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1. Postscript on the Clearing Union

(For consideration also in connection with paragraph 10 of U.S.D. (42)18, "An Outline of Strategy")

The Clearing Union plan, as now set before us, is a great contribution to a better world order. There is one large question, however, relating to the matters with which it deals, that it admittedly leaves open; and there is danger that, if it is not settled or is settled in the wrong way, we may still be short of what is required to make the world system function properly and that the Clearing Union itself may be brought to failure. I believe that a comparatively small change carrying the implications of the scheme to their logical conclusion, would give the right answer.

I do not propose at this stage any radical amendments to the admirable draft which we have. But Anglo-American discussions are to follow, in which the plan will be subject to criticisms and unsettled questions will be brought forward for discussion. This note is intended to be relevant to the line we should then adopt.

The draft scheme provides that when there is disequilibrium in the balance of payments, changes in the foreign exchange rates may or must be made. Finally if a nation accumulates too much indebtedness sanctions are to be applied. This plan may put too much reliance on exchange movements; the tendency towards disequilibrium may persist in spite of them and affect too many countries for the sanctions clause to be appropriate. At the same time the question of the nature and amount of foreign lending that we wish to take place is left open, save for the plea in favour of "control". There is no doubt that under the gold standard when a change in the trade balance took place, consequent changes in the amount of foreign lending played an important part in restoring the total balance. It is not clear that we can afford to dispense with this mechanism of adjustment. If we cannot, then we ought to formulate the principles which we should wish to govern the amount and the changes in the amount of foreign lending. This is all the more incumbent on us if these movements of capital are to be subject to control.

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(and on next page)
I think that the size of the disequilibrium on current account to be expected after the immediate post-war period is often exaggerated. The United States annual favourable balance on current account in the period between the wars was of modest dimensions, only about \$4 millions on average in the eleven years 1928-1938+. I do not see why, after her strenuous efforts, she should come to have a very much larger one. But if the United States does not have a formidable active balance, what other country is expected to? Where else shall we find the mighty nation that is to put the rest of the world into her debt? The fear that many nations will suffer from recurrent adverse balances may thus be ill-founded. Experience does not warrant it. The trouble is that quite a small deficit may necessitate un-neighbourly action, which forces other nations to follow suit; trade barriers, like inflation, proceed in a vicious spiral, and the cumulative effects may be out of all proportion to the initiating cause. If this line of thought is correct, the moderate easement to the balances of payments provided by the provisions of the draft scheme may be more effective than pessimists fear.

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no new paragraph
But
Still, it would be unwise not to budget for the possibility of a more serious disequilibrium. Furthermore quite a small

+ reckoned at 1 = 1.36. United States Department of Commerce (revised figures).

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Cont { and annual lack of balance may, if it is always in the same direction, cause large accumulations of credits and debits after a number of years. Thus if the debit "quota" is regarded rigidly, a minor but continuous ailment would in time exhaust the power of the plan to alleviate it.

It is incumbent on us to ask what, within the framework of an orderly world system, we believe to be the right solution, should a persistent tendency towards disequilibrium manifest itself, and not prove curable by adjustments of foreign exchange rates.

I do not think it is possible to attain clarity in this matter unless we regard it from the point of view of the credit countries. If a country shows a persistent tendency to a favourable balance on current account, that is an infallible sign that she is unable to find a sufficient vent for her savings at home. Even the expression "infallible sign" does not put the point strongly enough. The favourable balance itself constitutes a surplus of saving.

For such a country there are three possibilities
(i) the favourable balance may be allowed to continue. This means a continued stream of lending by that country.
(ii) By allowing trade depression and unemployment at home she let her own savings be squeezed down so that no surplus remains and the external ~~signs~~ come to equality.
(iii) She may find additional vent for her savings at home.

I take it that the second solution is ruled out as inconsistent with an "expansionist" world system and inherently unsatisfactory.

The third solution is attractive. There is much to be said for pressing it as far as possible. Professor Hansen during his stay here explained that one reason why he wanted an international body to advise governments on internal matters was to strengthen the hand of those elements in the credit countries who favoured a more extended policy of public works. So far so good.

But it cannot be right for an international plan to depend exclusively on the internal measures of governments, which may be influenced from time to time by political considerations. Moreover the United States has already **gone** very far in her experiments with public works and deficit spending, and I think that anyone who reflects upon the matter must have doubts whether a rich country, whose increase of population is slowing down and whose capital equipment is at a high level, will easily be able within the framework of capitalism to solve her savings problem in full within her own borders in the early future.

To the extent that she fails we are driven back to the first, as the only other possibility. She must be allowed to retain a continuing favourable balance, I do not say in perpetuity, because it is useless to provide for more than, say, a period of thirty years, in which great unforeseen economic and social changes may occur. Let it suffice that the favourable balance be allowed to continue until the time, which we are bound to believe may be rather remote, when she has solved her own internal savings problem. Be it observed that this problem of surplus saving is not merely a matter of theoretical speculation;

it is one to which the Americans have been devoting intense attention, in discussion and practice, for a number of years.

If continued lending be approved, the question arises whether we wish this to take predominantly the form of private enterprise, government sponsored loans (with the approval of an International body or otherwise), or the accumulation of credit at the Clearing Union. I think that the balance of advantage both for the whole system and the credit countries themselves is with the Clearing Union method. I shall return to this. (The plan for an International Investment Board, to which I attach importance, has an entirely different purpose and is not directly relevant to the balance of payments problem. I shall return to this also).

Meanwhile I want to refer to a view, which has some superficial plausibility, that if we are to tolerate continued lending (and unless lending I include the accumulation of credit at the Union), we should contrive that it be used for the building up of productive capacity in the debit countries of a kind that whether economic in itself or not, will have the effect of making them at the earliest possible date cease to be debit countries. This view if put into action would tend to disrupt the Clearing Union system and would be violently injurious to British interests in particular. The matter has a direct bearing on my note on industrialization (paragraph 10 of "Outline of Strategy") which is under discussion.

This idea contemplates putting the balance of payments of the credit countries right from the outside. The debit countries are to be supplied with industries which will allow them to dispense with imports from the credit countries or to undercut them in third markets.

Now the question is:- do we contemplate that the credit countries will already have solved their internal problem of surplus saving and thus be "ready" from their own point of view to have their balance put right?

If they are "ready" the whole process of artificially fostering industry elsewhere is quite unnecessary. Readiness on the part of the credit countries implies that so much of their man power is harnessed to capital works (or deficiency consumption) inside the countries that they only have enough left over to supply themselves with their own needs and to export what is required to pay for imports. They will not have enough labour to produce an export surplus. Their competitive power in export markets will/wane and their power of supply- ing their own needs will not be so great that they cannot tolerate the imports required to balance such exports as they still have. The debit countries will find their debits dwindling and disappearing in the ordinary course of remunerative trade and there will be no need of special uneconomic measures to safeguard their balance of payments.

But if this happy state of affairs does not come about, if the credit countries are not ready internally to have their balance rectified, an attempt to do so from the outside will upset the whole system. The credit countries, finding themselves afflicted with depression and unemployment, will sooner or later, whatever their previous protestations and commitments, take measures to regain their favourable balance. They will raise tariffs and push exports by uneconomic means. They will set the spiral of un-neighbourly conduct going once more, and the

system designed to secure an ever wider expansion of trade will come to an end.

In these circumstances it is no use scolding the credit countries and raising hands in horror that countries, which still perhaps have something of a favourable balance, should increase tariffs. This would be a superficial criticism. They can plead that they are bound to consider their own unemployment and depression.

So long as the credit countries need a favourable balance for full employment and have it in their own power to create one (by tariffs, etc.) it is no good trying to work a system which entails their denying themselves the use of this power. After all they will be the most influential partners in the system. One must make the system consistent with their interests, and it is perfectly easy to do so without injury to the debit countries.

The credit countries could plead vital interests in their essay in more intensive protection. They could also plead equity on the score of the other parties having begun the trouble by their fostering of uneconomic industries. To foster an uneconomic industry in order to rectify a trade balance is just as mercantilist in spirit and destructive of the proper purpose of international commerce as a trade barrier.

then

I argue/that any attempt to rectify debit balances by uneconomic industries before the credit countries are internally ready to have their balance rectified is likely to break up the system and that if we wait until credit countries are internally ready the uneconomic fostering will be unnecessary.

But in this idea of rectifying balances is injudicious and wrong from the point of view of the orderly working of the system, from the point of view of British interests it is insensate folly. We do not anticipate any difficulty in ~~getting~~ getting payment for our exports; the boot is on the other leg. Any attempt to foster industries to improve the balances of debit countries will make it more difficult for us to pay for our food and raw materials. The very industrial capacity which will enable the debit countries to dispense with imports from the United States will in the great majority of cases enable them to dispense with ours also; and it will intensify American competition. Thus out of a tender regard for the Americans - for which they will have no reason to thank us - out of an anxiety that in some remote unpredictable future the debit countries will be able to pay up every cent of the credits which accrue meanwhile, we are to cut ourselves off from our very means of livelihood. Is not this the very acme and extreme point of mental frenzy?

One way in which some European countries have sought to reduce their debit position has been the fostering of uneconomic cereal production. It would probably be more convenient to the Americans to export those cereals even if only in exchange for a credit of no redemption date. As loyal members of a Clearing Union, based on a principle tolerating the accumulation of credit, we should frown upon this uneconomic production; and one cannot but have sympathy with the criticisms of it that have been made to the Committee.

But it must be observed that so far as our own vital interests are concerned this particular method of rectifying

debit position, unlike most forms of industrialization, does us no injury; **nay**, it is probably beneficial, since, by and large, it is likely that, whatever the jungling, the more food that is grown in the world the closer we shall get it. I think we should only consent after the war to be a party in the Wheat Council or elsewhere to putting pressure on European countries to reduce uneconomic cereal production if (i) there is a Clearing Union tolerating unlimited credit accumulation in **more explicit terms** than the present draft and (ii) it is agreed that uneconomic cereal production shall not be replaced by the uneconomic production of goods that we are able to supply.

Broadly we should set our face against any encouragement of uneconomic industry. The industrialization of the world will ~~not~~ proceed apace. We should not consent to be a party to any international plan, formal or informal, for the development of industries under the protection of tariffs, the stimulus of subsidies, the support of cheap guaranteed capital or technical assistance, or any other form of illicit subvention, if they produce goods which we have the capacity to export. Until our own balance is absolutely secure and inclines to the credit rather than the debit side - as it should, since we are a rich capitalist country - we cannot allow that there is too little capacity in the world for producing goods for which we have plant and skilled labour standing idle.

Every rule has its exceptions. In many cases there may prove to be minor industries of a kind in which we are not greatly interested and which would be a valuable balancing feature in a primarily agricultural community. Under the aegis of our general rule, we should consider special cases in a sympathetic and liberal spirit.

Does all this imply that there is no specific problem of debit countries? Certainly not. The right solution of this problem must be based on the recognition that there is a difference in kind and not merely in degree between the ordinary debit countries and the excess debit countries. The ordinary debit countries are not a problem. Their position is the automatic consequence and indeed reflection of the credit position of the credit countries. If credits are to be tolerated without limit in the interest of those very countries, it follows inevitably that the ordinary debit countries must not be harried. Indeed generally they must be encouraged not to take measures especially designed to alter their position.

But there are likely to be some countries, whose debits are out of proportion to the general debit (= credit) position, and which therefore constitute a special problem. These by definition will be in a minority even among debit countries. It is important that "excess debit" should be very clearly defined in order to reassure the ordinary debit countries that they are not culpable and to exercise that balance of trade complex, which always has been and is still likely to be the greatest enemy of the expansion of commerce between nations.

Excess debit countries are of two kinds, the rakes and the paupers. Against the rakes the sanctions specified in 7(b) of the Clearing Union plan are appropriate. The case of the paupers (countries essentially dependent on imports yet unable to produce goods for export at a competitive price) should be referred to whatever in the nature of an

International Investment Board may be in a position, to devise measures to relieve the situation. Here at last we come to the case where it may be appropriate to encourage some uneconomic production in the interest of the balance of payments. Here, subject to safeguards regarding exploitation, social welfare and war potential, we should be prepared to waive, if necessary, our principle about industrialization. We are not so exorbitant as to have no pity. But it must be observed that this is only a sub-class of a class whose members are themselves a minority of a class which is only likely to be one half of the whole world (if countries are weighted by wealth). Thus the area in which we should recognise the principle of uneconomic bulwarks against indebtedness would be very narrowly circumscribed. Similarly the number of countries against which sanctions are appropriate (the rates) would be very small.

Some may feel that in view of the known facts of human nature the class of rates cannot really be so small. That may be so. If we proceed in the spirit of the Impediment I have no doubt we should find some of nature's rates stalking along the "ordinary" debit countries. Their debit may in some cases be due to mismanagement and extravagance. In a rich world of surplus saving it will be worth while to tolerate a little undeserved charity to them for the sake of the smooth working of the system as a whole.

I revert to the question - supposing that it is agreed to tolerate continued lending by the surplus-saving countries sine die what form of lending should we wish to encourage? The following are among the disadvantages of relying mainly upon private enterprises:-

1. ^{They} ~~It~~ will only be attracted by relatively high prospective returns. This may restrict ^{the} ~~its~~ scope much below the level required.
2. An investment may give high returns without enabling the borrowing country to remit them abroad. While we do not want artificially to equalise the payments of "ordinary" debit countries, we should avoid an unnecessary aggravation of the disequilibrium.
3. Private enterprise is apt to proceed by fits and starts, being influenced by and thereby tending to aggravate the trade cycle.
4. Foreign governments may give protection to uneconomic industries with a view to attracting this money.
5. The investors may have scant regard for social welfare in undeveloped countries. Imperialist "exploitation" should be no part of the new system.
6. They may create war potential in regions which cannot yet be regarded as unequivocally peace loving.

I am not suggesting a veto upon private foreign investment, but only that we should not over-encourage it nor rely on it as the main method of disposing of the surpluses of credit countries.

There remains the choice, albeit not a rigidly exclusive one, between allowing the lending to proceed in an automatic manner by the machinery of the Clearing Union alone, credits and debits being accumulated there, and having loans sponsored officially by the lending governments or an International body.

which appear to me to be a number of advantages in relying mainly on the former method.

1. The Clearing Union method does not aggravate the debit position of the borrowing countries. The one per cent. charge may be regarded as negligible and even that could be reduced if debits were large. Official loans, presumably at low rates, would not be so bad in this regard as private enterprise, but ~~still worse~~ *more or less worse* than the Clearing Union method.

2. Under the Clearing Union plan the use of the funds is much more likely to be sound. They will be guided by people on the spot through the ordinary channels of banking and commerce to ~~where~~ *where* they are most needed. They will probably be dispersed over ~~the~~ *that* debit country in small rivulets. It may be much more helpful to have just a little extra investible money well distributed among all the minor trades and occupations, allowing a little expansion here and there precisely where needed, allowing the country to develop its own resources in its own way according to its natural bent and in directions which those on the spot know from experience to be economic, than to have large schemes foisted upon the country by the heavy-handed foreign investor. *[This seems to me to be a cardinal merit in the automatic Clearing Union method of making surplus savings available for less wealthy countries.]* *This appeals to me as a decisive point.*

3. The official investment plan must surely give rise to political frictions.

The main points so far are:-

(i) We do not know how large the recurrent discrepancies in the balance of payments will be; experience does not lead us to pessimistic forebodings; but even a small discrepancy if always in the same direction would lead to large cumulative totals.

(ii) If some countries show a persistently credit position, the only sound method of **equalizing** the balance is by internal measures (capital works) in the credit countries themselves. The attempt to rectify the balance from outside will tend to cause depression in the credit countries and a revival of trade restrictions of all sorts. As we cannot rely on internal measures being wholly adequate, we must be prepared to tolerate a continuance of the credit position.

(iii) This entails tolerating the continuance of debit positions. In order to safeguard the system we must have means of sorting out the "excess debit" countries (those especially imprudent or impoverished) for special treatment, while discouraging "ordinary" debit countries from attempts to rectify their balance.

(iv) This result is in happy accord with British interests, since it means that the encouragement of uneconomic industrialization, which anyhow would be fatal to us, is also inconsistent with the means proposed for securing a world balance.

(v) Since a continuing credit position means essentially a continued stream of lending by creditor to debtor countries, we have to **choose** among various means by which this is to be given effect. While no method need be ruled out, it seems best to rely mainly on the automatic and **anonymous** Clearing Union method of allowing an accumulation of credits and debits.

These conclusions are quite in harmony with the general trend of the Clearing Union plan, as drafted. But for explicit endorsement some changes of emphasis and of mechanism are required, of which the following are the most important.

1. It should be made clear that the Clearing Union is not merely intended to provide a breathing space within which debit countries are as quickly as possible to contrive means (by subsidies to new industries) etc.) for ceasing to be debit countries, but a much larger breathing space, the termination of which cannot be clearly seen, in which credit countries may devise internal means, if they can, for ceasing to be credit countries without incurring trade depression ^{and} unemployment at home.
2. The tax on credits must be dropped. (I have always thought this a weak feature on other grounds, not only because its paradoxical appearance might make the scheme unpalatable, but also because it might discourage full use of the Union and would have a strong tendency to establish a discount on bancor against its official gold valuation.)
3. There must be a clear formula for distinguishing ordinary debit from excess debit countries and the sanctions must be applied to the latter only. A country never becomes an excess debit merely on account of the absolute amount of her debit - for a large debit position may merely reflect the large credit position of the credit countries - but on account of the relative amount of her debit, namely of its being large, in relation to the turnover of the country, by comparison with the average debit position of all debit countries. There should be no difficulty of principle to devising such a formula. There is already hint of it in the bracketed clause in 7(5)c of the draft scheme. I attach an appendix on this subject.

It only remains to add a note about the proposal for an International Investment Board.

/own I have always held that an International Investment Board is an essential part of the machinery needed to secure the minimum conditions of economic order. But this does not spring from the idea that the debit countries will not be able of their initiative to make good use of the funds made available through the Clearing Union, nor from the idea that we need contrivances to rescue the debit countries from their debit position at an early date. The need for an International Investment Board arises from quite a different consideration, and it is important that this should be understood.

The function of the Investment Board, if it has to function, will be to cause additional investment to occur which would not occur in its absence. Just as in a rich capital-sated country there is need for a Public Works Corporation to find vent outside the sphere of the commercial motive for surplus savings, so it may be that in the world as a whole there will be surplus savings and that, if we do not take special means to find vent for them, we shall not avoid trade depression.

There is not agreement about the probable extent, if any, of the endemic problem of world surplus savings; it is not, I think, disputed that this problem is present during the recession phase of the trade cycle. It would

be the duty of the Board to make plans and be prepared for both possibilities. It will have a breathing space; the problem will not arise in the immediate post-war period of rehabilitation; and we hope that the Buffer Stock, if it exists, will bear the main brunt of the first world depression.

This being the purpose of the Board, it will concentrate its attention, like a National Public Works Corporation, upon public works, namely, communications, public utilities and perhaps housing. It will not be its duty to invest its money on the production of goods for debit countries to export. It will not be its duty to contrive the ~~elimination~~ ^{alleviation} of debit positions, although it would be reasonable and proper for it to have regard to the needs of these excess debit countries, whose difficulties are due to a genuine lack of resources and not to extravagance, helping them just as a national Public Works Corporation, might help a "distressed area". But then it must be understood that "depressed areas" can only by definition constitute a small part of the world's surface. Here again we see the need of a precise definition of an excess debit country. If there is any tendency for a large part of the world to look like a depressed area, that is a sign that the flow of effective demand in the world as a whole needs supplementing. Special salvage measures for a large part of the world area are inappropriate and can only do harm.

Now it might be argued that there is a danger that the Board will misconceive its functions and by an excess of zeal and meddlesomeness start building up industries in competition with ours, and that in that case it be wise for us to blow ~~cool~~ ^{cool} upon project. I do not think so. For we are likely to suffer even more by the incidence of world depression, which tends to drive countries to **autarky** (as well as wrecking all international co-operation), and the quantitative effect of misguided measures of the Board is likely to be small compared with the **autarkic** measures of governments during the depressions which it is designed to relieve.

It should be noted that while it would be the duty of the Board to secure that more work in the world should be done on capital account than otherwise would be, this may be financed wholly, in part, or not at all by additional credit creation. The world need for more effective demand and the world need for more liquidity are related but not identical, and the Board should mix its provision of each by reference to the appropriate barometers. (This, I should like to say, is or ought to be the kind of thing meant by "world planning", not the arrangement for Atlantis to barter a thousand tons of cotton seed against a consignment of cigarette lighters from Midway and a million other similar deals).

Finally I feel that mention ought to be made in this connection of the aim of "raising the standards of living". In the last analysis this can only be done by making people produce more efficiently, namely by technical assistance combined perhaps with some capital. It may be held that the International Investment Board (or an associated body) should concern itself with this.

C
Public Works
Surely the most natural way of proceeding is to teach people to do better what they are used to doing already. I understand that there is no lack of scope in backward regions for improving methods of extraction. This chimes in happily with the aspiration now in vogue that nutritional standards should be raised. I am sure that it agrees with what is wanted for social welfare and happy living among less advanced peoples. It is also in accord with British interests. Improved methods of extraction will enable the populations concerned both to live better and to sell their produce (to us and others) more cheaply. It is objected that this will cause an increase of output for which there is no room. But part of the extra output will be absorbed by the better nutrition of the producers who will have given themselves the power to enjoy a higher standard, and part will be taken by the enhanced world demand due to the easements of the new system. This second is difficult to gauge, but we have no grounds for premature pessimism. It has been observed that the demand for industrial crops should be especially elastic. If there is still a residue of displaced labour this may be absorbed to some extent indeed by balancing minor industries and for the rest in "tertiary" activity (communications etc) which the Investment Board will always be ready to assist if there are signs of an unemployment problem.

incomplete ideas now
I submit that this gives a very sketchy but none the less a coherent outline of what we wish to happen. If we know that, we have won half the battle. I do not think that there need be any major conflict with American interests, though there may be with some half-baked ideas in vogue. But it would in itself be a great source of strength to us if we could meet American incoherence by our coherence.

D begins here
I emphasise that in this kind of planning it is essential in every connection to have regard to the balance of supply and demand in the system as a whole. This is not to deny that regional studies should be carried out at an early stage. I hope that the very first "conversations" will lead to the formation of joint Anglo-American committees to draft reports on each region, not in the detail appropriate to the peace-time investigations of Professor Hansen's "World Resources Survey", but giving broad quantitative indications of the scope of possible public works and improvements in the extractive industries. But regional planning must be controlled by general principles relating to the world balance; otherwise the solution of a regional problem will itself create a problem in another region. Thus for instance plans should not be designed to rectifying a regional balance of payments unless it is clearly established that the region in question will be in "excess debit".

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One final word. It may be asked whether all this implies a planned order or a revision to laissez-faire. It certainly implies a planned framework of order; it would be inappropriate to go beyond the framework in this early stage. The choice whether the production and distribution of everything to the last lipstick are to be planned and controlled or whether there is still to be some scope for private enterprise is left open. Indeed it must be. Different nations will no doubt want to choose differently and an international system worthy of the name must not so far interfere with the internal affairs of nations as not to leave that question open. But one thing is certain. This planning of a world framework is an indispensable preliminary to effective detailed planning. As in the

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case of nations, as in the case of commodities, whether
crops or lipsticks, detail planning merely sets up new
problems in another field and is finally self-defeating,
unless it is conducted within the framework of a world
plan which maintains the total world balance between
supply and demand, between capital creation and saving.

APPENDIX

Definition of "excess" debit countries

I do not wish to challenge the view that the occurrence of "ordinary" debits is a good criterion for recommending changes in the foreign exchange rates. The criterion may by itself be insufficient*, but this is a technical matter not involving questions of principle and may be left to be handled at a later stage in the planning of the Union as during the course of its operations.

in para
What is important is that the accumulation of "ordinary" debits should not be discouraged, and that ~~the~~ conditions ~~of paragraph 7(5)c~~ should only be applied, (as suggested by the clause in brackets), only when countries are in "excess" debit, i.e. when they are out of step with the average of debit countries.

EL
One way of defining the class to be penalised (excess debit countries) would be to add after "year" at the beginning of line 5 of 7(5)c the words "and represents a fraction (or multiple) of its quota not less than three times that represented by the average indebtedness of all members." To this a footnote could be added stating that the fraction (or multiple) showing the average indebtedness of all members is found by dividing the sum total of the indebtedness of all members by the one half of the total of the quotas of all members (whether in credit or debit).

There is another way of reaching a similar result which has attractions. It has already been observed that a large cumulative total may be reached through small annual deficiencies if these are persistent. There is much to be said for the view that the record of past history constituted by outstanding cumulative credits and debits has no great relevance to what it is expedient to do on a given occasion, and that it would be more sensible to have regard to the rate at which debits are increasing. Thus under the present plan a country which having had large debits had reached a much more favourable position might yet be brought within the area of sanctions by the addition of some comparatively trifling additional debits.

* For instance in the case of a debit country with full employment at home, the stimulus to its exports afforded by exchange depreciation might cause a disproportionate rise in its internal prices and an actual aggravation of its debit position. Domestic monetary contraction or public economy may be the only remedy for her. The converse case must also be admitted, though with our uncharitable feeling towards credit countries, we may be loth to do so. A credit country suffering from internal slump might find that exchange depreciation not only benefited herself but by its stimulus to domestic investment activity actually reduced her credit position.

Thus it might be laid down that a country would become liable to the provisions of 7(5)c if it increased its debit balance by more than 15% of its quota in a year (or for 15% we might substitute 10% in an ordinary year and 20% in one declared by the Economic Council to be one of world trade recession)†

Thus bygones would be bygones, but the credit countries would know that they could always utilise accumulated credits as soon as a turn of events occurred which made it possible for them to do so.

E (It is evident that many different kinds of formula could be devised.) That is essential is the recognition that a nation shall not be penalised for having a growing debit, provided that the rate of growth is not out of line with that of the average of debit countries.

†The illustrative figures given here are based on the assumption that the quota is equal to the sum of the country's annual exports and imports on the average of three years. (cf. 7(5)).

The ideal would be to combine the formulae proposed above so that ~~as soon as~~ a country would be in excess debit if it was increasing its indebtedness at a ~~considerable~~ ^{for three} times the rate of the average of debit countries. Such a mixed formula might be rather too complex for to be included in a first draft.