

Paris, 16th December, 1949

Trade and Finance  
Directorate

TF/DI - 356

TRADE AND PAYMENTS ARRANGEMENTS

The following draft working paper on the intra-European currency transferability and liberalisation of trade was submitted by the E.C.A. to the heads of Delegations on 10th December, 1949.

I. Objectives

1. The participating countries should set into operation before the end of the current programme year 1949-50 a system of full intra-European currency transferability providing freedom of intra-European payments on current account, the rapid elimination of quantitative trade restrictions, and the maximum possible freedom of invisible transactions. The system should be so designed as to foster the creation and maintenance of intra-European payments equilibrium. While some volume of E.C.A. dollars in declining amounts may be utilised in the system during the remainder of the E.R.P. period, provision should be made for a gradual and orderly transition to a system ensuring the maintenance of free intra-European payments and unrestricted trade after E.C.A. aid is no longer available.

2. Full transferability means :

A. International arrangements whereby means of payment will be available to central banks to settle current transactions among the participating countries, subject to provisions for partial dollar settlements and other arrangements outlined in Paragraphs II - 6 and 7 below, the purpose of which is to induce action necessary for the adjustment of overall debtor and creditor positions.

B. The guarantee by participating countries to their nationals of automatic access to the currencies of other countries for settlement of current account transactions.

3. Achievement of full transferability for current account transactions should eliminate the need among the members for bilateral trade restrictions, all of which should be removed upon the coming into effect of the system of transferability. Remaining quantitative restrictions on trade should be multilateral in character, should be rapidly reduced, and by the end of 1950 should be substantially eliminated. Any other restrictions on current account payments remaining during the E.R.P. period should likewise be progressively reduced and should be on a multilateral basis applied equally to all participating countries.
4. The liberalisation of capital transactions should for the time being be left to the initiative of the various participating countries, acting either individually or in groups.
5. The area of full transferability should be as wide as possible and should include all of the sterling area as well as virtually all participating countries. Special arrangements may be necessary for one or two countries in extreme debtor positions for exceptional reasons.
6. Adoption of a system of currency transferability should obviate the necessity for bilateral payments agreements among the members insofar as the restrictions on current account transactions are concerned.
7. Arrangements of the kind described below which would be appropriate for all or most of the participating countries and the sterling area are not, of course, inconsistent with closer associations among smaller groups of participating countries which would go much further toward the objective of economic integration. In fact, such developments would mutually strengthen each other.

## II. Principles of Operation

1. A clearing union or its equivalent should be established among the participating countries.
2. A common unit of account should be established for reckoning surplus and deficit positions, making transfers among central banks, and making periodic settlements between the clearing union and the member countries.
3. A local currency quota should be established for each member related to the total volume of its current account transactions with the group as a whole. Quotas would be subject to periodic recalculation (perhaps annually) on the basis of moving averages of

the actual volume of current account transactions. The local currency quotas would provide the basis for determining the proportions of the positive balances accumulated by each member in the clearing union, or the overdrafts upon it which do not require settlement and those to be settled in gold and dollars, as explained below.

4. E.C.A. dollars may be used in connection with the operations of the clearing union for the following purposes (procedurally, this may involve simply the assignment of E.C.A. aid to member countries by the clearing union):

A. Allocation prior to each accounting period to cover a part of the estimated structural deficits and surpluses of particular countries in their trade with one another (see Paragraph 7 below). The amounts would be determined by the E.C.A. in accordance with standards and procedures to be established. E.C.A. dollar contributions for this purpose would, of course, taper off during the remainder of the E.R.P. period.

B. Expenditure by the clearing union to cover the probable net dollar outgo from the system. Such a net outgo would result from the settlement by debtors in gold or dollars of a smaller proportion of their deficits than the proportion of surpluses paid to creditors in gold or dollars by the clearing union (see Paragraph 6 below).

C. The making of temporary advances by the clearing union in the course of its administrative operations in order to assist a member country during the period when national policies are being adjusted so as to restore equilibrium (see Paragraph 8 below).

5. The system should provide automatic and administrative mechanisms of adjustment to control deficits and surpluses and to induce both debtors and creditors to move toward equilibrium in overall payments. The principal automatic mechanism would be an appropriate set of relationships between obligations to provide credits and obligations to make settlements in gold or dollars at successive stages in the overall surplus or deficit position of any member with the clearing union. The principal administrative mechanism would be provision for continuous consultation and mutual review of overall positions and national policies related thereto. Such review would be coupled with opportunity to grant or withhold assistance beyond (or relief

from) the automatic provisions for varying periods of time and under appropriate conditions as to the adjustment of national policies in order to restore equilibrium.

6. Automatic Operations :

A. A percentage (x) of each country's quota would constitute a liberal multilateralised credit margin to cover normal payments swings. A positive balance or an overdraft falling within this margin would not require settlement.

B. A net debtor accumulating an overdraft greater than (x) but less than (y) percent of its quota would receive additional credit and would have to make settlement in gold or dollars in the proportions of P and Q. A net creditor accumulating a positive balance within the corresponding range would receive gold or dollars and would have to advance credit in the proportions of R and S. Within this range, Q (the proportion of deficits required to be settled in gold with the clearing union) might be considerably lower than R (the proportion of surpluses paid in gold by the clearing union).

C. For successive percentages of the basic quotas beyond (y), increasing proportions of deficits would be settled in gold or dollars and decreasing proportions would be received as additional credits. In the case of surpluses beyond the corresponding percentage, increasing proportions would be advanced as additional credits and decreasing proportions received as gold or dollar settlements.

D. In the course of the balance of the balance of the E.R.P. period, the percentage of settlements required to be made in gold or dollars by debtors might be gradually increased to cut down the net loss of dollars from the system. At least throughout the E.R.P. period, however, there should continue to be a range of surpluses and deficits defined in terms of each country's quota within which creditors would receive and debtors would make less than 100 percent settlements in gold.

7. Allocations of E.C.A. dollars to cover structural deficits and surpluses would be handled as follows :

A. To cover an expected structural deficit, the debtor country would be relieved of the obligation of making any settlement in gold or dollars of an overdraft which exceeded its swing margin by no more than the sum allocated for this purpose in advance. E.C.A. dollars would be allotted to the clearing union to cover the actual liability incurred in this way.

B. To cover an expected structural surplus, the creditor country would be assured of settlement 100 percent in gold, dollars, or E.C.A. aid, of any accumulated balance which exceeded its swing margin by no more than the sum allocated for this purpose in advance. E.C.A. dollars would be allocated to the clearing union and assigned by it to the creditor country to make such settlements.

C. There would be no direct connection between the magnitude of the structural deficits and that of the structural surpluses recognised in advance, nor would any particular structural deficit be tied to any particular structural surplus. Nevertheless, most of the E.C.A. funds paid or assigned to creditors to settle balances representing structural surpluses would also cover the liability assumed by the clearing union under "A" above.

#### 8. Administrative Adjustments

A. The system should provide for continuing review and consultation on the actual position of each member and the national policies affecting the payments balance, and should provide for recommendations on possible means of restoring equilibrium.

B. When a member's deficit or surplus position passes beyond some specified percentage (z) of its quota, its position should be specially reviewed. It should be made possible within limits for the clearing union to provide, for appropriate time periods, facilities (perhaps in the form of loans) beyond those established under the automatic operations, on condition that specified remedial action be taken by the country in the form either of modifications of internal economic policies or of exchange rate adjustments, or both. During such limited periods, when the specified remedial measures are taking effect, countries in extreme debtor positions might be authorised to protect their reserves through temporary, multilaterally applied restrictions affecting current payments.

9. It should be a basic principle that enjoyment by any member of the benefits of full transferability and freedom from quantitative restrictions is contingent upon continued non-use of such restrictions by the member country in question. When any member country's credit or deficit position becomes so extreme that it threatens the maintenance of free transferability of currencies and of freedom from quantitative restrictions, that member should be expected to withdraw from the

clearing union, at least temporarily. For the period of its withdrawal, the remaining members would be under no obligation to avoid quantitative restrictions on trade with that country or to maintain the free transferability of their currencies into the currency of the country which had withdrawn.

### III. Organisation

1. Operation of the clearing union along the lines previously described will require continuous guidance by a body of the highest competence. It is suggested that this central guidance be provided by a supervisory board acting within the framework of the O.E.E.C., consisting of permanent representatives of the principal participating countries and rotating representatives of other participating countries. Decisions should not require unanimity.
2. Participating countries should report to the board periodically all relevant information on those aspects of their economic positions and policies affecting their intra-European payments. In addition, the board should be empowered to call for special reports at any time that the accounts of the clearing union indicate a trend toward serious imbalance.
3. During the E.R.P. period the supervisory board should include a representative of the E.C.A. E.C.A. funds would be used in connection with the currency transferability system with the concurrence of the E.C.A. representative.

December 9th, 1949.