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M I N I S T E R I E V A N F I N A N C I E N.

's-Gravenhage, 10 November 1947.

GENERALE THESAURIE.
AFDELING:BUITENLANDS BETALINGSVERKEER.

No. 157.

Onderwerp:
Inter-Europese
transferabiliteit.

21663

Aan de Heer Voorzitter van de Raad
voor Economische Aangelegenheden uit
de Ministerraad.

Gedurende de afgelopen dagen zijn door ambtenaren van mijn Ministerie, samen met vertegenwoordigers van de BEB en van Buitenlandse Zaken besprekingen gevoerd omtrent de tekst van een nota die namens de regeringen van België, Nederland en Luxemburg door de Belgische ambassadeur te Washington aan het State Department zal worden aangeboden. Deze nota, die op het initiatief van Minister Spaak is samengesteld, en waarvan het eerste ontwerp wordt bijgevoegd, schetst de overwegingen die ten grondslag liggen aan het te Parijs door de drie landen ingediende voorstel inzake de inter-Europese transferabiliteit. De indiening van deze nota wil mij om verschillende redenen zeer opportuun voorkomen. Van Amerikaanse zijde is tot dusverre voor het Beneluxplan geen grote belangstelling getoond, zodat het aanbeveling verdient de Amerikaanse autoriteiten nogmaals uitvoerig van de overwegingen in kennis te stellen. De omstandigheid dat dezer dagen de monetaire problemen, die met het plan-Marshall samenhangen, te Washington aan de orde komen, maakt dat het moment van aanbieding thans, naar mijn mening, als gunstig moet worden beschouwd. Harer Majesteits Ambassadeur te Washington zal van een en ander op de hoogte worden gesteld, en hem zal worden verzocht, in overleg met zijn Belgische collega, de modaliteiten van de aanbieding te regelen.

Ik heb er prijs op gesteld de Raad voor Economische Aangelegenheden van de genoemde stappen op de hoogte te brengen.

DE MINISTER VAN FINANCIEN,

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October 1947.

MEMORANDUM PRESENTED BY THE GOVERNMENTS OF BELGIUM, THE NETHERLANDS AND LUXEMBOURG

(DRAFT)

21663

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MEMORANDUM PRESENTED BY THE GOVERNMENTS OF BELGIUM, THE NETHERLANDS AND LUXEMBOURG

INTRODUCTION

1. In the report of the Paris Conference of the European Committee of Economic Cooperation, all sixteen participating countries recommended that in connection with American aid arrangements should be made to bring about a general acceptibility of European currencies in intra-European trade so that more immediate and greater results will be obtained in widening trade channels in Europe during the period of transition from the present conditions of fundemantal desequilibrium of all European countries to a sound state of equilibrium. At the end of the transitional period, general and direct convertibility between central banks would be the rule.

2. This passage was included in the report, as during the Conference of Economic Cooperation it had appeared that an essential step towards effective cooperation between European countries should consist in taking the necessary measures in order to prevent European trade being hindered by difficulties of payment, and thus to promote European production. This would at the same time tend to reduce the amount of aid to be sought from the U.S.A.

3. Different studies were made by some of the delegations and it became clear that the same amount of dollar-aid could be used in different ways with different results. In other words, it was recognized that the way in which any aid is to be most effectively used for the benefit of European recovery constitutes a problem that can be profitably explored on its own merits.

4. It is not possible for a conference of sixteen countries to define the best way as long as the nature and form of the aid has not been fixed, but enough information does exist to demonstrate that dollars can be used for a double purpose, i.e. for intra-European payments as well as for payments to the American continent, without involving additional aid and at the same time maximizing the possibilities of increasing European production.

5. Our conclusion follows logically that all possible schemes should be examined to utilize any aid for these two purposes. The Benelux-proposal suggests that dollars would serve to back a scheme of general transferability of credits in the bilateral payments-agreements, which means that dollars would be used for intra-European payments only after all compensation possibilities have been exhausted.

6. On September 22nd 1947, a meeting was held in London between experts of the same countries to work out technical details of the transferability scheme. This meeting called "Committee on

- Payments -

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Payments Agreements" only examined proposals whereby the practice of transfers could be generalized by the conclusion of an arrangement between a group of countries and the creation of a central organisation to act as a Clearing House so that surpluses and deficits may be off-set on a multilateral basis.

7. In a meeting held in Paris, from 15th till 25th October, a mechanism was set up through which automatic transferability resulting in reductions of foreign currency holdings was unconditionally accepted by four countries; other countries were invited to join the group or at least to accept free compensations to be proposed by the compensation agency.

8. In order to demonstrate the necessity of such proposals and our desire to participate in any way possible to bring about a more immediate recovery for all European countries, we are submitting the present memorandum to clarify the reasons underlying the Benelux-proposals presented and discussed for the first time at the Paris Conference.

In order to facilitate your study, we have also taken the liberty of attaching in an annex a summary of questions that have been raised with regard to the proposals together with their replies.

It is not the intention of this memorandum to suggest any specific organisation of the aid, but only to demonstrate that using aid for a double purpose contributes most effectively to our mutual ends namely the expansion of world-wide trade on sound foundations.

BASIC REASONS FOR THE BENELUX-PROPOSAL

9. As an introduction to our exposé, it may be useful to describe briefly the financial pattern of Europe.

Europe consists of a number of countries each being an autonomous financial unit, with its own currency. Before the war, currencies of participating countries were generally interchangeable on free exchange markets with only a few exceptions, of which the most important was the German Reichsmark, since foreign exchange control was initiated and established by that country in 1931. As foreign exchange rates moved according to the law of supply and demand, trade and price levels in Europe were narrowly connected with each other and international competition ultimately determined the development of economic activities.

10. The war brought about a revolutionary change in this situation : flexible exchange rates were abandoned and replaced by fixed rates, supply and demand of currencies were controlled to defend the official rates and to prevent monetary collapse.

In the immediate period after liberation the European economy was characterized through a general scarcity of goods, and it was not sufficient to be in possession of money of a foreign country to be able to buy and import goods of that country. Therefore countries were not prepared to hold any amount of foreign currency, and were not inclined neither to give gold at hard currency-i.e.money with which goods can be bought-in exchange for soft currency. This means that foreign currencies were no more interchangeable in an unli-

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Such conditions however were a hindrance to the sound expansion of trade. To avoid that trade should develop only on a barter clearing basis, bilateral agreements were concluded between most of the European countries in which each country accepted to hold the currency from its partner up to a certain limit, without asking for payment in gold or hard currencies.

11. The stable exchange rates as such are not responsible for these developments. Those exchange rates are fixed in conformity with the principles of post-war international monetary organisation based on stable exchange rates and multilateral convertibility. In a good working system the I.M.F. would supply to each country the means for stopping temporary gaps in balances of payments of individual countries and the International Bank for Reconstruction and Development would procure the loans necessary for reconstruction and development; adequate private capital movements would do the rest.

Through its stabilizing effect on price levels and the suppression of currency speculations - that characterized the exchange markets in the thirties - this international monetary organisation would create the ideal conditions for efficient economic competition and full employment.

As was explained above, the situation in Europe since the war is such that the currencies cannot buy the goods and cannot be freely convertied in currencies that fulfil those conditions. Therefore new devices are being prepared and already limited regime of transferability of currencies was worked out and will be established very soon. This system will enable such countries that have debtor positions vis-à-vis some countries and creditor positions vis-à-vis other countries to use their holdings in one currency to settle their debit positions in another currency. In such a way a new "elbow-room" is established for a certain period but only if the new system is backed by gold or dollars it can work in a sufficient efficient way to enable a relaxation of trade barriers and a reconsidering of commercial policy on a multilateral basis.

12. The international monetary organisations were not planned to cope with the problem that now exists, and have only the necessary means to stop the gaps caused through temporarily deficits in balances of payments.

The organisation could not proceed very far towards the desirable multilateralism in payments, owing to the huge desequilibria of balances of payments.

13. These desequilibria as such are not a sign of unsound economic conditions. The damage and dislocations caused through the more than 5-years long war were of different importance in every country, so that reconstruction and recovery cannot be brought about at the same speed everywhere. Those countries where production reaches a high level above their own needs have exportable surpluses, where as other countries can only offer a limited amount of goods in exchange. An equilibrium in exchange of goods would only be obtained at the level of the weakest partner if equilibrium was considered as an absolute condition. To prevent this almost complete breakdown of trade

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in Europe, those countries that have progressed farther in the process of recovery agreed to supply their aid to those countries where production develops more slowly and granted non-interest bearing monetary credits on a bilateral basis. A maximum limit was fixed for those credit margins above which payments have to be made in gold.

14. These agreements enabled the development of a certain trade within Europe, but as bilateral equilibrium in payments and receipts between two countries is an absolute exception - and such was the case also in pre-war years - the currency holdings became in fact long term credits, that in most cases reached very rapidly the fixed ceilings. The rapid exhaustion of gold and hard currency ressources compelled debtor countries to reconsider regularly their commercial policy in a more restrictive and discriminatory way, so that, although the general level of production is increasing, the trade can only expand within the very limited channels of the agreements. This explains largely why a tendency towards bilateral commercial policy based on bilateral equilibrium is developing; it should be stressed that such a tendency towards bilateral equilibrium is unnatural as such an equilibrium never existed owing to the differenciation of European economy.

15. If no ways are discovered and some device put into work to liberalise payments agreements, these are no prospects for a development of trade on a sound multilateral economic basis. On the contrary, the general tendency must inevitably be a development of clearing arrangements on a real bilateral barter basis, since debtors that are short of gold and dollars, and the creditor countries cannot afford to expand their credit lines beyond the existing ceilings owing to the inflationary effects of such a procedure and their own limitation in production in the absence of adequate foreign exchange ressources, there would be no other way out than the adoption of a system similar to the German pre-war methods.

16. If no special aid from outside Europe is given, it is not difficult to discover the chain of causation that will lead to full discrimination practices, not only between European countries, but also vis-à-vis the United-States : diminished exports will tend to reduce production, to sharpen protectionism for other productions, to strengthen trade barriers, to develop autarchic tendencies in the economic structure of each country and discrimination will become rule as exports will only be bargained for imports.

17. If special aid comes, but is given in a direct form without specific arrangements for payments between participating countries , the tendencies described above will be maintained. As far as inter-European trade relations are concerned direct American aid would leave the European situation essentially unchanged as compared with the state of affairs outlined in number 16 above. Even the possibilities created to buy goods in America may tend still farther to reduce purchases on European markets especially during the first months of the aid. Increased purchases in the U.S.A. together with a reduction in intra-European trade will accentuate the present desequilibra and might perpetuate the deficit, so that American aid might be necessary for a very long period.

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18. A dollar aid with possible use for a double purpose so as to cover the overall deficit - instead of the deficit vis-à-vis the Am.continent - of participating countries could lead to a solution. An "aménagement" of the aid should then be sought so as to make it possible to use it to help all countries to general equilibrium.

19. A simplified example may be necessary to illustrate this statement.

Suppose country A decides to aid a region composed of countries B and C. Both B and C have suffered from destruction and dislocation and are gradually recovering. Suppose that the needs of C vis-à-vis A are 10 and the needs of B vis-à-vis C are 10 also. If now country A decides to give an aid for the recovery not to the region BC as such - in the absence of a central governmental body for that region - but to each country separately, the aid can be given, let us say in dollars, either to country B or C.

The problem is to establish what will be the most efficient way of allocating them. It is not indifferent that the aid be given to B or to C. At first side it might appear that the dollars should be given to C, but a closer examination shows that if the dollars are given to B, that country will be able to use them to pay C, which in its turn will use them to pay A. In this way, the same dollars will have served a double purpose.

20. This example shows in its simplest form on what principle a distribution of dollar-aid within Europe could be most efficiently based. Of course, the financiel structure of Europe is a more complicated one, but a number of countries have a net intra-European deficit apart from the dollar-deficit while others have a surplus vis-à-vis Europe. The intra-European desequilibrium represents only a small figure as compared with the dollar-deficit. This strengthens the thesis that if part of dollar-aid is directed through the channels of intra European payments it may solve the problem of payments desequilibrium within Europe at the same time as it meets the dollar shortage.

If the American aid aims at helping Europe to general recovery, it should not result in accentuating the existing desequilibria, but should help to suppress them. The solution of European desequilibria should be sought within the general framework of the American aid-plan. This could be done, if dollars are made available directly in accordance with a welldeveloped plan operating under supervision of a continuing organisation.

21. The preceeding paragraphs stated briefly the nature and causes of the present situation of economic desequilibrium within Europe and demonstrated the necessity of introducing new conceptions to find a solution to the payments problems that have arisen.

The importance of the future desequilibrium under normal developments is estimated in the General Report of the Committee of Economic Cooperation, which shows the following figures for the period 1948 till the end of 1951 (deficit -, or sur-

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plus +)

	With the American continent	With other non participating countries
1948	- 8.049	- 240
1949	- 6.350	+ 250
1950	- 4.650	+ 1.000
1951	- 3.450	+ 1.800
	-22.499	+ 2.810

Unfortunately the report does not mention the dollar-deficit as such, nor the figures for each country separately but, given the above figures, it is reasonable to assume that - at least in the second part of the transitional period - the overall deficit will be lower than the dollar deficit.

The total exchange of goods and services - and the resulting payments - from participating countries to other participating countries give rise also to an intra-European desequilibrium, as some countries have a surplus and others a deficit in this respect. The yearly totals of those surpluses, equal to the total deficits, have not been calculated, but might be of an order of magnitude equivalent to 300 to 500 million dollars.

22. The reabsorption of this deficit will need efforts not only on the physical side of economy and on the external financial side but also on the internal monetary developments.

Indeed unsound internal finances tend to provoke disruptions in the inner economic structure of a country as well as to disturb equilibrium in its external relations. As a direct consequence, it becomes practically impossible to maintain the stable exchange rates that form a basic condition for the extension of international trade and the organisation of a system of multilateral payments.

If there is in some countries a state of inflation due e.g. to budget desequilibrium or inadequate wage levels, the external valuations in terms of prices for goods and services are such that normal international competition cannot work, that the countries involved seek to increase their purchases on foreign markets and will see their exports reduced. There is no more possible automatic adaptation, as was the case with the classic mechanism; whereas in a system of free exchange rates, supply and demand of currencies determine the exchange rates adapt automatically the currents of trade of the internal monetary situation, in a system of stable exchange rates, the same conditions bring about only a scarcity of foreign currencies.

Therefore where it is necessary, the countries are required to proceed to a general monetary clean-up or any form of financial reform that will reduce excessive purchasing power so that it will stop inflation and will bring their prices and wages system in line with prices and wages in international markets. Equilibrium of the ordinary budget would be in this respect a preliminary condition to enter a complete European scheme backed by American support.

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23. General European recovery needs thus a number of measures that wil become most effective when they are completely coordinated.

The aim of the Benelux-proposal is indeed to suggest the adoption of one general scheme wherein all the necessary steps should be taken jointly viz. the liberalising of existing bilateral payment arrangements, by way of general transferability of foreign currency holdings between participating countries and the decision to put through a program of monetary reform.

If the Benelux-proposal is accepted the general recovery in Europe will be reached in three stages:

a) Bilateral trade and payments system; to be liberalised gradually by special arrangements or multilateral offsets within the limits of Europe's own possibilities.

b) Full multilateral trade and payments system in Europe, equilibrium being assured through American aid. During this transitional period American raw materials would "fill the pipe lines" of European production and enable general and gradual reabsorption of desequilibrium.

c) General equilibrium
For some countries the transitional period will be longer than for others. At any rate, at the end of the general transitional period, the European agency set up to organise transferability of currencies should have outlived its purpose and the credit lines should be reabsorbed. In this third stage, the normal IMF-operations and private capital movements should be sufficient to maintain equilibrium.

24. The transition from the first stage to the second needs temporary outside aid, while the transition from the second to the third must come automatically through overall equilibrium. The duration of the transitional period may of course be different from one country to another according to its speed in economic recovery.

For the reasons exposed in previous paragraphs, the bilateral trade and payments system cannot work indefinitely but still there are some possibilities to make payment arrangements more effective. In the recent London and Paris meetings some European countries, namely Belgium, Luxembourg, Netherlands, France and Italy took the lead in accepting an automatic system of compensation of their debtor and creditor positions vis-à-vis each other in a number of well-defined cases, and a special technique was laid down in an agreement that remains open to other European countries. This decision constitutes a new and most important step in European cooperation, as - although bilateral agreements have to be maintained - a certain multilateralism can thus be introduced in the payments system.

This will at the same time enable already a new multilateral approach in trade policies.

- Apart -

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Apart from this obligatory automatic compensation, free compensation operations according to the same rules will be proposed each month to non signatory countries and most probably a number of those operations will be put through. Moreover the compensation agency will suggest each month other useful compensations even if they may entail an increase in individual creditor and debtor positions but without change in the net positions. This third method too is expected to give excellent results.

25. This "transferability system" is the maximum that can be achieved by European countries between themselves. It consists ultimately in bringing together all the ceilings of the individual credit margins that were granted in separate bilateral payment arrangements. This new system implies a special and non-discriminatory effort on the side of European countries that are ahead in production towards those that would not pursue as rapidly their recovery program.

The new system may last a rather long time for those countries whose structure of external desequilibrium is such, that they have both debtor and creditor positions in their bilateral trade relations but have at the same time a certain equilibrium with participating countries as a whole. On the contrary the net creditor countries as well as the net debtor countries vis-à-vis Europe may no more be able to benefit from the system after a few months as soon as they have exhausted all their possibilities of compensation.

26. Once this stage is reached, only an outside aid will bring the solution. Dollars could be added to the European credit effort and contribute in this way a further extension of the transferability system.

" "
"

We may conclude out of the foregoing paragraphs that, if dollar aid is supplied to Europe, part of the dollars can be used most effectively to serve a double purpose without this being an additional aid. It is suggested that the aid should be arranged in such a way as to fulfil the requirements of the regime outlined above, and to contribute efficiently towards the restoration of Europe's general economic and financial equilibrium.

-EXAMINATION-

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EXAMINATION OF SOME SPECIFIC QUESTIONS.

Some questions and objections have been raised from different sides against the transferability-idea and may thus have given rise in some minds to doubts and scepticism about its workability.

As this may have some weight on further decisions, and as only a clear understanding of things is convincing to take positive steps, we will try to answer those questions; some of which are concerning the possible durability of the mechanism, others its repercussions on production and trade. Misunderstandings may have important consequences for Europe's future as they might finally lead to the postponement of general multilateral payments'possibilities, with - as a direct effect - an economically unsound development in some countries of branches of industry already existing in other countries and sufficiently equipped to satisfy European needs, thus leaving no new investment possibilities in the activities that should be developed to reduce Europe's overall-deficit and make possible general equilibria. It is to be kept in mind that real economic progress does not mean that industrial equipment should be developed in each country separately so as to adapt it to its own national needs, but that the European equipment as a whole should be adapted for European needs as a whole. Only then will production expand and trade increase.

1st question: It has been argued that the system cannot work for years and may have to be stopped after a rather brief period as was the case with the American loan to Great-Britain and the convertibility system.

Before answering this question it is necessary to insist upon the fact that the system to be created would function only between the participating countries and that all necessary safeguards would be taken to use part of the dollars exclusively for that special purpose. The dollars are not to be used immediately for inter-European payments but only after the compensatory transfer possibilities will be fully exhausted; in this way their would be no real dollar drain. This means that no dollar aid for the transferability scheme would be given as long as European credit margins are existing, but this European effort can only be fully effective when the proposed scheme is backed by dollars or gold so as to restore confidence and reestablish long term commercial policy. So the suggested scheme has its own qualities that go far beyond the apparent purely monetary arrangements.

As an answer to the above question, it can be shown that the proposed payments regime may solve a number of problems and will work better and longer than if the aid is given according to direct dollar needs.

To demonstrate this, a detailed example is necessary to show what finally happens under the system as compared with a direct aid scheme.

-Suppose-

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Suppose we are at the end of the transitional period, and we examine post hoc what happened under the two possible cases:

(1) The United States financed Europe s dollar needs according to the corresponding needs of each country;

(2) The United States aid was given in such a form as to cover the overall-deficit and the inter-European payments.

Let us accept, as an example (°), the following statistics of the situation at the beginning and the net operations during the transitional period.

Participants	Situation in 1947		Net operations in transitional period			
	Total of European bilateral credit lines	Situation at the beginning of the clearing system	Total deficit or surplus during the transitional period			
			vis-à-vis $ area (a)	vis-à-vis partners (b)	vis-à-vis other countries (c)	Total deficit (d)
A	100	+ 85	- 900	+ 600	- 100	- 400
B	100	+ 15	- 1200	+ 600	+ 500	- 100
C	100	0	- 500	0	+ 100	- 400
D	100	- 30	- 200	- 800	+ 400	- 600
E	100	- 70	- 100	- 400	- 100	- 600
			- 2900	+ 0	+ 800	- 2100

It is noteworthy to underline that the totals given for each of the colums (a) (b) (c) (d) are quite realistic and correspond to the structure of the European balances of payments as shown in the final report of the Paris Conference on Economic Cooperation. This means that the deficit of the Sixteen vis-à-vis the American Continent is higher than the overall deficit, owing to the fact that the transactions with "other countries" give a surplus.

The total payments of participating countries vis-à-vis other participating countries are of course equal to their receipts from those sources, but the operations of each country separately show a net surplus or a net deficit vis-à-vis those countries. The total of the net surpluses - equal to the total

(°)Those figures are not specially chosen for this purpose;any example based on a dollar deficit higher than an overall deficit will lead to the same conclusions.

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of net deficits - is largely inferior to the net deficit vis-à-vis the dollar area. This means that the annual part of the aid used to assure intra-European payments will be less than the annual dollar needs to pay imports from America. This fact demonstrates in a simple and clear way the practical possibility of using the dollars for two purposes at the same time.

If we examine now what happens in each of both cases mentioned above - case (1) covering direct dollar needs as such and case (2) covering the overall deficit of each participating country - we can give the following description of the operations:

Case (1)

If American aid has been given to cover the dollar deficit vis-à-vis the dollar area, the sum total of the aid will be 2900 and - the operations of column (a) will have been settled without any difficulty;

-the operations of column(b) will have given rise to considerable concern to countries D and E, for their deficit vis-à-vis A, B, is respectively - 800 and - 400, whereas in their payment agreements there were only margins left of 70 and 30. So both countries will have had to pay with their last gold reserves if they had any, or to ask for new credit. A theoritical possibility would be too, that A and B accept to make important investments in countries D and E, but under the present circumstances European countries cannot afford this.

-the operations of column(c) will have given rise to net indebtness from countries A and E vis-à-vis the group "other countries" if they did not have sufficient gold.

N.B. It is assumed in case(1) as well as in case (2) that the other countries will get the necessary gold or dollars for their payments.

Case (2)

If American aid has been given to A, B, C, D, E, not according to their own dollar needs, but according to their total net deficits, the operations can be summarized as follows for each of the participating countries.

Let us examine what happened to the position of each member country.

A.- The net dollar receipts of country A were:

-direct net dollar aid: overall deficit plus credit margins	415	
-plus dollars obtained through payments of European countries less, remaining credit margin of 15 = 600 - 15 =.....	585	
-net dollar receipts		1.000
-dollar payments to the U.S.....		900
Dollars used for payments to other countries..		100

B.- The net dollar receipts of country B were:

-direct net dollar aid: overall deficit plus credit margins.....	185
-plus dollars obtained through clearing members: 600 - 85 =.....	515
- plus dollars obtained from"other countries".....	500

-net-

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net dollar receipts..... 1.200

C.-The net dollar receipts of country C were:

-direct net dollar aid.....400
-plus dollars obtained from "other countries".....100

net dollar receipts..... 500

D.-The net dollar receipts of country D were:

-direct net dollar aid: total deficit less credit margins.....530
-plus dollars obtained from "other countries".....400

net dollar receipts..... 930

-dollars used for payments in $-zone.....200
-dollars used for payments in Europe.....730
..... 930

E.-The net dollar receipts of country E were:

-direct dollar aid: total deficit less credit margins..... 570

-dollars used for payments in $-zone.....100
-dollars used for payments in Europe.....370
-dollars used for payments in "other countries".....100
..... 570

-TABLE A-

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TABLE A

	A	B	C	D	E	TOTAL
Receipts						
American aid to European countries	415	185	400	530	570	2100
Gold and hard currency obtained from European sources	385	316	-	-	-	
Gold and hard currency obtained from "other countries"	-	500	100	400	-	
	1000	1200	500	930	570	
Payments						
$-payments to American countries	900	1200	500	200	100	2900
$-payments to European countries	-	-	-	730	370	
$-payments to "other countries"	100	-	-	-	100	
	1000	1200	500	930	570	

These operations can be summarized in a table showing clearly that if dollar aid is equal to the overall deficit in European countries, an aid of 2.100 instead of 2.900 may be sufficient to assure multilateral payments in Europe and to cover at the same time the dollar deficit as such if gold or hard currency is obtained in payment for net surpluses from "other countries". It might be difficult to fix an adequate amount from the beginning of the suggested double use of dollars but allocation could occasionally be arranged in such a way that individual allocations be fixed only according to trade evolution and current necessity.

Table A gives a synoptic view of the above mentioned operations, showing the payments and receipts of each country separately under each.

In their consequences the operations of case (2) can be characterized as follows:
-the operations of column (a) will have been settled as in case (1) except that there may have been a temporary discrepancy owing to the fact that dollars may have been due to the United States before the necessary dollars were available from European sources.

-This-

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This possibility is however largely theoretical because of the magnitude of the direct aid in dollars; if necessary a technical solution could easily be found for this problem:
-the operations of column (b) will have had their normal course without the difficulties mentioned for case(1);
-the operations of column(c) will lead to equilibrium in payments of A, B, C, D, E with "other countries" under the general assumptions made already for case(1).

A comparison between case(1) and case(2) moreover shows that case(1) and not case(2) needs additional American aid, owing to the fact that the net operations of column (c) lead to a surplus.

The distribution of the initial aid to European countries is, of course, considerably different in both cases. This is mainly what should be pointed out, for the essential question is that the aid must lead to general payment possibilities so that all parties concerned get the benefit of it. In the suggested distribution, debtor countries will be sure to get genuine foreign purchasing power for their exports; thus foreign trade will be able to expand in an atmosphere of confidence.

At any rate, the above example shows that the system proposed in case (2) will give better results as case(1) and will prove to be quite workable.

Second question: Will not the proposed clearing mechanism lead to trade restrictions within Europe, as creditor countries will continue to sell as much as possible to partner countries, while at the same time reducing their purchases in those countries, so as to get more rapidly the necessary dollars to increase their purchases in the dollar area.

Such trade restrictions in Europe can only be possible when at least four conditions are fulfilled, viz:

1.- that prices are lower in the United States than in Europe, for goods of equal quality (1);
2.- that buying can be done without limitation in the United States;
3.- that European Governments are following discriminatory commercial policies;
4.- that certain goods are only obtainable in the United States or in the dollar area.

It is obvious that some of those assumptions can not exist indefinitely. If the "trade charter" is accepted, and multilaterality is made possible, then the trade operations will again be made with the cheapest markets for products of equal quality, stimulating the development of best producers and provoking gradually the disappearance of producers working above marginal costs.

(1) Except for those essential products of which a real shortage exists in Europe, as e.g. coal.

-3d question-

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3d question: What will be the amount of the special aid for transferability? It has not been calculated by the "Sixteen" and nobody can tell to what sums it may reach. Moreover it is not known to whom and in which form it may be distributed.

In the example given above is has been made clear that there is no question of additional or special aid for transferability, there is even a fair chance that a smaller aid will be sufficient.

It is not possible for European countries to calculate the sums necessary for that special purpose as long as they have no indication about the nature, the form and the approximative amount of the American aid. The amount necessary to enable the establishment of a smoothly working multilateral payments regime in Europe will largely depend upon those data.

As long as we have no knowledge of some American indication no organisation can be established and no definite computation of the dollars necessary to back the transferability scheme can be made.

As a matter of fact, for any aid in any form no precise amount can be fixed beforehand especially owing to possible price developments in the United States, the principal supplier of goods. Therefore the formula of aid should be found taking this into account and calculated in such a way as to be barable to the American economy and to be at least sufficient for the aid to Europe. The dollars could be handed over to a temporary American centralizing institute. European countries would be given guarantee to get european dollars in sufficient quantities to buy the allocated goods at ruling prices. The possible surplus remaining at the disposal of the temporary centralizing institute could be used for other purposes outside Europe, if multilateralism in payments is to be established also in other continents.

4th question: Is not the transferability of European currencies, something that the I.M.F. might do in some way or another, as it is not an American concern?

This is not a real objection to the suggested system as such, but only an institutional aspect of it. It is of course true, that the I.M.F., as well any other international financial organisation could give its practical aid for the realization of the purposes contained in the Benelux-proposals. As recognized by the Financial experts Committee at the Paris Conference on European Economic Cooperation through their invitation to M. Gutt, to participate in the discussions on those problems. M.Gutt, Managing director of the I.M.F. himself gave his moral support, thanks to his presence in the Paris meetings when those problems were being discussed, on August 12th, 19th and 20th.

The I.M.F. however has not the necessary technical possibilities, as it was established not to cope with situations as they actually exist in Europe, but only to restore temporarily desequilibria in balances of payments. An arrangement with the American Government, for example, to accept the I.M.F. as the temporary centralizing institute could give excellent results and solve the problem.

-Moreover-

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Moreover it cannot be denied that the U.S.Government has a direct interest in the solution of the intra-European payments problem as this will surely lead to reduce the amount of the aid necessary to help Europe to recovery.

5th question: What will happen if at the end of a four-year-transitional period equilibrium is not reached in Europe? Will American help not be necessary still afterwards?

The objection contained in this question cannot only be applied to the Benelux-proposal as such, but to any form of American aid. It is precisely to give a maximum chance to Europe to reach quick recovery that the Benelux-proposal was made, as there is no doubt that economic recovery possibilities will be much bigger if payments and trade can develop multilaterally, than if the present complicated bilateral system is to be maintained. It is a truth too that the longer the present system is maintained, the more it will be difficult in future to restore multilataralism and non-discrimination; if this opportunity is not grasped, no prospects of a rational and smooth international payments system will exist for long years.

6th question: Will not the transferability system require additional aid from the United States at least during the first years?

The example given above in this memorandum showed quite clearly that the Benelux-proposal, when put into work, does not require additional aid. It would naturally require some American commitments from the beginning and thus change more or less the spread of the aid over the transition years, but this would not be an additional aid on the whole. The contrary would be more true, partially owing to some dollar receipts from non participating countries, but more especially thanksto the fact that the more rapid increase in European production would favourably affect the balance of payments position of participating countries and thus reduce the dollar needs to a lower level as would be the case in the bilateral system.

7th question: Will not the transferability system encourage the production and trade in Europe that should be developed, through possible expansion in trade of non-essentials?

In the answer to previous question it was already exposed that the restored international competition would favour the most economic productions whatever be the country in which they are being produced. As regards more particularly the unessential products, it should at first be realized that a minimum of so-called non-essential products are part of the existing traditional European scales of consumption that cannot be reduced without reducing at the same time the standards of living.

Unsound development of the production of unnecessaries however, and its tendency to take even the place of the real essentials, is largely due to the insufficient basic raw materials as well as to the existence of excessive purchasing power or to maldistribution. As a matter of fact recent experience has shown that the present bilateral arrangements do not tend to stop the abnormal production of unnecessaries. If a better intra-European payments regime is put into work together with

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increased availabilities of raw materials there is no doubt that the extra-production effort will flow into the right direction, i.e. the production and exchange of more essential goods.

8th question: The mechanism may function quite well but is not there an uncertain element that may stop the functions of the whole mechanism, viz the evolution of the price level.

Such an objection cannot specifically be adressed to the transferability-proposal as such, but applies to all forms of aid fixed in a certain amount of dollars of other currencies. It is not our task to suggest in which form an amount should be fixed, as the Committee of European Cooperation did not suggest itself anything in this line, but it would surely be possible to find a solution in fixing an amount that would, in some way or another, be in accordance with price levels. It may be added that for the American economy an aid fixed in such a way would be more constant and also the only bearable form in a period of downward prices.

9th question: Did not some European countries declare that, owing to their own needs, they cannot afford to utilise part of their aid in dollars to finance inter-European trade?

Some countries may have had some fears that part of the aid allocated to them would be used to finance other countries deficits, but such fears may have been based on a misunderstanding of the proposed system. If, as was suggested in previous pages, every country could get at its disposal a quantity of dollars equal to its overall deficit, financing through member countries of other European countries'deficits would be out of question in this case. Every country would get at the same time the external purchasing power to meet all its deficits through using dollars as a general means of payment above the limits of the credit lines.

CONCLUSION

In the present memorandum a picture was drawn of what would happen if dollar aid was given to Europe in such a way as to use it at the same time for intra-European payments when credit lines are wholly exhausted and as means of buying the allocated goods and services.

The suggested regime, that must lead finally to the liquidation of the present bilateralism in external payments, is a necessary and preliminary step towards the suppression of exchange controle. The adoption of the scheme would in this way tend to reach more rapidly the aims fixed in the Bretton Woods Agreements.

Different questions and objections that have been raised against the proposed system have been analysed and answered. It should be added that the proposed scheme rests on fewer assumptions than any other system and that it will prove to be of considerable help to reach normal monetary exchange conditions. In fact the only assumption is, that, if there is in Europe a constant deficit in dollars, it is only

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through dollar-contributions that the gaps can be filled; it is suggested that those contributions will be made and spent in a well-defined form. This seems to be the only way of bringing European countries back to monetary autonomy and make their financial economy selfsustaining. These latter conditions should be reached and maintained as long as each country has its own currency system.

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