reduction in the outlet for foreign goods in the United States after the adoption in 1930 of the Hawley-Smoot Tariff, by which nearly nine hundred duties were raised.

The connection between commercial policy and international capital movements became more pronounced during the financial crisis of 1931. The withdrawal of a portion of the large amounts of short-term capital invested in Central Europe, particularly in Germany, by various creditor countries, transferred by means of merchandise imports into the United Kingdom, where most goods could still be imported without hindrance and whence the transfer (for example, in the form of gold) did not meet with any difficulties, appeared to have been one of the principal causes of the depreciation of sterling, which was followed by the introduction in the United Kingdom of customs duties for various industrial products under the "Abnormal Importations Act" later in the year.

The contraction of British imports from industrial countries played an outstanding part in the events that followed, because it was by means of these imports that the transfer to the United Kingdom was effected of the bulk of the British income from abroad on account of the interest and dividends earned for services performed. With the smaller scope for such transfer, the financial position of various debtor countries deteriorated and several of them defaulted on their debts; in addition, a considerable scarcity of foreign currency occurred in various countries of Central Europe that had been accustomed to dispose of a large share of their exports in the United Kingdom or in other countries specializing in the British market, and had financed their purchases of primary products by their excess of exports in this trade.

The discriminatory treatment which before 1931 existed in international trade was limited by recognition of the fact that, in the long run, a country preventing its importers from buying in the cheapest market injured its own economy. Such considerations were to a large extent put aside after the financial crisis, when each country felt the economic strain to which it was exposed as a temporary disturbance originating abroad. The changes in prices were too rapid and too great to permit of a smooth adaptation of the domestic economy to the new competitive position, and the protection of that economy against breakdown appeared more important than the exchange of goods with foreign countries. The reinforcement of protective policies that followed had, in practice, always a discriminatory effect, as it chiefly affected trade with industrial or food-producing countries; but measures which were even in form discriminatory were also adopted on a scale that would have been unthinkable a few years earlier. Within a short time, a partially new technique for regulating merchandise trade as well as other international transactions developed. Its main instruments were, in creditor countries, quantitative restrictions of imports and, in debtor countries, exchange control; the latter, which was frequently combined with debt *moratoria*, gave rise to clearing for payments agreements and variable export subventions, and contributed to the tendency towards the balancing of bilateral transactions. All these measures are clearly discriminatory in substance, if not in form. In the case of clearing agreements, the discriminatory effect lies in the inducement they afford to the country whose balance in clearing is active to prevent the formation of frozen assets abroad by increasing imports from the partner, even if the additional imports have to be paid for at higher prices than those prevailing elsewhere.

It is not possible to indicate in detail how these measures have affected the distribution of trade, but attention may be drawn to the tendency for an increased proportion of trade to develop within certain more or less well-defined groups of