BANCA NAZIONALE DEL LAVORO
QUARTERLY REVIEW

VOLUME III
1950
(Nos. 12-15)

Published by the
BANCA NAZIONALE DEL LAVORO
Roma, Via Vittorio Veneto, 119

CONTENTS

1950

CONTRIBUTORS

Stabilimento Aristide Staderini - Roma - Via Crescenzio, 2

BANCA NAZIONALE DEL LAVORO
QUARTERLY REVIEW

ROME

BANCA NAZIONALE DEL LAVORO

HEAD OFFICE: ROME
VIA VITTORIO VENETO, 119

Condensed Statement of Condition, March 31st, 1950

(Lire)

ASSETS		LIABILITIES	
Cash, Balances with Banks & Money at call	78,198,431,373	Capital	1,150,0000,000
Investments: Govt. & semi-Govt. Securities & Treasury Bills	23,115,833,347	Ordinary Reserve Fund	1,340,000,000
Investments: Other Securities	1,184,711,384		2,490,000,000
Contango, Advances on Securities & Loans	95,949,512,732	Deposits & Current Accounts (Including Balance of Profit & Loss)	212,601,325,063
Bills receivable & Re-discounts	58,411,349,128	Cheques in Circulation (*assegni circolari*)	10,217,416,119
Sundry Accounts	1,052,784,190	Bills for Collection	7,870,724,799
Premises, Furnitures & Fixtures	1	Guarantees & Acceptances for A/C of Customers	19,199,764,932
Customers' Liability for Guarantees & Acceptances	19,199,764,932	Sundry Accounts	18,668,381,617
		Staff individual Retirement Accounts	4,441,568,478
		Unearned Discount & other unearned Income	1,623,206,079
	277,112,387,087		277,112,387,087
Securities deposited by Third Parties	46,564,832,075	Depositors of Securities	46,564,832,075
Special guaranteed Accounts	11,652,747	Accounts guaranteeing special Accounts	11,652,747
Staff Assistance & Retirement Fund-Securities deposited by the Bank as Guarantee	4,206,628,481	Bank's Securities guaranteeing staff Assistance & Retirement Fund	4,206,628,481
	327,895,500,390		327,895,500,390

AUTONOMOUS SECTIONS FOR SPECIAL CREDITS

SECTION FOR CREDIT TO MEDIUM AND MINOR INDUSTRIES
Capital and Government Guarantee Fund L. 2,297,100,000

SECTION FOR HOTEL AND TOURIST CREDIT
Aggregate Capital and Reserves L. 410,784,991

SECTION FOR CO-OPERATIVE CREDIT
Capital L. 500,000,000 - Government Guarantee L. 2,000,000,000

SECTION FOR MORTGAGE CREDIT
Aggregate Capital and Reserves L. 252,454,962

SECTION FOR CINEMA CREDIT
Aggregate Capital and Reserves L. 453,398,521

BANCA NAZIONALE DEL LAVORO QUARTERLY REVIEW

Vo. III, No. 12, January-March 1950

SUMMARY

In his article « *International Economic Equilibrium and Foreign Exchange Rates* », Prof. Robert Mossé takes up a decisively critical position with regard to monetary devaluations as a remedy for the disequilibrium of international payment accounts.

The A. makes a theoretical examination of the effects of exchange rate variations under a fully planned economy, in a socialist economy based on price mechanism, in a free or quasi-free economy, and under a mixed system; and in support of his thesis he discusses the practical results obtained, comparing the variations of exchange rates in Great Britain and France during the inter-war period. In his opinion the favor still enjoyed by the system of currency devaluations — « undoubtedly a tempting method for the government » — is partly due to tenacious delusions still surviving on spontaneous automatism, and partly to vested interests that find in devaluation profit opportunities.

* * *

The *New York Times* of March 2, 1950, has called attention to a new plan for medium-term financing of international trade that does not require the use of dollars, a plan developed by a group of European bankers in consultation with experts of the United Nations Economic Commission for Europe:

« The basic idea — which originated with Prof. Pasquale Saraceno — is to tie together the spotty but growing idle potential in the mechanical industries in Western Europe, the unemployed man-power and the considerable idle resources of short and medium-term capital in Switzerland and possibly other European countries. The key to the plan is the introduction of a new medium-term credit instrument that would bear the combined guarantee of the importing and exporting countries' banks (or even of the governments) and, upon endorsement by a neutral banking institution, could be rediscounted in the capital market of Switzerland, Belgium, or some other country where medium-term funds are readily available ».

« The economic justification for using new credit to finance production for export by such means is that the plan would not be inflationary. Because confined to industries with unemployment and idle plant capacity, and because only part of the increased exports would be without immediate return through imports, the dangers of ordinary credit expansion to finance exports would be avoided, the sponsors believe. This is the major point in selling the plan to the cautious Finance Ministers who are still alert to the recently curbed inflation in their monetary systems ».

Prof. Pasquale Saraceno, with the kind consent of the Economic Commission for Europe, has accepted our invitation to publish his plan. It is presented here, except for slight retouches, in its original form of a study prepared in 1948 in connection with discussions which took place in the Permanent Economic Committee of the World Federation of United Nations Associations (WFUNA), under the title: « *The Development of Export Trade of European Industrial Products and its Financing* ».

* * *

In the article « *American Foreign Investments* », Dr. Marcus Nadler reexamines on a realistic ground the much debated problem of private American investments abroad. The analysis of the past experience and of the present difficulties and worries — in the international field — leads the A. to define the present attitude of American investors in conservative terms. On this basis « it does not appear likely — prof. Nadler affirms — that the near future will witness any substantial outflow of capital from the United States to foreign countries in the form of long-term loans sold to individuals or institutional investors. An outflow of private capital from the United States will be almost exclusively in the form of direct investments ». But « direct investments abroad are also handicapped at present by the uncertain political and economic conditions prevailing in the world ». Given this situation, Prof. Nadler believes that a flow of private capital from the United States to foreign countries during the next years is not likely to be very large.

* * *

In this article « *On the Congruence of Exchange Rates under a System of Bilateral Trade* », Dr. Gioacchino d'Ippolito makes a contribution to the problem recently raised, by Prof. Bresciani-Turroni and Prof. Gini, about the concordance of direct exchange rates and cross-rates under a system of bilateral trade.

The A. summaries the two theses and illustrates their terms. He goes back to the solution given by Walras and calls attention to the additional unnecessary hypotheses, whose introduction into the demonstration have given rise to divergent conclusions.

The article is followed by some remarks by Prof. Bresciani-Turroni, Dr. D'Ippolito's reply, and a comment by Prof. Gini.

* * *

In the survey « *Recent Trends in the Geographical Distribution of Italy's Foreign Trade 1938-1949* », Prof. G. Pietranera sets forth and comments on the figures and respective index-numbers relating to Italian foreign trade from 1938 down to the end of 1949. He calls special attention to the distribution of imports and exports by monetary areas and political zones, and in relation to the relative importance of the principal countries dealt with. The comparison drawn between the period from January 1 to September 30, 1949, with the corresponding periods of 1948 and 1938, allows the A. to note the growing centralisation of Italian trade in the European Continent, a trend that appears to have been consolidated since the currency devaluations of September 1949.

The note closes with a critical reference to the policy of financing exports and its actual weight.

The Banca Nazionale del Lavoro assumes no responsibility for opinions or facts stated by authors whose contributions are published in the present Review.

All communications regarding the Review should be addressed to Banca Nazionale del Lavoro, Ufficio Studi, Roma, Via Vittorio Veneto 119.

Editor: Dott. Luigi Ceriani - Ufficio Studi, Banca Nazionale del Lavoro

Autorizzazione Pref. di Roma N. 1287/A-428 decreto 533 del 19 aprile 1947

Stabilimento Aristide Staderini - Roma - Via Crescenzio, 2

International Economic Equilibrium and Foreign Exchange Rates

by

ROBERT MOSSE'

1. — The series of monetary devaluations hastily made in September and October 1949 were accepted by some as a decisive remedy for the disequilibrium of international payment accounts. Personally, I am inclined to believe that they were more or less consciously inspired by tenacious illusions on spontaneous automatism, and that their efficiency no less than their advisability is very doubtful. It is certainly too soon for forming a definitive judgment and it would be premature to make a study of the practical results secured. Twelve months at least will be needed before the statistical data will be available. But it is not too late to attempt to describe the problem of the relations between foreign exchange rates and international economic equilibrium as they present themselves in the economic life of the middle of the century.

In the first decade following World War I, the data of the problem were comparatively simple. Many currencies were no longer convertible into gold, but a free market for foreign exchange was everywhere in operation with the exception of Soviet Russia. Economists were interested in the influence of the rise in foreign exchange rates on domestic prices and on the foreign trade of a single country. They were wondering whether the spontaneous fluctuations in exchange rates tended to restore the balance of foreign trade and of international payments. In the case of Governments, their chief anxiety was to restore the convertibility in gold of their currencies at a rate corresponding to that of their « natural equilibrium ». Viewed from the standpoint of economic analysis, the characteristic feature of the situation then existing as compared to that of today was the simplicity of the working hypotheses: the legitimacy of exchange operations, the unity of foreign exchange rates, the atomization of transactions, the free formation of prices, the freedom enjoyed by industry, commerce and labor within the several countries and in their international relations, the uniformity of means of payments.

This theory badly needs to be reconstructed on the basis of new hypotheses. But we do not aim so high. In this paper we shall first give some explanations on the concept of international economic equilibrium. Then we shall examine whether devaluation can exert an effective influence on this equilibrium. Finally we shall submit some remarks on the expediency of devaluation. The subject is certainly no new one. But the original feature of this article will — so we believe — be that it will view the economic relations in the light of the conditions prevailing under the several regimes: planned economies, free economies, mixed economies.

I - *The Several Notions of Equilibrium.*

2. — In speaking of international economic equilibrium we certainly do *not* mean to refer to that *succession of monetary equilibria between the several demands and supplies of foreign exchange* that could theoretically exist in an ideally *perfect* exchange market (1).

On such a hypothesis adjustment could be constantly secured, as it is on the stock-exchange, by varying the exchange rate. Now-a-days no one would venture to contemplate such a mechanism working freely, for the very simple reason that the instability would in itself be too serious an evil. Given the im-

(1) Such a market would have nothing in common with the gold-standard whose essence is a « price » block imposed by a ceiling and a floor very near to each other (the gold points).

portance of the capital eager for mobility and the almost unlimited extensibility of the demand (or supply), the movements in the exchange rates necessary to secure equilibrium might be so wide as to give rise to deep psychological and social reactions. It would moreover be impossible to think of satisfying all the whims of the market demand for foreign exchange, which are as far from the needs of economic equilibrium as is mere sexual desire from the need of procreation. While the Government should respect certain requirements needed for the perpetuation of the species, it is not bound to organise prostitution!

3. — Another error would be to confuse the notion of economic equilibrium with that of the equilibrium of the balance of payments. It has become almost a platitude to say that *international* payments *are always balanced*. This is a mere book-keeping notion, as such debits must necessarily be equal to the credits. What is not paid is owed, and this means that a credit has been granted, and this « credit » is the item which when placed to the asset side of the balance-sheet makes the sum equal to that entered under liabilities (2).

4. — When once these two false notions have been discarded, it seems to some that the real aim to pursue is to attain *the balance of current operations*, considered as a cash account (*compte d'exploitation*), including neither loans granted or taken. The ideal would be that normal receipts from abroad each year (for exports, tourist expenditure, freight rates, insurance, commissions, accrued interest and dividends, remittances from emigrant workers) should offset the debts arising also from current transactions.

This notion has the advantage of being clear and logical; there is however a marked tendency to consider it too narrow. It has, indeed, been noted that in the long run the balance of a country's current transactions may close with a deficit without giving rise to any drawbacks, provided this country receive a steady inflow of foreign capital or investments. Part of the current transactions (imports) would then only be the reflection or manifestation, in the world of real goods, of the movement of capital; otherwise said, the flow of capital would take the form of merchandise not paid for out of current revenue.

5. — Historical experience perhaps invites us to accept as normal an *equilibrium implying movements of long term capital* (3) *in one direction only and over long periods*. Theoretically, the movement of capital is not — or is not necessarily — a transaction of « residual » nature for settling a deficit; it may be a transfer of productive forces. In the XIXth century European workers went to fertilise the resources of the United States; that also was a transfer of productive forces. Nevertheless, in the case of the « factor capital », a connection exists between the capital and the « capitalist » (who may be a small saver). A means must therefore be found for securing the transfer in the future of income and amortisation payments, and this necessarily implies in a more or less distant future the purchase by the creditor of goods or services, or else new loans. But just as the « labour factor » has gradually settled down and has acquired the habit of spending its income on the spot, so it is not inconceivable that the « factor capital » may do likewise.

We are thus led to consider, perhaps over a period of decades, an *economic balance* allowing of a regular influx of capital of American origin. This *economic balance*, midway between the balance of payments and the balance of current transactions, would include all the truly « economic » transactions, including movements of private and public capital and would exclude only transactions with no counter-part, of a philanthropic or political nature (4).

(2) See Robert Mossé, *L'équilibre par la planification*, in « Economia Internazionale », January, 1950.

(3) If one adheres to this view it is difficult to draw a distinction between private and public capital.

(4) I feel some hesitation in the case of gold shipments; it is generally admitted that they offer one way of settling the deficit and sometimes they even express its measure; nevertheless, in the case of gold produced by the exporting country, they are an export of merchandise, and in the case of sums drawn on the reserves they do not represent a heavier « loss of substance » than that caused by disadvantageous exports; in the case of a reduction of « national capital », there is no fundamental difference between them and the acquisition of national securities by foreigners. And since shipments of gold have ceased to regulate the volume of internal instruments of payment, there is no reason why they should be given a place apart. I therefore deem it preferable to include gold movements in the economic balance. In making estimates, account must undoubtedly be taken of the possible exhaustion of the metallic reserves, but the problem is similar to that of exports of minerals, the reserves of which are drawing to an end.

One may then ask how all this will be settled in the long run. We certainly do not share the optimism of Keynes in whose opinion the question is one of no importance because « in the long run we are all dead ». But looking to the far future we know that there are so many unforeseeable events of various kinds in the history of nations that we may well consider as possible the advent of phenomena that we cannot even imagine today, which would enable the debtor countries to settle their obligations. Who could have supposed about 1875 that the United States, then a debtor country, would find in petroleum an important source of external revenues? Who could have foreseen the importance the rubber plantations would attain in Indo-China and the Malay peninsula? It would be foolish for us to start worrying half a century ahead!

6. — Even conceived in this elastic way, the equilibrium of the economic balance is far from covering the whole problem of the equilibrium of international relations; undoubtedly, balance is a *desirable condition*, even perhaps a necessary one, but it *cannot be an ultimate aim*. Present day worries must not make us lose our sense of perspective. What would be the value of an equilibrium obtained by limiting the volume of business? or parity of receipts and expenditure secured by selling much at a very low price and buying little at exorbitant prices? or an equilibrium that would perpetuate great differences in real living standards? or again an equilibrium accompanied by stagnation, *i.e.* by a general regression?

In seeking a condition of equilibrium we must not, therefore, lose sight of the more distant horizons which are:

(a) the volume and growth of trade;

(b) the equitable distribution of the trade benefits as between the several countries;

(c) a certain degree of equalisation of living standards;

(d) the parallel economic progress of the several regions.

The equilibrium would lose all meaning if considered without reference to these yet more fundamental problems.

7. — Lastly, when seeking for an equilibrium, account must be taken of the subdivision of the economic space. As the credit balances held in certain countries are not transferable, and consequently cannot be used to settle debit balances with other groups, each country is faced by separate problems of equilibrium with the dollar area, the sterling area, and so forth. It is not enough to have a general equilibrium; one must hold enough hard currency credits to allow of settling dollar debts. For each area there are problems of internal settlements and problems of settlements with other areas. It may nevertheless be hoped that this problem will be settled to a great extent in the near future.

8. — The problem of equilibrium may be tackled with through different methods. The desired recovery of equilibrium may be passively awaited as the spontaneous outcome of circumstances. Or it may be sought by direct measures for stimulating suitable trade currents (reduction of customs duties, export bonuses, organised marketing (5), government purchases, etc.), or by encouraging private investments (6), or by setting up international monetary mechanisms (7), or again by recourse to technological improvements (increased productivity). In the following pages we shall examine exclusively the rôle of devaluation as a reequilibrating process.

II - *The Efficiency of Devaluation.*

9. — One of the most significant advances made in economic science in recent years has been the repudiation of the fiction of an *homo oeconomicus*, an abstraction moving in a va-

(5) Steps are now being taken in the United States to open international Fairs in which foreign countries may exhibit their products and make them known to the American public.

(6) The American Government has proposed to Congress that a sort of credit insurance be organised in favor of the loaners of American funds, thus guaranteeing the convertibility into dollars of profits accruing abroad (Charles Sawyer, Secretary of Commerce, in *United Nations World*, January 1950, p. 58).

(7) For instance, the European Payments Union, or Milhaud's Clearing Plan.

cuum, in favor of differential analyses by which to make known and understood the various inter-relations corresponding to different environments and different systems. A modern study of the effects of exchange rates variations must examine what is occurring (or what might occur) in a fully planned economy, in a free economy and under an intermediary or mixed system (it is of course understood that each of these « systems » is susceptible of variations).

10. — Under a *fully planned economy*, as now practiced and in its present stage in the Soviet Union for instance, the authorities establish *physical plans for imports and exports* in keeping with the general plan. The Foreign Trade Department deals with foreign countries exclusively through foreign currencies. The balance of foreign transactions depends partly on world prices, which escape almost entirely the control of the Department, and partly on the quantities bought and sold, which depend on the plans laid down as expressed in physical terms, so that variations in exchange rates should have no influence. In its dealings with the home country, the Foreign Trade Department pays in the national currency for the products it exports, and it is paid also in the national currency for the imported commodities sold to the concerns that use or distribute them. As the plans are compulsory — plans for delivery for export, plans for the use of imported products — it would be useless in theory to modify the rate of exchange with a view to encouraging or discouraging exports or imports, as the decisive factor for the internal undertakings, which are State agencies, is the plan and not the price. The Foreign Trade Department can freely detach domestic from foreign prices and can, if need, manipulate the domestic prices so as to stimulate the diversion of products for export or discourage the demand for foreign equipment.

11. — The situation would be different under a « socialist » economy anxious to assure an « optimum » and to make use of scientific calculations (8). With this for a premise, imports and exports would be determined by comparison between domestic and foreign prices; a conversion rate would therefore be required. « Devaluation », *i. e.* the increase of the number of national units to be given or to be received in exchange for a unit of foreign money, would modify all calculations of profits; all imports would seem less advantageous and all exports more so; *this would amount to altering the standard used by the planners in drawing up their plans*. Acting through an administrative machinery and through calculating machines, *the effect of the devaluation would be automatic and foreseeable*, just as a decree lowering the retiring age for government employees leads to a reduction of their numbers which can be easily calculated in advance. It should however be noted that the reactions of foreign demand, as apart from the export plan, leave a margin of uncertainty.

Thus a planned economy may be insensitive to devaluation (authoritarian pattern) or very sensitive to it (monetary pattern). These conclusions though opposite are not contradictory. Under a managed system, the export and import plans may be based on considerations other than those of comparative prices (technical, political, and other reasons), in which case devaluation has no sense. Or else the decisions are taken as a result of calculations in which the rate of exchange plays the part of the coefficient; and the effect of a change in the coefficient is mathematically certain... provided the public Administration be a perfect piece of machinery.

12. — In a *free* or *pseudo free* economy, the classical theory supposed that free competition existed even between countries, and that business men reacted swiftly and vigorously to price changes; hence the deduction that devaluation must reduce imports, which will become too expensive in terms of the national currency, and must encourage exports. We now know that economic life is not so elastic as to secure the precise adjustments needed. Even under a free economy, technical exigencies or psychological and social inertia hinder adjustments in the structure of exchanges.

In the case of imports, the rise in the price of the American product, for instance, does

(8) See Robert Mossé, *Essai d'une théorie socialiste des échanges internationaux*, in « Economia Internazionale », August, 1949.

not suffice to assure its replacement by a French product which perhaps does not exist (for instance petroleum). And it is difficult to find replaceable marginal products in a period when imports have already been reduced to essentials. Moreover, pressure in favor of replacing foreign imports by national goods is not exercised if the higher prices following on a variation in the rate of exchange can be charged to the home consumers. Understandings between producers or the mere passive attitude of consumers, facilitate these developments, more especially in times of inflationary pressure. This leads to price rises that have a tendency to become general and spread like a contagion, preparing the ground for new monetary mishaps.

In the case of exports the important thing is to ascertain whether a price fall in terms of foreign currency following devaluation, will increase the volume of sales abroad to such an extent as to increase receipts in foreign exchange. Is foreign demand « elastic » enough? Many studies have been made on this matter (9) but no convincing evidence have been adduced. It is far from certain that a proportional reduction of the prices of all export commodities, such as is caused by devaluation, leads to an increase in the *total receipts* of foreign exchange. In the case of certain products devaluation may perhaps bring about a change in the sources of supply (for instance, England purchases silk fabrics in Italy rather than in France). This is a mere phenomenon of competition, which transfers the difficulties to a neighbor, and may be offset by reprisal devaluations. To secure decisive evidence, the elasticity of the total demand of importing countries should be measured, and, for the time being, the major question is the elasticity of the American demand. It must not, moreover, be forgotten that devaluation also lowers the prices of those products for which there was a normal demand at former prices, and in whose case the general price fall will result only in a reduction of total receipts (10).

13. — Considering the exports of a country as a whole we will now bring forward a few figures which will allow of comparison between French and British exports over the period 1913-1948 (see Tables I and II). The comparison is interesting as it shows us the alternate phases of the depreciation of one currency and the stability of the other, and spreads over a period of considerable length (11).

Table I

EXPORTS FROM FRANCE AND FROM GREAT BRITAIN (1913-1938)

Periods	(millions of gold dollars - former parity)	
	Great Britain	*France*
1st Period: 1913 to 1928-29		
(Sterling parity maintained)		
(Franc devalued by 80%)		
1913	2,575	1,328
1928-29	3,534	1,989
Percent. change of exports	+ 37.7 %	+ 45.5 %
2nd Period: 1928-29 to 1934-35		
(Pound sterling devalued)		
(Franc parity maintained)		
1928-29	3,534	1,989
1934-35	1,214	653
Percent. decline of exports	— 65.7 %	— 67.3 %
3rd Period: 1934-35 to 1937-38		
(Pound sterling maintained)		
(Franc devalued)		
1934-35	1,214	653
1937-38	1,441	541
Percent. increase of exports	+ 17.4 %	— 17.2 %

Sources: World Trade Survey 1932 and 1935; Statistical Yearbook of the L.O.N., 1938-39, p. 219.

In the period between 1913 and 1928-29 the franc had depreciated in the ratio of 5 to 1, while the pound sterling had been brought back to its former parity. Much has been said of the British depression during this period, of the stagnation of British export industries and of the brilliant recovery of France. The figures, however, show alike growth of exports: 37.7% for Great Britain, 45.5% for

(9) Tinbergen, *Some Measurements of the Elasticities of Substitution*, in « Review of Economics and Statistics », 1946, p. 109; T. C. Chang, *International Comparison of Demand for Imports*, in « Review of Economic Studies, 1945-46; the works of K[illegible] (University of Leeds); A. J. Brown, *International Equilibrium and National Sovereignty*, Report to the Permanent Conference of High International Studies, Paris, 1949.

(10) England was aware of this danger, and so after the September 1949 devaluation the prices of products for which there is a ready market were at once raised.

(11) When immediate results are disappointing, the partisans of devaluation tell us « It is too soon to judge! We must wait for the results to become apparent ». Our tables supply an answer!

France. We admit that the depreciation of the franc leaves a slightly higher margin of growth to France. But this is the only case « favorable » to devaluation.

Praise has often been lavished on the devaluation of the pound sterling in 1931 while at the same time France was blamed for her absurd attachment to the « gold block ». Nevertheless, during the second period we find that the fall in British exports (65.7%) was almost the same as that of French exports (67.3%); if we take into account the margin of uncertainty that accompanies the figures, we find that the exports of the two countries, of that which devalued its currency and of the other which upheld its parity, suffered just the same fate.

The third period ('34-'35 to '37-'38) offers a good example of the drawbacks of depreciation. France, who has devalued her currency several times, sees her exports fall by 17.2% while at the same time British exports increase by 17.4%.

Let us now look at the post-war data (1938-1948). Except for a slight readjustment at the beginning of the war, the pound sterling is

TABLE II

EXPORTS FROM FRANCE AND FROM GREAT BRITAIN

Periods	(millions of dollars - 1934 parity)	
	Great Britain	*France*
4th Period: 1938 to 1947 and 1948 (Pound sterling maintained) (Franc devalued)		
1938	2,573	876
1947	4,859	1,787
1948	6.641	1,997
Percent. increase of exports in 1948:		
from 1938	154%	128%
from 1947	37%	11%

Sources: International Financial Statistics. The data are not comparable with those of Table I.

stable. On the other hand, the franc falls to one tenth of its pre-war value. As compared to 1938 British exports have increased by 154% and French exports by 128%. The country which devalued lost slightly ground. The loss is much more marked from 1947 to 1948 (in January 1948 the franc suffered a serious amputation): while French exports increased by only 11%, there was a 37% increase in the case of British exports.

These figures are certainly far from offering a definite evidence. We cannot carry out a real experiment unless we can be sure that *all the other factors* influencing the case remain unaltered. Phenomena other than those of devaluation may have been at work. Nevertheless, these data allow of drawing a significant presumption. From 1913 to 1929 England did fairly well in the field of exports under a régime of stability, nay even of revalorisation. From 1929 to 1935 France was not injured by her attachment to parity. And in the two last periods England, with a stable pound, developed her export trade much better than did France with her tottering currency.

The first results of the devaluation of the pound sterling in September 1949 again confirm past experience. In January and February 1950 British exports only amounted to 961 million dollars, instead of the 1,236 million in the corresponding period of 1949. Sir Stafford Cripps, by declaring in his Budget speech that exports had increased 10% in volume, implicitly recognised the inefficacy of the devaluation.

14. — Probably the other items of the balance — freight rates, bank and commercial commissions, tourist trade receipts, etc. — are less sensitive to exchange rates than are commodities, for they depend less on prices than on certain structural or institutional factors. To receive freight rates for oil or coal one must have a special fleet of tankers and bunkers. The receipt of insurance premiums depends on the possession of a special organisation, of capital, trained staff, offices, an assured reputation, and a clientèle. To receive tourists a country must be provided with tourist agencies, roads with well equipped petrol-stations, railways, hotels, a certain general standard of honesty, and also resorts, monuments, museums. Devaluation is not a magic wand which will command St. Mark's Basilica to rise or will spread out a sheet of turquoise blue water between two wooded mountains.

As to the movement of capital, monetary insecurity, revealed or aggravated by devaluation, is certainly not likely to encourage foreign capital investments.

15. — If devaluation is ineffective under a free or quasi free economy it will be still more so *under a mixed system*.

The *imports* made under purchasing or investment plans are not affected by devaluation and could be reduced by a direct government decision. Private imports, regulated by quotas, will only be affected by devaluation should it lower the demand below the fixed quotas; but here a more rapid result would be secured by reducing the quota or raising the customs' duties. As to clandestine imports (or « parallèles » imports) made with the assistance of a « black » exchange market, they are obviously unaffected by a change in the *official* exchange rate.

Exports arranged under bilateral agreements between governments, especially those fixing deliveries and providing preference quotas, can hardly be affected by a change in the rate of exchange. In the case of private exports, devaluation modifies the ratio between the internal and the external prices to the advantage of the latter. It affords at least an inducement to export, and — if necessary — to allow a reduction on prices quoted in foreign currency. Nevertheless, the administrative formalities required under a mixed economy, both in the exporting and the importing country, lead to a discouragement that devaluation often fails to overcome. In addition to this, all the difficulties arising from demand elasticity are again to the fore.

In the case of foreign capital, it is probably more affected by institutional conditions (nationalisation, price control, profit control, etc.) than by the attraction of profits. Guaranteed convertibility of dividends and sinking fund will certainly do more to attract it than devaluation.

16. — This analysis leads us to the general conclusion that devaluation is an instrument of mediocre efficiency in restoring economic balance. And worse still — and we shall now try to prove it — devaluation is very frequently a dangerous procedure for the country which allows itself to be caught in its toils.

III - *The Inadvisability of Devaluation.*

17. — Viewed from a *national standpoint* devaluation may at times have seemed but the legal recognition of a *de facto* situation; thus bringing to a close a phase of instability and securing a stabilisation in an atmosphere of renewed confidence (case of France in 1928).

Unfortunately, since then the general atmosphere has changed. In Continental Europe at least a government-decreed devaluation, or the mere fear of one, acts in itself as a motor which sets going psychological processes leading to harmful results. Any official variation in exchange rates is sufficient to induce traders and manufacturers to raise their prices with consent of the public; the market supply is artificially curtailed by the storing of commodities in expectation of a further rise; similar expectations stimulate demand; the trade unions ask that wages be raised; exporters delay or conceal the foreign exchange they receive. In short, devaluation leads to a reduction of the purchasing power of the currency on the home market, and this in time will lead to a further devaluation, and so on. A free economy is of course more sensitive to these phenomena than a fully planned economy, but in this respect the psychological and political atmosphere is more important undoubtedly than the differences in economic system.

Moreover, devaluation modifies the internal *distribution* of economic activities in favour of the industries working for exportation. A rise in the rate at which foreign currency is exchanged for national currency *raises profits* over night, even if the sale prices quoted in foreign exchange fall, and even if there be no increase in the total receipts of foreign bills. In other words, profits rise even if devaluation does nothing to rebalance the economy. Assuming that there be an increase in the physical volume of exports, it is by no means certain that, under modern conditions of production, this will entail a proportionate increase of employment, and it may be that the workers employed by exporting industries will fail to secure a fair share of the « advantages » of the devaluation. Indeed, it is to be feared that the principal result of the devaluation will be higher profits, and this is perhaps the deep-seated reason for the pressure exerted in favor of devaluation. The exporting industries have managed to win the favor of the public, of parliament, and of the Government on the pretext that they help to secure the balance of international payments. But we should enquire whether they may not sometimes run counter to the national interest. Unfortunately, we are not able to be as definite as we should like to be on this subject as the effects of devaluation on the distribution of incomes within the country and on the part it plays as a means of profiteering have been but little studied.

18. — *From an international standpoint*, economists have long been concerned with the problem of foreign exchange relations. International commerce is beneficial in so far as it enables each country to receive more than it gives. Now, the purpose of devaluation is to enable sales to be made at a lower price, thus modifying the ratio of exchange to the detriment of the country that devalues. At the time of the great German inflation of 1923 there was complained of the loss of wealth.

Should the pound sterling — let us suppose — be quoted tomorrow at one dollar instead of three, that would mean that the Americans could acquire for one dollar what cost them yesterday three, and that on their side British goods, which were exchanged for three dollars worth of American products, would have their purchasing power reduced by two thirds. The exchange would thus be made on the basis — say — of 10 ounces of tea for 10 ounces of butter, instead of as before on the basis of 10 ounces of tea for 30 ounces of butter. This would lead us therefore to refuse a remedy consisting in supplying a creditor country — admittedly rich — with a larger quantity of goods in return for a fixed quantity delivered by it. If devaluation means to sell at a reduction, can it be the best policy for a country endowed with scanty resources to adopt? and how far would this reduction have to be carried, in order to sell in a country where wealth abounds?

Moreover, the purpose of devaluation is often that of increasing receipts to the detriment of another competing country whose exports and activity will decline, or to the cost of certain industries in the importing country. Will this lead to a general advantage? *One* country may thus restore its economic balance, but the situation of the others will worsen, and they will then be tempted to defend themselves; we shall then witness a rush to devalue and to raise protective tariffs. This is precisely what the Bretton Woods agreement wished to avoid. Unfortunately, hostility to State-managed economy made devaluation appear the lesser evil. We thus reached the series of devaluations made in 1949.

Devaluation is undoubtedly a tempting method for a Government to try. For it is easier to draft a bill of four lines than to organise efficient exchange controls, develop trade expansion services, induce thousands of manufacturers and traders to give up old routine methods, attract millions of foreign consumers, modify fiscal systems, establish a system of bonuses which weigh on the budget! It is easy to understand how governments and parliaments allow themselves to slip down a slope, encouraged or soon forgiven by public opinion which is influenced by the small group of those who benefit by devaluation.

19. — The economist should alert public opinion on the dangers of devaluation. It is useless because under the economic systems now in force it cannot succeed in restoring the desired equilibrium, and it is also dangerous because it increases monetary instability, troubles peoples' minds, increases unjustly the profits of a few, makes international exchanges more costly for the poor countries and sows international discord. But the economist will only be listened to if he can point to another path which can be no other than that of international economic cooperation sincerely aiming at improving the organisation of international trade (12).

(12) See Robert Mossé, *L'equilibre par la planification*, in « Economia Internazionale », January, 1950.