

countries in the world as organized to-day would find it difficult, if not impossible, to develop alternative markets or sources of supply, with the result that both would be worse off.

The lesson to be learned from this is that, although the widening of the multilateral fringe can often be fairly taken as a barometer of expanding world production and trade, this can only be so so long as multilateralism in action does not knock out sources of supply and, hence, demand. In other words, the fundamental bilateral character of trade must be protected, and modified by multilateral exchange only when this will increase international specialization, and hence efficiency, without reducing the production and share of trade of any one country. Therefore, bilateral and multilateral trade must co-exist.

THE PROBLEM OF CONVERTIBILITY

The new bias towards multilateral trade creates a problem which does not arise in purely bilateral dealing, and which has not been adequately provided for either in the International Monetary Fund or the draft charter of the proposed International Trade Organization. This is the problem of multilateral convertibility of currencies.

In bilateral deals claims and counter-claims are to a degree set off against each other, but under conditions of multilateral clearing the idea is that all countries buy from and sell to one another without any attempt to strike a balance in sales and purchases between any two countries. Because all claims are offset by counter-claims in existence somewhere in the international trading system, it is presumed that every country gets paid for its exports and pays for its imports, and its own balance of trade is in equilibrium.

In the real world, and especially at the present time, this theory does not work out. In the first place, over the world as a whole claims exceed counter-claims because some countries, and especially those of North America, are selling much more than they buy. The latest figures for the United States show exports at 16 billion dollars worth of goods, and imports at only half that sum. Ultimately, even in a multilateral clearing system, if the United States are to be paid, they must be paid in dollars for all that they export to other countries, but these countries, under present conditions, are unable to procure the dollars, directly or indirectly, with which to pay for their imports from the United States. Similarly, Britain, by exporting to western Europe, has accumulated large credit balances with several European countries, but, because these countries cannot send Britain the goods she requires or, alternatively, sell other goods elsewhere and, directly or indirectly, obtain sterling with which to cancel their indebtedness,