

UNITED NATIONS  
ECONOMIC  
AND  
SOCIAL COUNCIL



GENERAL

E/C.2/327  
20 May 1952

ENGLISH

ORIGINAL: ENGLISH/  
FRENCH

COUNCIL COMMITTEE ON  
NON-GOVERNMENTAL ORGANIZATIONS

INFLATION AND CONVERTIBILITY OF CURRENCIES

Statement submitted by the International Chamber of Commerce,  
a non-governmental organization having consultative  
status in category A

The Secretary-General has received the following statement, which is circulated in accordance with paragraphs 22 and 23 of Council resolution 288 B (X):

Dated: 14 May 1952  
Received: 16 May 1952

1. The world is again traversing a period of economic difficulties, certain aspects of which have much in common with the crises of 1947 and 1949. One of the most outstanding features of the present situation lies in the disturbance of trade caused by disorder in international payments. No doubt the Korean war, the additional burden imposed by rearmament, disturbed conditions in the world markets for raw materials, have helped to aggravate the international economic situation. It would, however, be a mistake to look upon these factors as wholly or even mainly responsible for the underlying disequilibrium revealed in the present disorganization of trade and payments.
2. The root cause lies far deeper. It lies in the failure of too many countries to recognize the unpleasant fact that two world wars have greatly impoverished their peoples and to translate that recognition into a resolute and consistent policy of action. They refused to see that they were in the position of a man whose resources have been eaten up by a long illness. Once he is back on his feet, he may have to borrow or even accept gifts from friends, but he will never retrieve his former position unless he works harder and lives strictly within his means. This hard fact of life is as true for communities as it is for individuals.

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3. The fault cannot be placed wholly on the governments, although a certain electoral demagogy played its part. In a persistent sellers' market and under the shelter of direct controls and protection, all sections of the community were pressing to have a larger slice of a smaller cake with less effort. The governments were therefore loath to carry through the drastic and unpopular policies of financial equilibrium at home and of expansion and freedom internationally which the true interests of their countries and of all classes of workers and consumers demanded.

4. The pressure of events is now forcing countries to follow the hard path they should have chosen earlier. This has been made more difficult by delay and by the introduction of new factors such as rearmament and raw material scarcities, but the picture is by no means as black as it might at first appear. On the credit side there is the immense progress, since the war, in reconstruction and expanded production under the generous impulse of the Marshall Plan, and the fact that in many European countries a great measure of internal and external financial equilibrium has already been attained. There are also welcome signs of a change of direction not only in the vigorous measures already taken domestically by certain countries, but also in the growing recognition given by government circles practically everywhere to the effectiveness of monetary and financial action as a means of correcting disequilibria. One thing is certain, however. Whilst ~~at times inevitable~~, stop-gap measures alone without the driving force behind them of a long-term policy are bound to fail and will leave the door wide open to new crises and ultimately to the break-down of international economic relations.

5. It is with this long-term policy that the ICC is mainly concerned here. Not long-term in the sense of distant, but in the sense of a continuing programme.

6. Before outlining its recommendations for such a programme, the International Chamber of Commerce believes however that certain preliminary remarks will help to clarify the issues involved.

7. First, the intimate link between a deficit in the balance of payments and inflation at home, in fact between external equilibrium and domestic policies in general, cannot be over-emphasized. They are really twin facets of the same problem which is overspending in relation to available resources. Experience has shown that unless a country vigorously fights inflation by a sound financial and monetary policy at home, its balance of payments problems cannot be solved. That is why the ICC recommendations place so heavy an emphasis on measures of domestic policy.

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8. Secondly, there is an equally intimate link between the strength of a currency and its free exchangeability. A currency which cannot be freely exchanged against other currencies is never really strong, since what strength it has is a purely artificial one created by controls. These controls, which cannot be entirely effective, give a false sense of security, and under their protection costs and prices tend to rise and devaluation is always in the offing. The competitive position of industry is moreover weakened by the inability to buy and sell in the best markets. A really strong currency is a currency which can be used by its holder to buy goods or settle debts anywhere in the world. If it does not fulfil this its primary function of an instrument of exchange, it will be weak because the demand for it will be weak. No currency, moreover, can hope to continue for long as a key currency for large areas unless it is freely exchangeable. The policy outlined below is therefore primarily a programme for rapidly achieving a lasting world system of freely exchangeable currencies, for without this there can be no healthy world economy. If there were a flexible and universally accepted monetary mechanism based on a multilateral system of trade and payments and a better distribution of monetary reserves, there would still be problems of economic adjustment, but these would probably not be causes of monetary dislocation.

9. Thirdly, the type of domestic policy advocated in this programme should not be misunderstood. Such a policy would not result in deflating the level of economic activity or in creating widespread unemployment. It aims on the contrary at stimulating economic activity by creating conditions in which production can develop freely and in which resources (including manpower) can direct themselves towards more productive uses. The inevitable shift of resources involved will mean some temporary hardship for all sections of the community. But if the policy is put into effect while there is the inflationary pressure of rearmament, this hardship will be little felt, a general depression being unlikely.

10. The adoption of a sound anti-inflationary policy is, however, undoubtedly a complex political problem in many countries. If the majority of the people do not understand the issues involved and the dangers into which a policy of easy spending is leading them, it will be difficult if not impossible for the governments to reverse the trend. It might therefore be wise, in those countries where this is politically possible, for businessmen and workers to come together through their representative organizations in an attempt to reach agreement to support a sound

anti-inflationary policy by their governments. In dealing with inflation, the long-term interests of all parties to production are identical with those of the consumers, and the governments would feel free to act more vigorously if they had behind them the support of all sectors of the community.

11. Fourthly, emergency measures, such as cuts in imports and foreign spending, may be inevitable as methods of halting the immediate drain upon essential reserves. But it should never be forgotten that measures of this kind run counter to the long-term interests of the countries concerned and of the world economy as a whole. Vested interests, moreover, always make them harder to get rid of than to introduce. Nor must it be forgotten that one country's imports and foreign spending are other countries' exports and foreign receipts. The expanded production needed throughout the whole world economy cannot be achieved by an all-round campaign for more exports and less imports. It is therefore most important that, however great the emergency, all corrective measures be taken with due regard to the working of the world economy as a whole and to the interests of other countries.

12. Fifthly, the present methods in use in many countries in competition against each other for promoting exports, such as direct and indirect subsidies, or any other measures which entail penalizing the domestic consumer or the taxpayer, are among the numerous causes of inflation today.

13. Lastly, although in the recommendations which follow domestic measures are given first place, this does not mean that there should be a long delay between domestic action and international action. It is obviously vital that a little time should be allowed for domestic policy to take effect. As long as there is inflation at home and monetary reserves are insufficient, no country can afford to meet the strong winds of a free world market. But, although something in the nature of a time-table is essential, rapidity is equally so.

## RECOMMENDATIONS

### A. DOMESTIC

#### Monetary versus Direct Controls

14. The ICC strongly urges the adoption of an active policy of monetary control operated through the central bank and the banking system in general. This would largely remove the need for direct controls, which are expensive and inefficient as a means of directing resources into the most productive channels. However, the

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needs of rearmament may of course make the continuance of some direct controls unavoidable for the time being. The great advantage of over-all monetary action is that it places the responsibility of the many individual decisions to be taken at the enterprise level squarely on the shoulders of the man actually engaged in production and trade.

15. Wherever inflation is strong, an over-all policy of credit restrictions, including where necessary sharply increased interest rates, should be systematical followed by the banks. If this policy is to be successful, it is most important that the central banks should be given the necessary degree of independence. Whether nationalized or not, they should be able to base their policy on economic and not on political considerations.

#### Budgetary Policy

16. The first essential is to balance the budget at a level consistent with the financial and economic resources of the country and, where inflationary pressures are strong, to produce if possible a budget surplus. This can be done, particularly with the additional financial burden of rearmament, only by reducing government expenditure and establishing a proper balance between rearmament and other expenditure. A great step forward could be made by eliminating subsidies and the administrative apparatus of numerous direct controls. The latter weigh heavily not only on government finances but also on the financial position and efficiency of industry and trade.

#### Production

17. Provided that sound corrective measures are taken on the monetary and financial plane, an increase in production relative to consumption is clearly an important factor in any policy designed to check inflation and restore equilibrium in a country's external payments. But there are a number of obstacles to be overcome.

18. There is no simple prescription for surmounting these obstacles. A sound financial and monetary policy such as that outlined above will go a long way towards solving some of the problems involved. Shortage of finance would be eased if private savings were reconstituted and the capital markets re-activated. A better utilization of manpower and personnel would result from the increase in productivity inherent in the working of a market economy. This would be furthered if, not only in manufacturing industries but also in the distributive trades and industries, every effort were made by management to increase the output and

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efficiency of already available manpower and personnel through improved methods of manufacture and administration. Finally, as far as rearmament is concerned, there will have to be a constant endeavour to keep a proper balance between rearmament requirements and the basic structure of civilian needs.

19. The problem of raw material availabilities and prices is being studied by a special committee of the ICC and a separate statement will be issued in due course.

#### Taxation

20. In many countries, taxation, both direct and indirect, is so heavy and so faulty in its structure that it increases inflationary pressures. It is therefore essential that both the principles and the methods of taxation should be overhauled. Conditions differ, of course, greatly from country to country and it is impossible in a short statement to make specific proposals. The following points should, however, be noted: (1) excessively high rates and unduly steep graduation as applied today reduce incentives and hamper the growth of production, the formation of capital and new investments; (2) tax structures, as they have evolved empirically, take little account of the long-term requirements of healthy economic expansion; (3) tax structures are further vitiated in certain countries by inadequate methods of tax collection, which make some forms of taxation ineffective and thus result in too much reliance being placed on other forms. One of the undesirable consequences of these developments is the increasing difficulty of creating new concerns, except by public financing, which is not always economic and which finds its resources in inflation.

#### B. INTERNATIONAL

21. Once the above measures have been taken domestically, the objective on the international plane should be free exchangeability of currencies, to begin with at least for current transactions, in other words the restoration of a foreign ~~exchange~~ market where private corporations and individuals may freely buy and sell national and foreign currencies for the settlement of accounts.

22. The ICC is convinced that notwithstanding existing difficulties, world-wide convertibility may be treated not as a distant goal but as an early practical objective, provided that internal policies of strong and stable finance are pursued by the countries concerned and that other measures of an international character

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are adopted, such as the following:

- (a) Arrangements should be made for the granting of convertibility loans to countries whose monetary reserves are insufficient to bear the immediate impact of a free exchange market. The monetary reserves of many countries and areas are in fact insufficient today to permit them to free their exchanges completely without outside backing. The sole purpose of these loans would be to facilitate convertibility, and they should not be made available to bolster up internal policies calculated of themselves to give rise to balance of payments difficulties. Whether those arrangements could be made by altering the charter of the International Monetary Fund and strengthening its reserves or whether other sources and methods of operation must be sought, is a question that will need careful investigation. A Sub-Committee of the ICC's Commission on Commercial and Monetary Policy has been set up to study the whole problem, and it is hoped to issue a report on this subject at a later date.
- (b) It is essential that countries in a strong creditor position with a persistent tendency to a surplus in their balance of payments should follow monetary and commercial policies in keeping with their position as creditors. In particular they should reduce tariffs and other trade barriers sufficiently to allow imported goods to compete effectively in their home markets and they should encourage an active policy of private investment in other countries.
- (c) If recourse to financial operations of a governmental character appears to be unavoidable when creating the initial conditions of a new situation of international monetary and financial equilibrium, it should not be forgotten that afterwards it will be necessary to restore the traditional flow of private capital. In all times, such movements of capital - short, medium and long-term - have been a fundamental factor in the international balance of payments. There can never be any durable or satisfactory equilibrium solely on the basis of the exchange of goods and services. Even in this latter limited field, recent experience with the EPU has proved that credits from government to government were incapable of offering an acceptable solution.
- (d) As soon as general convertibility has been established under the foregoing conditions, quantitative restrictions should disappear.
- (e) All direct and indirect export subsidies should likewise be abandoned.

23. Amongst the many adjustments that may have to be made, not the least important is that of the rates of exchange themselves; and it may be found unavoidable, at least during a period of transition, to allow the exchanges to move freely without there being fixed parities established between them.

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