\*In the middle of December Lord Lothian died; Lord Halifax was appointed his successor.

lease, lend or otherwise dispose of "...them to the Government of any country whose defence seemed vital for the defence of the United States ...." in return for payment, repayment in kind or property, or by any other direct or indirect benefit"...deemed satisfactory. On 11th March 1941 the Bill became the Lend-Lease Act, an amendment by the Senate limiting the amount of assistance to other countries out of existing stocks and the appropriations under the 1940-41 programme to \$1,300 mn.

The adaptation of existing financial arrangements to the new regime (and their implications for the Control) was naturally no simple matter, simple though the principle of Lend-Lease may have appeared. Immediate discussion, at an Exchange Control Conference on 12th March, led to the decision that "strict Treasury control through the medium of the Exchange Requirements Committee should in no way be relaxed"; while the essential fact that ...."All goods obtained under Lend-Lease must at some time become the property of the United States Government and then be transferred to the British Government", perhaps strikes the keynote to a memorandum (15.3.1941) prepared for Mr.Harriman,<sup>f</sup> who was then due in London.

Mr.Harriman felt strongly that all arrangements must be left to Washington where, however, little thought had apparently been given to the administration side of Lend-Lease. It was clear from what he said that a more up-to-date account of facts and feelings here was wanted than Sir F.Phillips - so long absent from home - could then give, and that preferably it should come from Lord Keynes (a view supported by Mr.Winant\*). Mr.Harriman also reported that the U.S.Administration was afraid of criticism for allowing the use of Lend-Lease to help British exports and British traders.\*\*

The questions referred to above, and related matters, problems of definition and classification of goods, etc., for admission to Lend-Lease categories, their licensing, invoicing and means of sale, and also the treatment of non-governmental purchases - all of which concerned the Control - are dealt with in Appendix .....

American Viscose

<sup>f</sup>The President's Special Representative, with ministerial rank, to expedite defence supplies.

\*Appointed U.S.Ambassador in London (in mid-February) in place of Mr.Willkie, who was then recalled to Washington to give evidence in favour of Lend-Lease.

\*\*Note: C.F.C. 16.4.1941.

American Viscose

Lend-Lease, then, had become an established principle; but meanwhile conclusions had been reached, and an agreement signed within three days of the signing of the Act in Washington, on a matter negotiated with much anxiety over the previous six months, viz., the purchase by H.M.Treasury of Courtauld's holding (nearly the whole) of the Common Stock of the American Viscose Corporation, and provision for its re-sale to a syndicate of American banks.

The transaction caused a good deal of adverse comment in the City at the time. Its importance, indeed its necessity, has no doubt faded, in the light of all that has happened since, except perhaps from the memories of those closest to the negotiations. Courtaulds themselves were strongly opposed to the sale, but gave way when persuaded that it was essential for British interests. The sale was, in fact, the only forced realisation of those direct investments to which the Committee appointed by the Governor in August 1940 had directed their attention.

In January 1941, Sir Edward Peacock and Mr. Hanbury-Williams (a director of Courtaulds) went to the United States, with Mr. Bernard watching the London end, to examine the question of American Viscose, one of the companies most jealously regarded by an American Administration convinced that a show of good faith by the British Treasury was essential to the success of the Lend-Lease campaign - a quick sale involving obvious sacrifice was the kind of thing likely to make the surest appeal. There is no doubt that the completion of the sale not only gratified Mr. Morgenthau (and the President) but went far to remove doubts as to Britain's willingness to pay her way, and in so doing helped to solidify support for the new Lend-Lease measures.

It was thus not our waning stock of dollars alone (though that was to fall to an alarmingly small figure before Lend-Lease became effective), but political reactions of the highest importance for that stock, which had dictated the necessity to part with the British interest in the Viscose Corporation.

The

"It seems to me of the utmost importance that very great care should be exercised, when settling terms of arbitration, that compensation is not offered for something which might not be involved, e.g., any loss to Courtaulds Ltd. arising from the fact that they are forced to part with their American subsidiaries. That is involved in all forced sales of securities or companies and all citizens have been forced to accept this as an obligation which they must bear ....."

On 23rd May Sir Edward cabled again to say that the Viscose sale arrangements were completed; and a few days later that the gross proceeds of the sale were \$62,295,146, out of which the Treasury had received \$54,445,514. (Further small recoveries brought the total up to the equivalent of about £13,611,000).

Arbitration proceeded, the Bank having to cable for a stream of subsidiary information from the other side for the Treasury's use, and finally produced compensation for Courtaulds of £27,125,000 in cash (plus interest at 3% since the sale on 15th March 1941), which was eventually announced by the Chancellor in the House of Commons on 22nd July 1942.

In the meantime recapitalisation of the Corporation (introducing Preferred Stock) had taken place, and Courtaulds, who had retained approximately 5% of the capital, now held \$1,244,600 of Preferred Stock and \$1,195,838 Common Stock.

During the spring of 1941 negotiations (which overrode the Johnson Act) were proceeding for a loan by the Reconstruction Finance Corporation for the purpose of paying for British pre-Lend-Lease contracts. Until 3rd June the Bank had no information of the possibility of such a loan. The terms and other particulars of the loan follow in the next section. The President's approval was announced on 22nd July.

2

The American Viscose Corporation was incorporated as a holding company in 1922. At the time of the deal its outstanding capital consisted of \$49,155,150 of Common Stock. Courtaulds' holding was \$47,240,000 and of this \$44,800,000 was acquired by the Treasury on 14th March 1941 by means of an exchange of letters between themselves and the Chairman of the Company (Mr. Samuel Courtauld).

The syndicate of banks which took over the shares undertook to pay H.M. Treasury \$40 million plus 90% of any excess over this figure which should be realised when a public issue was made.

The question of payment to Courtaulds involved difficulties in arriving at a just valuation of the assets with which they were parting. The D.F.R. provided that holders of securities marketable outside the U.K. should receive "a price which in the opinion of the Treasury is not less than the market value of the securities on the date of the making of the Order or the giving of the Direction". Where the securities were quoted on the London Stock Exchange this meant a price between a willing buyer and a willing seller at the close of business on the date of the Order, plus  $2\frac{1}{2}\%$  interest from that date to the date of payment. This basis was ruled out because American Viscose shares were not quoted on any Stock Exchange.

Several methods of valuation were suggested, but in the end, after unsuccessful attempts to negotiate privately, the matter was submitted to arbitration, which had been provided for in the exchange of letters.

In May, when the matter came up, it was evident that there was likely to be a wide gap between the British arbitrated value and the proceeds of the actual sale in the U.S.A., which in the opinion of American experts closely approximated to the real value of the business. Cabling on 15th May, however, Sir Edward Peacock said:

"It

March-December 1941

For the greater part of a year after the introduction of Lend-Lease we were waiting, without knowing it, for the events following Pearl Harbour to bring about great changes in connection with ~~the~~ disposal of <sup>the</sup> aid. On the three occasions on which the U.K. had applied for aid under the Act, Congress had required, as a condition of granting it, evidence that our own resources amounted to little more than empty pockets. The absence of financial agreements until the necessity to pool resources found its expression in <sup>agreements of February and September 1942,</sup> the Mutual Aid and Reciprocal Aid, was an obvious disadvantage.

A note by Mr. Bolton (5.6.1941) urged the political importance of an Anglo-American agreement or arrangement on the rate of exchange. There were many sources of friction which, admittedly, could only be dealt with after a considerable improvement in the reserve position, among which were British direct investments, pre-Lend-Lease liabilities, <sup>and</sup> some of the blocked American sterling, e.g., limitation of profits remittable by American subsidiaries to their parent companies; as well as argument "always imminent" regarding the division of Empire gold production among various claimants.

A basis of negotiation, the note urged, might be: (1) to agree that neither the basic \$4.03 nor the American buying price of \$35 for gold would be changed; (2) to assure the U.S. Government that the Sterling Area Exchange Control system could effectively prevent any flow of capital to the U.S.A.; (3) to offer the Americans some relaxation of the terms of liquidation of Blocked Sterling (balances and securities); and possibly some widening of the circulation of Registered Sterling. Although it would be desirable that both countries should hold the other's currency without limit, in case of nervousness a limit beyond which gold would be put up could be agreed. (The question of an Anglo-American monetary agreement became urgent, and received immediate attention, after the entry of America into the war six months later).

Meanwhile there are two developments in this period to record: the R.F.C. Loan and the White Paper, following

conversations

- (c) U.S. associates of U.K. companies where the U.K. holding although substantial was not controlling;
- (d) Certain marketable U.S. securities which included some owned by the Treasury and others by the public:

and the income of U.S. branches of British insurance companies was assigned to the service of the loan.

The estimated values of the marketable securities and the direct investments were \$205 million and \$495 million, respectively.

The expenses incurred by the Treasury in connection with the loan arrangements/approximately £25,000, of which more than half were transfer taxes payable in the U.S.A. <sup>were</sup> Approximately £10,000 was paid as commission to banks and stockbrokers in the U.K. through whom the securities were lodged.

The sterling equivalent of the net amount of income and proceeds of the sales applied to the service of the loan was drawn from the Consolidated Fund and disbursed to the beneficial owners of the securities.

The White Paper (Cmd.8311 of 10.9.1941) is a short memorandum in which H.M. Government stated their policy in connection with the use of materials received under the Lend-Lease Act. The U.K. Government undertook not to use in exports materials similar to the types received under Lend-Lease from the U.S.A. except for essential needs overseas in the war effort, including repair parts already ordered for British machinery and plant in use and for installations under construction. Such materials, if not in short supply in the U.S.A., would not be used in greater quantities than those produced in the U.K. or bought from any source.

These undertakings, intended to prevent British exporters from entering new markets at the expense of U.S. exporters, were subsequently a source of ~~much~~ embarrassment to the U.K. <sup>(See especially Appendix ... pp. 7 & 14).</sup> ~~during the period of transition from Lend-Lease to loan conditions at the end of the war.~~

In August feelings came to a head within the Bank about the insistence of the U.S. Administration on some kind of declaration of British post-war policy in Exchange Control and their pressure on us to bind ourselves in some degree to abandon control and "discrimination". Particular sources of irritation to the Americans were blocked sterling and the maintenance (or lack of it) of <sup>of</sup> ~~of~~ <sup>mothers</sup> ~~of~~

conversations in London, which set out the policy of H.M. Government with regard to their use of Lend-Lease materials.

The R.F.C. Loan

An agreement of the 21st July 1941 provided for a loan of \$425 million from the Reconstruction Finance Corporation to H.M. Government bearing interest at the rate of 3% per annum and redeemable on or before the 1st July 1956. The income from the collateral in excess of interest requirements and the proceeds of all sales and redemptions of the securities were to be applied to amortisation of the loan.

Although the Agreement specified \$425 million, the amount was subsequently reduced to \$415 million because the whole of the collateral originally envisaged was not available. Of this \$415 million only \$390 million was eventually drawn, by instalments as follows:-

1st August 1941	\$100 million
20th September 1941	\$25 "
1st October 1941	\$75 "
23rd do.	\$100 "
2nd December 1941	\$50 "
28th February 1942	\$40 "

By the end of December 1945 the amount of the advance had been reduced to approximately \$249 million, mainly by the excess of income over the interest requirements. The U.S. Tax Authorities ruled that the income from the securities borrowed from the public was subject to U.S. Withholding Tax and, although the rate of tax in July 1941 was 16½% and was subsequently increased to 27½% (September 1941) and later 30% (October 1941), the additional tax payable was not sufficient to affect materially the rate of repayment of the loan.

The collateral of the loan consisted of U.K. owned shares, etc., issued by:-

- (a) U.S. subsidiaries of British insurance companies:
- (b) U.S. subsidiaries of U.K. companies where the latter held controlling interest:

(c)

maximum on a bare maintenance basis, for each child, on the assumption that one grown-up ought to be looking after not less than two or three children. The maximum figure suggested was £15-20 per head per month, to apply to anyone under 18. Registration by the appropriate British authorities (who would provide the Bank with lists of "approved" children) should be a condition. The concession, if approved on the above line, should be definite and final.\*

Relaxation of blocked sterling was deferred until the autumn of 1942 (see below).

Lend-Lease having been introduced some nine months before Pearl Harbour (7th December 1941), British applications for Aid, as already mentioned, were subjected to the investigatory attitude of the U.S. Administration, always nervous of Congress while their country was still neutral. British resentment at this was natural enough; but doubts as to the eventual entry of America into the war were a restraint on any official expression of disgust at being still in an inferior relationship with her, in spite of the apparent open generosity of Lend-Lease. Our Administration in Washington were exhorted to be firm and certainly had to be patient. As an ally, it was felt, we ought to sustain such a position no longer; but the problem of getting on to the new footing required much hard thinking, and much was indeed given to it in the first few weeks of 1942.

Had the resources of the U.K. in gold and dollars lasted until after Pearl Harbour the Mutual Aid settlement of 23rd February 1942 might have been of a more generous character. As it was, as soon as America entered the war the Bank felt that the time had come for a new agreement more comprehensive in scope. In a telegram from Washington (23.11.1941) referring to suggestions that the U.S. should pay cash for planes which they had taken over from our pre-Lend-Lease contracts to fulfil their obligations to Russia, Sir F. Phillips said...

"I

~~See "Blocked Sterling" in chapter "Defence Finance Regulations".~~

\* See also Appendix ..... "Evacuees"

mothers evacuated with their children to the U.S.A. The American Relief Committee could ~~place~~<sup>place</sup> the children, but the mothers, debarred under existing American regulations from obtaining employment and sometimes in considerable distress, were outside the Committee's help.

Notes by Mr. Bolton (7.8.1941) and Mr. Cobbold (9.8.1941) leave no doubt as to the urgency felt at the time that the air should be ~~clear~~<sup>e</sup>. Mr. Cobbold could see two alternative courses only: either (as a matter of high policy) to give into American pressure .... "to accept a form of words in the full knowledge that at a later stage we shall have to disentangle ourselves at the cost of a wrangle and accusations of bad faith"; or to tell the Americans, with the authority of the Prime Minister, that we can neither foresee our policy nor undertake commitments which we do not know whether we can fulfil.

On the less important but troublesome question of refugee mothers, if we adopted the principle of allowing maintenance, should it be on a scale to meet demonstrable needs or on a fixed per capita, bare maintenance basis?

The Governor (11.8.1941) thought that the question of relaxing Exchange Control towards Americans needed further examination. He favoured a fixed per capita remittance for the refugees.

Remittances for refugees were dealt with in a letter (14.8.1941) from Mr. Cobbold to the Treasury (Sir Horace Wilson), in which he said that the Bank had considered and discarded three possible solutions:-

(a) to transfer dollars on merits as found by tribunals set up in the U.S.A. and Canada - rejected on <sup>the</sup> ground of practical difficulties;

(b) to allow per capita remittances to all U.K. evacuees in the U.S.A. and Canada - this would favour quitters etc.;

(c) to require mothers and children to move to the Sterling Area and offer remittances for passages - rejected because, short of compulsion<sup>ion</sup>, they were unlikely to go.

The Bank concluded that the right solution was to allow, in addition to the child's maintenance, a fixed flat-rate maximum

perhaps be an agreement on the lines of the Anglo-French Monetary Agreement with a clause providing that the settlement of balances either way (in excess of working balances) would take place quarterly by the lease-lending of gold by the creditor to the debtor. This would bring the new agreement within the scope of Lease-Lend and would provide an easy technical means of supplying the U.S.dollars required by the Sterling Area and the sterling required by U.S.A. If something on these lines could be devised might not a good deal of the cumbrous and delaying machinery of the Lend-Lease administration be got out of the way?

Even if an arrangement on these lines were possible I should not like to see our efforts to maintain gold production in the Empire abandoned. The last thing we wish to do is to put ourselves more than is necessary in the position of a poor relation to U.S.A.: moreover, I do not believe it would be wise either on a short or on a long view to suggest that U.S.A. should take over our gold commitments to third countries.....

I hope that the present opportunity of giving Anglo-American financial relations a wide and constructive basis will not be missed. The alternative is that, whilst joint arrangements are being made in every other section of the war effort, we on the financial side are to stand still until the water comes up to our chins and then start shouting again for help and charity....."

Again, on 13th January, Mr.Cobbold wrote concerning certain draft replies to Washington:

".... My main comment is that in spite of the hint in paragraph 1 of the first telegram the general tone of both drafts is to perpetuate the existing position and there is no real suggestion that we are seriously considering a new basis. As you know, I believe this to be a fundamental mistake and I fear that if we do not make a determined effort in the very near future we shall be committed to the "hat in hand" policy for the rest of the war.

I feel therefore that paragraph 1 of the first telegram needs considerable expansion. I suggest, for example, a sentence on the following lines -

"On the Prime Minister's return we propose to consider whether we cannot get on to a real partnership basis with U.S.A.in financial matters and so get away from the position of having continually to ask for favours."

As regards paragraph 5, it seems to me essential that if the Chancellor writes to Mr.Morganthau at this stage he should reserve the right to make a completely new approach in the near future. If he writes now without making any such allusion it would clearly be difficult for H.M.G.to start a completely different approach in the next few weeks....."

In the period of less than two months between Mr.Cobbold's letter at the end of 1941 and the Mutual Aid agreement, discussion was necessarily concentrated; it produced many memoranda. A choice had to be made between:

- (i) the "American" approach by Lease-Lend which, assuming nil "consideration" for the service rendered, would amount to free procurement through Government channels;

(ii)

"I am sure Morganthau has no general plan in his head relating to our financial position under the changed circumstances. .... we should press with any proposals .... which give us cash and should endeavour to secure much wider take-outs of contracts to cover probable losses from Malaya" .....

The Bank naturally shared in a general desire to bring about the most effective, and if possible the most economical, pooling of resources, their main concern being that financial arrangements for their transfer should be workable in the present and should avoid awkward commitments for the future. A letter from Mr.Cobbold to the Treasury (29.12.1941) responds to the implications in Sir F.Phillips' message:

"Thank you for sending me a copy of your note of the 24th December about Washington Telegram 5975. I agree that this telegram is disappointing in that it shows that no fresh ideas are likely to be forthcoming from the U.S. Treasury or our own Embassy. But I feel sure that we ought not to leave things there.

A close Anglo-American financial agreement is a major objective both for the war period and as the essential basis of any post-war arrangements. The present time, when Anglo-American co-operation is in the forefront of everybody's mind on both sides of the Atlantic, is surely the psychological moment to lay firmer foundations for financial co-operation.

I quite agree that we do not wish to see America holding a large volume of sterling at the end of the war or to go back to "the money sign" in the sense of encouraging the U.S.Administration to lend us dollars to pay for materials rather than provide them under Lend-Lease. But with Malayan troubles, reduced exports and uncertainties over gold production one thing is painfully clear: if we do not take an early opportunity of reaching a wider agreement we shall be forced during the coming year to go back to U.S.A.as beggers and ask overtly for a dollar loan in one shape or another, and then "the money sign" would be back to stay.

At the same time it would surely be a great advantage to both parties if our exchange control restrictions on current transfers to U.S.A.could be relaxed: I am thinking particularly of profit remittances by American subsidiaries, film remittances, etc. Up till now severe restrictions have been necessary and if nothing is done they will unfortunately still be necessary; but as between allies it is surely important to get away from the bickering and dissension to which restriction of current remittances inevitably leads (not to mention the accumulation of blocked sterling balances which can only be an irritant and embarrassment.)

Are there not possible ways of combining the Lend-Lease principle with the supply of the actual U.S.dollars which we may need and at the same time laying the basis of an Anglo-American financial agreement which could be adopted to post-war needs? Such an arrangement might take several forms; the simplest, for example, would

perhaps

their original £25 million (\$100 million), and there was provision for a final settlement to be in gold.

The Bank's proposals had crystallised by 23rd January into the following memorandum, agreed by the Governor and considered on the same day at a Treasury meeting.

1. In Washington (Telegram 405) Phillips reports that Morgenthau cannot himself handle the proposal that U.S. should buy for cash all future deliveries off existing U.K. contracts estimated to yield us \$800 million. Morgenthau advises a direct approach from the Prime Minister to the President.
2. If the Prime Minister is asked to make an approach at this stage it should surely be for a comprehensive partnership arrangement in financial and economic matters until after the war. If the Prime Minister were now to appeal for a settlement (however favourable to us) of a particular outstanding question, he would debar himself for a long time to come <sup>iv</sup>from proposing a general change from the present "poor relation" basis to a real partnership basis.
3. Both the pooling arrangements with U.S.A. in other fields and the coincidence of the Canadian announcements next Monday make this an ideal moment for a fundamental change in our financial and economic relations with U.S.A.
4. Should not the Prime Minister be asked to suggest to the President that following the ~~pooling~~<sup>pooling</sup> arrangements for munition resources and other materials between the two countries there should be a pooling of financial and economic resources in the sense that each Government would bear all expenses incurred in its own territories in the joint war effort?
5. Such arrangement might take the following general lines -
  - (i) Reciprocal lease-lending between U.S. and the British Empire (excluding Canada) of "warlike" supplies of a nature to be easily handled through governmental channels.
  - (ii) Reciprocal arrangements to defray all U.S. Government

expenses

(ii) the "Canadian" approach, by which payments would proceed as usual, but the resulting balance would be cancelled by the creditor;

(iii) paying each other's bills, thereby avoiding inter-Governmental payments, debts or claims, and consequently settlement;

and <sup>the</sup> ~~was~~ many memoranda written during discussion of their relative advantages and disadvantages brought to the front, two alternative propositions.

Lord Catto wanted a complete re-cast of Anglo-U.S. financial and economic relations. Our "hat in hand" attitude, with the Americans "looking into our pockets" must go. He advocated a tripartite agreement between the U.S.A., Canada and the U.K. under which each would supply what could contribute most to the common effort: he envisaged, in fact, "total reciprocal lease-lending". Lord Catto's memorandum of 10th January 1942 ended ..... "Unless we can get our economic and financial arrangements with the U.S.A. and Canada on some wide reciprocal Lease-Lend basis, there is no means of settling differences except by what Canada..... calls "free and unconditional gift"! Actually.....these are not gifts at all but contributions to the general war effort to which other countries and especially the Home Country is contributing in much greater degree, but in other forms. But once the words "free and unconditional gifts" begin to be used, they will have political effects which can never be eradicated".

Mr. Thompson McCausland proposed an Anglo-American Monetary Agreement, to last for the period of hostilities and for a further year, under which credits of £25 million and \$100 million should be opened for the government of each country at the central bank of the other, and thereafter replenished by dollars (sterling) coming into the hands of residents of its territory (the Sterling Area in the case of the U.K.). Monthly transfers of any balances in excess or deficit of the opening credits were to restore them to

their

It is very doubtful if the thought given to the subject by the Bank and the Treasury had any effect on the terms of the Mutual Aid Agreement signed in Washington on the 23rd February. The Agreement was published as a White Paper (Cmd.6391) bearing that date. In a short preamble it was stated that the final determination of terms and conditions should be deferred until the extent of Defence Aid became known and events had been made clear, and which conditions and benefits would be in the mutual interests of the two countries and would best promote world peace.

It was first agreed that the U.S.Government would continue to supply the U.K.Government with such defence articles, services and information as the President should authorise.

Four of the remaining seven articles put the U.K. Government under obligation, at the President's request:-

- (a) Not to transfer, without the U.S.Government's consent, title to or possession of any defence article or information received under the Lend-Lease Act;
- (b) To take any action or make any payment necessary to protect the rights of U.S. citizens in any defence article or information; to return to the U.S.Government, at the end of the existing emergency such articles, etc. as were not lost, destroyed or consumed and were deemed useful in the defence of the U.S.A. or of the Western Hemisphere.

It was provided that in the final settlement between the U.K.Government and the U.S.A. all property, services, information and facilities furnished by the former since the 11th March 1941 should be given full recognition, and that the terms and conditions should be "such as not to burden commerce between the two countries, but to promote mutually advantageous economic relations between them and the betterment of world-wide economic relations". Agreed action between the two countries was to be open to participation by all like minded countries and to include "the elimination of all forms of discriminatory treatment

expenses in U.S.A., the necessary dollars being provided by U.S. Treasury and the necessary sterling by H.M.Treasury.

(iii) No debts, no settlements, no movements of gold, no consideration.

Lord Keynes, in a note of the same date, stressed the U.K.'s ~~needs~~ <sup>needs</sup> outside the U.S.A., now causing indebtedness on a scale approaching \$2 billions a year, and our need to have gold reserves against these rather than for our U.S.requirements. This, and a similar warning by Lord Catto (letter 12.1.1942 to the Governor) ..... "if the quickly growing inter-Empire sterling balances can in any way be dealt with before they grow to proportions that will swamp us" ..... seem to be the earliest recorded apprehensions of the problem which was shortly to be so much in the foreground.

The atmosphere in which discussions on the principles of Mutual Aid took place may be gathered from the following message which Mr.Morgenthau sent to the Chancellor on 6th February:

"May I express to you my personal concern that delay in reaching agreement on interim Lend-Lease Agreement will impede and embarrass work between us on many immediate and pressing matters as well as on more long-range matters. The present draft in my judgment is most fair and reasonable and leaves ~~ample~~ <sup>ample</sup> scope for meeting and agreeing upon post-war periods along constructive lines of mutual advantage. The continued failure to produce an agreement is working harm to unity of war effort and purpose".

It is very

in international commerce and the reduction of tariffs and other trade barriers" - all characteristic of the rather newly expansive mentality of an America now at war.

The President's report on the first year of Lend-Lease operations included a strong reminder to Congress of the military contribution to American security afforded by the continued British fight against the Axis, and of the contribution in experience, war material and service, of such vital importance to the U.S.A. "Lend-Lease, therefore, is not a one-way street ..... Reciprocal Aid is already an actuality". But already American insistence that we should show our hands was foreshadowed ..... "the third direct benefit ..... is an understanding with Britain ..... as to the shape of future commercial and financial policy".

Immediately after the signing of the Mutual Aid agreement practical difficulties of reverse Lend-Lease administration began to be felt, and an almost ceaseless stream of cables to and from Washington (Sir F. Phillips) ensued.

Among problems to be disposed of was the treatment of shipping; complicated because, unlike military supplies, it formed part of the commercial structure of the two countries. To take one example, the U.S. Administration appeared to assume that U.K. expenditure on repair and conversion work in the U.S.A. (e.g., on the large British liners carrying American troops) would be borne by the U.K. out of Lend-Lease dollars. The British failed to see the force of incurring a Lend-Lease debit for a service of which the U.S. got the benefit.

There was also for consideration a large volume of pre-Lend-Lease contracts for American goods, outstanding commitments of the British Government - a long story which seems never to have been satisfactorily settled\*: an "impasse" was reported to Mr. Winant at an interview in Washington on 14th March.

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\*A statement made (against British official advice) by the Director of the U.S. Budget to the Appropriation sub-committee of the House of Representatives that Lend-Lease funds would not be used to take over existing commitments was a constant source of trouble for the future.

On 20th March the Chancellor cabled ..... "I feel it most desirable that some solution of our dollar difficulties should be found quickly. The need for pooling financial resources is just as great as that for pooling national resources" ..... "Questions about reverse Lend-Lease have to be settled quickly and I appreciate that they must not be settled on lines which can in any way be criticised as lacking generosity" ..... "It would clearly be the best solution for the United States to take over our pre-Lend-Lease contracts, but if for any reason they raise objections to this solution, we would like Mr. Morgenthau to suggest an alternative plan".

In a month or so, after a congested period of exchange of views, a clearer line began to be taken, and things moved towards an arrangement which involved the minimum of financial accounting (with its price records and other impedimenta), and which in the following Autumn took shape as Reciprocal Aid.

By the summer of 1942 preparations were in hand for a further agreement. At the same time the Americans had proposed that Australia and New Zealand should sign separate Mutual Aid agreements and exchange notes on Reverse Lend-Lease. The Treasury asked them to defer this for the time being. There were differences of opinion as to the advisability of the Dominions acting separately in this matter. And New Zealand was also disturbed about the possible effect of Reverse Lend-Lease on her sterling balances. An objection not put forward by the Treasury was that separate accounts with each Dominion would require independent settlements. Dominion requirements might be small in relation to total Lend-Lease; but even so, it might cause the U.K. embarrassment in post-war reconstruction.

At one stage the Treasury believed that they had persuaded the Dominions to present a "firm front", but it was soon clear that arrangements for direct Lend-Lease to the Dominions were in course of completion; in spite of the Treasury's request, their objections were over-ridden on the ground that any alternative

would involve too many administrative difficulties. The Australian and New Zealand Governments signed Reciprocal Aid agreements on the same date (3.9.42) as the U.K., and the South African and Indian Governments supplied Reciprocal Aid without formal agreements.

The Bank were anxious that the documents for the new Agreement should not perpetuate the "poor relation" atmosphere. Mr.Cobbold (Lr.10.6.42) thought that the exchange of letters as drafted minimised the importance of Reverse Lend-Lease and tended to treat it as one of the incidental benefits to be given to the U.S.A. instead of the "only tangible set off .... when the day of reckoning comes .....; if we allow it to be tucked away as a mere addendum to Lease-Lend we shall never persuade America that our contribution has really meant anything."

The Treasury replied that if they had been starting afresh with America as an ally they would certainly wish some arrangement by which the two partners would be on a completely equal footing .... "but it is difficult to undo history. The Lend-Lease Act was passed when America was neutral; we signed the Mutual Aid Agreement under which Reciprocal Lend-Lease is part of the consideration asked from us; and the proposed exchange of letters carries out in more detail the general undertaking we gave ..... All we can do, I think, is in any publicity to stress the fact that we are equal partners rather than poor relations". The Bank remained dissatisfied ..... "This particular history is still in the making; it is just because the first chapters were written in different circumstances that it seems so important to write the later chapters on a different note." They did not think that publicity alone was sufficient. The formal presentation by H.M.Government to the U.S.Government of the proposals should be done in such a way as to stress their importance and to bring into limelight the partnership basis. (Lr.12.6.42).

The Governor wrote to the Chancellor (16.6.42) on the same lines "..... it seems essential that our plans for Reciprocal Aid should be presented in a way as little different as possible from the original presentation of Lend-Lease by no less a person than the President".

It was intended to make a statement (drafted by the Bank) in Parliament before its adjournment on 6th August. It was not made (because Australia was not yet ready to sign), and the Governor lodged a protest with the Treasury.

The exchange of notes between the two governments was further delayed, and the Prime Minister did not make his statement until after the signing of the Agreement (3rd September). At the same time the U.S. Office of War Information gave the Press a communication which seems to have shown much appreciation of British Reciprocal Aid.

The "Exchange of Notes .... on the principles .... of Reciprocal Aid" was published as a White Paper (Cmd.6389). Supplementary to the Mutual Aid Agreement, it laid down the important principle that ...."as large a portion as possible of the articles and services which each Government may authorise to be provided to the other shall be in the form of Reciprocal Aid so that the need of each Government for the currency of the other may be reduced to a minimum".

The kind of aid to be supplied to the U.S.A. was specified as: military equipment, munitions, military and naval stores; supplies, materials and facilities for the U.S. armed forces and for military projects, tasks and capital works required for the common war effort in the U.K. or the British Colonial Empire (or elsewhere, when British sources of supply were more practicable). U.S. requests for aid, duly authorised, were to be presented through official agencies of the U.K., to be established in London and other areas where U.S. forces were located.

Major exceptions to Reciprocal Aid were the pay and allowances of U.S. forces, administrative expenses and local purchases made by U.S. official establishments other than through the specified establishments of the U.K. Government.

There was a general provision that "while each Government retains the right of final decision, ..... decisions as to the most effective use of resources shall, so far as possible, be made in common, pursuant to common plans for winning the war". Appropriate record, so far as circumstances would permit, of aid rendered was to be kept by each Government.

October 1942 - December 1945

In order to appreciate the atmosphere in which these last three war years were entered it will be necessary to return for the moment to the situation a little more than a year earlier. The intervening period evolved certain principles which would operate alternatively to reduce or to increase reserves, and which had considerable bearing on future policy.

The first few months of Lend-Lease had served to keep reserves of gold and dollars from shrinking further\*. In Washington, however, there seemed to have developed an idea that we could not spend a single dollar of our own, which led to discussion within the Bank on the desirability of drawing on reserves even so modest in order to procure supplies sorely needed for the war effort and not yet forthcoming from Lend-Lease.

A cable (17.8.1941) from Sir F. Phillips, drew a gloomy picture of likely Lend-Lease prospects under a new appropriation just presented to a Congress which had adjourned for a month. (He was still hoping, however, to get the Americans to take up \$300 mn. of the pre-Lend-Lease contracts). Surely here, it was felt, was a situation which justified drawing on such emergency reserves as there were.

A memorandum "Procedure in connection with Munition Orders in North America" contained the following paragraph: "...It may sometimes happen that orders on United States capacity intended for requisition under Lend-Lease will be found inadmissible for Lend-Lease when put forward in Washington, and expenditure in United States dollars may have to be incurred. Henceforward the British Treasury representative in Washington will be free to authorise such dollar expenditure by the British Purchasing Commission, or other Mission concerned, without the necessity of reference back to the Exchange Requirements Committee".

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\*Total Gold and U.S.dollars were at about the £90 million level, as in March: it needed a few months more to show a substantial increase (over £160 million on 31st December). c.f. Lord Keynes' forecast in the previous July of about £130 million for 1st December.

Another factor which would tend towards low reserves was the desirability of some relaxation on the release of Blocked Sterling. The first approaches to this problem date from at least as early as the summer of 1941<sup>1</sup>; but no change in practice occurred until November 1942.

Operating in the other direction was the growing conviction that, in spite of the diminished outflow of dollars under Lend-Lease (the inflow from American troops' expenditure was to come later) reserves were eventually likely to prove inadequate against sterling liabilities growing at an accelerated rate.

These conflicting motives were present in the minds of the U.K. authorities at a time when the increasing impetus of the war presented baffling problems in the forecasting of future expenditure. There were too many unknowns; and it seems natural, in looking back, that a number of constructive ideas came to little or nothing. And although from time to time the course of American official opinion became known to them through mutual and confidential exchanges, for a long time the Bank and the Treasury were in fact mainly occupied with discussion of their troubles among themselves.

In accordance with the heading to this section, policy and the action taken on it began in the autumn of 1942: it crystallised out of continuous discussion, recorded in memoranda and notes (comparatively few cables) from which fairly free quotation will be made.

The whole period down to 1945 may not unfairly be described as a long struggle to maintain against all argument the principle that enormous and growing liabilities, even though largely to other Sterling Area countries, required adequate reserves.

A note (G.L.F.B. 29.4.42) begins ... "We have so far fought a successful rearguard action against the policy of selling gold to the U.S.A. to provide us with current needs of U.S.dollars, and although the Americans had not formally accepted the thesis that

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<sup>1</sup>c.f. Lord Keynes' answer (to Mr.Cobbold's question) that the Americans showed no desire for a change at the time (Exchange Control Conference 6.8.1941).

we keep our gold and they supply us with dollars, in practice this policy is being followed. While formal acceptance is not forthcoming, we are always in danger of being asked to hand over what Congress may regard as gold surplus to our needs in order to meet a current dollar deficiency or as a write-off of a part of Lease-Lend ...."; and later proceeds ".... a Parliamentary movement has developed, both in Washington and Whitehall, against what is regarded as the economic waste of producing gold in wartime". "....I remain convinced that we need as much gold as can possibly be produced, not only for war purposes, but also to meet the unknown stresses post-war". Here is something which looks beyond preoccupation with the current rate of increase in sterling balances.

During the Spring and Summer of 1942 practical measures to slow up the translation of Lend-Lease aid into accumulating dollars were coming under discussion. Mr.Cobbold (Note, 14.8.42) thought that we should be considering putting additional dollars to the following uses:-

- (a) Fresh investments overseas;
- (b) Development and maintenance of existing assets;
- (c) Relaxation of "hardship" cases;
- (d) Transfer of profits of subsidiaries to U.S. parent companies.

In October a memorandum (ECC.76) on gold and dollar balances was circulated for discussion at an Exchange Control Conference (14.10.42). This began by referring to the broad prospect of our having at the end of 1943 about £400 million Reserves against sterling liabilities of £2,000 million - a position which must be made clear to the Americans. We had in these circumstances every need of the gold and dollars that we were acquiring. The Note proceeded to point out that as time went on our gold reserves (then in effect our dollar reserves) would be gradually replaced by dollars. The American public would regard this growth more jealously than an increase in gold; and if we were to use extra dollars to meet miscellaneous international obligations we should have to take the Americans into our

confidence. We should no doubt incur a general obligation to keep them informed: the question was, how much should we tell them and in what form? Increased frankness, particularly with U.S. Treasury Officials, was desirable; but ultimately something would have to be said which could be put to Congress and the public.

In presentation, some splitting up of gold and dollar assets into items was advocated, indicating the contingencies against which they might be required. Related to this was the probability that the time was approaching when the U.K. might not need further extension of Lend-Lease.

In its summing up the Memorandum proposed the following measures:-

1. To concentrate the growth in our assets on gold rather than dollars.
2. To postpone taking up the balance of the R.F.C. Loan.
3. To avoid selling vested U.S. securities.
4. To avoid or delay South African vesting against gold.
5. To keep ownership of stock piles.
6. To arrange for dollars in excess of 400 million to go to repayment of R.F.C. and Canadian Loans.
7. To transfer the Belgian gold.\*
8. To transfer Film sterling.
9. To allow dollars or gold to the Argentine and other countries which have doubts about accepting further sterling, if and when we can do so without causing further mistrust of sterling.
10. To give a fuller explanation of our position to the Americans.
11. To reach agreement with India and other countries on "funding" a portion of our indebtedness on an interest-free basis, this to apply also to our Canadian debt and to debts arising out of the country where we are creditors.

A beginning was made with the release, from November, of about £12½ million Film sterling, and the release of other blocked sterling was proposed. (See "Blocked Sterling": Chapter ... Appendix ...)

Commenting on this

\*3 million fine oz. (£25.2 million) lent by the Belgian Government to H.M.G. in Ottawa, on 6th March 1941, and repaid on 9th March 1943. See further under "Gold".

Commenting on this memorandum Mr. Siepmann underlined the main issue, pointing out that "....." the U.K., and even the Sterling Area as a whole, are now in balance with the non-Sterling Area, but the U.K. is heavily in deficit because of its growing liabilities to members of the Sterling Area and particularly India and Egypt". He found in the memorandum an implied thesis that "the nearer and remoter financial interests of the U.K., in or outside the Sterling Area, are a common concern of the Americans and ourselves". ..... a thesis objectionable because it could not be in our interests to accept America as "the paymaster of our domestic and political programmes" ..... when she "had not accepted, and would not accept, the position that pooling in its widest sense connotes the merging of our imperial problems with the financial problems arising directly out of the war". The dollar problem had to be treated strictly as a dollar problem. We might ask the Americans to agree that, as the centre of a monetary system, we ought to hold £500 million of gold to help us to relax exchange control after the war. We might also underline and develop President Roosevelt's principle that "no nation must grow rich from the war effort of its allies". This course would still leave us to deal alone with our imperial responsibilities. The Dominions were manageable; India and Egypt were "outstanding examples of countries which are growing rich from the war effort of their Allies".

On the 15th October, <sup>1942</sup> in a meeting at the Treasury, Mr. Cobbold suggested that there should be "a quite definite distinction in our own minds, and if possible in the minds of the Americans" ..... between our U.S. dollar reserves and our gold reserves. Dollar reserves accrued directly from our arrangements with the U.S.A.: this and the best ways of disposing of them should be freely and frankly discussed with the Americans. Gold reserves should be regarded as "a matter entirely within our own discretion": we should be prepared to give the Americans information about them and to explain the need for their growth, but not willingly accept criticism about their size.

At this meeting Sir Frederick Phillips, just arrived from Washington, was present. He said that the U.S. Treasury had made no complaint about the growth in U.K. dollar balances but were taking no steps to increase them as they no longer considered us short of dollars. He thought they would accept the view that our gold reserves should be regarded as needed to meet U.K. liabilities to countries other than the U.S.A. (But cf. Mr. White's remarks at the Treasury on 27th October, below.)

In a comment on Mr. Cobbold's suggestions, Mr. Kershaw pointed out their attractiveness for an American. We were (perhaps unavoidably) "agreeing to limit our holding of the one thing Americans cannot repudiate and asking for freedom to accumulate another thing (which they can and may repudiate)", i.e., gold - for which they had paid in the past for all they held and for which they had no fundamental use. We should do well to emerge from the war with fewer short-term obligations and fewer short-term assets.

Mr. Thompson-McCausland thought that we should bear in mind the Americans' desire for some budget relief ..... "our suggestions might even seem, to a suspicious mind, to be a scheme for paying off our liabilities at the expense of the American Treasury". We should rather agree that "until the blocked sterling, withheld profits, etc., had been paid off, our dollar balance does not show the true picture. A movement towards presentation of net reserves is now getting under way".... "We should try to establish an undisputed right to meet these liabilities as a first step".

Meanwhile a memorandum "External official Relations of the U.K." was prepared by the Treasury, discussed in a meeting there on the 26th October, and redrafted. The intention was to hand it to the Secretary of the U.S. Treasury and his Assistant (Mr. Morgenthau and Mr. Harry White) then in London; but instead the Treasury discussed the position fully with the latter on the 27th October.\* Mr. White appreciated being given a full picture, was

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\* Treasury represented by Sir F. Phillips, Sir W. Eady, Lord Keynes, Lord Catto and Sir D. Waley.

impressed by the magnitude of the problem within the Sterling Area and said that he did not think that our surplus dollars were likely to become a target for U.S. political criticism in the near future. He thought it well to proceed with the unblocking of sterling, and suggested that we should produce records of Reciprocal Aid. He asserted that there was no distinction in the U.S. Treasury mind between gold and dollar balances, since the U.S. was always ready to convert the one into the other for other governments.

Mr. Dolton thought that if the Treasury's arguments were not entirely acceptable to the U.S. Treasury we should offer to buy gold with our dollars in excess of (say) \$75 million on the "G" A/c at the Federal Reserve Bank. This would kill two birds with one stone - relieve the U.S. Treasury of some relatively useless metal (the cash received for which would reduce their internal borrowing), and for ourselves both retain (and universalise) our reserves and remove them from the arena of U.S. politics. .... "the Americans will never feel safe about the value of gold until they begin to lose some"; but (referring to the immediate post-war position) "it is to the interests of the Sterling Area that America should be persuaded to remain a buyer of gold as long as possible. It is not to the interests of the U.K. that we should be left in the position of having to absorb the whole of the Empire's production of gold at a time when the utility of gold is tending to become suspect in the eyes of informed critics".

At this point (end October 1942) the interest of the authorities moved in the direction of widening the scope of Registered sterling (convertible into U.S. dollars) and then to International sterling (not convertible).

A suggestion some months earlier that future accruals to Portuguese Special Account should be transferable to a Registered Account was part of a more general plan which was not adopted. In a letter to Sir W. Eady (3.11.42) Mr. Cobbold mentioned as countries offering scope for a move in this direction, Portugal, Spain, Central America, Bolivia and some of the smaller South American countries. Immediate adoption of the right of convertibility by

creditor countries would have the advantage of putting our dollar surplus to its best use in discharging liabilities. The letter also put forward Mr. Bolton's proposal to buy gold from the U.S. Treasury.

Discussing this letter with the writer on 18th November, the Treasury contended that Spain, Portugal and other countries did not want dollars at that time and to give them Registered sterling would be to incur a future dollar liability, possibly at an awkward moment. Mr. Cobbold said that he had made his suggestion as a first step in the direction of more multilateral sterling to make sterling increasingly recognised as a currency to hold. The Portuguese balance (£35 million as against a more appropriate £10/15 million) was the most top heavy stock. The Treasury countered that however desirable the ultimate freer use of sterling might be, it would be dangerous to offer (say) Portugal and Spain Registered sterling before we were ready to go further; the big South American countries would ask for it "as a matter of amour propre". Having agreed that Mr. Cobbold's object was chiefly to consider what line to take in the light of possible future developments, it was decided to take no action at the moment.

The early months of 1943\* were largely occupied in considering the scope and method of unblocking sterling (accounts and securities) - described in detail in the Appendices on "Blocked Sterling" and "Securities Control".

A memorandum by Mr. Thompson-McCausland (13.2.43) advocated freer use of gold to reduce either existing sterling balances or the rate at which sterling accrued to Special Accounts, the latter being preferable as improving conditions for future accruals of sterling. Argentina, Brazil and Portugal<sup>†</sup> were mentioned as presenting the main problem. Sterling in excess of an

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\* The Belgian gold was repaid on 9 March

† Short-term sterling balances at 31 December 1942:

Argentina	£14.8 million
Brazil	£14.7 million
Portugal	£37.4 million

agreed maximum held by these three countries should be transferred to an International sterling (Money Employed) account at the Bank of England and be available for the purchase of gold or for transfer to a similar International Sterling account at the Bank of England. Conditions were set out at considerable length.

Commenting, Mr. Bolton, while not criticising the practical suggestions, did not see more than limited use in international trade for this type of sterling - a currency for use between certain Central Banks - and concluded his note ..... "I doubt whether the innovation of a rarified sterling, the use of which is restricted to exalted circles, will bring any profit to the London Market."

Late in May cables from Lord Halifax to the Foreign Office (23.5.43 and 3.6.43) gave evidence that the Americans were doubtful of the wisdom of putting a ceiling on British gold and dollar balances without consideration of contingent liabilities. H.M.G. were invited to prepare a paper setting out our international financial position so as to show that growth in our assets was against deterioration in other respects; it was to include statistics on the growth of our net short-term liabilities, sale and repatriation of long-term investments, some rough totals of war losses (ships, etc.), war damage in the U.K. and losses of investments in Europe and elsewhere. The Ambassador's personal view was that even the fundamentally friendly State Department (and possibly the Office of the Lend-Lease Administration also) would "see great political disadvantages in our balances rising above, say, \$1 billion net" although willing to see us keep them down (by making payment, e.g., to India) which would help our position after the war. Lord Halifax ended by comparing U.K. war expenditure of

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∅ This had reference to an American inter-departmental document which had defined reasonable working balances as \$600 million with some latitude up to \$1,000 million. It was not, in fact, a directive, but having "passed the President's table" came to be accredited as such in Washington.

at most \$60 million a day with that of the Americans, rising towards \$300 million a day, the population ratio being less than 3 to 1. To prove our case by reference to disparities in national income, wage levels, etc., might carry conviction with economists and statisticians but not so easily with politicians and the public. Should we now put forward a claim that the Americans were not bearing their proper share of the cost of warfare in the Middle East and India?

A later cable (21.8.43) makes it clear that Mr. Morgenthau regarded himself as "pledged to Congress to see that Lend-Lease does not result in an increase in our gold and dollar balances".

Available reserves at 31st July 1943 were:

	£ millions
Gold	177
Dollars	<u>83</u>
	<u>260</u>

or if only immediate gold liabilities were deducted from the gross figures:

	£ millions
Gold	229
Dollars	<u>83</u>
	<u>312</u>

The lower of those totals therefore exceeded the £1,000 million ceiling. Either total was expected approximately to double over the next year.

Discussion at the Bank, between the Bank and the Treasury, and between the Treasury and Washington continued well into 1944. Various suggestions came forward: to purchase raw materials with dollars (or alternatively to give raw materials to the U.S. as Reciprocal Aid); to pay off some of the R.F.C. Loan; to use reserves to pay some current liabilities (e.g., India); to purchase gold in the U.S. for India; or, finally, to ask the U.S. to allow a further increase of not more than £150 million a year in dollar balances.

In the summer of 1943 Lord Keynes (with Mr. Thompson-McCausland) visited the U.S.A. for preliminary discussions on Bretton Woods (i.e. a year before the Conference). He also visited Washington for consultations on gold and dollar balances and presented a memorandum which set out the British case.

The British case rested on claims that -

- (a) ...."the liabilities are liabilities solely of the U.K."....  
 "but the quick assets cannot be regarded as wholly available for the U.K.'s requirements". (with reference, of course, to the arrangement for pooling all sterling area dollar earnings in excess of local requirements and the attendant obligation on the U.K. to provide dollars for the legitimate needs of other parts of the Sterling Area);
- (b) The fact that 90% of a net worsening of the position (loss of assets plus increase in liabilities) by  $10\frac{1}{2}$  billion dollars had accrued to the advantage of others, a position "unique amongst the United Nations;"
- (c) The disparity between U.K.reserves and those of other members of the United Nations, none of whom had any significant quick overseas liabilities. As compared with U.K.reserves of about \$1,000 million and liabilities of \$7,000 million, corresponding estimates for the reserves of the following countries who had no comparable liabilities were:-

U.S.S.R.	\$1,600 million
China	750 "
France	2,875 "
Belgium	870 "
Netherlands	690 "

Statistical tables showed first a deterioration of  $\$10\frac{1}{2}$  billion in the net position in  $3\frac{1}{2}$  years from 1 January 1940 to 30 June 1943, arising thus:-

By overseas loans	\$1,225 million
Sale of overseas investments	2,925 "
Net increase in quick liabilities	5,060 "
Sale of gold and dollars (net)	<u>1,315</u> "
	<u>\$10,525 million</u>

On 23rd October Lord Keynes cabled, "We should continue to ask all concerned to face balance issue straightforwardly and to acknowledge that our present position is reasonable. Meanwhile wiser to make no concessions whatever. We should make it clear that our raw material offer is on assumption that obligation of Lend-Lease principle remains unchanged". He added, however, that the raw material offer might cause more trouble than it cured... "not only do Australia and India raise difficulties but the Office of Lend-Lease Administration does not really want the offer and the Office of Economic Warfare finds it embarrassing in practice".

On his return to London Lord Keynes said that gold and dollar balances were still in the melting pot when he left. He was clear that the President's "directive" (1941) must be altered. The Administration were generally sympathetic but the U.S. Treasury still faced criticism later if they ignored the question. He had been told in various quarters, however, that Congress had forgotten it. He thought that a strong point in our favour was the inability of the U.S. authorities to reverse the trend of the balances without refusing Lend-Lease on some major item, a course which he thought they would be politically unwilling to face.

Canada too, had agreed with the U.S. Treasury to a ceiling (\$300/350 million) but the agreement was terminating at the end of 1943. The Bank endeavoured to find out what arrangement would replace this, but nothing had been settled.

By the middle of December the Treasury appears to have been converted to the idea of exchanging some dollars for gold, but <sup>again</sup> no definite decision had been taken. Mr. Cobbold <sup>once more</sup> raised the question of gold payments <sup>to</sup> Portugal and Brazil, combined <sup>with</sup> a new clause in the agreements under which these countries would

as a result of which net gold and dollar reserves had fallen from \$2,335 million to \$1,020 million. The comparison is there~~fore~~<sup>after</sup> confined to the 18 months January 1942 to June 1943, during which period quick liabilities had increased by \$2,475 million and quick assets by no more than \$635 million (of which \$594 million from the rest of the Sterling Area, the greater part of which was U.S. Troops' expenditure).

This memorandum, which failed to convince the Americans, ended ..... "if, therefore, in spite of a progressive deterioration in her net position, the U.K. is in a position, as we hope, to increase her quick reserves above the present figure by retaining certain liquid resources earned outside our balance of trade with the United States instead of applying them forthwith to a reduction of her liabilities, this cannot be judged in the light of the above consideration to be a matter for criticism or open to legitimate rejection".

On 23rd October

A sequel to answers given to the American request of May 1943 for figures of U.K. Reserves and Liabilities was the monthly despatch (from Nov. 1943) of two cables to our Washington Delegation, for the confidential use of the U.S. Treasury, showing the following items:-

Cable No.1

- (a) Gold holdings\*;
- (b) E.E.A. balances on "G" A/c at Fed. Res. Bank of New York;
- (c) Authorised Dealers' balances.

Cable No.2

- (1) Total gold liabilities;
- (2) Registered Sterling, etc., Liabilities (including U.S. Finance Officer's A/cs in Australia).

Gross figures from 31st December 1944 onwards, at quarterly intervals and a quarter in arrear, were eventually published. §

Mr. Cobbold's reply (17.5.44) to a letter from the Treasury (8.5.44) embodied the Bank's views to date. Its main points were:-

- (a) Without an understanding between the U.S.A. and ourselves that the soundness of sterling was essential for post-war international reconstruction, discussions based on figures and self-justification would get us nowhere;
- (b) The above form in which figures were sent to Washington was out of date, but the advantage of changing it, unless the whole question of gold and dollar balances were reviewed, was doubtful.
- (c) They were entirely opposed to any suggestion at the time for a loan from the U.S.A.;

(d)

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\*Excluding small holdings in Paris and Ottawa.

§In White Paper "National Income and Expenditure of the U.K. 1938-46" - Cmd. 7909 (April 1947), and continued in the Statistical Digest of the Central Statistical Office.

¶This would depend on the opinion of <sup>Lord</sup> ~~Brand~~ Brand, who had succeeded Sir F. Phillips as H.M. Treasury Representative in Washington.

would take sterling from third parties. This was favourably <sup>considered</sup> ~~considered~~ by the Treasury, but no action followed.

A sequel to ~~answers~~

- (d) "Small concessions" (i.e. such as involved us in a number of small dollar losses) should be fought, not on the merits of each case, but by a definite policy;
- (e) We should accept Lend-Lease cuts in raw materials rather than in civilian goods;
- (f) The time was inopportune to make any statement in Parliament.

A new formula for presentation of the Reserve figures was drawn up, which the Treasury approved but did not think would be helpful at this stage.

In July it was learned from the British Embassy that the U.S.State Department was much disturbed by the thought that the U.S. might be asked to give Britain greater assistance because the Dominions were not doing as much as they might. A very difficult internal practical problem would arise if the U.K.were to treat indebtedness of the rest of the Commonwealth as an ordinary external debt, and at the same time claim that nothing could be done about Imperial Preference because it was "inherent in the political constitution of the Empire".

A visit to Washington by the Chancellor of the Exchequer or some other Minister was now being planned. A brief for his use (dated 17.8.44) was apparently not seen by the Bank until after it had been printed. Their views on it are contained in a memorandum of 19th September by Mr.Thompson-McCausland. Lord Keynes was eventually selected to put forward the views of the U.K. and this memorandum was given to him.

The Bank's criticism was mainly on the <sup>following</sup> lines ~~that~~; the treatment of gold and dollar balances was little more than an abbreviated version (brought down to June 1944) of Lord Keynes' memorandum of the previous Autumn; it had not been made clear that our dollar balances had in fact been little changed since Lend-Lease began if certain transactions on capital account\* (undertaken with a view to mobilising liquid resources to meet the post-war problem) were left out of account; neither had H.M.G. made it clear that they did recognise a difference between liabilities in and outside the Sterling Area.

At the meeting

\*Amounting to over \$1,300 million since the beginning of Lend-Lease.

At the meeting between President Roosevelt and Mr. Churchill at Quebec in August 1943, the President had apparently agreed that the financial position of the U.K. should not be allowed to deteriorate in Stage II<sup>\*</sup> so that she would not enter Stage III in a crippled condition. In particular, arrangements should be made which would enable the U.K. to export freely.

It was to give practical effect to this agreement that Lord Keynes <sup>[this statement thought to be written see m. 26. 8. 46 by Mr. Margelion see in overleaf]</sup> (again accompanied by Mr. Thompson McCausland) went to Washington in the autumn of 1944 to negotiate on the necessary changes in the Lend-Lease Agreements. During Stage II Lend-Lease requirements of the U.K. would be considerably reduced. Apart from <sup>of</sup> this H.M. Government wished to obtain various modifications/existing practices and definitions under which they felt that U.K. exports were handicapped. By their <sup>own</sup> ~~own~~ White Paper of September 10th 1941 the British Government had perhaps bound themselves to an unreasonable extent. (see Appendix ..... p. 7).

The choice of a date for the termination of the White Paper policy gave rise to difficulties. 1st December 1944 was at first suggested, and then 1st January 1945. Later, one American Department wished postponement until the date of Germany's surrender; but the British Government had to meet Parliament on 29th November 1944 and felt that a clear statement on exports must be made without delay. The Americans wished the statement to be of a character that would not suggest to the American public that any great changes had been made. They offered, however, to introduce the changes administratively and in the main as from 1st January, and openly from V.E. Day. In the event, a statement was made by the Prime Minister on 30th November from which the following extracts <sup>outline</sup> ~~briefly~~ <sup>briefly</sup> the <sup>1944</sup> the

\* With reference to a scheme for forecasting <sup>of which</sup> overseas requirements and devising means to meet them, the origin is not easily traceable (possibly Lord Keynes). The ~~stages~~ stages were:

Stage I	to end of World War (Europe)	end 1944
Stage II	Japanese War	1st. year 1945
		2nd. year 1946
Stage III	Peace-transitional	1947-49
Stage IV	Normal	1950 -

The dates were changed later by the course of the War towards its end.

"1. As you will see below our indebtedness is largely due to our military expenditure in the Middle East and India. For five years we, and we alone, have been responsible for practically the whole cash outgoings for the war over the vast territories from North Africa to Burma. Without these expenditures we should never have held Rommel at the critical moment of the war.

2. Quite early in the war, the Treasury control over war expenditure overseas was virtually abandoned. If Treasury control over expenditure had continued, unquestionably many economies could have been made. But these economies would not have been possible without setting up a machine of control which would have impeded the prosecution of the war. One has to choose. The principles of good housekeeping do not apply when you are fighting for your lives over three continents far from home. We threw good housekeeping to the winds. But we saved ourselves, and helped to save the world. Too much financial precaution might easily have made just the difference when, as at one time, the forces were so evenly balanced. It is easy to argue that a method set up in an emergency has been continued too long. Very probably that is the case. But the obstacles in the way of re-imposing detailed control when it has been long absent are very great.

3. We ourselves receive no reverse Lend-Lease whatever from the British Commonwealth, apart from Canada. As is shown below, we have made far less favourable financial arrangements with our own Dominions than has the United States. We pay Australia, for example, for the same goods and services which the United States receive without payment. Even when Lend-Lease is brought into the account, the United States has with these countries more favourable arrangements than we have.

4. We have not thought it right to ask for any contribution to the war from the Crown Colonies, where we are in a position of Trustee. We have paid them for everything we have obtained, and consequently owe them vast sums. We even pay them for the goods which they send as reverse Lend-Lease to the United States, so that this contribution also falls on our shoulders.

5. We abandoned our export business in order to devote to the war the whole of the manpower which could by any means be made available.

6. We paid over nearly the whole of the gold reserves with which we started the war to the United States, and spent the money to build up the American munitions industries from small beginnings, with the result that when America came into the war, the time-lag in the expansion of production was very greatly reduced.

No doubt the above makes up collectively a story of financial imprudence which has no parallel in history. Nevertheless, that financial imprudence may have been a facet of that single-minded devotion without which the war would have been lost. So we beg leave to think that it was worth while for us, and also for you....."

At the time of the Bretton Woods conference (July 1944) understanding with the Americans on the dollar balances question was still making little progress. While attending the conference, Mr. Bolton wrote saying that, with the ever-present question in mind, he had been wondering whether a partial answer might not be found by transferring blocks of dollars from our main account to accounts

designated

the results of Lord Keynes' efforts.

"..... the defeat of Germany will make possible reductions in the Lend-Lease programme. In certain fields we have been able to anticipate those changes and to work on the basis of the new programme from the beginning of 1945. Thus, from that date, we shall no longer receive shipments to this country under Lend-Lease of any manufactured articles for civilian use which enter into export trade, nor of many raw and semi-fabricated materials, such as iron and steel and some non-ferrous metals. Consequently, in accordance with the White Paper of September, 1941, we shall then be free to export a wide range of goods made from those materials.

Naturally, we have not used in export, and <sup>do not</sup> not propose to use, any critically scarce materials, except <sup>where</sup> where the export is essential to the effective prosecution of the war, but till the German war is at an end, however, there can, of course, be no significant release of resources.....

There is not of course - and never has been - any question of our re-exporting in commerce any articles which we have received under Lend-Lease. Nor, in general, shall we receive in this country under Lend-Lease, finished articles identical with those which we shall export. Such articles will be paid for by us. Where we continue to receive any raw materials, the quantities supplied under Lend-Lease are limited to our domestic consumption, for the manufacture of munitions and the maintenance of our essential wartime economy. We shall pay cash for any additional supplies which we might wish to take from the United States for export purposes....."

The Bank were kept informed of the progress of the negotiations, but only found it necessary to intervene on one or two occasions. In October a question arose as to whether the Dominions should be given a copy of a memorandum which Lord Keynes had handed to the U.S. Treasury; and there was hesitation in Washington as the paper contained secret details of military requirements and an indication of the action which the U.K. might be obliged to take eventually concerning the sterling balances. The Bank urged that the Dominions should be kept fully informed, and later the Dominions Office and the Treasury seemed to have agreed that this would be advisable, if only because leakages were apt to occur from the American Departments.

On 16th November <sup>1944</sup> Lord Keynes gave Mr. <sup>M</sup> Morgenthau a detailed statement of British war expenses abroad, and his covering letter so well indicates the character of a part of the British financial effort <sup>in the war</sup> that it may not be out of place here:

perhaps, than the U.S. Administration) on the question of dollar balances, then diminishing in any case, before long faded before the shadow of the greater problem to be faced when Lend-Lease should be withdrawn.

The surrender of Japan was reported on 15th August and her formal surrender accepted a few days later. The announcement, immediately after the fall of Japan, that Lend-Lease was to end forthwith came as a shock, though its termination at no great distance from the end of the war in the Pacific had been expected. It meant, of course, the general termination of Mutual Aid and posed the immediate question: what was to take its place?

The general termination of Mutual Aid dated from 2nd September 1945 and broadly speaking applied to supplies and services not allocated before that date. There were certain important exceptions, regarded as being in the Lend-Lease "pipeline" because intended for delivery before 2nd September, though not in fact <sup>v</sup>available in time. Between 2nd September and 3rd December 1945 supplies and services furnished by the U.S. and U.K. forces to one another, except those on a straight Lend-Lease or Reciprocal Aid terms, were to be settled by an arrangement for offsetting (see below). After 31st December ~~and~~ <sup>all</sup> such supplies or services were for cash settlement.

Before the end

designated A,B,C,D, etc., which should represent, without any necessary reference to the Dominions themselves, "iron" reserves available for the individual dominions to settle their balances with the U.S.A. so far as they were adverse. Control would remain with Whitehall and our gold retained as an ultimate reserve. There seems to be no record that this suggestion was considered.

Some months later, in a memorandum (9.11.44) Mr. Bolton stressed the inadvisability of opposing "any American ideas on policies which force bilateral arrangements between the Sterling Area and the U.S.A.". But if we were to be deprived of "the unconditional use of the only international currency available", ..... we should not only mobilise all our gold resources for sale as required but take greater risks in developing a multilateral sterling. From early 1945 we should meet growing dollar difficulties. If we did not receive "massive aid from the U.S.A." we should face a dollar shortage: if we did receive it we could not resist pressure from the Americans to spend the dollars as they required.

In the Autumn of 1944 the steady growth in our gold and U.S. dollars began to slow down: an addition of £115 million in the first half of that year was followed by one £30 million in the second half; and in the first quarter of 1945 a bare £1 million was added.

In May 1945 the U.S. Treasury were being pressed to provide figures of gold and dollar balances of all foreign countries for a special Senate Committee (cable 11.5.45). They were reluctant to refuse and could not guarantee that the Committee would maintain a strictly confidential attitude. For the U.K. a figure of \$3,500 million (£875 million) "gold and securities on deposit in the U.S." was announced by Mr. White to a closed session of the Committee on 30 June. This announcement reached the London Press by 2 July.

The war in Europe was now over and the defeat of Japan imminent. Failure to convince American opinion (rather, perhaps,

Before the end of August a mission was already on its way to Washington to discuss with the Americans the new situation facing the U.K. as the result of the imminent ending of Mutual Aid: Lord Keynes sailed on the 28th.

The talks in Washington, of which the principal outcome was the Loan Agreement of the following December, were headed for this country by Lord Halifax as Ambassador; but Lord Keynes carried the brief, factual and statistical, which had been specially prepared to make out the case for the disproportionate weight of the British burden. This, his previous experience in Washington, and his brilliant advocacy led, after anything but smooth going in the earlier stages, to a clearer understanding in the autumn of the position in which the war had left Britain.

The much heavier burden on the British than on the American people had been fully and clearly expounded to Lord Keynes' hearers, though it is unlikely to have been fully realised.

Whatever criticism of the terms of the loan there might be - and inevitably there was much - it had to be recognised that *they* were bound to be dictated by what, in the eyes of America, was a fitting sum to put Britain in a position to cooperate in a reopening of trade and <sup>to</sup> afford a measure of reconstruction such as she contemplated. The choice in fact narrowed to either a loan free of interest, but by no means free of conditions (e.g. reduction of U.K. sterling indebtedness to other countries or downward revision of Imperial preference) and a loan bearing interest, not indeed at a "commercial" rate, and leaving the U.K. greater freedom (or less restriction) of action.

Two White Papers

Two White Papers (Cmd.6708 - 6778) set out the terms, respectively, of the "Financial Agreement" under which the U.S.Government granted a loan to the British Government, and of the "Specific Agreement regarding Settlement for Lend-Lease, Reciprocal Aid, Surplus War Property and Claims".

The Financial Agreement (6 December 1945) granted to the U.K. Government a line of credit of \$3,750 million, to be drawn on at any time up to 31 December 1951. The amount drawn by that date was repayable in 50 annual instalments\* beginning on the same date, with interest at 2% per annum.

A waiver claim provided for the suspension of interest payments in any year in which the U.K.Government found it necessary "in view of the present and prospective condition of international exchange and the level of its gold and foreign exchange reserves" ..... provided also that the International Monetary Fund certifies that the average income of the U.K., in the five preceding years, from home-produced exports plus net income from invisible Balance of Payments items, was less than the value of average imports in 1936/38 (£866 million) adjusted for changes in the price level of such imports.

A Joint Statement appended to the Financial Agreement fixed the net sum due from the U.K. to the U.S.A. in settlement of Lend-Lease and Reciprocal Aid (the off-setting arrangement referred to above) at \$118 million, representing the balance of services and supplies since V.J. Day and due by the U.K., plus \$532 million for all other items, surplus property and the U.S. interest in installations located in the U.K. and owned by the U.S.Government: i.e., a sum of \$650 million (£161 million) for settlement by the U.K.<sup>♠</sup>

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\*In effect this meant equal annual payments (principal and interest combined) of a little under \$32 million on each \$1,000 million drawn by 31 December 1951 .

<sup>♠</sup>It was provided, however, that any difference between the \$118 million (the best estimate which could be made at the time for the amount of the net U.S.claim) and the actual sum eventually found to be due should be adjusted. Further, these arrangements were without prejudice to any Lend-Lease or Reciprocal Aid settlements which might be agreed between the U.S.A. and the four British Dominions and India. The \$118 million was reduced to \$90,446,911 (and the \$650 million to \$622,446,911) on 12 July 1948 (Cmd.7515)

Beyond actual settlement, protection of the rights of U.S.Nationals in installations with a U.S.interest and settlement for Lend-Lease interest in them where they were outside the U.K. or Colonial Dependencies, was provided for; also the right of recapture of Lend-Lease goods held by U.K. Armed Forces - a right which the U.S. did not intend to exercise generally. The U.K. Government also undertook not to release for civilian use or export, except to a very limited extent, articles held by U.K. Armed Forces.

The second White Paper (March 1946) specified the supplies and services to be brought into the Lend-Lease pipe line, and published agreements on the settlement of inter-governmental claims for the transfer of military and civilian holdings, aircraft and petroleum stocks.