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on
THE EXCHANGE CLEARING AND
COMPENSATION SYSTEM AS APPLIED BY FINLAND
by
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M E M O R A N D U M

ON THE EXCHANGE CLEARING AND

COMPENSATION SYSTEM AS APPLIED BY FINLAND.

by

H.R. HORMI.

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P A R I S.

MEMORANDUM
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THE SYSTEM OF EXCHANGE CLEARING AND COMPENSATION
AS APPLIED BY FINLAND.

I. The Origin and Character of the Exchange Clearing
System Adopted by Finland.

1. The exchange clearing system - though in itself only a new method in the liquidation technics of international payments - is frequently considered as a part of the "commercial policy" of the country applying the clearing system; the "commercial policy" being employed in this connection in the modern and the wider sense of the word. This may be true in cases where the clearing system, especially as applied by the exchange restriction countries, has been partly detached from its original objects, and actually becomes an instrument of the commercial policy of the countries concerned. In view of this correlation between the clearing systems and the commercial policy it would seem proper to give a brief survey of the principal characteristics of the Finnish commercial policy before entering upon the actual subject of this study.

2. In a nutshell, it may be said that the commercial policy of Finland since her independence has, on the whole, remained faithful to the principles of unrestricted trade based on the Most-favoured Nation Clause. These principles of unrestricted trade remaining still valid, it may further be stated that those measures of Finnish commercial policy which seemingly conflict with the above mentioned, have, for one reason or another, been forced upon Finland by external circumstances. Consequently, those bilateralistic measures which Finland in certain cases has been compelled

to adopt, do not in any sense have their source or origin in any Finnish "system". They have simply been accepted as necessary evils, which, however, for the time being, must be endured in order to avoid still greater evils. Of bilateral arrangements adopted in certain cases by the Finnish commercial policy, the clearing system constitutes the most important.

3. Owing to the general inability of the exchange restriction countries to settle their debts, even those of a commercial character, by an effective transfer of currency, there gradually arose a situation which threatened to result in a general "freezing" of Finnish commercial assets in these restriction countries. To counter this danger, the system of clearing was accepted, as was the case with many other creditor countries. This system has remained, as far as Finland is concerned, simply a measure of payment technical character, every aim of commercial policy being excluded from the very beginning.

4. This, however, does not deny the influence of the clearing system upon the trade subjected to the system, also as far as the clearing trade of Finland is concerned. On the contrary, as will be seen from Tables below (Sec. V:3), there has appeared, as a consequence of the clearing procedure, a distinct tendency towards a certain equilibrium in the relations between Finland and her "Clearing countries", this, of course, being mainly due to the compulsory bilateral structure of the clearing system.

Owing to the character of the Finnish clearing system and the mode of its application a question such as the Finnish clearing policy should not be included in the present Memorandum. Consequently, the survey from now on can be concentrated upon the technical aspects of the

exchange clearing system as applied in Finland. On the other hand due space must be given to some brief remarks concerning the commercial effects of the system.

II. Clearing Agreements of Finland.

1. The exchange clearing system was introduced in the commercial relations of Finland by an agreement signed with Estonia in May, 1933. The subsequent improvement in Estonia's supply of foreign exchange, however, enabled the two countries to dispense with the clearing process and gradually to restore ordinary free transfer conditions between them from the beginning of 1936 onwards. The clearing agreement signed with Roumania in December, 1935, was similarly cancelled in September, 1937; since then payments are effected by means of transfers in free currencies between the two countries. On the other hand, the clearing agreements concluded with certain other countries have remained indispensable, as these countries have so far been unable to abolish the exchange restrictions.

At present clearing agreements exist between Finland and:

	Date of Signature
Germany	Oct. 2, 1934
Turkey	June 20, 1936
Italy	Sept. 28, 1936
Bulgaria	Oct. 27, 1936
Greece	Nov. 17, 1937
Lithuania	April 12, 1938

There are also certain regulations concerning payments in respect of goods manufactured or produced in Spain and imported into Finland.

Germany. 2. In proceeding to a closer review of the contents and the provisions of the clearing agreements at present

in force between Finland and the countries mentioned above, attention must in the first place be paid to the agreement between Finland and Germany. The agreement of 1934 which is, with minor alterations, still in force, covers all payments (including advances) arising out of the mutual trade in commodities produced or manufactured in the contracting countries. The "clearing origin" of the commodities is stated by the customs-officials of the importing country according to the regulations in force in that country. Transit trade is excluded. On the other hand, the agreement provides for all remittances for freight, insurance, fees, commissions, expenses of commercial travellers and other similar requirements arising out of the trade between the two countries. It is estimated that the sum of these accessory costs amounts to 6 % approx. of the total debit clearing circulation of the Finnish-German clearing account in the Bank of Finland. A clearing account is kept in both institutions in charge of the clearing: the Bank of Finland and the Reichsbank, Deutsche Verrechnungskasse. The clearing account bears no interest. The unit for clearing transactions is Finnish markka. Debts expressed in other currencies must consequently be converted into Finnish markkas in Finland at the last selling rate of the Bank of Finland, and in Germany (via Reichsmark) on the basis of the last average rate of the Berlin Stock Exchange. The debtors payment effected in accordance with the above stipulations to the clearing agency of the debtor's country is regarded as a proper discharge of the debt concerned.

The Agreement furthermore contains provisions for the direct settlement of certain contentious debts which in some cases can be granted. This, however, requires an

authorization given by joint agreement between both clearing institutions.

As far as Finland is concerned, there still are provisions stipulating that of all the sums paid on the clearing account in the Bank of Finland, a certain proportion must be placed at the free disposal of the Reichsbank. As to the technical application of the agreement, it is stipulated that, should clearing funds available in the Bank of Finland be insufficient to pay all Finnish exporters, preferential treatment is to be given to the extent of 50 % of payments that arise out of exports of Finnish butter and cheese, remittance for certain accessory commercial fees also being given priority.

Roumania. The clearing agreement, concluded with Roumania in December 1935 but cancelled in September 1937, stipulated a clearing reckoned in sterling and covered all payments arising out of trade between the two countries. In addition, the accessories, such as fees, commissions, etc. were subjected to the clearing treatment. Owing to the marked discrepancy in the trade concerned in the form of a strong Roumanian export surplus, the agreement stipulated that 35 % of all payments made on the clearing account by Finnish debtors were to be placed in effective sterling at the free disposal of the National Bank of Roumania. Since 1937 payments are effected in free currency. However, there still remains a clearing balance in favour of Roumania to be gradually settled through Finnish exports. Finnish exports to Roumania up to the present have in fact, been paid out of these balancing funds.

Turkey. The clearing agreement between Finland and Turkey came into force on July 1st, 1936. The agreement provides a sterling clearing system to cover all commercial payments

between the two countries. Costs and commissions arising out of the clearing trade and due by exporters to their representatives in the other country must also be settled through clearing. The clearing accounts are accordingly kept in sterling. Commercial debts in Finnish markkas or Turkish pounds respectively are converted to sterling in Finland at the official rates of the Bank of Finland, and in Turkey at the official rate of the Central Bank of the Republic of Turkey. Debts expressed in a third currency are converted into sterling at the last known sight selling rate of London. The agreement with Turkey contains provisions concerning private compensations which, except for tobacco of Turkish origin, may be granted by joint agreement between the clearing institutions of both contracting countries.

Italy. The clearing system introduced between Finland and Italy by the provisional agreement in November, 1936, and the additional protocol in December, 1937, is somewhat unusual. In actual fact the system of payment regulations applied here is in a sense twofold.

The clearing proper, covering all the payments due to Finnish imports from Italy, is applied up to a fixed amount only in settlement of payments arising out of Finnish exports to Italy. For the amount by which the funds on the clearing account in the Bank of Finland exceed the value of the above fixed Finnish clearing exports, Italy has pledged herself to buy Finnish chemical woodpulp. Should Italian purchases of woodpulp exceed the funds available in the clearing account, the difference is paid through transfers in free currency. Thus, in order to prevent the accumulation of a heavier adverse clearing balance and to maintain some scope for the free development

of trade, the Finnish-Italian clearing is, to a certain extent, supplemented with the system of effective transfer.

The technics of this mixed system according to the two agreements mentioned above run on broad lines as follows: Both the Finnish markka and the Italian Lire are to be regarded as clearing units. Therefore, the rates for clearing operations are in Finland the official rates of the Bank of Finland and in Italy the official rates applied by the Istituto Nazionale per i Cambi con L'Estero. Corresponding to the two-currency system, a special clearing rate of Finnish markka to Italian Lire is quoted, by a joint agreement between both clearing agencies as an actual base for the working out of the clearing. Owing to the provisional nature of this rate the agreement furthermore contains a special clause stipulating that the debtor's payment into the clearing agency of his country is considered as discharging his clearing debt only when the creditor has received the total amount claimed. In both countries the sums paid in by importers are entered in a "General Account", the balance of which is established by both clearing bodies every two months. If the balance in favour of Italy exceeds 3,500,000 markkas, the surplus is transferred into a "Special Account" opened in the Bank of Finland. On the other hand, if the balance established appears to be less than 3,500,000 markkas, the difference is transferred from the funds of the "Special Account" into the "General Account". The assets of the "Special Account" are utilised for payment of the Finnish chemical pulp exported to Italy but exceeding the bi-monthly clearing quota. If the funds of the "Special Account" are insufficient, the rest is paid in free currency.

Bulgaria. The agreement between Finland and Bulgaria of 1936 is based on the system of private compensation. The system covers all payments arising out of commercial transactions between the contracting countries. In addition, the provisions of the agreement are applicable to Bulgarian goods which are on consignment abroad, this however, is subject to the consent of the Bulgarian exporter concerned. The account opened for the working of the compensation operations is kept in Finnish markkas.

Greece. The clearing agreement with Greece which came into force on December 1st, 1937, provides only for the settlement of payments arising out of Finnish transit imports from Greece. Meanwhile, payments relating to direct trade are to be effected in free exchange. The clearing system has therefore been adopted merely in order to promote direct commercial intercourse and direct payments between the contracting countries. The clearing accounts are carried in sterling. The agreement furthermore contains provisions stipulating that private compensations, with the exception of Greek tobacco, may be authorized by joint agreement between the clearing bodies of both countries.

Lithuania. The clearing agreement between Finland and Lithuania came into force on May 1st, 1938. The agreement constitutes a sterling clearing system of the normal type to cover all commercial transactions between the contracting countries. The agreement also provides for private compensation which can be authorized by joint agreement between the Bank of Finland and Lietuvos Bankas respectively.

Spain. Certain measures concerning the trade with Spain have been introduced by Finland in blocking the payments arising out of imports into Finland of goods produced or manufactured in Spain. Owing to the purely provisional character of

these emergency measures adopted by Finland in the same way as by many other countries merely in order to safeguard commercial claims frozen in Spain, a more detailed review of these measures may be dispensed with. It is to be hoped that conditions in Spain will as soon as possible permit a return to normal conditions in the commercial relations between the two countries.

III. The Technical Application of the Exchange Clearing System in Finland.

1. As appears from Section II, all the clearing agreements concluded by Finland are Governmental agreements. Thus, they apply to the customs territories of the contracting countries. Their scope covers all mutual trade in commodities produced or manufactured in the countries concerned. The body charged with the execution of the various clearings in Finland is the Bank of Finland, where the application of the clearing is concentrated in a special clearing department established for this purpose.

The clearing technique applied by Finland corresponds in the main with that usually accepted in other countries. The sums paid by Finnish importers in markkas are duly received and, in conformity with the clearing agreement concerned, entered in the different clearing accounts under an advice to the clearing body of the contracting country. Correspondingly, the Finnish exporters are paid out of the funds constituted by the above payments of the Finnish importers. Payment of clearing remittances to the Finnish exporters is made in chronological order according to the receipt of the advices drawn by the clearing body in the country of purchase, and also to the extent permitted by the funds available in the clearing account concerned.

As already mentioned, every payment to a Finnish exporter is based on an advice duly received, thus ensuring that in the other country the corresponding importer of Finnish goods has remitted to his clearing body the amount which he owes to the Finnish exporter in question. Thus, in Finnish clearing the system of automatic advancing is not applied in case of an adverse clearing balance. Finally, it should be noted that in every individual clearing the technics of application vary in some degree according to the special stipulations in the clearing agreement concerned.

2. While the general application as such should be regarded as "normal", the Finnish system of clearing control may be considered as somewhat unique. In short, the system runs as follows:

In receiving payments made by the Finnish importers for their clearing debts, the Bank of Finland issues a receipt for each payment or correspondingly stamps the invoice covering the clearing debt as paid. The receipt can be issued or the stamp furnished also by a Finnish Joint Stock bank in case the importer through that bank has effected the corresponding payment to be duly forwarded to the Bank of Finland. Such receipt or stamped invoice constitutes a proper discharge for the amount specified therein. The receipt or stamped invoice must be presented by the importer to the Customs, when the goods concerned are cleared. In case goods are cleared before payment has been made, a copy of the invoice, together with an undertaking that payment will be made to the Bank of Finland within a specified time, must be supplied to the Customs. The invoice with this undertaking is returned when the original invoice duly stamped or a receipt for the payment is presented to the Customs. In the case of a payment

not being made within the time specified in the undertaking, an action is brought against the importer by rule and precedent.

This control system has a certain influence on the trade subject to clearing, more particularly on the import-side. This, however, is a question to be discussed in Section IV below.

3. Special mention should be made of the system of Interim accounts. This system is in special cases applied in Finnish clearing practice in order to permit of some occasional triangularity of the clearing trade. The system is of course purely a matter of technique and is by no means to be considered as an exception to the clearing principles: it is an arrangement within the framework of ordinary clearing.

It is a matter of fact that for the smooth working of the clearing system, bilateralism in the corresponding trade becomes a necessity. It is nevertheless evident that, to a certain extent, multilateralism remains indispensable. This is the case especially when a certain commodity produced in a clearing country is purchased by a wholesaler in a third country and resold to Finland. In this case, payment must be made in the respective Finnish clearing. On the other hand, the Finnish importer remains a debtor to the intermediating wholesaler in the third country, who in his turn owes the original price of the commodity to the exporter in the clearing country. The matter is further complicated by the fact that the price owed by the Finnish importer naturally exceeds the original price of the commodity, the excess representing the costs and profits of the intermediary in the third country.

Undeniably the interest of the intermediary as such

should be respected. On the other hand, however, clearing essentially contains the principle of direct settlement of payments between the country of sale and the country of purchase. Besides the fact that a modification of clearing, in order to make possible a triangular payment, would thus conflict with the leading principle of the clearing, it would furthermore give additional opportunity for clearing leakages by means of fraudulent invoicing etc., and thus eventually cause adverse discrepancies between the clearing balance and the corresponding balance of the clearing trade itself.

In order to reach a just solution of this complication, in particular, to secure the obvious economic advantages of the triangularity for all of the three participating countries, and, on the other hand, in order simultaneously to maintain an unconditional respect for the clearing provisions in force, the interim account system was introduced to complete the Finnish clearing technics.

Thus in certain cases the Finnish importer of clearing commodities sold to him by an intermediary is authorized to pay the total amount of the intermediary's invoice on an interim account to the favour of the respective intermediary in a third country. This account is technically an auxiliary account to the respective ordinary clearing account. As far as the Finnish debtor is concerned, the payment thus effected is considered a proper clearing payment constituting a discharge of his debt. The payment received is advised by the Clearing Department of the Bank of Finland, to the corresponding intermediary with the request for exact information of his debt to the original exporter in the Finnish clearing country, this information to be confirmed by an original

invoice or other comparable document. The equivalent of the original price claimed by the exporter in the clearing country is then transferred in due course by the Bank in ordinary clearing, and the remainder placed at the disposal of the intermediary as representing his costs and profits.

In order to prevent any possible fraud concerning clearing, the amount of this gross profit, however, should be economically justified. Thus a difference exceeding 12 % of the amount paid by the Finnish importer is not generally accepted by the Bank of Finland for placing at the disposal of the intermediary.

When considering the system of interim accounts in general, it must be emphasized that this is applicable only in those special cases where this kind of "clearing modification" and the corresponding triangularity in casu appears to be in the obvious interest of all the participating countries.

As such, the interim account system as a mode of Finnish clearing technics gives expression to the trend characteristic of Finland's commercial policy in general, the tendency to maintain and secure as far as possible the free multangularity in her foreign trade.

IV. System of Private Compensation.

Private compensation represents the most primitive form of international trade. As barter, it contains the simple exchange of a given quantity of a certain commodity for a given quantity of another commodity. Thus, in compensation arrangements, no money is transferred.

1. In the part of Finnish foreign trade which is subjected to reciprocal payment regulations, the system of

private compensation is applied to some extent along with the ordinary clearing, by including provisions to that effect in the corresponding clearing agreements. Thus the agreements concluded with Turkey, Greece and Lithuania contain special clauses dealing with the application of private compensations. The agreement with Bulgaria, on the other hand, is wholly based on the system of compensation.

2. Consequently in Finnish practice - the agreement with Bulgaria excepted - the ordinary clearing system and the system of private compensation in a sense overlap one another. Although the two systems were originally constructed to pursue identical ends, their simultaneous application, however, causes certain remarkable inconveniences owing to the essential differences between these systems principally in their technical structure.

The ordinary clearing system is collective in character. In other words, clearing rigorously excludes every other transfer method and subjects all the payments falling within its scope to a global and equal liquidation treatment. Thus, for instance, if the clearing liquidation - owing to an adverse clearing balance - cannot be immediately effected, the clearing remittances are treated in chronological order according to their "clearing age".

The system of compensation in turn, is based upon special arrangements. When applied simultaneously with clearing, private compensation simply means that certain exports and contentious import transactions are excluded from the ordinary clearing treatment and liquidated separately. In case of clearing delay, compensation consequently means preferential treatment of the payments arising out of compensated exports. This is due to the fact that compensated imports are employed for a direct

settlement of compensated exports, without taking into consideration the chronological clearing order in general.

In the liquidation treatment, a certain discrimination is caused by compensations also owing to the fact that, as private compensations can usually become remunerative only when made on a comparatively large scale, payments arising from small commercial transactions are left unsettled.

In both the above respects the application of private compensations thus means that in the case of an adverse clearing balance, i.e. a clearing period, the earmarking of certain imports for special, direct compensation settlements causes a prolongation of the clearing delay and disfavours the non compensated payments.

In order to obviate the inconveniences caused by the compensation system and to secure as far as possible a smooth running of clearing proper, Finnish clearing agreements containing a compensation clause stipulate that the compensation arrangements require the authorization in casu of the clearing bodies of both the contracting countries. By this means it is ensured that ordinary trade remains subject to clearing, and compensation thus becomes applicable in extraordinary transactions only. In conformity with this policy, the Finnish agreements with Turkey and Greece, for instance, contain provisions stipulating that Turkish and Greek tobacco, being the most important commodities imported from these countries into Finland, are excluded from possible compensation arrangements.

3. On the other hand, it is to be admitted that the application of private compensation is at least for the time being, even acceptable in certain cases.

(a) Although the application of compensation during

the prevalence of a clearing delay, as such, is open to criticism, it must, however, be admitted that in the case of a very heavy adverse clearing balance the compensation arrangements have proved almost the sole means for the "deblocation" of this balance. In this case the compensation mainly involves a partial or total liquidation of certain imports against frozen assets.

(b) Further, since a heavy clearing balance obviously tends to check the current clearing trade, the system of compensation sometimes becomes the only way of commercial intercourse until the clearing balance is brought to a reasonable level either by means of "deblocing" compensations or other arrangements.

This stage has almost been reached in the Finnish trade with Turkey (see Table III C). It is only to be regretted that the Turkish authorities do not admit to a sufficient extent the application of compensation as means of deblocation of Finland's frozen assets, and that the present awkward situation in trade between the two countries threatens to become permanent.

(c) The third advantage sometimes derived from the compensation system depends on the fact that in compensations no money is transferred. As the terms of the transaction are thus directly based on the world market prices of the goods to be compensated, the eventual price differences caused by the discrepancy in the rates of exchange in the two compensating countries can be overlooked. In view of the over valuation of the currency in most exchange restriction countries this aspect of the compensation system is sometimes devoid of real significance. This, because the hampering overprice of the goods to be imported from the restriction country is neutralized by the corresponding

overprice obtained by the contentious compensation exports of the free currency country. It is in fact mainly from this point of view that those compensation arrangements should be considered, which have found application in Finland's trade with certain South-Eastern-European countries.

Finally, it should be mentioned that the system of compensations - owing to its strictly reciprocal character - is widely applied by certain restriction countries pursuing a bilateral balancing of their foreign trade. In this form the system constitutes an instrument of active commercial policy. This aspect of the system is, however, irrelevant to the Finnish compensation system which, as explained above, is of a purely technical character.

V. Effects of the Clearing System.

1. The main technical characteristics of the Finnish exchange clearing system may be summed up in the following remarks:

(a) As emerged from Section III, the clearing agreements of Finland deal only with payments arising out of commodity transactions between Finland and her clearing countries.

(b) More particularly, the clearing settlement is confined to goods produced or manufactured in Finland or in the clearing country concerned.

(c) Thus the transit trade of the country as well as

(d) the settlement of payments concerning various items of financial or other kind of capital transfer are excluded from the clearing treatment to be settled by ordinary means of free transfer.

2. The above statements, however, do not exhaust

the actual subject. In the following, therefore, an attempt is made to complete the foregoing analysis with a study of the quantitative effects of the Finnish clearing system. The following general reservation should be made in this connection:

(a) It is obvious that the actual effects of clearing are frequently rather difficult to determine owing to the simultaneous influence of certain other relevant factors, more particularly such as import quotas and other quantitative restrictions of trade.

(b) These difficulties become even more obvious when considering that the clearing system itself has been developed in the restriction countries to an instrument of their commercial policies, and thus is to be regarded merely as an integral part of the general system of restrictions.

3. In certain respects, however, the effects of the clearing system as such may be considered sufficiently obvious as to permit some speculation. The trend of the Finnish merchandise trade subject to the clearing system is shown in the tables below.

T A B L E I.

VALUE OF FINLAND'S CLEARING TRADE

ON AN AVERAGE IN 1926-30 AND IN 1935, 1936, 1937, 1938.

A. Country of purchase and country of sale.

B. Country of origin and country of consumption.

Finnish Markkas, 000,000's.

Clearing Trade		1926-30		1935		1936		1937		1938	
		Value	%	Value	%	Value	%	Value	%	Value	%
Germany +)	A.	3,186.5	25.6	1,683.1	14.5	1,920.5	14.1	3,031.9	16.2	2,984.9	17.6
	B.	-	-	1,509.2	13.0	1,737.0	12.8	2,726.6	14.6	2,815.8	16.6
Roumania	A.	1.2	0.01	5.5	0.05	5.0	0.04	31.9	0.17	16.1	0.09
	B.	-	-	31.9	0.3	8.9	0.07	33.5	0.18	20.7	0.12
Turkey	A.	2.7	0.02	25.3	0.2	48.2	0.4	33.2	0.18	32.0	0.19
	B.	-	-	43.5	0.4	67.3	0.5	56.9	0.3	53.2	0.3
Italy	A.	82.1	0.7	163.9	1.4	76.6	0.6	225.1	1.2	256.3	1.5
	B.	-	-	172.9	1.5	80.1	0.6	228.0	1.2	261.9	1.5
Bulgaria	A.	3.1	0.02	0.9	0.01	4.3	0.03	8.3	0.04	4.9	0.03
	B.	-	-	7.1	0.06	9.3	0.07	14.0	0.07	12.2	0.07
Greece	A.	16.2	0.1	22.8	0.2	48.6	0.4	77.6	0.4	75.9	0.4
	B.	-	-	47.1	0.4	69.1	0.5	96.0	0.5	112.0	0.7
Lithuania	A.	4.8	0.04	6.2	0.05	23.1	0.17	17.1	0.09	34.4	0.2
	B.	-	-	7.4	0.06	23.4	0.17	22.6	0.12	32.8	0.19
Total value of Clearing Trade	A.	3,296.6	26.5	1,907.7	16.4	2,126.3	15.7	3,425.1	18.3	3,404.5	20.0
	B.	-	-	1,819.1	15.7	1,995.1	14.7	3,177.6	17.0	3,308.6	19.5
TOTAL TRADE		12,470.9	100	11,584.9	100	13,591.6	100	18,686.1	100	17,005.3	100

+) Without the former Austria and the Sudetenland.

TABLE II.

DEVELOPMENT OF THE BALANCE IN FINLAND'S TRADE WITH HER CLEARING COUNTRIES
IN 1935, 1936, 1937 and 1938.

Country of origin and country of consumption.

+ Export surplus of Finland

- Import surplus of Finland

Finnish Markkas, 000,000's.

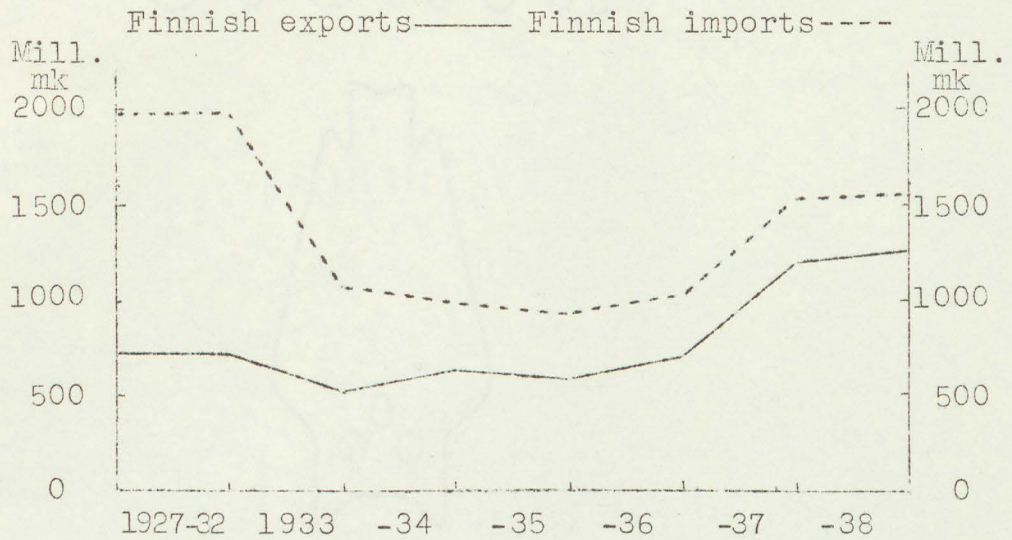
Balance in trade with:	1935	1936	1937	1938
Germany +)	- 346.2	- 322.0	- 329.6	- 299.2
Roumania ++)	- 29.9	- 3.5	- 20.3	- 14.9
Turkey	+ 12.5	+ 29.9	+ 4.5	- 13.0
Italy	+ 46.3	+ 32.8	+ 55.0	+ 56.7
Bulgaria	- 5.5	- 7.7	- 9.8	- 8.6
Greece	- 16.5	- 14.5	- 23.6	- 36.8
Lithuania	- 2.8	+ 5.0	- 5.0	- 2.8
Balance of clearing trade, total	- 342.1	- 280.0	- 328.8	- 318.6
Balance of free trade, total	+1,238.2	+1,133.7	+ 402.1	+ 137.4
Balance of total trade	+ 896.1	+ 853.7	+ 73.3	- 181.2

+) Without the former Austria and the Sudetenland.

++) The clearing with Roumania is discontinued from September, 1937, after which date there only remains a clearing balance (+Roumania) to be settled through Finnish exports.

Table III.

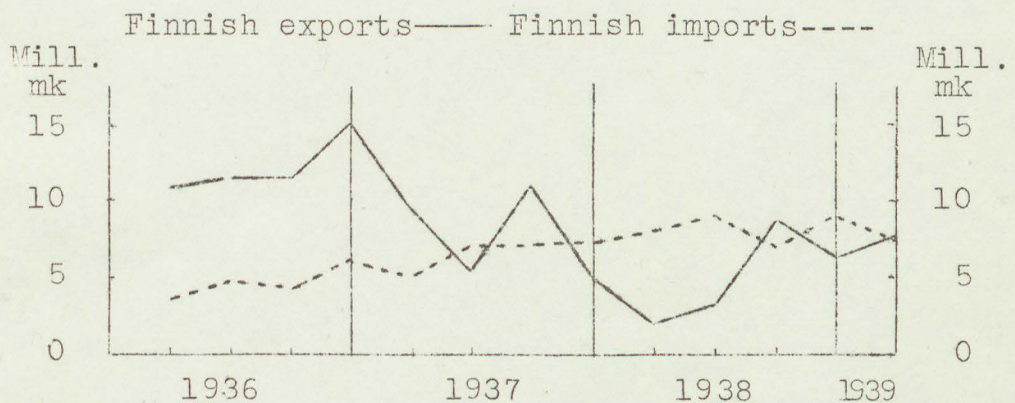
A. TRADE BETWEEN FINLAND AND GERMANY



During 1933-34 a Sonder-Konto system was applied between Finland and Germany. The actual exchange clearing was adopted in Oct. 1934.

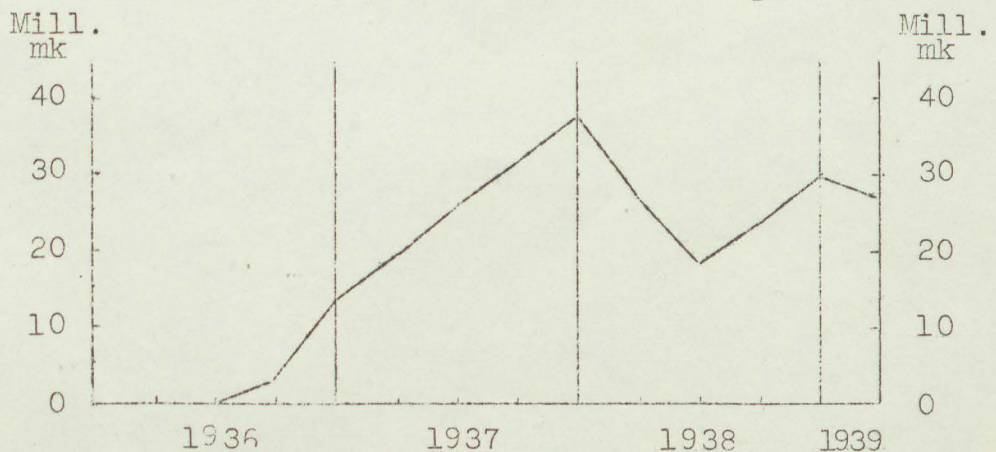
1927-1934 according to country of purchase and sale; 1935-1938 according to country of origin and consumption.

B. TRADE BETWEEN FINLAND AND TURKEY



C. THE TURCO-FINNISH CLEARING ACCOUNT

Finland's credit balance, end of quarter



Before drawing any conclusions from the above tables, the reasons that forced Finland to adopt the clearing system might be summarised once more:

(a) Difficulty in obtaining payment from current Finnish exports to certain restricting countries.

(b) Difficulty in obtaining payment of accumulated Finnish commercial claims from these countries and the consequent increase in frozen Finnish assets.

(c) Desire to maintain at least some Finnish exports to the said countries rather than to lose these markets entirely.

Concerning point (a), the clearing system undeniably has provided for a new channel of liquidation, enabling the settlement of payments arising from the current Finnish exports to those restriction countries with which a clearing agreement has been concluded.

Concerning point (b), the clearing has also proved effective. For instance, the rapidly increasing Finnish commercial balance in Germany, which, by showing signs of freezing, actually caused the adoption of clearing between Finland and Germany in 1934, was almost totally liquidated during the eight first clearing months. Similarly, the relatively considerable Finnish commercial claims accumulated in Italy were practically settled during the first clearing year.

Concerning point (c), Finland's trade with her clearing countries has been well maintained. As emerges from Table I Finnish clearing trade has even gained ground to some extent.

4. It may be recorded that most of the Finnish clearings up to the present have worked fairly well. The clearing trade of Finland, instead of diminishing as might

have been expected, has on the whole been maintained at a rather high level. It would, however, be fallacious to regard these facts as more or less automatic results of the clearing system as such. On the contrary, a closer scrutiny makes it evident that these results have been influenced by certain factors totally alien to the actual clearing system. This will appear from the following considerations.

The general character of any clearing system may be stated as a compulsory global barter between two countries, the technicalities of this barter procedure being fixed in a clearing agreement. From this it follows, perforce, that the possibilities of maintaining and developing the "clearing exports" of a given country directly depend upon the balance of her imports and exports with her corresponding clearing country. In the case of a surplus of imports over exports, the respective country possesses a bartening power, which in a barter procedure works towards an increase of her exports. In the case of a surplus of exports over imports, the consequences tend to become just the opposite.

The fact is that the pre-clearing trade of Finland with her present clearing partners in most cases regularly amounted to a considerable Finnish import surplus. According to the above said the introduction of a clearing procedure with these countries therefore brought about an accumulation of abundant funds:

(a) to the credit of the partner countries;

(b) simultaneously available for the payment of current Finnish exports to these countries, whereby an undisturbed continuance or even a moderate development of these exports was made possible;

(c) as well as for the liquidation of accumulated Finnish assets in these countries if permitted by the corresponding clearing agreements.

This development does not, however, depend only on the balancing effect of the clearing system as such, but also on the fact that the respective clearing countries, instead of continuing hoarding credit funds on clearing accounts, have preferred to exchange these assets against increased imports from Finland. This procedure has been made easier through the existing systems of exchange control, whereby the restriction countries have been able to regulate and canalize their purchases from abroad comparatively freely despite of actual price divergencies. In this connection the system of various, simultaneously applied, differential exchange rates, such as the "Aufgeld" system, may be mentioned.

5. Turning now to clearing agreements as applied to countries with which Finland has customarily had a favourable balance of trade, we get an entirely different picture. In these cases where clearing funds to the credit of Finland have been accumulating in the country concerned, the mechanism of the clearing system has been unable to provide any means of relaxation. On the contrary, as the prices offered in the clearing countries mostly considerably exceed those obtained on world markets, the clearing bringing these high prices theoretically within the reach of Finnish exporters tempts the exporters to continue their sales. This in spite of the increasing lack of funds in the clearing account and the corresponding accumulation of intransferable Finnish balance in the clearing country. When continued, this in fact can enable the clearing country to obtain a considerable credit from

Finnish exporters. This actually is the case of the present state of Finnish clearing with Turkey. Finnish assets in Turkey amounting to 30 million markkas approx., the corresponding liquidation period must be quoted at least at one and a half years. Here the clearing procedure has thus proved a failure.

6. The analysis given above of the quantitative effects of the Finnish clearing agreements may be summed up by stating that the clearing system in itself does not seem to provide any adequate mechanism for balancing the trade between the contracting countries. On the contrary, and especially in cases of divergent price structures, the immediate effect of the introduction of such a system should be the accumulation of intransferable funds in either of the contracting countries.

It is only in connection with a general system of exchange control at least in one of the contracting countries that the clearing system really begins to function in an orderly manner, and even in this case only provided that the exports from the restriction country to the other contracting country show a surplus over the imports. This is just the case with most of the clearing agreements concluded by Finland, as already pointed out, and this also explains the fact that these agreements have worked relatively well, from the Finnish point of view.

VI. Some Final Remarks.

1. The above analysis of the main technicalities of the clearing system and of the course of the Finnish clearing trade have led to the conclusion that clearing itself, being in essence, as far as Finland is concerned,

a purely technical construction, affects the trade concerned very little quantitatively. Through clearing this trade, however, has been markedly affected by the exchange restriction systems practised by the "clearing countries" and the policies pursued by means of these restrictions. As clearing in these restriction countries has become a link of the restriction system, this has in wide circles given rise to an identification of the clearing with the restriction system in general. This identification is, however, due to a confusion of thoughts. To its essential character the clearing is a system to overcome the hampering effects of exchange restrictions.

2. The aims pursued by the exchange control countries in practising restrictions may be varied, although most of them originate actually from the lack of foreign exchange. The aim, for example, may be only the checking of a disastrous flight of capital. Again, exchange control may be used to pursue an increase of the self sufficiency of the country, or it may be used as an instrument of canalizing and regulating the foreign trade towards a more favourable balance, or simply of promoting the exports, in which case the system of differential exchange rates is frequently practised.

Mostly, however, two or more of these aims are simultaneously pursued. Whatever the actual aim pursued by the exchange control, it usually soon becomes evident, that if any definite success is to be reached, the control system must be both widened and strengthened. In cases where the control has been applied only partially and in a liberal form, it has proved very difficult to detect and check, for instance, such flight of capital which takes place by means of merchandise exports. Here goods

exported are fraudulently invoiced at an undervalued price. The amount of foreign currency corresponding to the invoice is duly surrendered to the control authority, but the difference between this and the price actually obtained is left abroad for further disposal or sold home with profitable premium on the "black bourse".

The rigorous application of strict exchange regulations, again, tends inevitably to sever completely the economy of the country from the rest of the world, as the country is left without a regular transfer service. In this junction the clearing system has proved a most useful invention. Actually the clearing provides an additional medium of exchange, viz. clearing currency. The clearing currency should, however, not be considered an international standard of value, as its application is confined to the current settlement of commercial transactions between the corresponding clearing countries.

3. Returning now to the examination of the influence of clearing on international trade, it may be laid down that the proceeds obtainable by exports are foremostly desired for the securing of imports. This is the more so, as the employment of accumulating assets for debt service, tourist expenses, etc., has usually been limited or totally prohibited by the restriction countries. Due to the barter character of clearing, a free disposition of clearing assets on purchases in the world market is not possible. The funds have to be realized bilaterally and within the framework of the assets available in the corresponding clearing accounts. In other words, the demand for certain goods can not always be met by imports from the cheapest market. The purchase must be made in a country where there are clearing assets available for the purpose. The

restriction countries in most cases directly or indirectly apply the method of differential rates (between the clearing currency and the internal currency concerned) already mentioned. When further considering the relative elasticity of most imports, this bilateral canalizing of imports hardly produces any unsurmountable difficulties to these countries. Therefore if in a clearing between a restriction country and a free currency country, the clearing balance amounts to the favour of the restriction country, the clearing most probably is tending to increase the imports into this country, thus promoting the clearing trade in question.

From the point of view of the free currency countries, the situation is somewhat different. The restriction countries, owing to their overvalued currency, are usually able to offer higher prices than those obtainable on the world market. The exporters of free currency country are therefore tempted to maintain and increase their exports, despite of an accumulating adverse balance on the corresponding clearing account. As to the balancing imports, it should be noted that the free currency countries as a rule, of course, make their purchases where the goods demanded are obtainable at the cheapest price. A balancing import from the debtor clearing country at a higher price would soon prove a failure as the marketing of goods thus imported would obviously presuppose the elimination of all similar goods purchased elsewhere at a lower price.

Where the restriction country herself is interested in an export to the free currency country, she generally is able to neutralize the hampering effect caused by her over-valued currency. This neutralization is achieved either

directly by a counterbalancing export premium enabling a cheaper price quotation of her products, or by a preferential rate applied in favour of the exporter when changing the clearing proceeds of his exports to internal currency. As a continuous debt clearing balance, from the view point of the restriction country, is practically equal to a corresponding merchandise credit granted by the free currency country, there hardly seems any direct reason to hasten the liquidation of this advantage by any exceptional measure. Besides, of being generally free from interests, a clearing debt in no way acts as a pressure on the controlled internal currency.

If it is once more assumed that the final aim of certain exports, is to secure the power to import certain requisite goods, then in the above instance the clearing balance in favour of the free currency country only shows that these desired imports have already been achieved without any exports claimed as balancing liquidation. If these imports further were achievable without any pressure appearing to threaten the actual currency of the country and its balance of payments neither would be negatively affected by these imports, then the despatching of the goods originally intended as liquidation exports becomes rather pointless, altogether. This is even the more true, as the goods mentioned would perhaps prove useful as barter instruments in some other directions.

It is perhaps unnecessary to point out, that the instances discussed both in this and the foregoing paragraph are to be considered as abstractions and by no means represent a rule. On the other hand, however, they undeniably give vent to certain tendencies rather frequently characteristic of the course of clearing trade.

4. It is obvious enough that the clearing system complicates enormously the commercial practice. This is not only due to the numerous formalities to be fulfilled because of the system, but also to a constant insecurity caused by the changeability of the clearing situation and correspondingly the clearing period, which, of course, makes calculations concerning the terms of payments etc. rather hazardous. Finally, as regards the actual clearing formalities, it should be observed that it will not be sufficient for the trader to be familiar with the clearing provisions and formalities of his own country, but also with those of the clearing country.

Finally, the technical unwieldiness of clearing renders it almost impossible to apply such modes of payment as letters of credit, etc., which would assure a greater mobility in the actual operations of liquidations.

5. The above analysis of the effects of the clearing trade permits the following conclusions: (which, however, imply) a certain elasticity in imports.

(a) In regard to imports from a free currency country to a restriction country there is an obvious promotive factor caused by the natural preference of the restricting country to value the proceeds of her exports by corresponding imports. This course of development appears clearly, for instance, in the considerable decrease in the German export surplus in her trade with Finland since the introduction of clearing. The balancing was caused by a remarkable increase of German imports from Finland (see Tables). This factor remains, however, operative only so far as there is a clearing balance in favour of the restricting country.

(b) As regards imports from a restricting country

into a free currency country the overvalued internal currency of the restricting country constitutes a hampering factor. Owing to the advantage to the restriction country of an interest free credit in the form of a frozen clearing debt, the restricting country is seldom willing to apply the exchange technical means at her disposal to promote a balancing export to the free currency creditor country.

(c) Owing to the facts stated in point (b) the possible surplus exports from the free currency country tend to decline. In this way also the promotive factor stated in point (a) is counterbalanced.

(d) In the case of a balanced trade between the two countries, clearing usually achieves its purpose as a method of transfer technics. However, when considering the complicated bureaucratism involved in the system the final effect on trade might even here be stated to be negative.

As this paper centers upon the exchange clearing system applied by Finland, the course of clearing trade between two exchange control countries has not been discussed.

6. As a general criticism of exchange clearing it has often been pointed out that clearing tends to divert the trade subjected to it from its normal and natural channels, and to hamper or prevent every movement towards an increase in trade. Clearing is thus regarded as a primary source of certain negative quantitative effects.

However, the analysis given in the present paper suggests that:

the clearing system, although making possible the maintenance of international trade to a certain degree, has

not proved efficient enough to neutralize all the unfavourable and disastrous effects of the exchange restrictions introduced by several countries. Accordingly clearing is considered merely as an emergency measure, an imperfect technical substitution, whereas the quantitative effects emerging from the course of clearing trade are mainly derived from exchange restrictions as well as quotas, tariff impediments, and other quantitative restrictions, and the various policies pursued by means of these restrictions.

From this view-point, therefore, the question: clearing or no clearing? must be regarded as a wrong one. This simply owing to the fact that a new medium of payments to supercede the clearing currency can hardly be constructed without entering the problem of a renewal of the whole system of international monetary co-operation.
