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WAR CABINET.

THE PROPOSED UNITED NATIONS BANK FOR RECONSTRUCTION AND DEVELOPMENT.

MEMORANDUM BY THE CHANCELLOR OF THE EXCHEQUER.

THE forthcoming Monetary Conference at Bretton Woods, besides discussing the proposal for an International Monetary Fund, will also discuss the proposal for a United Nations Bank for Reconstruction and Development, with the object of submitting a concrete scheme for acceptance or rejection by the Governments. The American scheme is for a bank with a capital of about £2,500 million. The United States will be expected to contribute 33 per cent. of this; our share should not exceed 10 per cent. (£250 million), of which not more than 20 per cent. (£50 million) would be paid up, mostly in the form of sterling, which would not be drawn upon until required, and as to something like £5 million in the form of gold. The remainder of the capital would constitute a surety fund to be called on only in the event of money being required to implement guarantees given by the Bank for loans raised outside its own direct subscriptions.

2. It is most important, both from the point of view of the countries whose economies have been dislocated by the war and from our own point of view, that a Reconstruction Bank should be organised at as early a date as possible. Failing this there would be the strongest pressure on us to make advances far beyond what we can reasonably afford. We cannot look to U.N.R.R.A. to provide finance for reconstruction, for the present tendency of the U.N.R.R.A. Administration is to concentrate on immediate relief and to give a very narrow interpretation to rehabilitation. Looking further ahead, it is important for the world that a Bank should be set up which will enable American money to be adequately and wisely invested in capital development schemes in those countries where capital development is most needed.

3. The American plan was published last November, but has not yet been formally discussed between the British and American experts. In order to make the American scheme acceptable and useful the American proposals need elucidation or amendment in some respects:—

- (a) Not more than 20 per cent. of the capital should be paid up and used for direct loans, and the balance should be available as a surety fund to be called upon only in the event of money being required to implement guarantees given by the Bank. The loans so guaranteed would be issued in creditor countries, which to-day means chiefly the United States. They should be available for purchase not only in the country in which the loan is issued but in any member country, so that such loans would be completely untied and might make an important contribution towards maintaining the equilibrium of the international balance of payments. This would make it possible for countries which wish to place orders with the United Kingdom to finance these orders by loans issued in the United States.
- (b) The Bank should not be confined to projects of capital development, but should also finance the purchase of raw material and other overseas expenditure needed to restart economic life on the part of countries which have no available exchange resources at the present time. The

object of these reconstruction loans would be to enable countries with no or inadequate exchange resources to tide over the transition period and to become self-supporting and solvent as rapidly as possible.

- (c) As regards projects of capital development, it would be a primary function of the Bank to undertake expert examination, having regard to the degree of priority which should be accorded to each project, to the reliability and technical capacity of those who handle the spending of the loan, and to the prospects of the recipient country being in a position to service it in free exchange.
- (d) It should be clearly understood and generally accepted that no country should be obliged to subscribe to loans sponsored or guaranteed by the Bank unless its monetary authority has approved such subscription as being within the capacity of the country's balance of payments at the time when it has to be made.
- (e) Our share of the capital should be limited to 10 per cent. so that our share of the paid-up capital would be about £50 million, of which not more than £5 million should be in gold.

4. If we can secure these desiderata, I think it is very much in our interests that the Conference should draw up a definite scheme for submission to the Governments. I trust that my colleagues will agree that our delegation should direct their efforts to this end.

J. A.

Treasury Chambers, S.W. 1,
20th June, 1944.



