

GENERAL AGREEMENT ON TARIFFS AND TRADE

RESTRICTED

W.9/139

11 January 1955

Special Distribution

Original: English

CONTRACTING PARTIES
Ninth Session

Review Working Party I on
Quantitative Restrictions

SCARCE CURRENCY CLAUSE

Summary of United Kingdom Statement in Review Working Party I on Friday 7 January 1955

1. The United States has argued that the scarce currency clause, proposed by the United Kingdom, is both unnecessary and unfair. It is considered to be unnecessary because two possibilities exist at the moment for the International Monetary Fund, and in consequence of this for the CONTRACTING PARTIES, to permit discrimination in the event of a persistent creditor situation emerging. The first possibility is action by the Fund under Article VII Section 3(b) of the Fund Articles of Agreement when a technical scarcity of a currency develops. The United States delegate has, however, himself referred to the fact that a technical scarcity has never arisen, although for most of the period since 1947 there was admittedly a scarcity of the dollar. He said that this was because the use of the resources of the Fund in the circumstances prevailing during this period would have been contrary to the purposes for which those resources were intended, and that in the future when Fund resources are earmarked as Support Funds for convertibility, technical scarcity could arise. Most other countries consider that since the use of the resources of the Fund could be prevented altogether by important countries, as it has been in the past, there can be no assurance that technical scarcity would arise in circumstances which were genuinely those of a persistent creditor situation. In 1949, the fact that technical scarcity did not occur did not prevent discrimination against the dollar, because countries were operating under the transitional provisions of the International Monetary Fund. But we are considering ways and means of moving forward to a situation with stronger trade rules, convertibility and no discrimination, and in this situation unless there is some adequate safeguard whereby discrimination against a persistent creditor can be permitted, the occurrence of a persistent creditor situation could force more and more countries to protect their balance of payments by quantitative restrictions imposed in a non-discriminatory manner, thereby extending the number of countries in difficulty and leading to a general contraction of world trade.

2. The United States delegate has also referred to the possibility that in the event of a general scarcity having been found to exist under Article VII Section 1 of the Articles of Agreement of the International Monetary Fund,

discrimination could be authorized by the Fund under Article VIII, even if a technical scarcity had not developed. The United Kingdom has always taken the view that it would be politically difficult for a country to vote in favour of discrimination against itself or to refrain from voting in opposition when such discrimination was under discussion, and that in that event the weighted vote in the Fund of an important member might be sufficient to prevent the authorization of discrimination. Since the Articles of Agreement of the International Monetary Fund cannot be changed, the United Kingdom, therefore, proposed in the context of the GATT Review a form of scarce currency clause which would make it possible for discrimination to be authorized without this embarrassment to the country which was a persistent creditor, since even if it felt obliged to vote against such a provision, it could do so without denying to other countries the possibility of taking concerted action to deal with the persistent creditor situation. It was for this reason that the United Kingdom put forward the suggestion that following a finding of fact by the Fund under Article VII Section 2 the CONTRACTING PARTIES should be empowered to authorize discrimination against the persistent creditor in trade matters.

3. The United Kingdom recognizes that both the major countries whose internal policies might lead to a scarce currency situation of world-wide importance, namely the United States and the United Kingdom, are committed to full employment policies and that the persistent creditor situation is, therefore, unlikely to arise. But it considers that countries going forward to freer trade and payments, including convertibility and non-discrimination will need to be able to assure their people that this ultimate safeguard against the effects of deflation in a major country does exist.

4. The United States delegate referred to the United Kingdom proposal as unfair and stated that an authorization of discrimination by the CONTRACTING PARTIES would be disquieting to the country against which it was directed. But the same comment would apply to action against a persistent creditor authorized by the Fund, as well as by the CONTRACTING PARTIES, and it was in the belief that a country concerned would find it politically very difficult not to attempt to block action by the Fund, even when it was generally agreed to be necessary, that the United Kingdom put forward its particular proposal for an amendment of the GATT.