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RFD. 25

Board of Governors of the Federal Reserve System
Division of Research and Statistics
International Section

REVIEW OF FOREIGN DEVELOPMENTS

December 10, 1945

The Agreement with Britain: An Appraisal.... 1
Settlement of Lend-Lease, Surplus Property, and Other Claims........................... 6
The Fund, Exchange Restrictions, and the British Loan Agreement.................... 9
The Commercial Policy Agreement..............17

Note

In view of the importance of the negotiations just concluded, the issue date of this number of the Review has been advanced one week.

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The Agreement with Britain: An Appraisal

Lloyd A. Metzler

With the signing of the recently-announced agreements between the United States and the United Kingdom, the executive branches of the two governments have presented the Congress of the United States and the Parliament of the United Kingdom a set of proposals for solving some of the most pressing economic and financial problems which face the post-war world. The financial agreement, providing for a loan of $3,750,000,000 from the United States to the United Kingdom, is probably the most important part of the arrangements. The agreements as a whole go much further than this, however, for, in addition to the loan agreement, agreements have been made for the final settlement of lend-lease, mutual aid, and surplus property claims, and for the removal of barriers to trade and commerce. In the words of the joint statement made by the President of the United States and the Prime Minister of Great Britain, the discussions "have covered the questions of financial assistance from the United States to the United Kingdom, the demobilization of war-time trade and monetary restrictions, the settlement of lend-lease, the disposal of surplus war property in the United Kingdom owned by the United States, and, finally, long-range commercial policies in the broad sense, embracing the fields of trade barriers and discriminations, policies in respect to commodities in world surplus, controls, an international trade organization, and international aspects of domestic measures to maintain employment." In view of the breadth of subjects included, it is not surprising that the negotiations which preceded the signing of the agreements covered a period of three months. Approval by the legislative bodies of both

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countries of the proposals set forth in the agreements will be an important contribution to the establishment of normal trade relations in a large part of the world.

The agreement between the two governments was presented in three parts: (1) a joint statement regarding the understanding reached on commercial policy; (2) a joint statement regarding settlement for lend-lease, mutual aid, surplus war property, and claims; (3) a financial agreement. Since the first two of these are discussed in later sections of this Review, present discussion will be limited to the financial agreement.

Significance of the Loan. The loan of $3,750,000,000 provided for in this agreement is to be made in the form of a "line of credit" upon which the British may draw at any time between the effective date of the agreement and the end of December 1951. In addition to this amount, a loan of $650,000,000 is agreed upon in the joint statement regarding lend-lease, mutual aid, and surplus property.

The loans are significant principally because they clear the way for the resumption of trade and for the removal of the barriers to trade which accumulated during the war, as well as in the inter-war period. It is well known that many of the pre-war restrictions upon trade and commerce were to some extent a direct result of a world shortage of dollars. The depression of the 'thirties was more severe in the United States than in most other parts of the world, and exports of other countries to the United States were correspondingly reduced. Faced with a loss of dollar receipts from exports, a number of countries, including the United Kingdom, sought to restore equilibrium in their balances of payments by forcing a reduction of imports. Tariffs, import quotas, and exchange restrictions developed rapidly. During the war, these trade and exchange restrictions were further extended as a means of controlling exports and imports of necessary commodities.

In the absence of financial aid from the United States, many countries of both Europe and Asia would be confronted by a serious shortage of dollars in the post-war years. Import requirements for reconstruction will, of course, be high, while ability to export will be at a low ebb. In some countries, it will be possible to meet these transitional needs out of accumulated dollar reserves. But in the case of the United Kingdom available dollar reserves are small in relation to probable requirements. It is therefore clear that unless financial aid is extended to the United Kingdom it will be necessary for that country to retain most of its war-time trade and exchange practices. It is this fact which lends particular importance to the present loan, for the loan agreement contains provisions which will reduce restrictions upon trade and commerce between the United States and the United Kingdom.

Terms of the Loan. The terms of the loan were carefully drawn with a view to avoiding mistakes made after the first World War. In particular, flexible repayment provisions were inserted so that exchange difficulties need not result from attempts at repayment. Thus, the interest rate is fixed at two per cent, and repayment of both interest and principal is to be made in fifty equal annual installments, beginning

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on December 31, 1951. This means that, if the entire credit is used, the annual payment of principal and interest by the United Kingdom will amount to approximately $140,000,000. If the United Kingdom has difficulties with its balance of payments, however, a part of this annual payment may be waived. Thus, if in any year the average United Kingdom income from exports and invisible items in its balance of payments during the preceding five years is less than the value of 1936-38 average imports, after correction for price changes, the United Kingdom may ask for a waiver of that part of its annual payment which consists of interest. This means, in general, that the United Kingdom does not need to pay interest as long as receipts on current account are inadequate to purchase the pre-war volume of imports.

Even if payments are made in full, however, it is unlikely that they will constitute a serious burden to the United Kingdom. The average value of imports into the United Kingdom in the pre-war years 1936-38 was £866,000,000. In terms of post-war prices, this same volume of imports will probably be at least 80 per cent more expensive, so that the post-war value of the average imports received before the war will be approximately £1,559,000,000. At the present rate of exchange, this is equivalent to $6,236,000,000. Thus, the annual payment on Britain's debt to the United States, if made in full, will amount to no more than one-fourth of one per cent of that country's annual net receipts on current account. It does not seem probable that payments of such a small magnitude will be the source of financial embarrassment to the United Kingdom.

In addition to the loan from the United States, financial assistance will also be received from certain countries of the British Empire. Service payments will, of course, be made on these loans. In order to insure that such payments do not impair the ability of the United Kingdom to make payments on the American loan, the agreement provides that loans which the British receive from governments of the Commonwealth between December 6, 1945, and December 31, 1951, shall be on terms which are no more favorable to the lender than those contained in the American loan. Moreover, the agreement provides specifically that if the interest payment is waived on the American loan a similar waiver must also apply to interest on loans from Empire governments.

Sterling Balances. Closely related to the problem of interest payments is the problem of payments on accumulated sterling balances. It is well known that the United Kingdom has incurred large debts to other countries, particularly to members of the Empire, in the form of short-term bank balances. These balances arose largely through British military expenditures overseas, as well as through imports which were not matched by exports from the United Kingdom. In pre-war years, many of the present creditor countries normally held balances in London, partly as a reserve against central bank liabilities and partly as a means of payment for international transactions. Nevertheless, the sterling balances today have reached a level which is four or five times the size of normal requirements, and if such balances were made freely convertible into non-sterling currencies there is no doubt that the demand for outside currencies would be entirely beyond the capacity of the United Kingdom to pay. This means that an understanding must be reached with the holders of sterling balances for gradual repayment.

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In the present financial agreement, the United Kingdom has committed itself to seek an early settlement of all such balances. For this purpose, the accumulated balances are to be divided into three categories: "(a) balances to be released at once, and convertible into any currency for current transactions; (b) balances to be similarly released by installments over a period of years beginning in 1951; and (c) balances to be adjusted as a contribution to the settlement of war and post-war indebtedness....."

Since the British do not have the resources with which to supply adnormally large exports in the near future, it is probable that a large part of the sterling balances which are released under these prospective settlements will be converted into dollars or other currencies outside the sterling area. This means that payments on balances which are released immediately will be made largely from British gold and dollar reserves. Payments on the balances which are released in installments, on the other hand, will presumably be made from the proceeds of current British exports. In order that such payments will not receive priority over payments on the American loan, the financial agreement contains two provisions with respect to released sterling. First, in deciding whether the United Kingdom's net income from exports and invisible items is sufficient to make an interest payment on the American loan, not more than £43,750,000 may be charged against such income in any one year on account of released sterling balances. Beyond this point, any additional payments must be regarded as capital transfers. Second, if the annual payment to the United States is reduced by a waiver of interest in any year, a proportionate reduction must be made in the annual installments of released sterling balances. The net effect of these arrangements is to insure that payments on sterling balances, like payments on loans from other countries, will not endanger the ability of the United Kingdom to make payments on the loan from the United States.

Exchange Arrangements and the Sterling Area. During the war, the United Kingdom adopted a comprehensive system of exchange controls. This system was emulated by the other countries in the sterling area, and an integrated currency system was developed with London at the center. Under this system, all countries in the area turned over their receipts of "hard" currencies--primarily dollars--to London authorities, and payments for imports from the hard-currency countries were then made by application to London. The effect of the sterling area exchange arrangements and the so-called dollar pool was thus to make transfers between members of the sterling area and outside countries subject to centralized control.

In view of Britain's difficult financial position, the question naturally arose as to whether these exchange controls would be continued and even strengthened in the post-war years. The present financial agreement has settled this question by committing the United Kingdom to a system of free exchanges on current account. While the sections of the agreement relating to foreign exchange are somewhat complicated, two points are particularly important. First, both countries have agreed that within a period of one year after the agreement becomes effective no restrictions will be imposed upon payments

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and transfers for current transactions. Exception to this rule is made for balances of third countries accumulated before this provision comes into force, for restrictions made under the Articles of Agreement of the International Monetary Fund, and for restrictions necessary for finding and disposing of German and Japanese assets. Both countries agree, however, not to make use of the clause in the Monetary Fund Agreement which permits exchange controls in the transitional post-war years. Second, the United Kingdom agrees to make sterling freely convertible into dollars on current account as soon as the agreement becomes effective. These exchange arrangements remain in effect until December 1951, by which date it is anticipated that more comprehensive arrangements will have been made.

The exchange provisions of the financial agreement are discussed in detail in another article in this Review. These provisions are undoubtedly among the most important parts of the agreement, for they represent substantial progress in the move toward unrestricted multilateral trade and commerce.

Import Arrangements. Equally important is the section of the agreement relating to imports. In this section, each country agrees not to impose or maintain quantitative import restrictions which discriminate against imports from the other country. While there are exceptions to this rule, the general effect of the agreement is to place import quotas on a non-discriminatory basis. The broad problems of commercial policy in general are discussed in another article in this Review. Even more significant than the commercial policy section of the financial agreement is the joint statement regarding commercial policy, which commits both countries to the support of a broad program for removing trade barriers.

Conclusion. The financial agreement, together with the joint statements on commercial policy and on lend-lease, mutual aid, etc., represents an integral part of a broad program for reviving post-war international trade not only between the two largest trading nations in the world, but also between those two nations and the rest of the world. Each part of the program is essential to the success of the entire program. But most important of all, trade cannot be conducted on an unrestricted basis unless the financial stability of the exchange markets is assured. The loan to the United Kingdom, by filling the temporary gap in the British balance of payments, makes a substantial contribution toward such stability.

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Settlement of Lend-Lease, Surplus Property, and Other Claims

Lewis Dembitz

In connection with the financial agreement between the United States and the United Kingdom, the various outstanding claims between the two countries arising out of lend-lease, or otherwise arising out of the war, were also settled. Accordingly, the agreement reached includes a complete financial settlement between the two countries. The principal matters for consideration were (1) settlement for lend-lease goods consumed during the war, (2) disposition of lend-lease goods remaining in the hands of the British ("lend-lease inventory"), (3) payment for goods ordered by the British under lend-lease before V-J Day but not delivered until after the termination of lend-lease ("lend-lease pipeline"), (4) disposition of surplus property belonging to the United States Government but located in the United Kingdom, and (5) settlement of all other financial claims between the two governments arising out of the conduct of the war. The agreement provides for the payment of $650 million by the British in full settlement of these items, payable over a 55-year period on the same terms as the terms of repayment of the $3,750 million of new money being loaned.

The $650 million is made up of an agreed amount of $532 million, covering the "lend-lease inventory" and United States surplus property in the United Kingdom, plus $118 million estimated to cover the "lend-lease pipeline" minus the net sum that will be due to the United Kingdom under the settlement of the miscellaneous financial claims. The figure of $118 million will be subject to adjustment when an exact figure becomes available from a detailed accounting. These amounts need not be included in the authorization to be secured from Congress, inasmuch as the credits involved are merely incidental to sales of goods, or settlement of claims, for which settlement on such a basis has already been authorized by previous Acts of Congress.

For lend-lease goods consumed by the recipient during the war, the original lend-lease agreements between the United States and the United Kingdom contemplated that cash payment might never be made. The present agreement constitutes formal confirmation that no such payment will be made in respect of goods furnished by the United States to the United Kingdom under lend-lease or in respect of goods furnished by the United Kingdom to the United States under reciprocal aid (reverse lend-lease). The principal considerations received for the lend-lease goods that have been consumed in the prosecution of the war are, of course, the benefits received in the defeat of the common enemies. In addition, in accordance with the provisions of the original lend-lease agreement that looked toward post-war action to promote the betterment of world-wide economic relations, the commercial policy agreements now being made (and other agreements that will be under discussion in such fields as telecommunications and civil aviation) may be regarded as further fulfillment of the objectives of the lend-lease arrangements.

As to the "lend-lease inventory," however, consisting of lend-lease articles that were not destroyed, lost, or consumed during the war, the original agreement provided that these goods should be returned to the United States at the end of the emergency as determined by the President. The United States Government will actually want the

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return of very few of these articles. The British armed forces are to retain possession and use of the quantities for which they have a continuing need. As to the remainder, which is to be left in British hands for conversion to civilian peace-time uses or for scrapping, the present agreement arranges for the transfer of outright ownership to the British Government. This remainder consists partly of durable goods (including aircraft and other munitions items); these items range from new articles, not yet put into use, to those that have suffered heavy use or battle damage, and from articles readily usable for civilian purposes (such as transport aircraft) to articles usable only for military training purposes or for scrap. The inventory also includes substantial amounts of non-durable goods that were awaiting consumption at the end of the war, including food, clothing, and petroleum products.

During the course of the recent negotiations, there was considered the possibility of making a detailed inventory of the items in the hands of the British and then negotiating on the basis of this inventory to determine a fair price to be paid by the British for outright ownership of the goods involved. This procedure, however, would have involved bargaining on the prospective peace-time values of thousands of individual items, and on the dollar prices at which the British would be justified in buying each item for foreign exchange in preference to using new items of their domestic manufacture. Therefore, it was considered preferable to agree on a bulk payment to cover the total estimated value for peace-time purposes of all the articles in the inventory that have peace-time uses and that are redundant (or are expected to become redundant) to the needs of the armed forces. The payment of $532 million is to be deemed to include payment in full for all articles that are converted to civilian end-uses, and for military equipment that becomes surplus and is disposed of as scrap. The items in use by the British armed forces are not included, and no payment for these is contemplated; the United States retains a right of recapture as to those items, but has indicated that it does not intend "to exercise generally" this right of recapture.

A further category of claims to be settled concerns items in the "lend-lease pipeline"--i.e., goods that were ordered by the British Government before V-J Day, for which delivery under the lend-lease agreement was contemplated, but which were awaiting delivery or were still in process of manufacture when lend-lease terminated. It is estimated that the total value of such goods delivered between V-J Day and December 31, 1945, will be about $172 million; the figure of $118 million represents this amount minus the estimated $54 million of miscellaneous financial claims to be credited to the British.

In the cases of other countries having similar lend-lease orders outstanding, arrangements are being made or have been made whereby they will take delivery of the goods and, if not in a position to pay cash, will pay the United States Government in dollars over a 30-year period with interest at 2-3/8 per cent. In the case of the British, payment for these goods is to be made on the same terms as those being made for repayment of the $3,750 million new credit. This

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may appear to be giving more favorable terms to the British than have been given to some other purchasers, but these terms are the same as would have resulted if the new credit had been increased by $118 million and the British had then bought the "pipeline" goods for cash. These items consist of new goods and the agreed payment is approximately equal to their cost plus freight; many of the outstanding orders were of course cancelled on V-J Day, and the present agreement covers the remainder on which delivery is being completed.

The problem of disposal of surplus property was similar to that of the lend-lease inventory, in that the property involved consisted of a heterogeneous mixture of durable and consumable goods in various stages of depreciation and with various degrees of convertibility to peace-time use. The surplus property under discussion, however, consists, not of articles already in the hands of the British, but of articles in the possession of the American armed forces, which happen to be located in the United Kingdom. There are also fixed installations in the United Kingdom in which the United States has an interest to be disposed of. The transfer of ownership of all these items to the British is covered by the $532 million payment.

The agreement also includes the settlement of miscellaneous financial claims of the United States and the United Kingdom against each other. The items to be settled include payments for goods which were delivered under lend-lease or under reciprocal-aid and subsequently resold by the recipient, refunds of amounts paid by one party to the other for articles that should have been supplied under the lend-lease agreements without payment, reimbursements in cases where either party made expenditures for the joint account of the two allies, and the like. The agreed items result in a balance of $54 million to be credited to the British. It is agreed that this figure, in combination with the settlement being made for the lend-lease inventory retained by the British, and with certain specified classes of claims reserved for later settlement, will constitute the complete and final settlement of all claims between the United States and the United Kingdom arising out of lend-lease (and reciprocal aid) deliveries or arising otherwise out of the conduct of the war.

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The Fund, Exchange Restrictions, and the British Loan Agreement

Alice Bourneuf

The British loan agreement has very important repercussions with respect both to the prospects of acceptance of the International Monetary Fund and the prospects of achieving its ultimate objectives. First of all, British acceptance of Bretton Woods is implied in the loan agreement. It is understood that the British will consider the Bretton Woods Agreements in Parliament this week and acceptance in short order is practically assured. Since China has already taken the necessary steps, acceptance by Canada, France, South Africa, and one or two countries with very small quotas will suffice to bring the Agreements into force.1/ Secretary Vinson has stated that he is confident the countries named will accept the Agreements before December 31 and the prospects of meeting the deadline are decidedly better than they were a few weeks ago.

The second, and most important, connection between the British loan and the Fund is that the loan will enable Britain, and probably several of the sterling area countries, to eliminate exchange restrictions on current transactions much sooner than would have been possible without the loan. Furthermore, without the loan Britain and some of the sterling area countries might have been forced to resort to restrictions during the early years to such an extent that vested interests would have seriously prejudiced the possibility of their eventual removal. The Fund aims to eliminate exchange restrictions on current transactions so that residents of all member countries will be free to buy in the cheapest market and so that the proceeds of exports to any one member will be available to finance purchases in any other member country. The changes of achieving the ultimate objectives of the Fund, therefore, are greatly improved by the loan.

The third direct connection between the loan agreement and the Fund Agreement is that there are a number of commitments relating to exchange restrictions in the actual loan agreement. These commitments are different from, and in certain respects stricter than, the obligations the United Kingdom will accept as a member of the Fund. It may be worthwhile to examine the commitments and interrelations in detail and to analyse the extent to which the commitments in the loan agreement assure greater freedom from exchange restrictions than would be assured by memberwhip of the United Kingdom in the Fund. Assuming that the United Kingdom accepts the Fund, it seems reasonably certain that the loan itself will be of more fundamental significance as far as the removal of exchange restrictions is concerned than the precise commitments concerning restrictions in the loan agreement. Conditions may even arise under which it will be impossible for the United Kingdom to live up to the stricter commitments in the loan agreement.

There are four clauses in the loan agreement which relate to exchange restrictions. One refers to restrictions imposed by the United Kingdom (or the United States) on current transactions in general; another refers to restrictions imposed by the United Kingdom on current transactions with the United States and vice versa; the third refers to the convertibility of sterling proceeds of exports to the United Kingdom from

1/ See this Review #23.

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sterling area countries; and the fourth refers to the convertibility of any sterling balances available for use for current transactions. The fundamental purpose of obtaining the commitments contained in these four clauses is the same as the purpose of embodying commitments of a similar nature in the Fund Agreement. Two clauses directly obligate the United Kingdom not to restrict payment for current transactions during a period ending on December 31, 1951 except with Fund sanction or approval and even then not on transactions with the United States unless the dollar is scarce. The other two clauses obligate the United Kingdom, for the life of the loan agreement, not to make payments in sterling or let sterling be available for current payments unless it is freely usable in any currency area. These clauses aim to eliminate a type of currency arrangement under which the United Kingdom and the other countries concerned have a strong incentive to discriminate in favor of purchases from countries parties to the arrangements and against purchases from other countries. Each of the four clauses will be discussed in detail.

General Clause

The clause in the loan agreement which applies to restrictions on current transactions in general is 8(ii). The obligation of the United States and the United Kingdom in this clause is not to impose restrictions on payments and transfers for current transactions, except in conformity with the Fund Agreement, during a period from one year after the date on which the loan agreement comes into effect until December 31, 1951. In addition the United States and the United Kingdom promise, after the loan agreement has been in effect for a year, not to continue to invoke the special transitional period clause in the Fund Agreement (Article XIV), unless in exceptional cases they agree otherwise.1/ Clause 8(ii) means, then, that the only restrictions imposed by the United Kingdom on payments and transfers for current transactions during the stated period must be (1) restrictions permitted under the Fund Agreement when a currency has been declared scarce (Article VII) or (2) restrictions approved by the Fund under its general power to approve or disapprove of any restrictions a member wishes to impose (Article VIII, Sections 2 and 3).2/

In order to understand what is involved in the promose not to continue to invoke the transitional period clause in the Fund Agreement it

1/ The phrase "unless in exceptional cases they agree otherwise" must refer to the possibility of an agreement to postpone the date on which restrictions imposed under the transition period arrangements are discontinued since once a member has eliminated its transitional period restrictions it can not reimpose restrictions under the transitional arrangements provision.

2/ This clause does not refer to the period after December 31, 1951, but restrictions on current transactions can be imposed by the United Kingdom after December 31, 1951, only in the two cases just mentioned provided the United Kingdom continues to be a member of the Fund. However, nothing in the loan agreement limits the United Kingdom's freedom to withdraw from the Fund after December 31, 1951. It might even be argued that Britain could withdraw from the Fund before that date provided it imposed restrictions only in the two cases described and provided the Fund was willing to approve or disapprove of restrictions imposed by a non-member.

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is necessary to recall briefly what this clause provides. The clause permits members to maintain and adopt exchange restrictions during the transition period and the provision implies that this period is expected to last from 3 to 5 years. The Fund has power to require a member to withdraw exchange restrictions maintained under the transitional arrangements if it deems them unnecessary but it is not clear whether this applies only after 5 years or at any time. Furthermore, each member promises, even though it maintains exchange restrictions under the transitional arrangements, to remove them as soon as it deems it possible, without the restrictions, to balance its transactions without undue use of the Fund.

The commitment not to continue to invoke the transitional arrangements for more than one year after the effective date of the loan agreement, therefore, may not alter substantially the rate at which the United Kingdom eliminates exchange restrictions in the transition period as compared to the rate at which it would have eliminated them, assuming the loan had been made available without this commitment, under the transitional arrangements in the Fund Agreement. Under the transitional arrangements the Fund might require speedy elimination of restrictions because the loan would enable the United Kingdom to balance its transactions without such restrictions. On the other hand, under the loan arrangement there may be agreement to postpone the date on which the transitional period restrictions are eliminated. Furthermore, under the loan arrangement the Fund may permit restrictions after that date, under its general power to approve or disapprove of restrictions, which may be no less stringent than those the Fund would have allowed the United Kingdom to maintain under the transitional arrangements. The principal effect of the commitment in the loan agreement, then, is to shift the burden of proof from the Fund to the United Kingdom. Under the transitional arrangements clause the burden of proof is on the Fund to show that the United Kingdom can afford to eliminate restrictions whereas if the United Kingdom applies to the Fund to approve the imposition of certain restrictions, the burden of proof will be on the United Kingdom to show that it needs to impose them.

Clause Governing transactions with the United States.

In Section 8(i) of the loan agreement the United Kingdom agrees that from the effective date of the loan agreement--that is one year earlier than the date on which the general obligation just discussed comes into force--the United Kingdom will not apply exchange controls in such a manner as to restrict payments or transfers in respect of products imported into the United Kingdom from the United States, or to restrict the use of sterling balances in the hands of United States residents arising out of current transactions. This obligation applies only until December 31, 1951, and does not alter the right of the United Kingdom to impose restrictions at any time in case the dollar is declared scarce by the Fund. During the first year of the loan agreement, therefore,

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the United Kingdom, under the terms of the loan agreement, can impose exchange restrictions on transactions with other countries under the Fund transitional arrangements as provided in 8(ii) but not on transactions with the United States. Presumably, also, the United Kingdom can not impose exchange restrictions on current transactions with the United States at any later time during the period covered by 8(ii) even if the Fund should approve the imposition by the United Kingdom of restrictions on payments for current transactions in general under Article VIII. This definitely goes beyond any obligation of the United Kingdom as a member of the Fund. It raises a problem since the Fund aims to eliminate discriminatory restrictions and would probably not want to approve the imposition of any exchange restrictions by the United Kingdom on current transactions when transactions with the United States could not be restricted.1/

1/ Clause 8(ii) presumably does not apply to transactions with the United States since clause 8(i) is stricter in at least two respects and not less strict in any respect. The specific phrase in 8(i) referring to the use of sterling balances held by United States residents is difficult to interpret. Possibly it means that sterling balances arising out of current transactions in the hands of United States residents can at any time be used freely no matter when the "current" transactions took place. However, refusal to allow free use of balances not recently acquired as a result of current transactions would be considered under the Fund Agreement as a restriction on capital rather than current transactions. If this is the meaning of the phrase, then, it gives the United States a preferred position and limits Britain's general right to control capital transfers until December 31, 1951. Perhaps the phrase is only meant to refer to sterling balances arising from current transactions accumulated prior to the effective date of the loan agreement.

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Clause Governing Transactions with Sterling Area Countries

Section 7 of the loan agreement relates to transactions between the United Kingdom and sterling area countries. The obligation of the United Kingdom comes into effect not later than one year after the effective date of the loan agreement, that is at the same time the general obligation under 8(ii) comes into effect, unless in exceptional cases a later date is agreed on. However, it applies for the whole life of the loan agreement instead of only until December 31, 1951. The obligation is to make "the sterling receipts from current transactions of all sterling area countries-----freely available for current transactions in any currency area without discrimination."

The real purpose of this clause is to eliminate discriminatory exchange restrictions on payments to the United States by the United Kingdom after December 31, 1951 and by sterling area countries during all but the first year of the loan agreement. But the clause does not impose direct obligations on either the United Kingdom or the sterling area countries to avoid such restrictions. As long as these countries belong to the Fund any exchange restrictions imposed must, of course, be approved by the Fund. This clause, however, will tend to eliminate or at least greatly reduce such restrictions even though the countries concerned withdraw from the Fund. It will do so by outlawing a type of monetary arrangement which would make it to the advantage of the United Kingdom and the sterling area countries to impose such discriminatory restrictions.

During the war the United Kingdom has paid for purchases from the sterling area in sterling available for use only in the sterling area. Both the United Kingdom and the sterling area countries have been under pressure, therefore, to discriminate in favor of payments within the sterling area. The United Kingdom under this arrangement could purchase in sterling area countries without any fear of an immediate drain on her gold and dollar reserves and sterling area countries could finance purchases in the sterling area with sterling balances which were not immediately available for any other purpose. Under this sterling area clause the United Kingdom cannot make payments in sterling which is not convertible into any other currency; accordingly the wartime arrangements must be discontinued.

The obligation to make sterling receipts from current transactions freely available for current transactions in any currency area is different from the obligation not to restrict payments and transfers for current transactions as contained in the Fund Agreement and in the two clauses in the loan

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agreement already discussed.[1] It is less strict in the sense that it leaves the United Kingdom free to prevent its citizens obtaining the currencies of sterling area countries to pay for current purchases or to prevent them pledging sterling payments for current imports from sterling area countries. In other words the United Kingdom could restrict payments for current transactions with sterling area countries as long as, in cases in which it allows its citizens to contract to pay in sterling, it makes that sterling available for current purchases elsewhere.[2] In another sense it is much more strict because the sterling receipts of sterling area countries from current transactions must be made freely convertible into any currency and no exception is made even for the case in which a currency is declared scarce by the Fund.

1/ Under Section 7, if a sterling area country sells goods to the United Kingdom and wants to use the sterling proceeds to build up investments or reserves in the United States or in some third country it may be prevented from doing so. Presumably, the United Kingdom can say the sterling receipts can only be used to buy dollars to pay for purchases of goods and services from the United States. Under the General clause 8(ii), on the other hand, a non-sterling area country can insist on payment for current exports and if there are free exchange markets the receipts can be used for current or capital transactions. However, if the United Kingdom insists on its privilege under the Fund Agreement to make payment in the non-sterling area currency through the Fund, the non-sterling area country may not be able to draw on the Fund to finance a capital transfer. The limitation for sterling area countries that the sterling need only be convertible into other currencies for current transactions is perhaps then no more strict than the limitation which implies to other countries under the general obligation of the United Kingdom not to restrict payments for current transactions.

2/ This raises the whole question of how to draw the line between exchange restrictions and quantitative import restrictions. The use of import restrictions will be governed in general by the terms of the commercial policy agreement. It might be argued that if the United Kingdom refuses to allow its citizens to contract to purchase goods abroad it is essentially imposing a quantitative restriction on transactions rather than an exchange restriction or a restriction on payments and transfers. However, in the case of the United Kingdom, which normally makes contracts to purchase goods in sterling area countries payable in sterling, it is only by limiting the actual contracts made that restrictions on current payments can in fact be imposed. Under the general clause 8(ii) which obligates the United Kingdom not to impose restrictions on payments and transfers for current transactions the United Kingdom cannot refuse to allow its citizens to contract to make payments for current purchases unless those purchases are inconsistent with quantitative restrictions on imports imposed by the United Kingdom. Such quantitative restrictions will presumably have to be in terms of specific commodities and could not be as comprehensive as a general restriction forbidding United Kingdom citizens to contract to make payments for current purchases over and above a certain value per month or per country, for example.

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If dollars were declared scarce the United Kingdom should certainly be able to take steps to conserve its limited supply of dollars to finance its own purchases in the United States. Perhaps it could insist that payments to sterling area countries be made in their own currencies or obtain an agreement from sterling area countries that they will not ask to convert sterling into dollars. But both would be contrary to the intention of the clause as drafted and it seems more likely, therefore, that the United States and United Kingdom would agree to make an exception for a scarce currency.[1/]

The sterling area clause also provides for the elimination of the sterling area dollar pool. The statement concerning the dollar pool is indirect and strangely worded but this is its obvious intention. The dollar pool involves restrictions on the sterling-area countries' rights to use the foreign exchange proceeds of their exports; they would obviously not be willing to continue this arrangement in the postwar period in any case.

Clause Governing Convertibility of Sterling Balances in General

The final clause which relates to exchange restrictions is clause 10 which discusses primarily the settlement of accumulated sterling balances. This clause obligates the United Kingdom to make settlements under which any sterling balances released must be convertible into any currency for current payments. Also, any sterling balances, whether released under the settlements or otherwise available for current payments at any time later than one year after the effective date of the loan agreement, must be convertible into any currency for current transactions. This commitment appears to apply for the entire life of the loan agreement and the last clause appears to apply to existing sterling balances and all future accumulations of sterling balances by the nationals or authorities of any country. In general it seems reasonable and desirable to insure that no sterling balances will be available for use only in the sterling area or any other limited area. The purpose is to eliminate discriminatory exchange restrictions as has been explained in detail in connection with the sterling area clause. But in this clause, as in the sterling area clause, the loan agreement seems to go too far in insisting that sterling balances must be convertible into any currency whether or not it has been declared scarce by the Fund.

One obvious result of the requirement that sterling balances held by any country shall never in the future be available for current transactions unless they are convertible into any currency is to eliminate the possibility of the United Kingdom continuing the type of currency agreement with non-sterling area countries which it has concluded in the past year with a number

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1/ Under the Fund Agreement and the two clauses already discussed the United Kingdom has the privilege of paying a country in its own currency. Even if no currency has been declared scarce the United Kingdom can insist on its right to make sterling balances convertible only into the exporter's own currency through the Fund, (See R.F.D. 24.) It may be suggested that the general clause 8(ii) should govern transactions with sterling area countries when it is either more or less strict than the sterling area clause but there is no evidence that this was the intention of those drafting the loan agreement.

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of western European countries. Under the agreement with Sweden, for example, Sweden agrees to accept payment in sterling balances for exports to the United Kingdom with the understanding that these balances can only be used to meet payments for current transactions in the sterling area. Bilateral agreements of this sort do not necessarily involve any restrictions on current transactions forbidden under the Fund Agreement, nor would they necessarily be outlawed by the Fund as discriminatory currency arrangements. As long as the countries concerned were members of the Fund, the Fund could see that they did not adopt the type of discriminatory exchange restrictions which the agreements, like the wartime sterling area arrangements, contemplate.

This commitment in the loan agreement outlaws this type of monetary agreement, but, like the sterling area clause discussed above, does not outlaw discriminatory exchange restrictions directly. Withdrawal from the Fund would leave the United Kingdon, after December 31, 1951, and the other countries concerned free to adopt such restrictions. But the United Kingdom would not be able to make bilateral financial agreements of the type recently made which tend to lead to the adoption of such restrictions.

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Agreement with the British on Commercial Policy   C. R. Harley

Of the data released to the press on December 6, none is of greater importance than the "Proposals for Expansion of World Trade and Employment", issued by the Department of State as a document prepared by technical experts of the United States Government. It is an open secret that the main portion of that document, the section entitled "Proposals for Consideration by an International Conference on Trade and Employment," while originally drafted by United States officials, is, as it now stands, the product of long and detailed negotiations with the British. In a joint statement regarding the understanding reached on commercial policy, the Government of the United Kingdom expresses "full agreement on all important points in these proposals and accepts them as a basis for international discussion." It is further revealed that the two governments will begin preliminary negotiations "at an early date" between themselves and with other countries in order to develop concrete arrangements to carry out the proposals. During these preliminary negotiations (preliminary to a full-scale international conference which the United Nations Organization will be asked to call not later than the summer of 1946), the United States will attempt to negotiate reciprocal tariff reductions with a limited number of countries. These negotiations will be carried on under the Reciprocal Trade Agreements Act, renewed by Congress in June of this year. It will be recalled that at the time of renewal the Act was strengthened to empower the President to reduce tariffs by as much as 50 per cent below the rates prevailing on January 1, 1945.

The "Proposals for Consideration by an International Conference on Trade and Employment" cover twenty printed pages; this article will attempt to summarize and analyze only the most important of the provisions contained therein. The document is divided into three parts. Part "A", in the nature of a preamble, states the need for cooperative action in regard to the problems of employment, trade barriers, and discrimination as an indispensable supplement to the Bretton Woods Agreements, already submitted to the various governments. Part "B" consists of a few brief paragraphs stressing that maintenance of "approximately full employment" in the major industrial and trading nations is a prerequisite to expansion of international trade and to realization of liberal international agreements in the fields of commercial policy, commodity problems, cartel problems, monetary stabilization, and investment. In order to effectuate the aims of a full employment policy, each signatory nation will be asked to undertake appropriate domestic measures to achieve and maintain full employment in its own area, to exchange information on employment problems, trends, and policies, and to consult regularly with other nations on employment problems. A much more important undertaking requested is that "No nation will seek to maintain employment through measures which are likely to create unemployment in other countries or which are incompatible with international undertakings designed to promote an expanding volume of international trade and investment in accordance with comparative efficiencies of production."

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Part "C", entitled "Proposals Concerning an International Trade Organization," constitutes the principal portion of the document. Chapter I expresses the purposes of the proposed Organization in terms comparable to Article VII of the Master Lend-Lease Agreements -- the expansion of the production, exchange, and consumption of goods, and the creation of economic conditions conducive to the maintenance of world peace. Chapter II states that the original members of the Organization should be those countries participating in the Conference which accept membership, a phraseology which does not disclose whether or not certain neutral or ex-enemy countries will be eligible for original membership.

The specific commercial policy provisions to be presented to the proposed trade conference are contained in Chapter III (General Commercial Policy), Chapter IV (Restrictive Business Practices), and Chapter V (Intergovernmental Commodity Arrangements). Some of the provisions will be discussed in the following paragraphs.

Tariffs and Preferences. This was doubtless one of the thorniest problems facing the negotiators and it is in no way surprising that the provisions on which agreement was reached is only slightly more stringent, from the British point of view, than the commitment accepted by the United Kingdom in Article VII of the Master Lend-Lease Agreement. In the latter document the United Kingdom undertook to cooperate with the United States in "agreed action . . . directed to . . . the elimination of all forms of discriminatory treatment in international commerce, and to reduction of tariffs and other trade barriers." In the present "Proposals" the link between reduction of tariffs and elimination of tariff preferences is even more clearly stated, as evidenced by the phrase: " Action for the elimination of tariff preferences is to be taken in conjunction with adequate measures for the substantial reduction of barriers to world trade." It may be presumed that the United Kingdom will retain a fair measure of bargaining power concerning what tariff reductions are "adequate" and "substantial" on the part of, for example, the United States. The United States received three specific assurances, however, which will materially further abolition of imperial preferences; one should not forget that those commitments work both ways, i.e., that they will apply with equal force to preferential tariff policies of the United States, such as those now in force for the benefit of the Philippines and Cuba.1/ The "Proposals" state that it should be agreed as an initial step in the process of eliminating tariff preferences that:

1/ In so far as these preferences apply to agricultural products, e.g., sugar, part of the advantage lost by the supplying country through the abolition of preference might be regained through the receipt of generous quota allocations permissible under Chapter III, Section C(c). The price advantage would be lost while a sizable assured market might be retained.

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1. Existing international commitments will not be permitted to stand in the way of action agreed upon with respect to tariff preferences.

2. All negotiated reductions in most-favored-nation tariffs will operate automatically to reduce or eliminate margins of preference.

3. Margins of preference on any product will in no case be increased and no new preferences will be introduced.

The Tariffs and Preferences section also provides that export tariffs should be open to negotiation in the same way as import duties. Newspaper reports indicated that the United States would have preferred the abolition of export tariffs. There are, however, strong arguments for permitting moderate export tariffs for the raising of necessary revenues in backward areas. Export tariffs may, of course, be abused, particularly if the exporting area enjoys a natural monopoly in the exported product; incidence of the export tax in this situation will be upon the importing nations. The reverse situation may apply, however, if an import duty is levied by a country taking a large proportion of the commodity produced. Similarly the argument that an export tax on a raw material may operate as a subsidy to an inefficient processing industry in the country of production may be applied with equal force against a high import duty affording protection to inefficient industries or raw material producers. The type of export tax which has proved most distasteful to the United States in the past is the discriminatory export tax under which, for example, tin exported from Malaya to British refineries was less heavily taxed than that exported to refineries in non-Empire countries. Under the terms of the "Proposals", member countries would undertake to abandon export duties "which differentiate by reference to the destination to which the goods are exported."

A third paragraph of the section under discussion suggests that countries granting tariff reductions should be permitted to include an "escape clause" under which they might take temporary action to prevent sudden and widespread injury to any group of producers concerned. This provision was undoubtedly inserted to permit the United States to utilize the "escape clause" formula which has been developed in recent years in connection with the reciprocal trade agreements program.1/ While clauses of this type may introduce the danger that some carefully negotiated concessions may later be withdrawn, they provide a useful tool for allaying the sometimes unreasonable fears of producers.

1/ Article XI of the trade agreement between the United States and Mexico (effective January 30, 1943) contains the latest version of this formula. The first sentence of that agreement is as follows:

"If, as a result of unforeseen developments and of the concession granted on any article enumerated and described in the Schedules annexed to this Agreement, such article is being imported in such increased quantities and under such conditions as to cause or threaten serious injury to domestic producers of like or similar articles, the Government of either country shall be free to withdraw the concession, in whole or in part, or to modify it to the extent and for such time as may be necessary to prevent such injury."

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Quantitative Trade Restrictions. It has been widely recognized that during the inter-war period quantitative trade restrictions constituted a far more disruptive influence in international trade than did tariffs. In general, quantitative restrictions create more inflexible barriers than tariffs; they can usually be applied or changed more rapidly; they can be used with greater precision against specified products or against specified countries. The precision with which quota restrictions may be employed is a factor commending them to the use of governmental agencies; it may be no criticism of the tool that it lends itself to the execution of highly discriminatory policies. In spite of the first subtitle of the section -- "General elimination of quantitative restrictions" -- it is clear that the principle purpose of the provisions is not so much the elimination of quantitative restrictions as it is the avoidance of discrimination in their application. The opening sentence states that, "Except as provided for elsewhere in this Chapter, members should undertake not to maintain any quotas, embargoes, or other quantitative restrictions on their export or import trade with other members." The rest of the Section enlarges upon the exceptions to this undertaking and on the preservation of equality of treatment in the application of quantitative restrictions. The major exceptions to the prohibition of quantitative restrictions are five:

1) A general exception for approximately three years on export or import prohibitions or restrictions essential to a) the efficient use of shipping, b) the equitable international distribution of products in short supply, c) the orderly liquidation of surplus government stocks.

2) Import quotas may be placed on agricultural products if these are necessary to the enforcement of governmental measures which operate a) to restrict the quantities of like domestic products which may be marketed or produced, or b) to remove a temporary surplus of like domestic products through distribution free of charge or at below-market prices.

3) Restrictions required to safeguard the balance of payments. (This exception is to be operative under conditions and procedures to be agreed upon.)

4) Restrictions applied in accordance with the "scarce currency" provisions of the International Monetary Fund.

5) Restrictions designed "to maintain the par value of the currencies of territories having a common quota in the International Monetary Fund."

Exception 1 will become inoperative in a reasonably short time; exception 4 will be applicable only when the Monetary Fund has declared a currency to be scarce and only for the period during which the condition of scarcity continues. Exception 5 is poorly worded; it undoubtedly means to say no more than that restrictions may be imposed to maintain the value of the currency of a territory in a constant relationship to the value of the currency of the controlling state. The provision is unfortunate in any case (although it may not result in trade distortions of quantitative importance) inasmuch as it appears to sanction mutual discrimination between colonial areas and their mother countries of the type which has long been rightly condemned on political, social and economic grounds by students of colonial problems.

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Exceptions 2 and 3 are of major importance. Both the United States and the United Kingdom have agricultural programs which will permit quota restrictions under exception 2(a) and any country could adopt similar programs if it wished to impose quota restrictions on imports. Moreover, such schemes are most likely to be adopted in respect to agricultural commodities of major importance in world trade, e.g., in cotton, wheat, sugar, meats, etc.1/ Exception 3, permitting quota restrictions to avoid or to correct a balance of payments deficit, will also leave a wide field for the use of quantitative controls. Just how freely this exception can be invoked, however, was apparently not decided in the Washington negotiations. The "Proposals" state that the provision permitting the use of quantitative restrictions to aid in the balance of payments should be operative "under conditions and procedures to be agreed upon."

Fortunately, the Section on quantitative restrictions contains provisions designed to limit the extent of restriction which may be imposed through quota programs and to insure that such programs will not result in discrimination. In connection with restrictions imposed for balance of payments reasons, "full application of nondiscrimination" is called for once the transitional period2/ is over. The agreed concept of non-discrimination in this context is of interest; quantitative controls will be considered non-discriminatory if they are administered in a manner which does not discriminate among sources of supply in respect of any imported product. This means that a program drastically restricting total imports of, say, wines and perfumes, if justified by the plea that the balance of payments position requires curtailment of luxury purchases, would not be considered as discrimination against, say, France; similar restrictions on imports of automobiles and electric washing machines would not be considered discrimination against the United States. The criterion is the equality of treatment accorded to any given product from any source rather than the overall effect which may result from the quantitative restrictions imposed. If restrictions are imposed in any manner which fails to disclose the relative share of imports allocated to all nations, the member imposing the controls is expected to reveal all the relevant data to any other interested country upon the latter's request. Any member will be entitled to object to the Organization if it feels that balance of payments restrictions are being imposed in a manner not in harmony with the principles of the

1/ An exception not mentioned above, since it will be discussed in connection with Chapter 5 of the "Proposals", permits import quotas imposed under intergovernmental commodity arrangements approved by the Organization.

2/ The "transitional period" is to be determined by a procedure analogous to that contained in Article XIV of the International Monetary Fund Agreement.

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Organization. Restrictions imposed in connection with domestic agricultural programs should, in general, not reduce imports relatively to domestic production as compared with the proportion prevailing in a previous representative period. They should be "no more restrictive than necessary, should be removed as soon as they cease to be necessary to the operation of the governmental programs which they supplement, and should be made the subject of periodic consultation with the Organization". They should in all cases be applied in a non-discriminatory manner.

Subsidies. On the subject of subsidies the "Proposals" are extremely weak. It appears as though the United States sought to retain freedom of action in the granting of both domestic and export subsidies and as though the United Kingdom accepted this position either as a welcome assurance that its own program for subsidization of agricultural production would not be proscribed or as a concession to the United States. The first provision of the Section asks simply that any nation granting subsidies which act to increase exports or decrease imports undertake to keep the Organization informed of its subsidy program, the reasons for it, and the probable effect of the subsidy on trade. The subsidizing nation should also be prepared, if it should be agreed that serious injury to world trade threatens to result from the program, to consult with other nations on possible limitations on the quantity of the domestic product subsidized -- not on elimination of the subsidy.

Subsection 2 deals with export subsidies. Subject to certain exceptions, members are asked to undertake to avoid policies which would result in the sale of a product in export markets at a price lower than the domestic price. The first exception establishes a transitional period of not longer than three years [1] before this agreement will become effective. The second, and major, exception is with reference to commodities in surplus supply. If it should be determined that a commodity is or is likely to become in "burdensome world surplus", consultation among the major producing and consuming countries should seek methods of increasing consumption or reducing production, methods which might include establishment of an international commodity agreement. If these steps prove unsuccessful within a reasonable period of time, the provisions of both sub-sections 1 and 2 will cease to apply to the product in question. It would appear that, in the face of these provisions, any country unprepared to enter into a subsidy race with a wealthy competitor might feel required to go more than half-way in seeking the establishment and successful maintenance of an international commodity arrangement. A final paragraph of the subsidy Section provides that no country should employ export subsidies so as to enlarge its share of the world market, as compared with the share prevailing in a previous representative period.

State Trading. That the state trading provisions of the "Proposals" are also weak is not a situation inviting criticism. No problem in the field of international trade presents greater difficulty than the attempt to evolve meaningful regulations for insuring mutual fair treatment in trade between free and controlled economies. Section E of Chapter 3 contains only two brief paragraphs referring directly to this problem; a third paragraph refers to the less difficult question of state monopolies of individual products. The first of these embodies the so-called "commercial principles clause" and suggests

1/ If, however, a member feels unable to comply with the undertaking at the end of three years, it may request an extension of time; the request will be acted upon by a consultative group composed of interested members.

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that members engaging in state trading should be influenced in their conduct of international business only by "commercial considerations, such as price, quality, marketability, transportation and terms of purchase or sale." Critics of this formula point out that commercial principles may also include a number of undesirable practices, such as temporary underselling in order to secure a valuable market, or bulk purchases of such magnitude as to tie the supplier firmly to the buyer almost regardless of consequences. When the operations of any buyer or seller exceed a certain magnitude, the normal rules of free enterprise prove inadequate to prevent abuses; the state trading country is likely to occupy a monopoly position in many products, and the commercial policies which will be to its advantage may be typical monopoly practices. However this may be, the "commercial principles clause" is doubtless a step in the right direction. The second recommendation for state trading countries is that they establish and announce global quotas revealing the total value of the foreign purchases they intend to make from year to year from members of the Organization as a group. These purchases would be distributed on the basis of the non-discriminatory policy outlined in the preceding sentences. The size of the global quota would be the subject of periodic consultations between the state trading country and the International Trade Organization.

Other Provisions of Chapter III. Section F of Chapter III deals with exchange controls and the relationship of the International Trade Organization with the International Monetary Fund; it is discussed at length in another section of this issue of the Review. Section G lists certain categories of trade to which the provisions of the Chapter do not apply. Regulations relating to traffic in prison-made goods, or to international trade in arms and ammunition are exempt from the undertaking described. One exception which experience shows may be abused is that relating to regulations "necessary to protect human, animal or plant life or health"; a provision calling for international consultation on such regulations would be in order. Exception 9 refers to measures taken in pursuance of obligations for the maintenance of peace and security.

Section H contains the provision that the undertakings of Chapter III should not prevent any member from joining a customs union, providing that such customs union meets certain agreed criteria. This may prove to be of some importance since several plans for the organization of customs unions in the past have been abandoned as a result of determined disapproval on the part of major trading nations.

Section A should not be ignored. It lists ten general commercial provisions of very unequal significance. Among these are undertakings to avoid excise taxes which discriminate against imported goods; to agree to a general definition of the circumstances under which anti-dumping and countervailing duties may properly be applied; to simplify customs formalities; to refrain from governmentally financed or organized boycotts or campaigns designed to discourage imports; and to transmit to the Organization appropriate trade information and statistics.

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Restrictive Business Practices (Chapter IV). The alleged difference of opinion between the British and United States negotiators as to appropriate anti-cartel policies was aired at some length in the press. According to these reports, the United States delegation favored an attempt to secure the passage of stringent anti-trust legislation in all member countries while the British argued that any such attempt would at best require many years for its success and would in all probability be flatly rejected by many countries. If this was a true picture of the respective positions, the British advice has prevailed. Chapter IV states that there should be individual and concerted efforts to "curb" those business practices in international trade that tend to frustrate the aims of the Organization. To this end members may cooperate (but do not pledge themselves to do so) to increase the effectiveness of remedial orders issued any one member. The Organization itself will be empowered to receive complaints against the operation of cartels and to request any member to supply data relevant thereto. If the data warrants action, the International Trade Organization may make recommendations to the appropriate members and receive reports as to the implementation of these recommendations. Aside from this, the Organization may conduct studies of restrictive business practices, recommend uniform national standards in dealing with cartel problems, and call conferences of member states for consultation.

While the reported position of the United States may have represented an impractical approach to removal of the very real and widespread abuses carried on by private international combinations, the provisions of Chapter IV are disappointingly mild. If, however, the complaints received by the Organization are given full publicity and its recommendations are specific, some of the major offenders in international cartel circles may find their activities greatly hampered.

Intergovernmental Commodity Arrangements (Chapter V). The Chapter on Intergovernmental Commodity Arrangements is, in the writer's opinion, the most closely reasoned and carefully prepared section of the document. An introductory paragraph points out that production of and trade in primary commodities are exposed to certain difficulties different in character from those generally existing in the case of manufactured goods, and that the repercussions of serious disturbances in the production of primary products may prejudice the prospect of general economic expansion. Accordingly it is suggested that, when a serious difficulty threatens, the countries most affected should call upon the International Trade Organization to organize a Study Group, composed of representatives of the interested nations and of the Organization, to examine the underlying facts of the commodity situation in question. If this special study shows that no adequate measures can be found to expand consumption rapidly enough to prevent the accumulation of excess supplies, the Organization may be asked to convene an intergovernmental conference for the purpose of framing an intergovernmental commodity agreement.

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The objectives of any such agreement should be threefold: to prevent the resort of any nation to unilateral action which would tend to shift the burden of adjustment to other countries; to prevent or alleviate the serious economic problems which might follow from the slow progress of unplanned adjustments; to provide a transitional period during which adjustment of the particular commodity problem can be effected through the operation of wide economic programs providing for the appropriate shift of labor and other resources to more productive use. In seeking these objectives members will be asked to observe a number of specific principles. They will be asked not to resort to intergovernmental commodity agreements until the investigations of a Study Group have shown that a burdensome surplus has developed or is developing or that widespread unemployment has developed or is developing, and that correction of either situation through normal competitive forces will be unduly slow and painful. If the Study Group recommends formation of an agreement, prospective member governments should formulate and adopt a program of economic adjustment designed to remove the necessity for the agreement within a relatively brief period. Both producing and consuming nations should participate in framing commodity agreements. Finally, the Organization proposes that member governments should not resort to intergovernmental commodity agreements with respect to fabricated products unless the I.T.O. finds that exceptional circumstances justify such action.

In operation, commodity agreements should adhere to the following principles:

1. Admittance of all interested countries on fair terms.

2. Equal aggregate voting power for producing and consuming interests.

3. Retention of adequate stocks to assure availability of supplies at reasonable prices.

4. Inclusion of appropriate provisions to afford increasing opportunities for supplying world requirements from the most efficient sources.

A commodity agreement should not remain initially in effect for more than five years and subsequent renewals of the agreement should not be permitted unless the participating countries can demonstrate that substantial progress has been made toward solution of the basic difficulties which brought the agreements into being or unless the agreement is so revised as to be effective for this purpose. Full publicity should be given to all phases of the organization and operation of commodity agreements.

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Among the exceptions which are not subject to the provisions of Chapter V are agreements relating to "the conservation of reserves of exhaustible natural resources". This appears to be an unnecessarily broad exception; it probably refers specifically to petroleum. The paragraph provides, however, that any agreements in the uncovered category should not be used to accomplish results inconsistent with the objectives of Chapter V, and that agreements involving restriction of production or trade should either be authorized by a substantial number of nations or be operated under the Organization.

Chapter VI. Chapter VI deals with the functions, organization and procedure of the proposed International Trade Organization. It provides that the final authority of the Organization shall reside in a Conference, in which all member states will be represented. According to the "Proposals" as now framed, voting in this body will be on the basis of one country--one vote. A smaller Executive Board will exercise powers delegated to it by the Conference. This Board will have 18 members of which at least 6 will represent nations of chief economic importance to which permanent seats will be allocated. The "Proposals" provide that the Executive Board should regulate its own voting procedure. A Commercial Policy Commission, a Commission on Business Practices, and a Commodity Commission will each be concerned with the functioning of the International Trade Organization in the respective fields indicated by their titles. An Industrial and Mineral Unit is contemplated to promote expansion of production and trade in fabricated products, minerals, and other primary products not under the jurisdiction of the Food and Agriculture Organization. There will be a Secretariat, under the supervision of a Director-General and three or more Deputy Directors-General, to provide factual data and expert assistance to the various bodies of the International Trade Organization.

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