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PREPARATORY COMMITTEE OF THE INTERNATIONAL CONFERENCE
ON TRADE AND EMPLOYMENT

COMMITTEE II

STATEMENT BY GEORGE F. LUTHRINGER
OBSERVER FOR INTERNATIONAL MONETARY FUND

Mr. Chairman,

Thank you very much for your courtesy in permitting us to participate in these important deliberations of the Conference. We are vitally interested in its success.

Even before the days of the Bretton Woods Conference, a common feeling prevailed among those who were charting the course of the basic instruments of the Fund and the Bank that our twin brothers - as the late Lord Keynes named them - will need a third brother to help in the accomplishment of the common task of serving humanity usefully and successfully in its endeavour for economic security and for an ever rising standard of life.

The representatives of the participating countries of the Bretton Woods Conference included in the final Act Resolution Number VII which recognizes that the complete attainment of the purposes and objectives of the Agreement cannot be realized through the instrumentalities of the Fund and the Bank alone, and recommended to the countries of the world that they reach agreement as soon as possible on ways and means whereby they may best "reduce obstacles to international trade and in other ways promote mutually advantageous international economic relations - ... and facilitate by co-operative effort the harmonization of national policies of member states designed to promote and maintain a high level of employment and progressively rising standards of life".

We believe that an International Trade Organization as envisaged by the Charter this Conference is constructing will help to fulfil this function and by grappling with the problems entrusted to it, will be not only of great assistance to the member nations, but also considerably facilitate the work of the Fund.

The objectives of the two institutions are the same, only our labour is divided. It is understandable, therefore, that so many provisions are found in the proposed Charter, which refer to the Articles of Agreement of the IMF and are complementary to them particularly in sections C and D of Chapter IV of the proposed Charter. The aims of these sections, namely the eventual elimination of quantitative trade and exchange restrictions, is also one of our aims, Mr. Chairman, and we note with interest the methods by which this Conference is proposing that the member countries with the help of the ITO should endeavour to do away with some of the destructive features of quantitative trade restrictions. We know that this is a hard and arduous task. We also realize that without a parallel policy in the field of international financial relations, this purpose would be doomed from the outset.

When the Articles of Agreement of the IMF were drafted, it was realized that the Fund would start its operations soon after hostilities had ended, at a time when member nations would be endeavouring to reconstruct their economies and would be contending with economic problems of unprecedented magnitude. It was felt that under such conditions the member countries should during a transition period have considerable freedom in protecting their monetary systems while trying to fit their national economies into the overall pattern of the world economy. It was because of these considerations that Article XIV of the Articles of Agreement was adopted. This Article was thoroughly discussed at Bretton Woods and many member nations felt that they would need this freedom of action before assuming the obligation not to impose restrictions on the making of payments and

transfers for current international transactions. Yet even this article, Mr. Chairman, does not mean complete freedom for the member countries to impose exchange restrictions or maintain them for a longer period than conditions warrant. Exchange restrictions imposed by members under Article XIV will be under constant scrutiny by the Fund. The agreement requires members to withdraw restrictions as soon as their balance of payments position is stabilized, and the Fund itself can make representations to a member that conditions are favourable for the withdrawal of restrictions.

If the Fund should find that a member persisted in maintaining restrictions inconsistent with the purposes of the Fund, it could declare the member ineligible to use the Fund's resources.

These provisions of the Articles of Agreement will enable the Fund to play an active role in avoiding undue prolongation of the transition period. At the same time the Articles of Agreement are sufficiently flexible to take account of the particular circumstances of a country which may be facing unusually difficult reconstruction problems.

Proposals considered by this Conference which might have the effect of restricting the right of members of the Fund under the carefully safeguarded provisions of Article XIV of the Fund Agreement, should in our opinion, be approached with considerable caution and with full recognition of the complexities of the problems of the reconstruction period.

On the other hand, it would seem advisable to provide generally equivalent safeguards with respect to quantitative trade restrictions that may be imposed during the transition period for balance of payments reasons. Unless there is a reasonable correspondence between the transition features of the Fund's Articles of Agreement and the proposed Charter of the ITO, so far as action is based on balance of payments considerations, there may be an unfortunate impediment to the contribution which the Fund can make, even during the transition period, to the expansion and balanced growth of international trade.

It is perhaps of even greater importance that, once the transition period is passed, action authorized under the Charter for balance of payments reasons be in harmony with the policies and operations of the Fund.

Since the subject matter of this Conference concerns so largely restrictions on trade, it is perhaps easy for observers like ourselves to get the impression that possibly a disproportionate emphasis is being placed on the use of trade restrictions as a means of preventing disequilibrium or restoring equilibrium in the balance of payments. Undue reliance on the use of trade restrictions for these purposes, particularly when associated with provisions which permit counter-measures of the same character by injured countries, do of course carry a very real risk of an attempt to restore equilibrium on the basis of a contracting volume of world trade which may result in harm to all and benefit to none. We respectfully urge that there are other measures of adjustment which are less dangerous from this standpoint. One of the purposes of the Fund, as stated in Article I of the Fund's Agreement, is to give confidence to members by making the Fund's resources available to them and thus to provide them with opportunity to correct balance of payment maladjustments without resorting to measures destructive of national and international prosperity.

Another method of adjustment in appropriate circumstances and under proper safeguards is the adjustment of the value of a country's currency.

It is the hope of the Fund that once the transition period is past most balance of payments difficulties can be met without resort to restrictive devices. Countries will of course be expected to make reasonable use of their gold and foreign exchange reserves to tide over temporary difficulties, but these reserves will be supplemented by the members' quotas in the Fund, which in the aggregate total \$7,600 million. If the balance of payments deficits are due to temporary causes, use of reserves and quotas in the Fund may be all that is required. If the deficits are due to more fundamental causes, corrective action will be needed. It is the purpose of the Fund,

however, to avoid corrective action of a sort that will be destructive of world prosperity. Deflationary measures that throw men out of work or measures that restrict world trade are steps that should be taken only as a last resort.

We do not argue, Mr. Chairman, that it is incorrect or unnecessary to provide for the use of trade restrictions for balance of payments purposes. We do feel, however, that in view of the specific contribution which the Fund is intended to provide to the solution of these problems, the mechanism which you are designing here should assure that before resorting to quantitative restrictions members will have adequately explored the other safeguards and measures available to them for meeting balance of payments difficulties.

It is the view of the Fund that it would be both undesirable and impractical to attempt to define by formula or specific criteria the precise kind of balance of payments disequilibria or monetary reserve conditions which would justify quantitative restrictions on imports. These are complex matters. Each case should be considered in the light of its particular circumstances. It was found to be impracticable to define fundamental disequilibrium in the Articles of Agreement. There is not even in the Articles a definition of balance on current account although there is a listing of specific items which without limitation are to be considered payments on current account. It is the view of the Fund that the establishment of precise criteria is so complex as to be impractical and that vague general criteria left to the interpretation of individual members will invite confusion and inappropriate use.

The alternative would appear to be that the ITO should request the Fund to make a finding as to whether the balance of payments and reserve position of a country were such as to warrant the restriction of imports, and similarly to consult with the Fund as to the progressive relaxation and removal of these restrictions as balance of payments and reserve difficulties were eased. It would seem desirable in the post-transition

period, that consultation precede the adoption of restrictions as will be required in the case of exchange control measures authorized by the Fund under Article VIII of the Fund Agreement. If this is not regarded as feasible, there should at least be automatic and full consultation immediately after restrictions are imposed, and the restrictions should be regarded as tentative until after ITO approval.

Unless there is close liaison along these lines we may well be confronted with a situation in which two international agencies will be operating in or permitting member action in the monetary and balance of payments sphere under conflicting criteria and policies.
