

# GENERAL AGREEMENT ON TARIFFS AND TRADE

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## SCARCE CURRENCY QUESTION

Statement by the UNITED STATES representative  
at the meeting on 7 January 1955

Three proposals have now been put forward to amend the General Agreement by a clause which would permit discrimination against a country whose currency had become scarce. All of these proposals are designed to deal with the situation in which some large and commercially important country is undergoing a contraction of employment and income which has the effect of subjecting the balance of payments of other countries to severe pressure. The question which the CONTRACTING PARTIES have to decide is whether the adoption of these proposals would serve any useful purpose not already fully provided for in the Agreement. It is my delegation's belief that not only would they fail to serve any such purpose but that, if they mean what they seem to mean, they are inequitable and dangerous to the best interests of the CONTRACTING PARTIES.

In a very real sense, the whole issue is an artificial one. Every country today is committed to anti-deflationary policies, and in no country could a government long survive which permitted deep or widespread unemployment to develop. The realization that serious unemployment is an inexcusable waste of human and material resources and that, therefore, it is in the self-interest of countries, large and small alike, to avoid such a situation, is the best guarantee the world can have against deflation. The world of the 1950's is much wiser than the world of the 1930's, not only in this realization but also in knowing better how to deal with fluctuations in economic activity.

Much has been said in recent years about "good creditor" policies. Perhaps the most important single factor in a "good creditor" policy is the maintenance of the maximum productive level of employment of which a country's economy is capable. In the case of my country, such a policy has been the law of the land since 1946. Even more important, perhaps, is the fact that my Government has shown that it knows how to make this policy effective in practice. On two occasions since the end of the war, once in 1949 and again in 1953, economic activity receded slightly from the previous high levels it had attained. By taking timely and vigorous measures, however, the United States Government was able to halt the decline and permit the natural dynamic forces in our economy to reassert themselves. In other words, the United States is determined to prevent deflation and has proved that it knows how to prevent it.

Let us assume, however, that despite the best intentions and efforts of the United States or some other large country, a deflationary situation should develop in the country concerned which would bring about a scarcity of its currency. In that case other contracting parties may have a legitimate claim for the protection of their balances of payments. But, as my delegation has pointed out both in the sub-group and in this Working Party, such protection already exists in the General Agreement and in the related provisions of the Articles of Agreement of the Fund. It is not necessary for me to repeat the detailed proof of this statement. I shall only recall that there exist in the present GATT and Fund Articles, not one, but two avenues whereby countries affected by the scarcity of a particular currency may obtain relief through the right of discrimination against the country concerned.

The first of these avenues is through the existing paragraph 5(a) of Article XIV. It has been suggested - and indeed this is the rationale for the alleged need of the new provision - that XIV:5(a) has reference to only a "technical scarcity", i.e. a scarcity of a particular currency held by the Fund. Since it is always possible, so the argument runs, to have ample supplies of a currency within the Fund even at a time when there is a great scarcity of it in the world at large, this provision is of no real value. As proof of this argument the fact is cited that the Fund has been well stocked with dollars at a time when the world was passing through a severe dollar shortage.

Let us examine this argument for a moment. Why has the scarce currency clause of the General Agreement, i.e. Article XIV:5(a), not been invoked until now? Is it because countries have wished or needed to invoke it and have found it inadequate for their purposes? Or is it rather that most countries have found all the protection that they have required in Article XIV of the Fund? It is true that technically there has been no scarcity of dollars under the present scarce currency clauses of the GATT and Fund. But the fact that there has been no technical scarcity springs from exactly the same fundamental causes that have made recourse to a scarce currency escape unnecessary. The same world conditions that have compelled countries to remain under the transitional period provisions of the Fund Agreement have also compelled the Fund to assure that its gold and dollar resources would not be dissipated for purposes for which they were never intended.

Conversely, whenever there is any collective move toward convertibility on the part of the major currencies, many countries will be giving up Article XIV of the Fund and at the same time receiving standby credits from the Fund or making actual drawings on it, with the result that the greater part of the Fund's dollar resources will be committed. Moreover, in a world of general convertibility, there will be no need for the Fund to husband its dollar resources in the same way as it has done in the past. This would mean that if at some time in the future a general dollar scarcity were to develop, such a scarcity would very quickly be reflected in the Fund's dollar holdings. Thus, since we are here concerned with the formulation of long-term trade rules which will come into effect only after most of the major

currencies are in fact convertible, it is clear that the present scarce currency clause affords genuine and ample protection against the kind of contingency some countries are concerned with.

I said earlier that the present GATT and Fund Agreements contained not only one but two remedies for a possible scarce currency situation. The second one is the combination of a finding by the Fund of a general scarcity under its Article VII paragraph 1 and approval by the Fund of discriminatory measures under its Article VIII section 3. If the Fund, under Article VII:1, finds that a general scarcity is developing, and finds further that this scarcity is due in whole or in part to deflationary policies on the part of a particular country, it follows as a corollary that it will approve discriminatory restrictions against that country to the extent required by the balance of payments of any country adversely affected by the scarcity. It strains credulity to imagine that the Executive Directors of the Fund, having found the difficulty to originate in the policies of a given country, would act so inconsistently as to refuse other countries the right, in such a situation, to protect themselves against those policies.

I believe enough has been said to prove that new scarce currency provisions are completely unnecessary. But the proposals before us are worse than merely unnecessary; for, if I read them correctly (and this is clearer in the British and Australian proposals than it is in the Norwegian), they would permit discriminatory restrictions to be imposed regardless of the balance of payments of the restricting country. Countries in balance-of-payments equilibrium and even in surplus would have the right, and presumably would be urged by other countries, to restrict imports from the scarce currency country. What is being suggested, in other words, is an organized discrimination or world-wide partial boycott of the country in question. This, I submit, would be inequitable; contrary to the principles of the General Agreement; and inconsistent with the spirit of friendly cooperation which has always animated the work of the CONTRACTING PARTIES. The contemplation of any such action must be profoundly disquieting to any country against which it may be directed.

It is in this sense, Mr. Chairman, that my delegation and Government are convinced that the adoption of any such proposal as we are here discussing would be contrary to the best interests of the CONTRACTING PARTIES. Regardless of what may be said about the applicability of these proposals to all currencies, we must recognize that in practice they will be considered as directed against the dollar. This would certainly be the commonly accepted interpretation, and it is the interpretation which I can confidently say the Congress of the United States would put on any such clause. It is my delegation's considered judgment, in view of this fact, that the inclusion of any such provision in the revised General Agreement would seriously jeopardize an objective toward which my Government has devoted its unremitting efforts for the last seven years, that is, the adherence of the United States to a GATT organization.

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I have considered it my duty Mr. Chairman to point out some implications of the scarce currency proposals which apparently have not been fully appreciated by the delegations which introduced them or have supported them. It is my delegation's earnest hope that these considerations will receive the serious attention of the CONTRACTING PARTIES.