Whilst it may for many years be desirable and expedient to continue international loan arrangements, it will in the ultimate be found that such lending does not guarantee the success of multilateral clearing. If the current of lending is such as to substitute sources of supply and deflect sources of demand, sooner or later the effect will be to undermine the employment and trade structures of the adversely affected countries. If these countries are important in the world production and trading system, the breakdown of their demand can generate world depression.

The conclusion to be drawn is, then, that multilateralism is only likely to be desirable when in practice complete convertibility of all currencies used in trading deals is feasible, and when also it does not undermine the current production and trading structures of countries.

TARIFFS AND SUBSIDIES

In a world of bilateral trading the dependence of trade upon the maintenance of national production is obvious. This dependence has tended to be obscured, and therefore ignored, by the multilateral philosophy. However, the draft charter has recognized it sufficiently to approve the retention of tariffs, and, in certain circumstances, subsidies, as means of protecting the production system of a country, and hence its contribution to international trade. For practical purposes, tariffs and subsidies are the only exceptions which the charter recognizes as opposed to all other expansionist and protective devices employed by national economies.

Tariffs and subsidies are sometimes most effective means of protecting domestic industries, but often they are quite ineffectual. If the domestic producers whom it is desired to protect are nearly as efficient as their foreign competitor, a reasonable tariff affords their product ample protection, while a wealthy country can subsidize domestic producers to the point where foreign competition is quite pushed out.

On the other hand, if the domestic industries are comparatively inefficient by reason of their lack of capital equipment and of their undeveloped technology, no tariff, however high, will give the necessary protection at reasonable cost. If, as is usually the case, the domestic industry cannot supply the entire home market, the high tariff on imports will operate to drive up the cost of the commodity to consumers. In most under-developed countries, where the need for protected industrial development is greatest, the populations lack the purchasing-power with which to purchase high-cost commodities.

Subsidies in under-developed countries have the serious drawback that they are not a feasible protective measure because there is no residue from the income of the people from which the necessary taxes can be raised. Nor are subsidies permanently possible for a