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The Future of Sterling — 13 pages

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The Future of Sterling

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A. C. L. Day has written his provocative book on The Future of Sterling to warn the United Kingdom against making the same mistake in international financial policy in 1954 that it made in 1925 1/. He is impressed with the "similarities between the position then, after the First World War, and the position now, after the Second" and fears that "exactly the same errors are being repeated this time". The principal error which he sees is the determination of the British authorities to restore the position of London as an international financial center and that of sterling as a world currency.

The substantial progress which the United Kingdom has made since 1952 in strengthening sterling's international standing makes particularly timely this questioning of the drift of current British policy. Day's argument falls into two main divisions. In the first place, he seeks to prove that the rehabilitation of sterling as a world currency would place upon a weakened Britain, which is no longer able to assume the position of "pivot of the world's payments system", "an excessively large part of the burden of world payments disequilibrium". He supports this thesis with both historical and analytical material. He then proceeds, as his second topic, to outline, somewhat sketchily, a payments system to be substituted for general convertibility of European currencies.

The sterling system and convertibility of the pound

Day introduces his critique of current British policy by expressing his "doubt about the continued justification of the Sterling Area as an economic institution of fundamental importance". To him the sterling system is a defensive mechanism, "a product of the dollar problem". Day groups three main arguments to justify the Sterling Area under the headings of Convenience, Stability, and Discrimination. The advantages of Convenience are less binding than formerly. In the first place, while the sterling system is convenient as a substitute for rigid bilateralism, the risks which the United Kingdom must assume as a financial center have grown substantially since 1939. Secondly, although sterling countries have found it convenient to tie their domestic currencies to the pound, this fixed relationship has become progressively less important; with developing economies, the sterling countries are following in the steps of Europe in ending a fixed link between the domestic and international monetary structure. Finally, the advantages of having a system of fixed exchange rates were more pronounced, in Day's view, under the economic conditions prevailing during the 1930's than they have been since 1945; in fact, the author questions whether the outer sterling countries were well advised to follow the pound in the September 1949 devaluation.

1/ A. C. L. Day, The Future of Sterling, Oxford, 1954.

So far as Stability is concerned, Day concludes that the Sterling Area is "not likely to be as satisfactory an instrument for introducing a higher degree of stability into the economies of its members as it was in the thirties". Instead, Stability under existing conditions requires an area broader than the present Sterling Area "covering the largest possible number of countries which regard protection against economic fluctuation as an important aim of policy." Finally, under the heading of Discrimination, Day finds that the usefulness of the sterling system as a discriminatory devise will be materially reduced as soon as the pound becomes convertible.

If Day has doubts about the economic justification of the sterling area, he is even more critical of an extension of convertibility. Such a program would have to confer on residents of the non-sterling, non-dollar world additional rights to choose dollars or other convertible currencies for any sterling earnings; such liberalization would result in increased pressure within the Sterling Area to reduce discrimination against dollar goods. Foreign countries then would "be able to buy as many dollar goods as they liked as long as they had the sterling available", and "instead of selling goods to Europe, Britain would find herself selling dollars". Furthermore, since Britain could not confine convertibility to current commercial transactions, it would "find itself carrying a heavy burden of services to foreign wealth-owners". In his view, "the effect of convertibility would be to make Britain responsible for providing Europe with some of its dollar needs, both for current and capital purposes". Day suggests that convertibility could mean that the "position may easily arise where Britain has removed the dollar problem of practically all other countries but still has one of her own". He sees little promise in reducing the amount of restriction and discrimination in the world's payments system by means "which can involve the country which is most responsible for introducing liberalization, namely Britain, in uncertain and probably large costs, for returns that predominatly accrue to other countries"; in his view, such a system "seems seriously liable to collapse".

He reinforces his criticism of extending sterling convertibility by maintaining that the benefits of international banking for the United Kingdom are less, and the costs greater, than are commonly supposed. He warns that "it would be unwise to repeat the mistakes of 1925 by failing to realize that Britain's wealth depends primarily on the competitive strength of her manufacturing industry, and only secondarily on the profits of international banking and merchanting". He wants to avoid the situation where, because finance and manufacturing are intermingled, "difficulties in the trading position . . . give rise to loss of confidence in its position as a banker, and, correspondingly, loss of confidence in it as a banker does harm to its trade. It is necessary to be very rich and powerful and to be a subject of almost absolute trust before it is really safe to combine banking and other business".

The United Kingdom was able during the 1930's to perform its traditional role as holder of foreign currency reserves by adopting the safe practice of keeping full gold backing for quick liabilities; but "the business is a singularly unprofitable one" since foreign deposits earned income in the London market and Britain earned no income on its gold holdings. Consequently, Day thinks that it is in Britain's interest to encourage the traditional financing of goods in shipment and similar self-liquidating transactions; but "to encourage overseas residents to hold currency reserves in sterling, except in so far as it is absolutely necessary to persuade them to use these English merchant banking facilities, seems to be either pointless or positively harmful".

A non-dollar Payments Union

Day's alternative payments system seeks to assure that each country "should cure lack of balance in his foreign accounts reasonably quickly (whether this unbalance is one that is 'favorable' or 'unfavorable')". The author's payments scheme embodies "an extension of the Keynes Clearing Union idea and of the European Payments Union but in which the Dollar Area would be less fully integrated than in the Keynes Plan or the Atlantic Payments Union scheme, although more than in the present European Payments Union".

Under the author's proposal, all non-dollar countries would be brought into the Europeans Payments Union and each participant would strive for multilateral balance (within the Union) in its payments to other member countries and for balance with non-member countries as a group including the Dollar Area. Member countries would settle through the Union partly in gold and partly in credit just as they do in the E.P.U.; payments between member countries and the Dollar Area would also be settled through the Union. When payments of the Union as a whole with the Dollar Area are in balance, member countries could settle through the Union their deficits with the Dollar Area in just the same way they settle their European deficits — partly in gold and partly in credit, depending on the member's cumulative position. In this situation, member countries would have no incentive to discriminate against payments to the Dollar Area. When the Union had a clearing deficit with the Dollar Area, however, member countries would have to settle with the Union a larger proportion of their Dollar Area deficit in gold and would thus have an incentive to discriminate against dollar goods. Similarly, reduction in the gold proportion required to make Dollar Area settlements would introduce incentives to reduce discrimination as the dollar difficulties of the non-dollar world commenced to ease.

Day advances two reasons why any progress toward liberalization should be on a step-by-step basis: (a) the costs that too rapid abandonment of discrimination would (in his view) involve would be avoided by a more cautious approach; and (b) at any time, liberalization could be reversed. He notes in particular that "a recession in America could be met by immediate joint action, by making payments and receipts to and from America 100 per cent in gold, which would immediately induce the necessaary reactions on the part of each member country as a matter of pure self-interest".

The only positive cooperation required on the part of the United States -- which to the author is one of the attractions of the scheme -- would be our abandoning the Gold Standard. He suggests this action to ensure that members' payments with the Dollar Area be channeled through the Union. The United States would no longer use gold in its transactions with the outside world; payments between Americans and foreigners would have to be made in dollars. The use of gold would be limited to settlements of all net positions between the United States and the Union. The Union in turn would accept from its members payments in gold or in credit but not dollars. Thus, no member could acquire assets in its trade with the United States which could be accepted as payment by the Union nor could it use gold acquired from the Union to make payments to non-member countries. It is so necessary that members be forced to channel their payments to the Dollar Area through the Union that Day suggests -- as a last resort -- that the Union could use the sanction of depriving chronic evaders of membership.

Under the scheme, the United States would have an incentive to eliminate any balance-of-payments surplus; the alternative would be to acquiesce in general discrimination against its goods. The need for pressures to force creditors to eliminate surpluses, which will be recognized as an integral part of official British thinking since the days of the Keynes plan, found expression in the Scarce Currencies provisions of the Fund's Articles of Agreement. For these provisions in Article VII to become operative, however, a formal declaration must be made by the vote of the Fund's directors; and thus needs in practice the assent of the U. S. director; the novelty of Day's scheme is to introduce an automatic declaration of dollar scarcity as soon as the Union as a whole begins to run a deficit in its dollar payments. This emphasis on dollar difficulties accounts for another difference between the Fund and Day's scheme. While the Fund's Article is predicated on the possibility that any currency might become scarce, in Day's proposal the currencies of the dollar bloc must always be treated quite differently from those of all other countries.

A "dilemma in British policy"

The Dollar Area currencies are set apart in the author's payments scheme because they are set apart in his thinking. Day takes for granted an intractable dollar problem and argues that, because of the uncertainty about its future, there exists a "basic dilemma in British policy". If there is a permanent dollar problem, then even if convertibility were achieved, it could not be maintained. Yet, if the "dollar problem can be killed, the center of gravity of the world financial system will tend to move to New York". Such a shift is considered to be adverse to Britain's interests; but the author does not tell us exactly how his country would be adversely affected.

The reader becomes even more uncomfortable about Day's treatment of the dollar problem when, later in the book, he reads that "one of the main reasons why London is still an admirable market for many commodities is simply the fact that sterling is a relatively soft currency and the dollar is a relatively hard one", and that "merchanting trade might well be lost to New York if currencies became freely convertible". Reasons for believing that London's merchanting activities benefit from a relatively soft pound are not presented by the author; yet it is not an obvious proposition. On the contrary, during the period when premium prices prevailed in raw material supplies from soft-currency areas, London markets in such materials were at a disadvantage. Evidence contrary to Day's hypothesis is suggested in developments over the past two years during which the pound has strengthened continuously: for the British authorities have taken advantage of these favorable conditions to widen facilities for commodity trading and have granted foreigners greater freedom to purchase there.

A shift of the "center of gravity of the world financial system" to New York would have direct costs for the city of London, as Day suggests, but there would also be benefits. If that ambiguous phrase can be interpreted to mean the development of a functioning market in New York where foreigners could finance foreign trade transactions as readily as they have been able to do in London, provided only that they are prepared to pay prevailing rates, the world's payments system would be strengthened in at least two ways by the development of such a market. In the first place, a revolving pool of dollars, available to foreigners at low rates, would be created. Secondly, the payments mechanism would have added flexibility. Since fluctuations in merchandise trade over the short-run cannot be avoided, capital movements in some form are indispensable as a temporary offset and balancing factor; official reserves must provide this cushion to the extent that private funds are not forthcoming.

The United Kingdom would itself benefit from the additional short-term private capital movements of an equilibrating character made possible through the creation of such a money market in New York. For example, under present circumstances, a rise in Bank rate produces an inflow into the sterling area's reserves in that: (a) foreign borrowing in the London market is reduced and (b) non-sterling investment is increased in response to improved London yields. Were there a functioning New York market, however, additional sources of equilibrating capital movements would include heavier sterling area borrowing at the more favorable New York rates and transfer of British (and European) capital holdings out of New York.

Alleged benefits of discrimination

The reader is also troubled by Day's treatment of non-discrimination. For example, he suggests that discrimination is

> a way in which a country can permanently maintain its real income at a higher level in relation to the incomes of other countries than would be the case under non-discrimination. 1/

and that:

> The dollar problem is, then, a way in which the non-dollar world can make itself richer at the expense of the dollar world; by improving its terms of trade, the non-dollar world 'exploits' America. 2/

These observations are based upon the (correct) proposition that there existed, even in the worst post-war years, some pattern of exchange rates which would bring into balance the payments between dollar and non-dollar countries. The existence of discrimination

> simply indicates that Governments have not been willing to tolerate the costs of a non-discriminatory system, in terms of the effects of extremely adverse terms of trade on real incomes and the consequent aggravation of internal inflationary pressure. 3/

1/ Ibid, p. 96.
2/ Ibid, p. 97.
3/ Ibid, p. 97. It may be noted, ~~that Day~~'s assumption that the exchange rate determines the terms of trade, i.e. that the terms of trade will necessarily move with changes in the exchange rate, can hardly be defended without qualification. See, for example, Randall Hinshaw, "Currency Appreciation As An Anti-Inflationary Device", in Quarterly Journal of Economics, November 1951, pp. 456-458.

In passing, it may be noted that Day does not seem to be altogether correct on this point: the reason why countries have maintained discrimination during the post-war period probably has been due less to a concern about the terms of trade than to an unwillingness to allow price considerations to determine the composition of imports.

Is it not unfortunate for the economist to instruct the layman that discrimination enables him to maintain a higher real standard of living when, on the contrary, such a policy only allows him to continue a comfortable but relatively inefficient way of arranging his daily work? Actually, Day's indiscriminate defense of discrimination runs counter to the post-war experience of the United Kingdom itself, since the British authorities have already proceeded quite a distance along the route of non-discrimination in their basic imports. In February 1954, for example, Chancellor Butler was able to state that the United Kingdom had "removed discrimination in this realm of purchase only on basic foodstuffs and raw materials" and added specifically:

> It is crucial to our competitive power, that in the case of foodstuffs and raw materials, if we can buy cheaper in this market, then we should do so in the interest of the standard of living of our people and of the raw materials we need. 1/

Further, the British authorities also announced on June 22, 1954 that

> more favorable consideration will be given to applicants for import licenses whenever the Board of Trade is satisfied . . . that a dollar machine will reduce costs and that no alternative non-dollar machine offering roughly similar advantages is available. 2/

As a fact of practical politics, the British authorities have less support in applying the doctrine of non-discrimination to products other than basic materials or special capital goods. Although they do affect Britain's standard of living to the extent that cheaper goods cannot be imported, the remaining wide range of manufactured goods and non-basic primary products do not as directly affect Britain's costs of production. However, import discrimination should be recognized as a protective device which enables higher-cost plants in some parts of the world (not necessarily in the Sterling Area) to continue in business because lower-cost producers in the Dollar Area are kept out of the market. Such a policy of protection does facilitate the maintenance of established patterns of resource allocation, but it is difficult to maintain that general living standards are thereby raised.

1/ United Kingdom Parliamentary Debates (Hansard) February 4, 1954, col. 588.
2/ Journal of Commerce, June 23, 1954, page 26.

The burden of convertibility

Day's principal concern is not with any alleged benefits of discrimination, however, but with the heavy burden which convertibility would impose upon the United Kingdom. In his view, Britain's dollar difficulties would inevitably be aggravated since foreigners would use their sterling to buy Dollar Area products and to send capital to the United States. He is surely correct when he maintains that, if convertibility is to have meaning, foreigners will be allowed to use their sterling as they wish either on capital or merchandise account; where Day moves to controversial ground is his certainty that "each European country would tend to shift from buying other European and Sterling goods to buying dollar goods" (147) and that convertibility would finance capital flight to America. (131)

Speaking generally, what foreigners choose to do with their sterling will depend primarily upon two factors: (a) the volume of sterling they obtain and (b) the competitiveness of sterling area exports. So long as foreign-held supplies of sterling exceed their demand for sterling merchandise and services, the pound will be under pressure, but difficulties will arise whether or not the pound is convertible; with an inconvertible pound, the emergence of discount sterling trading and commodity shunting on a substantial scale might well cause Britain to lose dollars and even — as occurred in 1949 — to devalue. On the other hand, the pound will tend to strengthen as foreigners find that their supplies of sterling are required to make payments to the sterling area.

Yet the volume of sterling they obtain is not determined by foreigners but results from the economic policies of the sterling countries. Foreigners can obtain pounds only through sales to the sterling area or through borrowing: the sterling countries themselves determine the volume of their purchases and the United Kingdom can influence the volume of foreign lending through direct intervention and through changes in the availability and cost of London credit. With the supply of sterling in foreign hands limited through an external payments surplus on current account and restrictive credit measures affecting the capital account, relaxation of restrictions on payments and trade has actually been accomplished by rising gold reserves and a strengthened pound.

Under the assumption that foreign-held sterling is limited in volume and sterling merchandise is competitive, it is difficult to accept the thesis that Europeans will use their current accruals for dollar goods or for capital flight. Where current sterling accruals were converted into dollars in spite of the lack of excess sterling holdings, the country concerned would soon find itself short of sterling to pay for its purchases from the Sterling Area.

Fortunately, the strength of transferable sterling since March 22, 1954, when the British withdrew a number of their exchange restrictions, suggests that Day's fear of a serious capital flight from Europe is inapplicable under current conditions. Under the new regulations, the European resident no longer runs counter to Britain's controls when he sells transferable sterling to another resident of a transferable-account country for dollars at either the official par or at free market prices since transferable sterling may be used for capital as well as current payments and foreign central banks are no longer requested to police the use of such sterling. Despite these relaxations, transferable sterling has remained in the free markets outside the United Kingdom at around $2.79 even though Europeans are now free to obtain dollars for their current sterling accruals through the foreign exchange market.

Since early 1952, the British authorities have been successful in maintaining the value of the pound; they have done so by depending not upon its inconvertibility but upon its scarcity and usefulness. They have demonstrated that the pound becomes strong when the sterling countries are able, through their own policies, to maintain a strong balance-of-payments position with the outside world. The burdens which Day thinks Britain would have to shoulder if the pound became convertible follow from his preoccupation with the general dollar problem and his failure to recognize that the policies of the sterling countries have a great deal to do with the strength or weakness of sterling in the exchange market. He does not seem to consider it possible for the British countries themselves to maintain a strong pound through their own efforts.

Prospects for a liberal payments system

Two coincident tendencies which have dominated recent developments in the world economy suggest that prospects for a liberal payments system are hardly as unfavorable at this time as they may have seemed at the time Day was writing his book. In the first place, the Sterling Area as a whole achieved a surplus in its balance of payments with the rest of the world and specifically with the Dollar Area during 1953. Secondly, there has been a marked movement toward balance in the accounts of the United States since 1952.

During 1953, the United Kingdom itself was able to achieve virtual balance in its gold and dollar position (if its gold purchases are deducted from its deficit on direct transactions), compared with large deficits during 1951 and 1952, as may be seen in Table I. There has been a striking improvement in Britain's own trade balance with the United States: exports in 1953, for example, were nearly 38 per cent above the 1950 volume. The Rest of the Sterling Area increased somewhat its sustained dollar surplus, largely reflecting lower purchases by the independent members and larger raw material sales by certain British colonies to this country. The United Kingdom also reported a surplus for the Sterling Area as a whole in dollar payments with the non-dollar, non-sterling world in 1953 compared with deficits in 1952 and 1951; the shift of the sterling countries from deficit to surplus in the European Payments Union is primarily responsible for the big swing in this category of payments.

Table I

Sterling Area: Analysis of Gold and Dollar Payments, 1951-1953

(In millions of dollars)

	1951	1952	1953 a/
I. United Kingdom:			
1. Imports (f.o.b.)	2,079	1,694	1,445
2. Exports	1,102	1,150	1,248
3. Trade balance	- 977	- 544	- 197
4. Service balance	- 242	- 277	- 99
5. Current balance	-1,219	- 821	- 296
6. Capital (net)	- 302	+ 2	+ 60
7. Total balance	-1,521	- 819	- 236
II. Rest of Sterling Area:			
1. Trade transactions	+ 365	- 40	+ 240
2. Other direct transactions	- 77	+ 146	- 25
3. Gold sales to U. K.	+ 218	+ 201	+ 221
4. Total balance	+ 506	+ 307	+ 436
III. Other dollar transfers:			
1. With E.P.U.	- 107	- 482	+ 50
2. With rest of world	- 60	+ 75	+ 128
3. Total transfers	- 167	- 407	+ 178
IV. Net gold and dollar balance	-1,182	- 919	+ 378
V. U. S. and Canadian aid	217	430	294
VI. Change in gold and dollar reserves	- 965	- 489	+ 672

a/ Preliminary

Source: United Kingdom Balance of Payments 1946 to 1953, Cmd. 9119.

Table II

United States Balance of Payments

(In billions of dollars)

Calendar Year	Private and non-military Government Expenditures: Current payments a/	Current receipts b/	Capital (net) and errors & omissions	Balance	Government military spending abroad c/	"Residual dollar gap"	Financed by: Government loans and grants d/	Changes in foreign gold and dollars e/
1946	- 7.2	14.7	- .4	7.1	- .5	6.6	- 4.9	+ 1.7
1947	- 8.6	19.7	- .5	10.6	- .5	10.1	- 6.2	+ 4.0
1948	- 10.2	16.5	- .1	6.2	- .8	5.4	- 4.9	+ .5
1949	- 9.6	15.8	+ .3	6.5	- .6	5.9	- 5.8	+ .1
1950	- 12.1	13.9	- .9	.9	- .6	.3	- 3.6	- 3.4
1951	- 14.3	18.8	- .1	4.4	- 1.2	3.2	- 3.1	0
1952	- 14.4	18.1	- .4	3.3	- 1.9	1.4	- 2.4	- 1.1
1953	- 14.7	17.1	f/	2.4	- 2.6	- .2	- 2.0	- 2.2

a/ Includes merchandise imports (including stockpile purchases), services and unilateral transfers other than aid.
b/ Includes merchandise exports and services. Excludes military exports of goods and services financed by grants under Mutual Security Program.
c/ Includes goods and services purchased by the armed forces for their own use abroad and for transfer to foreign countries under the military aid programs.
d/ Excludes grants for military supplies and services.
e/ Foreign purchases (-) of gold from United States (or sales +) and change in foreign dollar holdings (Federal Reserve data).
f/ Less than $50 million.

Source: Based on Department of Commerce data.

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The marked movement toward balance in the United States accounts, which has paralleled the over-all improvement in the Sterling Area's position, is recorded in the sharp drop in the United States export surplus within what is called the "private sector" in Table II, which is defined to include all transactions except government military spending abroad and loans and grants. 1/ This improvement is due to heavier U. S. payments to the world (mainly for merchandise imports and on freight and tourist account) and not due to a drastic slash in exports: between 1948 and 1953, for example, United States payments expanded by 47 per cent and our receipts from abroad by about 4 per cent.

The reduction during 1952 and the elimination during 1953 of what is called the "residual dollar gap" in Table II was due primarily to rising Government expenditures abroad, including off-shore procurement and spending out of troop pay. United States financial assistance also continued in the form of both loans and grants, but during 1953, for the first time in the post-war period, the growth in reserves actually slightly exceeded United States financial assistance. While government spending and financial assistance have provided an important component of the world's dollar supplies, the current trend toward balance would not necessarily be interrupted if some of this spending were curtailed. In the first place, under the grant-aid programs a heavy volume of pipeline supplies would be available to cushion even a drastic cut in appropriated funds. On the other hand, cuts in government spending would free capacity in the machinery and engineering industries of foreign countries where a sizeable portion of current expenditures is directed; these products continue to be in demand in world markets and other foreign outlets might be found for output released by a cut in United States requirements. In addition, it should be recognized that government expenditures ought not to be treated differently from other categories of external payments: while sudden changes in any type of receipts might upset a trend toward economic balance, the rest of the world ought to be able to take in their stride a gradual annual change in these payments just as it would have to adjust to fluctuations in other kinds of income. Finally, our government expenditures are important sources of dollars only for a handful of countries. Several of them have a sufficiently strong external position to absorb the shock of complete termination of these payments; other countries are in over-all payments difficulties despite these receipts and will in any case have to adjust their policies. Adjustment problems are serious only for a limited number of countries and they would not necessarily create dollar difficulties for the rest of the world.

Recent tendencies toward balance and stability in the world economy have been associated with more restrictive monetary policies within the sterling (and European) countries and with an impressive import performance by the United States. It is not necessary to assert that this trend will continue without interruption in order to point out that, for the first time

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1/ A full discussion of these developments will be found in "United States Balance of Payments In 1952-53", Federal Reserve Bulletin, October 1953, pages 1-9.

in the post-war period, the achievement of a more liberal world payments system seems to be a distinct possibility. Now that this progress has in fact been achieved, perhaps it is out of date to be as pessimistic about the prospects for a freer payments mechanism as is our author. Day himself might readily agree, at least in theory, that his proposed Payments Union is inferior to general currency convertibility as a payments mechanism to facilitate the economic integration of the Free World; perhaps he might even be prepared to concede that it would be unwise to take action which might disturb this marked trend toward freer payments arrangements, evident during the past 18 months, until the strength of recent tendencies toward economic balance has been more fully tested.

These favorable developments may lead us to reject Day's negative prognosis about the prospects for a liberal payments system; but they must not be allowed to obscure the uncertainties and difficulties which must be overcome if general currency convertibility is to be maintained within the Free World. As Day rightly points out:

> The serious costs of convertibility are the continuing ones and the ones which may arise in periods of difficulty after a successful establishment of convertibility. 1/

The difficulties faced by the United Kingdom in maintaining a convertible currency are particularly serious. In its export efforts, Britain is confronted with continuous competitive pressures from the Dollar Area and, increasingly, from certain other countries. In addition, it is uncertain whether the outer sterling countries can be counted on to maintained stability in their individual accounts in view of the loose nature of sterling area financial arrangements, the absence of incentives toward current balance within the sterling system, and the wide fluctuations which have marked the post-war period. The British authorities, in cooperation with those of the other sterling countries, will have made their major contribution to a stabler Free World economy if they demonstrate that they can cope with these dangers. Yet these difficulties can hardly be considered special burdens of convertibility, because the United Kingdom would still have to face them even if Day's proposal were accepted. Until the Sterling Area authorities have demonstrated that they can cope with them, it is difficult to agree with Day's major tenet that the prospects for maintaining a convertible pound can be held to depend primarily upon economic factors outside the responsibility of the sterling countries themselves.

1/ Day, op. cit., page 137.