

incomes, or a programme of capital development ; and there may be an export of capital funds. Any of these factors, singly or in combination, could so deplete a country's monetary reserves, whether in the form of gold or foreign currency, as to cause or threaten a serious financial crisis. In the case of New Zealand the existence of a situation such as this would be indicated by a serious decline in its sterling balances.

An exchange crisis of this kind could be met by a number of devices. Subsidies on exports, higher tariffs on imports, exchange devaluation, or exchange restrictions could be used. These matters are dealt with in other sections of this Charter or in the Articles of Agreement of the International Monetary Fund. This Article relates to a further method of dealing with the situation, the use of quantitative restrictions to remedy a disequilibrium in the balance of payments—*i.e.*, quotas and import licences.

Article 21 opens with a statement that when balance of payments difficulties occur it is the Member itself which must first take responsibility for remedial action ; but since other countries are necessarily affected if quantitative restrictions on trade are imposed it is desirable that the countries concerned should co-operate with each other with a view to restoring the balance at a higher rather than a lower level. The earlier such co-operative action is taken, and the more exports are expanded instead of imports being restricted, the better. Realizing that such consultation and action will not be sufficient in certain cases, paragraph 2 authorizes import restrictions to safeguard the balance of payments.

The application of quantitative restrictions on imports is authorized if and to the extent necessary to forestall an imminent threat of, or to stop, a serious decline in the Member's monetary reserves, or to build up those reserves from a very low level at a reasonable rate (paragraph 3 (a) ). Account must be taken of all factors affecting the situation, including special factors affecting the need for reserves.

In the first instance it is the Member itself which decides what is an "imminent threat," "serious decline," "reasonable rate of increase," &c., but in the event of the Member's restrictions being challenged by another Member (paragraph 5 (d) ) the final decision may rest with the Organization.

The term "special factors" is very wide and covers anything which may be relevant to the supply of and need for monetary reserves. Special mention is made of available credits. For example, an external debt falling due would be a "special factor" since it would increase the need for reserves of foreign currency ; but if the debt can be converted on reasonable terms, this would mean that credits are available to meet that need.