

COMMITTEE ON ARRANGEMENTS FOR CONSULTATION WITH
NON-GOVERNMENTAL ORGANIZATIONS

RESOLUTION OF THE INTERNATIONAL CHAMBER OF COMMERCE ON
"MONETARY PROBLEMS IN THE WORLD OF TO-DAY"

(Circulated to the members of the Council for their information
in pursuance of paragraph 2 of Chapter IV of the Report of the
Committee on Arrangements for Consultation with Non-Governmental
Organizations (E/43/Rev.2, 1 July 1946))

INTERNATIONAL CHAMBER OF COMMERCE

International Headquarters
38, Cours Albert 1er, Paris VIII^e

Commercial and Financial
Relations
RB

Document No. 7716 - or.
28.XI.1946 1b

65th MEETING OF THE COUNCIL

(December 3rd, 10 a.m., 3.p.m., and December 4th, 10 a.m.)

MONETARY PROBLEMS IN THE WORLD OF TO-DAY

DRAFT RESOLUTION

adopted by the Committee on Monetary Relations
at its meeting on November 27th and 28th, 1946

Having considered the findings of its Committee on Monetary Relations, which are set out in the appended report, the International Chamber of Commerce submits to governments and to the international monetary institutions concerned the following statements on the principles of monetary policy it feels to be best appropriate to the present world situation.

1. The present generation, which has twice experienced war time inflation and in the inter-war period a disastrous deflation, should be only too well aware of the damage caused by monetary disturbances. The immediate danger in most countries is now one of continued inflation. This danger must be countered. With that end in view, the Chamber submits the following observations and suggestions.

(i) To a considerable extent, the upward tendencies of prices is due to non-monetary causes, arising mainly from destruction and disorganization brought about by the war, such as the shortage of goods, deficient production, and the rising costs largely attributable to higher wages. Among the most essential tasks are an increase in the production of power, a general recovery in efficiency, and firm measures to avoid the vicious

spiral of rising wages and prices. It should now be clear everywhere that until sufficient supplies become available, an attempt to improve the people's standard of living merely by raising money wages is doomed to failure, for it will simply lead to a rise in prices which will tend to imperil the integrity of national currencies.

(ii) But in many countries inflationary pressure is still largely the result of monetary causes in the form of large accumulations of purchasing power continually increased by deficit financing and a policy of excessively cheap money, which involves the monetization of debts and artificially increases the money valuation of capital assets.

(iii) Therefore, the first task is to arrest the increase in buying power by bringing budgets under control, so that no new notes need to be printed to fill the gap between expenditure and revenue.

Government expenditure must be subject to a thorough overhauling so as to eliminate superfluities and prevent too large an administrative establishment from reacting unfavourably on the budget position and on the standard of living - this being a measure which all countries should adopt after the war. The task of reviewing the State finances, with particular emphasis on cuts in expenditure and the revision of the taxation system, may in part be entrusted to independent persons of experience, collaborating with members of official bodies.

(iv) In order to achieve financial and economic recovery, a country must have a resolute government assured of adequate stability and continuity. In the occupied countries, the responsibility necessarily rests on the occupying powers in so far as they carry out the functions of government.

(v) When the deterioration in the position of any country or area has gone so far that serious inflation threatens, no piece-meal solutions will suffice, but there is more need than ever to devise a really comprehensive scheme providing for a proper balance in the central and local budgets, the reconstitution of adequate monetary reserves, a sound relationship in the cost and price structure both internally and in relation to other countries, with sufficient resources available for economic development. Foreign payments on reparation and other accounts must be adjusted to the volume of foreign deliveries which can be made without unduly straining the financial position of the debtor countries.

(vi) While efforts are being made to arrive at a permanent policy, palliative measures of relief will usually be essential, but they should be fitted at the earliest possible moment into a more substantial scheme. Foreign financial aid is urgently needed by certain countries, but such aid should be used to rebuild what the war has destroyed and for other constructive developments as indicated in (v) above. If it were used to evade the task of adjustment, it might easily become a downright misfortune.

2. On the other hand, practically all countries, even those which have a sound budget position, are faced with domestic difficulties inherent in a period of transition from war to peace.

(i) In war-time, when the main task was to reduce private consumption, price control reinforced by such measures as subsidies, quotas, restrictions on wage increases, rationing, etc., helped to keep back the rise in prices. Now that peace has returned and private consumption should expand, the price and cost system has again to function in a normal manner, and control

/may prove

may prove a definite obstruction to greater activity and increased output. As soon as the acute war-time shortages disappear, in one branch after the other, the control should be lifted. In view of the great shortage of houses, rents may have to be regulated for some time to come, but there also, a gradual adjustment should be made in each country to the new level of average purchasing power of the national currency.

(ii) Government subsidies of different kinds have more often than not been further increased since the war ended. These subsidies should be gradually liquidated, for not only do they distort the cost and price structure (a serious matter in itself), but they delay the moment when a true equilibrium in the national accounts can be established, the deficits absorbing amounts which may be badly needed in the task of reconstruction.

(iii) Particular attention must be devoted to moderating the present boom induced by a strong demand for consumption goods and supported by great investment activity in essential goods industries. According to the widely accepted principles of modern business cycle policy, the task of the government is to moderate such a boom by achieving a real budget surplus, which means, among other things, the limitation of expenditure including the postponement of new public works in every practicable way. But other measures must be added, including means to guard against unduly easy conditions on the money and capital markets, and great caution in making price and wage increases and in regard to industrial expansion.

There seems to be little likelihood that the next downward turn of the business cycle will resemble the great depression of 1930-33. If a comparison is to be made, it might be better to make it with the brief recession of 1920-21. The Chamber wishes to point out how dangerous it is for wide circles to think too much in terms of past experience at a time when the fundamental conditions obtaining are in many respects totally different.

(iv) To guard against an increase in the already heavy public debts, a real reduction should in the future be made during any period of relatively prosperous years; the opportunity should in particular be taken whenever possible to devote the proceeds of sales of war-time government assets to the retirement of debt. Moreover, efforts should be made to bring new government issues, whether long or short term, as well as bank holdings of government bonds into the hands of the investing public and of such institutions as insurance companies and savings banks.

(v) During the war, treasuries have had (and in some cases still have) a monopoly position on the money and capital markets and have, as monopolists, been able to fix lower rates of interest in spite of all their borrowing. But very low interest rates are not necessarily innocuous. The perpetuation of such rates would make monetary management more difficult, since one of the instruments would be lost which proved useful in the past for influencing economic developments. Treasuries and other monetary authorities should begin to think in flexible and not in rigid terms in this field also.

3. In modern economic life, the national and international aspects are closely interwoven, but some problems are, even so, primarily international in character.

(1) To restore a smoothly working international monetary system,

/it will be

it will be necessary to arrive at economically tenable rates of exchange to be kept stable within a system of free exchange markets for all current payments and for normal transfers on capital account. There can be little hope of establishing such a system without vigorously furthering a free exchange of goods and services.

The Chamber welcomes the intention announced by the International Monetary Fund to proceed with establishing initial par values for currencies that have an element of stability, although realizing that conditions are not ideal for determining at this time the ultimate structures of exchange rates. Thus, the par value determination for some currencies must be deferred until the economic and monetary situation of the countries concerned has improved, but a core of exchange stability should in the meantime make it possible gradually to fit all currencies into the exchange rate structure and enhance the prospect of orderly exchange arrangements.

The Bretton Woods scheme allows variations in exchange rates in cases of fundamental disequilibrium and, when such a disequilibrium exists and cannot in practice be corrected by cost adjustment, it is in the general interest that an alteration in the exchange rate should be made as soon as possible. But, even so, the advantage of stable rates should not lightly be thrown away and no country should be allowed to resort to an alteration in its rate of exchange simply as a matter of business cycle policy. A "beggar-your-neighbour" attitude is incompatible with a growth of confident collaboration.

(ii) The abandonment of the old gold standard has in many countries brought about a situation under which important monetary changes can be made simply by administrative decree. Adherence to the Bretton Woods scheme already involves some greater definiteness of policy; but beyond that, further steps may suitably be taken in each individual country by parliamentary control over currency matters and, whenever practicable, by the adoption of specific monetary provisions with the force of law.

To achieve greater monetary security, the central banks must not be subservient to any particular interest. It is also important that the various international monetary authorities established by inter-governmental agreement should preserve independence of outlook, when confronted with all the different interests which are bound to bear upon them.

(iii) Many countries possess a sufficiency of monetary reserves, but some need substantial financial support from abroad. So far, most international lending has been arranged between public agencies, but official financing needs to be supplemented whenever possible by private activity, and this activity ought gradually to gain in importance. An increased employment of funds through private channels is more capable of satisfying a great variety of needs. Individual private credits, more closely linked to a movement of goods, can as a rule be more easily adapted to changing circumstances than large blocks of official financing. Private credits, moreover, make use of funds naturally accumulating in the market from current savings instead of relying on new money derived from the central banks.

The resources of the main lending countries are necessarily limited, these countries being forced to pay close attention to the possibilities of actual deliveries of goods and services - a realistic

/consideration

consideration which the borrowers also must take into account.

(iv) The Chamber recommends that all countries should adhere as soon as possible to the Bretton Woods institutions, which, although not perfect, offer a real chance of international monetary collaboration. The Chamber hopes that, when difficulties arise, these institutions will be in a position to take action at an early stage and thus stave off currency depreciations and other disturbing measures. Care must be taken to ensure that the resources of the Fund and the Bank are not dissipated in a way which would only prolong the duration of a serious maladjustment. Finally, the Chamber hopes that in time various modifications may be made in the statutes and practices of these institutions according to the experience acquired.

(v) Perhaps the most urgent problem to which the Bretton Woods Bank should give its attention is the economic and financial recovery of countries that have particularly suffered from the war. In line with the principles set out above, the Chamber recommends that, however urgent the need, the lending should be done as part of a constructive scheme holding out the hope of real economic recovery on the basis of a financial stabilization.

(vi) In this connection, the Chamber wishes to make one general observation and recommendation to all countries, great and small. In connection with the important work carried out by the League of Nations for financial reconstruction after the first world war, it unfortunately came to be regarded as a sign of inferiority for a country to have resort to the expert advice which the League could give. In some earlier periods of European history, as in the sixteenth and seventeenth centuries, the most powerful countries did not hesitate to call in eminent persons from abroad for consultation. It would be a great advantage if a similar practice were to prevail again. The outside expert, trained in a different milieu, is often better able than the nationals of the country concerned to get a new slant on its problems. Representatives of an international institution will moreover, as a rule approach a problem with real objectivity - a circumstance of importance in matters of currency and international lending. The Chamber hopes for signs of a general willingness to have resort to outside expert aid and urges its National Committees to ask their governments to take into consideration the advantages which international consultation may bring.

4. While there are certain universal features in the world's monetary situation, some problems and responsibilities are peculiar to particular countries and areas. The various countries of the world show a variety of conditions, with great achievements in some cases and less progress, sometimes even acute distress, in others. A special importance attaches to the realization in the United States of a level of economic activity steady enough to serve generally as a basis of adjustment of prices and exchanges. The Chamber further hopes that the United States will continue to take a lead in the movement for freer trade, which is so important also from a monetary point of view.

5. Finally, the Chamber must emphasize what is so obvious but still so important, namely that without expansion in the output of goods and services, there can be no steady increase in the standard of living and no true basis found for a solution of the monetary problems. In fact, monetary and economic policy must be so framed as to stimulate the development of available resources and the working out of new ideas with sufficient scope given to enterprise and initiative for men to assume the risks involved in all economic progress.