clear its credit of $4,000 when the process was reversed and an English importer bought goods from an American. The English importer would pay his £1,000 through his bank into the Bank of England, which would then credit the United States with £1,000. These two amounts would then cancel out (Contra Account). This is a simple case of bilateral clearing.

In order to make it multilateral, all that would be necessary would be to have a common meeting place where the Central Banks of all nations would have their representatives. This would in no sense be a World Bank. It would then be possible, e.g., for the Bank of England to ring up its representative at this Central Clearing House and instruct him to go on to the floor of the house and try to exchange a claim on one country for a claim on another. There would be no question of buying and selling as the exchange rates would be fixed. Through this mechanism the claims held on one country could be exchanged for claims on another so making the exchanges three or four cornered (Multilateral).

The essential feature of this scheme is that nations would recognize that exports could only be paid for by imports: that it was their duty and obligation to maintain their own external payments with the world in balance. To give effect to this concept it would be agreed amongst the nations that if they did not clear their claims on other nations within a period of years, e.g., seven years, that claim would automatically lapse under a Statute of Limitations. For example, if the United States ran a surplus at the present rate of £2,000,000,000 per annum for, e.g., seven years, she would have £14,000,000,000 outstanding credits. At the end of seven years from now, credits created this year would have been in existence, uncleared, for seven years and would therefore lapse, reducing the American holding to £12,000,000,000. Of course if they did another £2,000,000,000 excess in that eighth year, the total would be back to £14,000,000,000, but at the end of the eighth year the £2,000,000,000 of credit created seven years before would also lapse, again bringing the total down to £12,000,000,000. In other words, the United States would have all the insurance against disasters necessitating abnormal imports which she could possibly need. At the same time, these credits would not constitute a threat to the exchange rate of any other nation, nor could they be used to buy up other nations' existing fixed assets.

Let us now consider the position of a nation which deliberately imported far beyond its capacity to pay with acceptable goods to a willing buyer. This situation would very speedily become apparent to the other Central Banks. They would find that the outstanding credits which they held on that nation were growing. They would also find that when they went into the Central Clearing and tried to exchange those claims for claims on other nations, no other nation would be anxious to acquire them. They too would already have outstanding surpluses with that nation. In short, that nation's credit would become bad, and if it persisted in its misbehaviour the other nations would ration it. This they could do quite simply by informing their exporters that next quarter they would only re-discount Bills drawn on the nationals of that country to a total value of, e.g., £20,000,000, instead of, e.g., £25,000,000, and that before agreeing to ship goods, an exporter had better ascertain whether the delinquent nation had already used its quota for that quarter. If so, they would have to wait until the following quarter before shipping their goods.

The technique of the last century, under which loss of gold was regarded as a barometer indicating that a nation was getting out of balance was extremely primitive. The loss of gold might, of course, be due to large capital movements and have no relationship to the trade balance.

It will be noticed that under the scheme here advocated, the Central Bank could know, at any moment, exactly how it stood with the world as a