

5. The general effect of the scheme is that countries which are creditors in Europe are required to make a free grant in their own currency in the shape of a contribution towards the European Payments Scheme, and only on condition that they do this will they receive the full amount of dollar aid allocated to them for the purpose of covering their Western Hemisphere deficit. Those countries, on the other hand, which are debtors in Europe (whose "overall deficit" is therefore larger than their Western Hemisphere deficit) will receive, in addition to the dollar aid allocated to them to cover their Western Hemisphere deficit, indirect aid in the shape of drawing rights upon their European creditors.

6. Each participating country, therefore, besides receiving a certain sum in dollars, undertakes to make grants in its own currency to other participating countries with whom it is in a creditor position, and receives in its turn grants from those participating countries which are in a creditor position towards it. For the purposes of the European Payments Scheme, participating countries will thus fall into three classes:—

- (i) Net Creditors—which will make grants exceeding the total of the grants received by them from other participating countries.
- (ii) Net Debtors—for whom the grants received will exceed the grants made, and
- (iii) Intermediate countries—which received on balance no more than they themselves contribute.

7. As indicated in paragraph 3, the major objective of the scheme is to facilitate the development of trade in Europe along lines which will lead to restoration of the external equilibrium of the participating countries and so facilitate orderly progress towards multilateral trading. With the assistance of the grants provided under the Scheme, participating countries will be enabled to take part in a scheme of multilateral compensation to be operated by the Bank for International Settlements on the lines already followed in what is known as the Basle Compensation Scheme. The general effect of these arrangements, which will, it is hoped, come into force on 1st October, 1948, will be to enable countries to offset a surplus with one participating country against a deficit with another, instead of seeking to achieve an exact balance in their payments with each country. This becomes possible to a greater degree under the European Payments Scheme because the granting of assistance by the creditors to the debtors should go some way to remove the existing disparity between what are now known as "hard" and "soft" currencies.

### III.—Measures to Bring European Trade into Balance

8. Action under the second main head referred to in paragraph 3 above has been taken by drawing up a set of Trade Rules. These Rules are designed to bring the participating countries more closely into equilibrium in their accounts with one another. As the major creditor in Europe we felt entitled to ask that such rules should be accepted as a condition for our participation in the European Payments Scheme. The debtor countries have made no difficulty about this, but have seen in the formulation of Trade Rules an opportunity to get the necessary assurances, for their part, that they should be able to use the financial resources to be made available to them under the Payments Scheme to good advantage in the form of goods and services of the kind they need for their recovery programmes.

9. For purposes of restoring equilibrium in Europe the rules revolve round the essential principles that debtor countries must be economical in their external expenditure and do their best to increase their exports, while creditor countries must be as liberal as they reasonably can in their import policy and try to help the debtors when it comes to exporting goods that the latter do not require for their economic recovery. The broad result should be that pronounced creditors and debtors should get nearer to a balance, while countries that are already in approximate equilibrium would contribute to this balance by buying more from the debtor countries and selling more to the creditors.

10. As regards the question of assuring essential supplies to debtor countries, we have first of all got it clearly prescribed in the rules that it is the duty of every country to do its best to maintain and increase essential supplies to the others so far as it can afford to do so without prejudice to its own recovery programme. Then, in order to reconcile debtor countries to relying on European sources of supply instead of standing out for a bigger share of direct dollar aid