Balances arising from trade are normally cleared through the international exchanges, but at the present time many countries have an unfavourable over-all balance of payments on current account and, by reason of war, small reserves on which to draw. The majority of European countries are short of dollars and each country is pressing other countries of whose currencies it may have a surplus to convert that surplus into dollars. The fear of being called upon to convert currency arising from an adverse balance of trade has resulted in further limitations being placed on the demand for goods from other countries. This limitation of demand seriously affects production. Exchange difficulties of the type I have mentioned are not by any means limited to Europe, but are merely more marked there because of the already serious economic situation on which they are superimposed.

The exchange problem reached a most serious stage when the United Kingdom was forced in August, 1947, to suspend convertibility of sterling into dollars. Up to that time other countries' holdings of convertible sterling had been kept at the lowest possible level by mutual agreements and by exercising governmental influence on the flow of trade. Despite these arrangements the ability to convert into dollars or other currencies any net sterling earned in the course of trade led to such an alarming drain on Britain's own reserves of dollars that, failing the suspension of convertibility, the reserves would have been exhausted in about six months.

Since the suspension of sterling convertibility, the system of bilateral exchange and trade agreements which was already fairly well developed between European countries has been greatly extended. The object of these bilateral exchange agreements is generally to provide that both parties will agree to hold the currency of the other up to certain limits without requiring conversion. Until the favourable balance of one party to the transaction reaches the stipulated figure trade can proceed freely between the contracting countries, and in this way a reasonable freeing of channels of trade has been achieved, to the advantage of all countries. This system of bilateral agreements is regarded as a stage in progress towards multilateral world trade.

European Recovery Programme

The next stage—a stage of regional multilateralism—is just commencing. The sixteen nations of Western Europe who are to benefit under the European Recovery Programme, popularly known as E.R.P. or Marshall Aid, are taking active steps to ensure the removal of barriers to trade between them and achieve orderly economic development. Recognizing the urgent need of these countries for outside assistance, the United States is to finance under the programme the supply of commodities essential to their economic recovery.