

# International Currency and Reserve Plans

## *Introduction.*

We shall soon celebrate — unless we forget — the tenth anniversary of the Bretton Woods Conference. The hopeful plans for currency convertibility drawn up in New Hampshire have long been buried under the weight of the so-called dollar shortage which accompanied postwar reconstruction, the Korean crisis and the first years of Western rearmament. The year 1953 witnessed, at long last, a fundamental and spectacular readjustment in the world's payments pattern. From a gold and dollar deficit of nearly \$ 11 billion in 1947, foreign countries moved gradually to an actual surplus, before aid, of nearly \$ 1 billion in 1953. Their gold and dollar holdings — including United States aid receipts — dropped by nearly \$ 6 billion in the three years 1946-1948, but have risen since by \$ 8 billion, of which \$ 2.6 billion in 1953 alone.

National and international plans for currency convertibility have thus become again, for the first time in many years, a practical policy issue. The problem was raised here, on the initiative of the United Kingdom, a little more than a year ago, but the British suggestions were received with a surprising lack of enthusiasm in the United States, in Europe and even in England. The discussion of the plan soon revealed fundamental disagreements about the very meaning of convertibility under present economic and political conditions.

The Commission on Foreign Economic Policy, under the able chairmanship of Clarence B. Randall, devoted considerable attention to the issues involved. Its report (1), issued last January, has done much to clarify the intimate relationship between the trade

and the payments aspects of international convertibility. In the meantime, the British plan was discussed further in the Organization for European Economic Cooperation (O.E.E.C.) and at the Commonwealth Conference in Sydney. Important steps toward the broadening of currency transferability and the relaxation of dollar restrictions have also been taken in recent months by a number of major countries, particularly the United Kingdom, Germany and the Netherlands.

The United States recession and the pending Congressional debate on the Randall Report have induced a wait-and-see attitude which has slowed down the adoption of even more spectacular decisions, both nationally and internationally. There is little doubt, however, that such decisions will soon be forthcoming, and that they will be vitally influenced by the long overdue clarification of United States policies.

## *1. - The 1953 British Plan and the Randall Report.*

The plan presented by the British last spring rested essentially on a distinction between convertibility for residents and convertibility for non-residents. The United Kingdom proposed to restore the convertibility of sterling earned in current transactions (2) by *non-residents of the sterling area*, but to retain the right, for the United Kingdom as well as for other sterling area countries, to impose restrictions on all foreign transactions of

(1) *Report to the President and the Congress*, Commission on Foreign Economic Policy, Washington, 1954.

(2) The exclusion of convertibility for capital transactions has become generally accepted since Bretton Woods as a permanent feature of postwar convertibility plans. The practical wisdom and feasibility of this exclusion raises very complex issues which I shall make no attempt to discuss here. It might be noted, however, that the International Monetary Fund's example was not followed by the Agreement for a European Payments Union, which applies equally to all transactions among members, whether on current or capital account.

their own residents. These restrictions could, of course, be imposed in order to limit the foreigners' sterling earnings and the drain on the area's gold and foreign exchange reserves which might attend the conversion of such earnings into nonsterling currencies, particularly dollars. They could, moreover, be imposed on a discriminatory or even bilateral basis to restrict imports from the countries presenting « excessive » demands for conversion and to favor imports from the countries which retained their earnings in sterling or made use of them to expand their purchases from the area itself.

The proposal was, moreover, made conditional upon a substantial liberalization of United States trade policies and the granting of large stabilization loans or lines of credit to the United Kingdom by the International Monetary Fund and by the United States.

The major criticism levelled against the plan, both here and abroad, was that its adoption might well stimulate a new wave of trade restrictions, discrimination and bilateralism. The Randall report agreed with this criticism and indicated that the Commission « would deplore a merely formal convertibility maintained through trade restrictions. It believes that the removal of restrictions upon trade and upon payments should go hand in hand » (3).

The European countries were particularly fearful of the implications of the British plans for the O.E.E.C. trade liberalization program and the European Payments Union. The Randall Commission expressed a similar concern about dismantling prematurely the most effective instrument for trade liberalization and currency transferability established so far: « The Union has achieved an impressive measure of success — above all, it has shown that freeing trade and freeing payment go hand in hand — and the Commission feels that it should not sponsor any measures that might wreck the Union before there is something better to put in its place » (4).

(3) *Report to the President and the Congress*, Commission on Foreign Economic Policy, Washington, 1954, p. 73.

(4) *Report to the President and the Congress*, Commission on Foreign Economic Policy, Washington, 1954, p. 74.

These criticisms may spring in part from an overpessimistic view of the external position of Britain and of the world's so-called « dollar shortage » (5).

In the absence of heavy balance of payments pressures, the current trend toward trade liberalization might be expected to develop even in the absence of formal commitments, and to be strengthened further by the proposed measures for currency convertibility.

Yet the possibility of renewed balance of payments difficulties — whether in Britain or in other countries — cannot be excluded. Under such circumstances, formal convertibility for non-residents, unaccompanied by parallel commitments with respect to trade policy, might force a relapse into restrictions, discrimination and bilateralism and destroy the progress already achieved toward a multilateral system of trade and payments.

After all, the proposed sterling convertibility already exists for residents of the United States and other « American Account » countries. Sterling earnings accruing to such residents are freely convertible into dollars. Any other country that wishes to is also free to refuse payment in inconvertible sterling, and to demand gold or dollar payment for its exports. Most countries are deterred from doing so by the realization that such a policy would generally expose them to tighter restrictions on their exports to sterling area countries, similar to the restrictions now applied by these countries against imports from the dollar area. Sterling convertibility for non-residents is certainly not regarded as true convertibility by the United States exporters who already « enjoy » this status, and it is certainly not sought by other countries' exporters to whom this « privilege » is now denied.

These considerations explain the coolness with which the British plan was received in Europe, in the United States and even by a large sector of British opinion. While the plan has not been formally amended, there exist numerous indications that opinion is gradually shifting, in Britain and in Europe,

(5) See below, pp. 13 ff.

toward a position fairly similar to that expressed in the Randall report. To be meaningful, convertibility must apply to trade as well as payments, to residents as well as to non-residents. This implies that progress can only be gradual and must depend on the fulfilment of certain prerequisites. « The Commission does... wish to emphasize its view that a strong internal economy, willing and able to control its money supply and its budget as safeguards against inflation, sufficiently mobile to make the best use of its resources, and able and willing to save in order to increase its productivity and improve its competitive position in world markets, is a prerequisite to convertibility; and that the attainment over time of these conditions should be the guide as to how rapidly full convertibility could safely be approached » (6).

These « prerequisites to convertibility » constitute, indeed, an awesome list, especially if they are viewed not only as once-and-for-all prerequisites for the *restoration* of convertibility, but also as permanent prerequisites for the *maintenance* of convertibility after it has been restored. Will any future lapse from internal strength automatically spell the collapse of convertibility for the country concerned? And how will the failure of some countries to reach or maintain convertibility affect the prospects for the achievement or preservation of *international* convertibility? « The Commission believes that the decisions, the methods, the timetable, and the responsibility for introducing currency convertibility should rest on the countries concerned. It recognizes, however, that currency convertibility must be examined in the light of the policies pursued by other countries, particularly the United States » (7). And it clearly thinks also that the restoration of convertibility by Britain would greatly facilitate — or even be necessary for? — its restoration by other countries, and would in turn be greatly eased « if some other of the major trading countries [were] able to make their currencies convertible simultaneously with sterling » (8).

(6) *Report to the President and the Congress*, Commission on Foreign Economic Policy, Washington, 1954, p. 74.

(7) *Report to the President and the Congress*, pp. 72-73.

(8) *Ibid.*, Commission on Foreign Economic Policy, Washington, 1954, p. 74.

The Report thus seems to contemplate the unilateral restoration of convertibility by each country, acting in isolation, while recognizing at the same time the interdependence among the various countries' decisions and policies, particularly the United States, the United Kingdom and other major trading countries. The recognition of this interdependence is in happy contrast with the naive theory which still prevails in academic and business circles, and which long dominated the United States Treasury thinking, *i.e.*, that convertibility merely depends on each country's « setting its own house in order » by stopping inflation, readjusting its exchange rate, abolishing trade and exchange controls and requiring full gold or convertible currency settlement for its exports and other external transactions. Even a country as strong internally and externally as Switzerland still feels unable to adopt such a prescription and run the risk of generalized discrimination against its exports.

International currency convertibility cannot be restored and — even more important — maintained without the active participation and cooperation of the major trading countries. While this participation and cooperation could largely be taken for granted in the nineteenth century, they cannot be ensured today by mere unilateral decisions, but require at least a minimum of collective organization and mutual commitments.

Before discussing the nature of these commitments, we must clarify the meaning of currency convertibility, as an international policy objective. We shall then discover that the necessary commitments are far less formidable than the « convertibility prerequisites » listed in the Randall report, and which, indeed, no international agreement could ever be relied upon to enforce effectively.

## II. - Toward a Definition of « Workable » Convertibility.

Currency convertibility used to be defined by the maintenance of a fixed parity or exchange rate with relation to gold or other gold-convertible currencies. It might seem rather paradoxical, therefore, to find the mod-

ern proponents of convertibility arguing in favour of flexible or « floating » exchange rates as against fixed or « pegged » rates. The reason for this shift is, of course, obvious. The fixity of exchange rates becomes largely illusory if it is preserved only through trade or exchange restrictions which control arbitrarily the access of traders to foreign exchange for each category of transactions, and may deny them the right to purchase it at any rate whatsoever. Exchange stability has little or no meaning if it is not based on exchange freedom. The latter was taken for granted in all traditional definitions of convertibility. True currency inconvertibility — as distinct from instability of exchange rates — is a relatively modern phenomenon. It might be noted, for instance, that European currencies remained convertible throughout the 1920's even though at a fluctuating exchange rate.

Here again, the Randall report marks definite progress over previous policies, and particularly over the exaggerated emphasis placed on exchange rate stability at Bretton Woods. The Commission expresses itself as « sympathetic to the concept of a "floating rate", which provides alternative methods of meeting trade and exchange pressures » (9).

This seems to leave us with the elimination of trade and exchange restrictions as the modern definition of convertibility. The question arises at once whether any full elimination of such restrictions is conceivable within a foreseeable future, and whether such liberalization can realistically be confined to direct, quantitative restrictions while leaving tariff restrictions to the full discretion of each individual country. There are undoubtedly very important differences between tariff restrictions and other trade or exchange restrictions. Most of these differences relate, however, to the *domestic* impact of such measures upon income and money flows. From the point of view of their *international* impact, the differences between tariffs and trade controls are not so fundamental as to justify the definition of convertibility in terms of a full elimination of the latter without any

concern for the first. High and unstable tariff levels can indeed be as, or more, damaging to international trade as moderate, non-discriminatory, systems of import or exchange controls.

Shall we therefore be pushed into a definition of convertibility which equates it to the old free trade ideal of classical economists? In this case, progress will indeed have to be gradual, and full convertibility is unlikely to reward our efforts or even those of our children and grandchildren.

Clarity of thought and effectiveness of policy both require a less ambitious definition of immediate convertibility goals. Such a definition can be found in the restoration of a *multilateral system of trade and payments*, rather than in the removal of all protection for domestic production against imports from abroad. This was indeed the meaning of nineteenth century convertibility, which accommodated itself to varying degrees of national protection. The major differences between these age-old techniques of protection and modern inconvertibility techniques lies in the fact that the former extended protection only to the national producers and only within the protecting country's boundaries, while the second discriminates in favor of certain exporting countries at the expense of others, and try to protect domestic producers not only within the country's boundaries but in all foreign markets as well. Once adopted by a major country, such techniques inevitably spread from trading partner to trading partner, each country trying to secure special advantages to itself or being forced at least to defend its exporters against the discriminatory actions of others. International trade is then forced more and more into the strait jacket of bilateral negotiations, relegating increasingly into the background all considerations of price or quality competition and the underlying pattern of comparative costs and advantages.

The key to « workable » convertibility is not free trade — desirable as this would be — but the maintenance of full competition in third markets. Professor MacDougall's study of United States and United Kingdom exports in 1937 showed ample verification for

the classical theory of comparative costs, but found that it depended essentially on *third market competition* rather than on direct trade between the two countries. « Before the war, American weekly wages in manufacturing were roughly double the British, and we find that, when American output per worker was more than twice the British, the United States had in general the bulk of the export market, while for the products where it was less than twice as high the bulk of the market was held by Britain... But while in the normal text-book examples the exports of each country go to each other, the great bulk of the exports of the United States and the United Kingdom in 1937 went to third countries — more than 95 per cent of British exports of all our sample products but three, more than 95 per cent of American exports of all the products but six. It is true that each country was nearly always a net exporter to the other of products in which it had a comparative advantage, but this is of limited interest, since trade between them was in general a negligible proportion of their total consumption » (10).

Thus, the preservation — or restoration — of traditional competitive forces in international trade depends essentially on the equal access of all foreign exporters to each national market, rather than on the elimination of all protection for domestic producers within a country's own territory. The latter objective has never been achieved, and can hardly be expected ever to be fully achieved, without a political as well as economic merger among the countries concerned. Equal access to third markets has always constituted the bulk and the core of international competition.

Convertibility is not incompatible, therefore, with a certain amount of protection and restrictions. The past is, in this case, a guide to the future. The restoration of convertibility depends essentially on the elimination of discrimination and bilateralism — rather than of *over-all* protection or re-

strictions — from the trade and payments mechanism. This implies:

(a) the ability of country A to use its earnings on countries B, C, D, etc. to settle its deficits with countries X, Y, Z, etc., *i.e.*, full currency transferability;

(b) the absence of bilateral or discriminatory trade techniques designed to shift trade artificially from low cost exporters to high cost exporters, thus distorting normal competitive forces not only between domestic and foreign producers, but in all third markets as well (11).

The two problems are largely inseparable, as payments and trade techniques reinforce one another in this respect and can often be used nearly interchangeably to achieve the same result.

The weakness of the International Monetary Fund springs in large part from the artificial separation of these two problems — one of which was entrusted to the Fund, and the other to G.A.T.T. — but even more from basic defects of the Fund's machinery in dealing with currency transferability. Countries may borrow from the Fund, but they cannot use the Fund to convert their earnings on one country into the currency needed to settle their deficit with another. Moreover, the Fund has in practice made little or no attempt to distinguish between exchange restrictions and discrimination. Organized discrimination against a « scarce currency » is theoretically provided for under Article VII of the Fund Agreement, but this provision has never been put to the test by the Fund. On the other hand, Fund members have so far retained the right to currency discrimination — against weak as well as against hard currencies — under Article XIV of the Agreement. Similar discrimination is also contemplated as a permanent feature of the Agreement under Article VIII, although its use under this Article would be subject to Fund approval.

In contrast, the remarkable success achieved by the European Payments Union is largely explainable by its comprehensive ap-

(10) G. D. A. MACDOUGALL, *British and American Exports: A Study Suggested by the Theory of Comparative Costs*, Part I, « Economic Journal », December 1951, pp. 697-724, particularly pp. 697-699. See also below, Table III, p. 18, column 4.

(11) This definition is very close to that proposed in the « Staff Papers » of the Randall Commission, on pp. 467-468.

(9) *Report to the President and the Congress, Commission on Foreign Economic Policy*, Washington, 1954, p. 73.

proach to the problem, encompassing full multilateralism both in trade — nondiscrimination — and in payments — currency transferability. This multilateralism, however, is confined to the relationships among member countries, and does not cover their trade and payments with other countries and particularly with the United States. Partial convertibility with the United States dollar is provided in E.P.U. settlements, but each country is left free to regulate as it wishes its trade and payments with nonmember countries (12).

Most of the difficulties which E.P.U. has had to meet in its four years of operation, and most of the objections raised against it, are closely related to these regional limitations of the Agreement. These were, however, unavoidable at the time the Agreement was negotiated. While they are probably unnecessary and even harmful under present conditions, their elimination might prove dangerous in the event of a renewed dollar scarcity, as it might then contribute to the unnecessary spread of deflationary forces and to ultimate relapse into generalized bilateralism.

### III. - The Prerequisites of Convertibility.

Convertibility has been defined above as the absence of discrimination, and particularly bilateralism, with respect to both trade and payments. While indispensable to the maintenance of international competition, such a system is also subject to a major defect. It tends to spread to the world at large any deflationary pressures arising from an economic depression or from trade restrictionism in one of the major trading centers. If each country most heavily and directly affected by the decline in this center's imports adopts *nondiscriminatory* policies — internal deflation, currency devaluation, overall trade or exchange restrictions, etc. — to restore equilibrium in its balance of payments, it will affect unfavorably the balance of payments

(12) Payments to and from nonmember countries of the sterling area are, however, channelled through the United Kingdom's account, and are subject to the same settlement rules as are applicable among members. The same applies also to all other sterling transfers.

of other countries. These may, in turn, be compelled to adopt similar policies — or to reinforce them — thus contributing to the spiralling of deflation, devaluation or restrictions. This process will continue until the first country's surplus is ultimately eliminated, but will involve a multiple restriction of world trade — or an extensive devaluation of currencies — which might have been avoided by direct and systematic discrimination against the surplus country alone. For this alternative to be successful, however, discrimination by the deficit countries must be directed exclusively against the *overall* creditor country, rather than against the countries in *bilateral* surplus with them, since such bilateral creditors may themselves be in overall deficit rather than in overall surplus. If discrimination is left to the discretion of each individual country, acting in isolation, it will inevitably take the form of bilateral discrimination and involve even worse distortions — and, probably, a greater contraction — of world trade (13).

This was recognized in the «scarce currency» clause of the International Monetary Fund, but the practical implementation of such a clause would raise enormous difficulties. Public opinion in the scarce currency country is likely to pay little heed to the intricate economics of the problem and to react violently against the ganging up of other nations against its exports. The danger of retaliatory action will deter many countries from participating in systematized discrimination. This is all the more likely as such discrimination might involve the imposition of tight restrictions against essential imports from the scarce currency country while unessential imports from other countries continue to be imported freely. Countries can hardly be expected to sacrifice their

(13) An abundant literature has grown up around this problem and its applicability to the so-called «dollar shortage». See, in particular:

E. M. BERNSTEIN, *Scarce Currencies and the International Monetary Fund*, «Journal of Political Economy», LIII (1945), pp. 1-14;

RAGNAR FRISCH, *On the Need for Forecasting a Multilateral Balance of Payments*, «American Economic Review», XXXVII (1947), pp. 535-551;

JOHN H. WILLIAMS, *Trade not Aid: A Program for World Stability*, Harvard University Press, 1953.

own national interests in this manner for the sake of an abstract concept of international equilibrium. Certainly, the exact degree of implementation required from each participant would give rise to endless debate and controversies.

A more practical approach to the scarce currency problem lies in the extension of nondiscrimination over the widest possible area, on the basis of mutual agreements and commitments, rather than in any international quarantine of the major creditor country. The E.P.U. experience reveals very clearly the type of commitments necessary for the effective functioning of a multilateral trading area. The creditor countries must facilitate the adoption by the debtors of *nondiscriminatory* readjustment policies:

1. by refraining at least from hampering such policies through unnecessary trade or exchange restrictions over their own imports; definite liberalization commitments were therefore accepted by all members, but exceeded in practice by the surplus countries;

2. by providing fractional financing to cushion moderate deficits of other members with inadequate reserves, thus allowing them to ride out temporary fluctuations in their balance of payments, or to wait for the effect of sloweracting fiscal or monetary readjustment policies;

3. by avoiding retaliatory action against countries which may be compelled to restore restrictions temporarily because of heavier deficits, provided that:

- (a) such restrictions remain nondiscriminatory as among members; and

- (b) the restricting country submits its case to full discussion by the competent organs of the O.E.E.C.; such discussion may cover not only the external measures adopted, but also the whole range of monetary, fiscal and economic policies of the country concerned.

### IV. - From Regional Convertibility to International Convertibility.

Such a close type of cooperation is hardly feasible on a world-wide basis. It is possible only among countries which are highly inter-

dependent (exports to the E.P.U. area account for nearly three fourths of member countries' exports), keenly conscious of their interdependence and able to understand each other's problems and policies. These factors — different in degree, but not in kind, from those underlying a fuller political union — explain the success of, and justify the need for, regional cooperation in trade and payments. The maintenance of freer trade among members constitutes, of course, a form of discrimination. Such discrimination, however, rooted in mutual commitments of the type described above, may be as justified by its broad political and economic results as the discrimination against imports from abroad, and in favor of interregional imports, implicit in present boundaries between nations. The progressive elimination, in the nineteenth century, of internal taxes on the movement of goods between cities or provinces of the same country, or the fact that national tariff walls do not apply to domestic trade, have never been objected to in the name of nondiscrimination. There is no more reason to oppose the efforts to preserve freer trade among countries which are ready to accept, to this end, mutual trade and financial commitments limiting the untrammelled use of their economic sovereignty.

Under the inflationary strains of postwar reconstruction, the sterling area and E.P.U. arrangements provided a practical alternative, not to a better and wider system of international convertibility, but to the infinitely worse alternative of generalized bilateralism in trade and payments. They could not, however, provide a satisfactory answer to the fundamental disequilibria then prevailing between these regions and the outside world, and particularly to their trade and payments problems with the dollar area. In the sterling area, the responsibility for handling these problems centered largely on the United Kingdom, through the administration of the dollar pool and the setting up of different types of sterling accounts — American and Canadian accounts, transferable accounts, resident sterling accounts, bilateral accounts, etc. — subject to different privileges and limitations as to their transferability in pay-

ments, and implying at the same time different degrees of tightness in the administration of trade restrictions. In E.P.U., no such centralization was attempted, and each country was left free to handle on its own its trade and payments with nonmember countries. On the other hand — and in contrast to the exclusive use of sterling in settlement among sterling area countries — the partial gold or dollar payments involved in E.P.U. settlements established a direct link between the position of individual E.P.U. countries within and outside the E.P.U. area.

Such a system may tend to stimulate discrimination against an outside scarce currency, but also tends — contrary to a widely spread misconception — to eliminate discrimination if no such scarcity exists in fact.

The stimulus to discrimination arises from both the payments and the trade rules governing the system. E.P.U. creditors are forced to liberalize imports from other E.P.U. members, but are left free to maintain — or liberalize — restrictions on imports from the outside. Since, however, they receive only partial gold or dollar payment for their E.P.U. surpluses, they may be unable to finance large deficits with nonmembers requiring 100 per cent gold or dollar settlements. Even if their gold and dollar position enables them to do so, they may be alarmed by the continued growth of their E.P.U. lending and adopt restrictions on outside imports, in order to force their residents to shift their purchases to E.P.U. sources and thus reduce their rate of lending to the union.

Debtor countries, on the other hand, will normally prefer to incur their deficits with the Union, rather than with other countries, since the first require only partial gold and dollar payment and are, for the remainder, financed by E.P.U. credits. These credits, however are limited in size. When a country remains persistently in deficit with the Union, its ratio of gold to credit settlements rises steadily until the point of 100 per cent gold settlements is reached. When this occurs, the financial stimulus to discrimination disappears, and the deficit country becomes increasingly reluctant to admit freely less essential, or costlier, imports from E.P.U.

sources while continuing to restrict severely more essential or cheaper imports from the outside. On the other hand, such persistent deficits on the part of some members are reflected in persistent surpluses on the part of others. The creditors become increasingly reluctant to continue to extend larger and larger credits beyond their quotas. Since the Union, under these circumstances, is receiving 100 per cent gold settlements from the extreme debtors, its convertible resources tend to increase and to enable it to grant additional payments to the creditors either through a larger ratio of gold to credit settlements, or through some amortization of their previously accumulated claims.

The experience of E.P.U. so far confirms these theoretical deductions. Of the \$ 1,350 million of E.P.U. credits initially available to them, present E.P.U. members have used about \$ 1,150 million and have therefore only about \$ 200 million in all left available. For many months, France, Turkey and Greece have been subject to 100 per cent gold settlements, and have claimed release from their trade liberalization commitments. Restrictions were also restored by the United Kingdom as long as its quota was exhausted or remained perilously close to exhaustion, and it will be remembered that, for a while, the United Kingdom also accepted sterling payment for dollar commodities bought through London. On the creditors' side, substantial amortization payments were granted to Belgium and Portugal in June 1952, and proposals now under discussion envisage both an increase in gold settlements beyond quotas and the regular amortization of long outstanding claims.

This normal evolution of the Union toward convertible settlements and nondiscrimination can only be held in check, in the long run, by a severe and generalized dollar scarcity. When this exists, most members will be anxious to preserve their exports against the tighter restrictions applied to dollar trade, and will recognize that this can be done only through mutual trade liberalization and the limited convertibility of intra-E.P.U. settlements. When, however, the dollar position of a majority of members becomes more comfortable, the maintenance

of discriminatory trade and payment rules is increasingly regarded not only as contrary to their own selfish interest, but also as unnecessary from the point of view of the group as a whole. It should be noted, for instance, that the E.P.U. management has always prodded excessive debtors to readjust their deficits through monetary and fiscal policies. Exchange readjustments have sometimes been hinted at also, but with a discretion imposed by common sense as well as by the desire to avoid any conflict of jurisdiction with the International Monetary Fund. These pressures had a considerable influence on member countries' policies, particularly in the case of Germany and the Netherlands. They were reinforced in the first case by a special loan negotiated on the basis of an agreed readjustment program, but at no time has the E.P.U. seriously entertained any proposals for further credit extensions to deficit countries which did not take adequate steps to readjust their balance of payments.

We may conclude, therefore, that while *formal* commitments to nondiscrimination and currency transferability are most likely to prove feasible on the basis of regional cooperation, such arrangements will tend *de facto* toward world-wide nondiscrimination and convertibility, except when discrimination against a « scarce currency » becomes the only alternative to the international spread of deflation or of bilateralism.

Even in the latter case, the maintenance of currency transferability and nondiscrimination among member countries preserves powerful competitive pressures upon the higher cost countries. It prevents them from seeking in bilateral trade and payments agreements an escape from basic economic readjustments. They can no longer extract from their creditors bilateral import credits or discrimination in favor of their exports. Moreover, the gradual liberalization of trade restrictions among members opens each market to the competition of the lower cost producers in the area, and exercises a fundamental influence on the readjustment of national price and cost patterns, indispensable to further progress toward world-wide, rather than merely regional, convertibility.

There is little doubt that full competition with Belgian, Swiss, German and other exporters over the whole E.P.U. area has exercised upon higher cost producers a pressure equivalent, or nearly equivalent, in most cases to that of competition from nonmember countries.

Confirmation of this fact can be found in the near elimination of currency discounts and gold premia in the European free markets, and in the ease with which major steps toward trade liberalization and broader currency transferability have been absorbed in recent months. The abolition of rationing, the reopening of international commodity and gold markets in London, the merging of practically all nonresident sterling accounts — outside the dollar area — into a single transferable account system, the adoption of a similar system for Deutsche mark accounts, the liberalization of many categories of dollar imports and other transactions in Germany, Belgium, and the Netherlands, etc. have already narrowed down considerably the gap between regional and international convertibility. There is every indication today that this remaining gap could be bridged if some method could be found to assuage current fears about the existence, or future resurgence, of a world-wide dollar scarcity.

#### V. - International Inflation and the Dollar Shortage.

A « currency scarcity » condition — i.e., the tendency for many countries to incur convergent deficits toward a single « scarce currency » country — may emerge from many different causes. A number of writers have popularized the view that a higher rate of technical advance in the United States tends to create a chronic dollar shortage. The *possibility* of such a link cannot be flatly denied on purely logical grounds. The *demonstration* of its inevitability or probability depends, however, on highly special assumptions as to the exact nature of such productivity advances, and as to their impact on prices and money wages, terms of trade, the income-elasticity of import demand, etc. It would not be difficult to construct extremely plau-

sible models of United States advances in productivity the impact of which be to reduce, rather than increase, the balance of payments surpluses of the United States, without exercising any generalized deflationary pressures on foreign prices, export levels, economic activity or employment.

A dollar shortage undoubtedly tends to emerge, however, when the United States economy develops lesser inflationary pres-

import levels and export instability than has probably been true at any time in the recorded past (Table I).

The fears of a dollar shortage spring from the special factors underlying the present pattern of the balance of payments of the world with the United States, and particularly from:

(a) the dependence of foreign countries' current dollar earnings on large and « ab-

ESTIMATED GOLD RESERVES AND DOLLAR HOLDINGS OF FOREIGN COUNTRIES TABLE I

	In billion dollars				1953 as per cent of:		
	1928	1938	1948	1953	1928	1938	1948
1. Continental Western Europe . . . . .	4.8	7.3	5.8	10.1	207	138	172
(a) France . . . . .	2.0	3.0	0.8	1.1	52	35	132
(b) Switzerland . . . . .	0.2	0.9	1.9	2.1	1,080	230	112
(c) Other . . . . .	2.6	3.4	3.1	6.9	307	177	220
2. Sterling Area . . . . .	1.4	3.9	2.9	4.0	288	104	138
3. Canada . . . . .	0.4	0.4	1.2	2.4	580	610	198
4. Latin America . . . . .	1.1	0.9	2.7	3.6	320	380	132
5. All Other Foreign Countries . . . . .	1.0	1.3	2.3	2.9	300	225	126
6. International . . . . .	..	..	3.4	3.3	..	..	99
7. Total Outside United States . . . . .	8.7	13.8	18.4	26.4	300	190	143

Source: *Federal Reserve Bulletin*, March 1954, p. 245.

ures, or greater deflationary pressures, than the rest of the world. This timeworn doctrine still seems to me sufficient to explain the tendency of European countries to run into heavy dollar deficits during a period of intense inflationary pressures associated with war financing and the reconstruction of war damage, or in the course of a world depression marked by steeper price and income deflation in the United States than in most other industrial countries.

I find it extremely difficult, however, to discover any chronic dollar shortage tendency in the current pattern of world payments. Foreign countries' gold reserves and dollar holdings are estimated to have increased by about \$ 8 billion in the last five years and \$ 2.6 billion in the year 1953 alone. Table I shows that foreign gold and dollar holdings are far higher today than in any previous period. While still inferior to 1938 levels in real purchasing power, they are also far better distributed with relation to most countries'

normal » United States expenditures for foreign aid and military procurement overseas;

(b) the expected increase in their dollar needs if present restrictions and discrimination on dollar transactions were eliminated through the restoration of convertibility;

(c) the possible impact of a United States depression on their levels of reserves, foreign trade and economic activity in general.

#### A. The Role of « Abnormal » U.S. Expenditure Abroad

The 1953 accumulation of gold and dollars by foreign countries far exceeds their total receipts of United States aid (14). Even the

(14) Other than so-called military-end-use items contributed in kind by the United States under military aid programs. This form of aid and the corresponding United States exports have been excluded throughout from the data presented in this paper, since there is every reason to assume that such items would not be imported in significant quantities by foreign countries under circumstances permitting the cessation of military aid programs.

further exclusion of United States military disbursements overseas would leave Western Europe and the Western Hemisphere in approximate gold and dollar equilibrium, but would leave the rest of the world with a deficit of about \$ 1.7 billion (see Table II).

essential imports and by absorbing resources that would otherwise be available for expanding their exports » (15).

The constant reference to Western Europe in these comments lead one to suspect that the Commission was not aware of the fact

GOLD AND DOLLAR TRANSACTIONS OF FOREIGN COUNTRIES IN 1953 (million dollars)

TABLE II

	World	Continental Western Europe	Sterling Area	Canada	Latin America	Other Countries	International Institutions
I. Estimated Increase in Gold Reserves and Dollar Holdings . . . . .	2,720	1,670	860	- 20	250	- 130	90
II. Through Receipts of U.S. Aid, Exclusive of Military End Items . . . . .	1,770	840	400	..	20	420	990
III. Through All Other Transactions . . . . .	950	840	450	- 20	230	- 540	..
A. U.S. Military Purchases of Goods and Services Overseas . . . . .	2,570	990	280	150	20	1,130	..
B. Civilian Transactions . . . . .	- 1,620	- 150	170	- 170	210	- 1,670	..
1. Net Outflow of U.S. Capital . . . . .	590	- 260	90	350	220	140	60
(a) Government . . . . .	220	- 110	..	..	340	- 20	..
(b) Private . . . . .	370	- 150	80	350	- 120	160	60
2. Multilateral Transfers and Errors and Omissions . . . . .	160	200	110	510	110	- 730	- 40
(a) Recorded in U.S. Transactions . . . . .	- 270	100	- 220	410	130	- 630	- 60
(b) Other . . . . .	430	100	320	100	- 20	- 90	20
3. Current Account with the U.S. . . . .	- 2,370	- 80	- 30	- 1,030	- 130	- 1,090	- 20
(a) Receipts . . . . .	14,680	3,220	2,520	3,020	4,230	1,650	40
(b) Expenditures . . . . .	17,050	3,300	2,550	4,050	4,360	2,740	60

Footnote: Data are primarily derived from official estimates of the U.S. Balance of Payments, as presented by Walther Lederer on pp. 22-23 of the March 1954 issue of the *Survey of Current Business*. Differences between total changes in estimated gold holdings as reported in the « Federal Reserve Bulletin », March 1954, p. 240 and the U.S. gold sales and purchases have been entered under « Other Multilateral Transfers » and added to the reported U.S. balance on foreign capital and gold to arrive at the « Estimated Increase in Gold Reserves and Dollar Holdings ». Unilateral transfers other than aid have been included in « Current Account Receipts ».

Adding to this an estimated \$ 0.6 billion for stockpiling purchases, the Randall report discerns in these figures a « concealed dollar gap of some \$ 2 billion to \$ 3 billion annually, which would be increased if there were a change in the economic situation, such as a recession here or a deterioration in Western Europe's terms of trade. On the other hand, it should be recognized that major parts of our « extraordinary » expenditure abroad are connected with our defense effort, and that the Western European countries' own defense programs affect adversely their trade position, by increasing their es-

that its « concealed dollar gap » concentrates nearly entirely on the Far Eastern countries — particularly Japan — whose economies have been disrupted by military events and attuned to a high rate of United States military procurement. It is, of course, obvious that these countries are not now accumulating gold and dollar *surpluses* equal to whatever the United States army spends there for procurement of goods and services, plus the amounts of reconstruction or defense support aid to Korea, nationalist China, etc. This

(15) *Report to the President and the Congress, Commission on Foreign Economic Policy*, Washington, 1954, p. 5.

becomes a «concealed dollar gap», however, only if one assumes that such expenditures are likely to be completely eliminated in time, without any corresponding offsets in foreign countries' dollar imports or exports.

Both assumptions would be extremely unrealistic. United States military disbursements overseas are still rising now and will at best taper off gradually, with little or no probability that they will fall down to zero in the foreseeable future. Moreover, such tapering off would simultaneously release for consumption, investment or exports the resources otherwise absorbed in the production of the goods and services contributed under these programs. This trend would be further reinforced by the decline in foreign countries' own military budgets which would be likely under such circumstances.

The absorption of these resources into civilian production will, of course, necessitate difficult economic readjustments. For Western Europe as a whole, the problem is more likely to center on the maintenance of domestic activity and employment than on the balance of payments itself, since its current gold and dollar accumulation is already as large as the total of aid and military disbursements receipts (see Table II, above). In the Far East, however, the readjustments will bear more heavily on the need to reduce imports or increase exports. These readjustments might spread to other areas and recreate generalized balance of payments difficulties with the United States if the decline in United States military expenditures were not offset in part by some increase in United States commercial imports or capital exports. Given the present rate of gold and dollar accumulation by foreign countries (\$ 2.7 billion), however, moderate changes in United States export and import levels would be sufficient to absorb any foreseeable reduction in United States aid and military disbursements.

#### B. The Role of Dollar Discrimination

The removal of discrimination against dollar trade constitutes a second factor of

fear and uncertainty in the progress toward convertibility. The *Randall Staff Papers* report that «guesses at the magnitude of the suppressed dollar demand have ranged between \$ 1 billion and \$ 3 billion a year; the true figure at present is probably much closer to the former than to the latter» (16).

I would myself incline to reduce even further the estimates of the real quantitative impact of dollar discrimination upon the balance of payments.

First of all, we must not forget that more than half of the United States exports flow to such areas as Canada, Central America, the Caribbean Islands, the northern coast of South America, Japan, the Philippines, etc. which either have no exchange controls at all (Canada and most of Central America) or which have no reason to apply discriminatory controls against dollar goods as such.

Secondly, the proportion of United States and Canadian exports in total imports of the rest of the world is now already far larger than before the war. This is true, not only for the world at large, but for all individual areas as well, with the single exception of the sterling area. The proportion is about one third larger than in 1937 for Latin American and continental E.P.U. countries, and 20 per cent larger for the countries outside the sterling area, continental E.P.U. and the Western Hemisphere.

Thirdly, while the elimination of dollar discrimination will tend toward an expansion of United States exports, two other factors are now acting in the opposite direction. The reduction in foreign aid eliminates some elements of discrimination *in favour of* United States shipping and commodities previously purchased under E.C.A., M.S.A. or F.O.A. procurement authorizations. Moreover, the recovery of production and the abatement of inflationary forces abroad reduce foreign demand for other United States goods imported in abnormal quantities in earlier years. It should be noted that the proportion of United States and Canadian goods in the total im-

(16) *Staff Papers*, Commission on Foreign Economic Policy, Washington, 1954, p. 18.

ports of Western Europe and the sterling area has declined substantially over the past year, in spite of greater dollar availability and of the trend toward a relaxation of dollar discrimination abroad. The continuation of this trend, in a noninflationary environment, might well result primarily in price readjustments by soft-currency exporters, rather than in any large diversion in the pattern of trade. This would be all the more likely if progress toward nondiscrimination were undertaken simultaneously by all major trading countries rather than by one or a few countries alone.

For all these reasons, the relaxation of trade and currency discrimination against dollar goods is likely to have a much more moderate impact on the dollar position of foreign countries than is generally feared. In any case, the relatively small order of magnitude of its possible effects should be kept in mind. For instance, a 25 per cent increase in United States exports to the sterling area — where discrimination is most stringent and effective — would amount to about \$ 375 million, and a 10 per cent increase in exports to continental Western Europe and the non-dollar countries of Latin America about \$ 250 million and \$ 100 million, respectively, *i.e.*, a total of about \$ 700 million a year.

#### C. The International Impact of a United States Recession

The international impact of a United States recession could hardly be estimated in advance with any degree of precision. It may be noted, however, that the mild recession experienced since the summer of 1953 has had a far smaller impact on foreign dollar incomes than was generally expected. Gold and dollar holdings continued to rise at a rate of more than \$ 2 billion a year throughout the period October 1953-March 1954. Current and prospective levels of foreign aid and military expenditures — at a rate of \$ 4.3 billion a year — will continue for some time to act as a powerful stabilizing influence on foreign countries' dollar earnings. For the next two or three years at least, a United States recession might be expected primarily

to slow down the current accumulation of gold and dollars abroad, but it is highly unlikely to resurrect any large surpluses in the United States balance of payments with the rest of the world.

The international impact of United States recessions, however, is not limited to direct trade between each country and the United States itself. Their major disruptive effects lie in the transmission of contractive forces from country to country, through their own mutual trade as well as through their trade with the United States.

The channels through which these indirect effects are propagated are of several kinds:

1. The demand of each country for exports from other countries — and not only from the United States — may contract automatically as a consequence of the lower income levels resulting from:

(a) the loss of export earnings to the United States;

(b) possibly, the deterioration in its terms of trade associated with a United States recession.

2. This will affect income levels in the supplying countries and react in turn on their own imports from the first, spreading the contraction from each country to the others.

3. This spiral of contractive tendencies may be broken, or on the contrary accentuated, by the economic policies adopted in each country:

(a) some countries may succeed, through compensatory policies, in preventing a decline in national income levels and maintaining their import demand at a higher level; their balance of payments will tend to deteriorate as a consequence, reducing previous balance of payments surpluses or causing a drain on their monetary reserves;

(b) currency depreciation, tariff increases or import and exchange restrictions would, on the contrary, aggravate other countries' difficulties; they may be resorted to:

(1) as the consequence of reserves losses, whether automatic or resulting from the compensatory policies above;

(2) as a substitute for such compensatory policies, in order to offset through increased exports and decreased imports the effects of the recession on economic activity, incomes and employment.

The international propagation and intensification of a United States recession can be considerably reduced by measures which will encourage and enable countries to follow compensatory policies (3(a) above) rather than disruptive policies (3(b) above) in the course of such a recession.

This ratio is substantially exceeded by only a very few countries outside the Western Hemisphere — mainly the Philippines, India, Indonesia and Japan. It varies, however, very greatly among individual Latin American countries, from about 25 per cent in the River Plate countries to more than 80 per cent in Mexico, Guatemala, El Salvador and Colombia.

A thirty per cent decline in exports to the United States would therefore have a very different significance for these various coun-

TABLE III

GOLD AND DOLLAR HOLDINGS, TOTAL EXPORTS AND EXPORTS TO THE UNITED STATES IN 1953  
(billions of dollars)

	Gold and Dollar Holdings	Total Exports	Exports to the U.S.	Per cent Ratio of Exports to U. S. to Total Exports	Per cent Ratio of Gold and Dollar Holdings to	
					Total Exports	Exports to U.S.
1. Continental Western Europe and Dependencies . . . . .	10.06	22.2	2.51	11	45	401
2. Sterling Area . . . . .	4.05	18.4	1.82	10	22	222
3. Canada . . . . .	2.42	4.6	2.52	55	52	96
4. Latin America . . . . .	3.63	7.6	3.58	47	48	101
5. Other Countries . . . . .	2.90	6.0	1.47	24	48	197
6. All Foreign Countries . . . . .	23.04	59.0	11.90	20	39	194
7. International Organizations . . . . .	3.34	..	..	..	..	..
8. Total . . . . .	26.39	59.0	11.90	20	45	222

Sources: 1. Gold and dollar holdings: « Federal Reserve Bulletin », March 1954, p. 245; 2. Total Exports: « International Financial Statistics », April 1954, pp. 22 and 24; 3. Exports to the United States: « Survey of Current Business », March 1954, pp. 22-23.

The difficulties of the task will be far smaller if action is taken at an early stage rather than after the recession has already been allowed to spread over a wider area.

The direct impact of a United States recession will be heaviest on the countries which are most dependent on the United States market for their exports. Canada and Latin American countries sell in the United States market about half of their total exports, while European and sterling area countries trade far more extensively with one another and sell only about 10 per cent of their total exports to the United States (see Table III).

tries or areas. It would correspond to only 3 per cent of overall exports and 7.5 per cent of gold and dollar holdings for continental Western Europe, but about 16 per cent of total exports and 31 per cent of gold and dollar holdings for Canada.

There are also very great variations in the cyclical sensitivity of different countries' exports to the United States. Sterling area exports have usually been affected far more severely, and those of Canada substantially less severely, than those of other areas during past United States recessions. Exporters of wool (Australia, New Zealand, Argentina and

Uruguay), minerals (Bolivia, Chile, Mexico) and raw materials in general suffer a far heavier decline than coffee, banana (Brazil, Colombia, Central America), sugar and other food exporters.

TABLE IV  
PER CENT CHANGES  
IN EXPORTS TO THE UNITED STATES

	1923 1924	1926 1927	1929 1932	1937 1938	1948 1949
1. Continental Western Europe . . . . .	- 6	..	- 71	- 32	- 12
2. Sterling Area . . . . .	- 11	- 18	- 79	- 48	- 18
3. Canada . . . . .	- 4	..	- 65	- 35	- 2
4. Latin America . . . . .	+ 1	- 8	- 68	- 32	..
5. Other Countries (*) . . . . .	- 8	..	- 67	- 34	- 6
6. Total . . . . .	- 5	- 6	- 70	- 35	- 7

(\*) Excluding Eastern Europe.

Taking into account both criteria — ratio of exports to the United States to total exports or G.N.P., and sensitivity of those exports to United States recessions — we should expect the most severe direct repercussions of a United States recession to concentrate on some Western Hemisphere countries — particularly Canada, Mexico, Bolivia, Chile, Argentina and Uruguay — and on Japan, the Philippines, Indonesia and the overseas sterling area.

International policies designed to avoid or moderate the further spread and spiralling of the depression fall into two major categories: monetary policies and trade policies.

Untied loans in convertible currencies — whether from international institutions or from high reserve countries — may be necessary to relieve these countries of severe balance of payments pressures and enable them:

(a) to avoid deflationary or restrictionist policies which will aggravate the depression elsewhere; and

(b) to adopt positive compensatory domestic policies designed to sustain income levels, employment and imports.

The amount of assistance required for this purpose will depend, of course, on the level

of these countries' reserves. Current ratios of gold and dollar holdings to total exports now average 40 to 50 per cent for all major regions except the sterling area (see Column 5, Table III, above). Sterling area and E.P.U. arrangements, however, result in a considerable economy of gold and dollar settlements in intra-area trade. As long as these arrangements continue, the need for external stabilization loans will be considerably less than it would otherwise be for Western Europe and the sterling area. The resources of the I.M.F. in gold and United States dollars — more than \$ 3 billion — and in the currencies of other prospective creditors could provide all — or at least a considerable portion — of the residual assistance needed *and actually usable* to overcome the reserve deficiencies arising from a United States recession.

The latter qualifications, however, limit considerably the significance to be attached to international monetary cooperation as an anti-recession device. Such cooperation may be more effective in preventing deflationary or restrictionist policies than in stimulating positive compensatory policies. The latter policies would prove very difficult to implement for many of the countries most severely affected by a United States recession, even if large stabilization loans relieved them of any anxiety about their reserve losses and balance of payments deficits. It is by no means easy to provide alternative employment for the men and resources left idle by the loss of export markets, especially in countries highly specialized in one or a few export products, such as tin, copper, rubber, etc.

Moreover, the ability of these countries to repay at a later stage the loans extended to them may very often be questioned by the prospective lenders. The lenders may take the view — rightly or wrongly — that balance of payments difficulties are aggravated during the recession, and will persist long after the end of the recession, as the result of ill-advised or irresponsible domestic policies. Disagreements on such points are likely to prove a stumbling block in many cases, especially when decisions have to be made — as is the case in the I.M.F. — by many



countries with diverse geographical, historical and economic backgrounds. They may create far lesser difficulties in more closely knit organizations — such as E.P.U. and the sterling area — grouping countries more highly interdependent economically, more keenly conscious of such interdependence and more familiar with one another's problems and policies.

Without minimizing the role of stabilization loans as an anti-recession device, their limitations should be recognized and should prompt further efforts in other directions as well.

Commodity agreements and buffer stocks designed to reduce excessive instability in agricultural and raw material markets would be of far greater value to primary producing countries than monetary stabilization loans. The difficulties raised by such schemes are enormous, but so are their potentialities for economic stabilization and development (17). One must regret, therefore, the rather cursory dismissal of this approach to the problem in the Randall Commission's report. Some of the Commission's recommendations, and particularly the « avoidance of actions incidental to our own commodity control and stockpile programs that would have avoidably disruptive effects upon world prices » (18) and continued consultation and cooperation with other nations to improve knowledge of world supply and demand for materials and food-stuff, and to explore possible means of lessening instability » (19) are all to the good, but give little hope for concrete action in the near future. This conclusion is clearly shared by the Commission itself, which also recommends « a policy of encouragement of diversification of the economies of the countries now excessively dependent upon a small number of products » (20). The benefits of international specialization must, to this extent, be sacrificed to the objective of domestic economic stability. In practice, however, the

costs and difficulties of diversification policies may well be as or more formidable than those of commodity stabilization.

The above measures will at best reduce, but not eliminate, the direct impact of reduced export earnings to the United States on the monetary reserves and economic activity of the countries affected. They should be coupled with other policy commitments designed to avoid, to the maximum extent, the adoption of beggar-my-neighbor policies of currency devaluation, tariff increases, trade and exchange controls, discrimination and bilateralism, which are a major factor of propagation and intensification of international recessions. The cooperation of the major and stronger nations is particularly vital in this respect. The influence of their policies on other countries, and their ability to use alternative measures to fight depressive tendencies at home, are usually far greater than those of the smaller or less developed economies.

No country, however, can be expected to renounce any means to improve its own domestic activity and employment, even at the expense of others, on the basis of Platonic appeals to international cooperation. While each of them may realize that the cumulative effect of mutual restrictions will be damaging to it as well as to others, none will feel assured that its own restraint, or lack of restraint, in this respect will decisively influence the policies of other countries. Mutual commitments, of a positive as well as of a negative nature, encompassing credit provisions together with trade provisions, remain the most promising way to promote the maximum degree of trade freedom and cooperative anti-recession policies. International agreements, of the I.T.O. or G.A.T.T. type, deserve greater United States support than they have received in recent years. On the other hand, in this field as well as in the monetary field, regional organizations may develop a far closer degree of intimate cooperation among the participating countries than can be anticipated on a world-wide scale. The combination of trade, credit and economic policy commitments and negotiations into a single institution can also contribute

to greater success in all three fields, as the O.E.E.C. experiment has amply demonstrated during its brief span of years.

We have just rejoined the conclusions reached in previous sections of this paper, when we discussed the prospects of convertibility and the best means to restore and preserve it in a world of national sovereignties. Regional cooperation should be viewed as a valuable adjunct, rather than a rival, of world-wide agreements.

### Conclusions.

The current rate of gold and dollar accumulation in Western Europe and the sterling area, together with prospective rates of United States aid and military expenditure overseas over the next years, provide a considerable cushion against a hypothetical United States depression. We should therefore expect a continuation, and even an acceleration, of the progress already achieved in recent years and months toward currency transferability and trade liberalization.

These, however, are fair weather objectives which can only be pressed forward in an environment of high economic activity and employment. In times of depression, each nation will almost inevitably resort again to trade restrictions and currency inconvertibility in an effort to insulate its own economy from external deflationary pressures. These policies cannot be successful in the end, as each country's actions tend to aggravate the difficulties of others, widening and deepening the contractionist tendencies at work. National anti-depression policies of this character have always proved in the past one of the main factors in the spread and aggravation of international recessions.

This spiral can be broken only by collective arrangements giving operational meaning to the interdependence of the various countries' policies. The avoidance of disruptive action should be made both possible and attractive through adequate access to stabilization assistance in case of need and through reciprocal guarantees against all unnecessary recourse to trade and exchange restrictions.

In cases restrictions become unavoidable, they should be limited in scope and time, and avoid unilateral discrimination against any country participating in the arrangements.

International cooperation of this sort is, however, extremely difficult to negotiate and implement in practice. Moderation in its aims, hopes and promises is indispensable to avoid later disillusionment, disaffection and retrogression. World-wide arrangements are particularly slow and cumbersome to negotiate and implement, and will necessarily remain more limited in their effective content than regional arrangements among countries which are highly interdependent on one another, keenly aware of this interdependence, readier to understand each other's problems and policies and to confide in the commitments and good faith of their partners.

Both types of approach should be developed and encouraged, and the potentialities of each should be as fully exploited as proves possible in practice. Much could be done today to improve the effectiveness of world-wide organizations such as G.A.T.T. or the I.M.F. Much could be done also, under present favorable circumstances, to relax some of the regional limitations of the E.P.U. and sterling area systems. Individual countries — particularly Britain, Germany and the Netherlands — have recently taken important measures in this direction, but drastic revisions in the E.P.U. Agreement are now long overdue to adjust it to the enormous changes which have taken place in the international pattern of trade and payments since the negotiation of the Agreement, four years ago.

Major creditor nations — and especially the United States — will inevitably exercise a profound influence on the progress of other countries and of both regional and international organizations toward currency convertibility and trade liberalization. The United States has a major stake, economically and politically, in the promotion of liberal economic policies abroad and in the strengthening and development of other free nations. These objectives happily coincide with the interests of both consumers and producers in

(17) See *Commodity Trade and Economic Development*, United Nations, New York, 1953.

(18) *Report to the President and the Congress*, Commission on Foreign Economic Policy, Washington, 1954, pp. 35-36.

(19) *Idem.*

(20) *Idem.*

the reduction of tariff and trade barriers here, and with the need to provide increasing outlets for our exports of goods and capital.

The report of the Randall Commission on Foreign Economic Policy is now before Congress. Its obvious shortcomings as a basic document on fundamental, long-term, United States international economic policy have attracted more attention in academic circles than its very real contribution to the clari-

fication of urgently needed, and immediately feasible, United States action in the monetary and trade field. The adoption of its major recommendations would provide the necessary spark for further and considerable advances toward the rebuilding of a workable international framework for economic growth and stability.

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