The Chamber felt therefore that in seeking a new system which would work in the modern world it was necessary to return to first principles.

In the early days of international trade the Merchant sent out his ship filled with beads, axes and other merchandise which he believed would be rare and acceptable in the country with which he proposed trading, and exchanged these for ivory, spices and other commodities which were rare and acceptable in his own country: trade was a matter of simple barter. The introduction of money was designed to facilitate the exchange of goods of one country for the goods of another since it enabled a three-cornered deal to be done. It enabled our Merchant to sell his goods in the first country, receiving their money in exchange, then to buy goods in a second country, paying for them with claims on the goods of the first country, i.e., the money of that country. The bargain was not complete until the second country utilized that money to buy the goods of the first country. It will be seen that implicit in the transaction was the conception of an exchange of goods and services between countries to their mutual advantage: that the giving of money was merely a convenient halfway house towards the final completion of the transaction.

This same conception is to be found in operation internally in every country. If a man in Canada owes another a dollar, he has discharged his debt when he gives him a dollar. As a piece of paper a dollar is worth nothing. Its ultimate value is that, being legal tender in Canada, it will exchange for Canadian goods and services. Whether the creditor does in fact exchange his dollar for Canadian goods or not is no concern of the debtor. He is not called upon to see that his creditor does, in fact, exercise his right to buy Canadian goods with that dollar. It is recognized that you can take a horse to the water but you cannot make it drink; and in no country is one citizen expected to remain in debt until his creditor spends the dollar he has given him. Here then is the fundamental weakness of the Nineteenth Century System of International Payments.

Whilst in theory every nation now agrees that it cannot be paid for its exports unless it is prepared to accept equivalent imports, in fact, no nation has hitherto faced the logical corollary. This corollary is simple, namely, that should the exporting nation be unwilling to exercise its claim to the goods of the importing nations, it is illogical that the importing nations should be treated as though they were defaulters, and subjected to all sorts of pains and penalties. The importing nations cannot, in fact, compel the exporting nation against its will to accept imports, nor should they in equity be required to do so. To the extent that they are able to force their goods into a country which is an unwilling buyer they must expect to make a very bad bargain. And to the extent that they are prevented from making a sale, even on unfavourable terms, they find themselves with an unpayable debt—unpayable not because they are unable or unwilling to pay but because their creditor refuses to take payment. A transaction which they had envisaged as a mutually advantageous exchange of goods and services with a neighbour, when they made their purchase, is frustrated half way through by the unwillingness of that neighbour to accept their goods and services in exchange (or those of a third country in the case of multilateral trade); instead they find themselves in the position of insolvent debtors. If they have a freely convertible currency, it can be sold for what it will fetch, and so be knocked down on the foreign exchange market. If, through exchange control, they protect themselves against this injury, they may find that the money which they handed over in payment for their imports, instead of being used to buy their exports, may be used to buy their existing fixed assets, or in order to prevent the money which should have gone to buy their exports being used