SWISS MERCANTILE SOCIETY

Once again the vagaries of the weather had an adverse effect on the attendance at the Monthly Meeting of the Society, held at Swiss House on Wednesday, 9th January. However, the stalwarts present were amply rewarded for having braved the elements.

It was with deep regret that the Chairman, Mr. R. Chappuis, announced the death of Mr. Alfred Renou, who had been a member of the Society since 1942. Although his activities in the Colony had been mainly centred outside the precincts of Swiss House, his unbounded vitality and energy will, nevertheless, be missed in other spheres by most of those present, who paid a last silent tribute to our departed friend.

In a letter and report, which were read, Consul E. Ribi, who had been elected a corresponding member of the Society at the time of his departure from London, gave his impressions and experiences of Zagreb, where he and Mrs. Ribi have now settled. This most interesting account evoked great interest among the audience.

Reporting on the activities of the College, Mr. A. Jaccard, Chairman of the Education Committee, stated that there had been a record entry of 92 students at the commencement of the January term and that the total attendance of about 200 was the highest for the time of the year in the post-war period. Enrolments for future entry dates, particularly the summer term, were also well above those of previous years.

Following the meeting, Monsieur Marcel Heimo, Economic Counsellor at the Swiss Embassy, gave a talk on

"THE PROBLEM OF INTERNATIONAL LIQUIDIDITY".

In a detailed study of this complex subject, Monsieur Heimo gave the audience an insight into the perplexing problems in connection with the financing of international trade, which have been facing the world's foremost financiers and economists for years. Although some of the technicalities may have been beyond the grasp of the layman, a much clearer picture emerged in the minds of those present from Mr. Heimo's lucid exposé.

Space would not permit to print *in extenso* his exhaustive study of a problem with which he has long been closely connected. His talk can best be summarised in his conclusions, which are given below for the benefit of the many readers who were unable to attend.

So far, I have rapidly reviewed the broad structure of the IMF gold exchange standard; the nature, size, distribution and composition of international liquidity; the relations between international liquidity and the functioning of the world economy; the steps recently taken to increase the stock of currency reserves and strengthen the gold exchange standard; the various mechanisms for the adjustment of the balances of payments; and, finally, the suggestions made by various experts to cope with the deficiencies of the present monetary system and with the potential shortage of international liquidity.

Time has now come to attempt some tentative conclusions. Is there a problem of international liquidity? My answer is a qualified yes. Here are my qualifications.

I must first acknowledge the fact that all the evidence does not point to the necessity of rapidly finding *new* ways of increasing international liquidity:

— there is at present no shortage and the stock of international liquidity could be increased according to need by developing still further the use of international currencies as international reserves;

— the second line of defence provided by the IMF pool of gold and currencies could be further enlarged by the widening of the members' quotas;

— the protection of currencies against speculative short-term capital movements has recently been improved — Paris (borrowing) arrangements, Gold pool, American holdings of foreign currencies — so that such movements are less likely to happen on flimsy grounds in the future;

— confidence in the key currencies has been improving during the last months or so; in particular there is hope for a satisfactory settlement of the balance of payments difficulties of the United States;

— the consciousness of the growing interdependence among national economies has led to a more intense confrontation of national policies and a stronger will to co-operate, even to co-ordinate, in the international field; this should bring about a better prevention of balance of payments disequilibria, and the reduction of their magnitude and duration.

It may then well be that for a whille no special device will be necessary to enlarge the stock of international liquidity. But added together, the above arguments cannot, in my opinion, prevail against those which warn against a potential shortage of international liquidity and speak in favour of finding new ways of increasing national and/or international monetary reserves:

— first and foremost, the increase of international liquidity has not, since the war, and in all probability will not in the future — unless something is changed — keep pace with the expansion of international economic relations, especially world trade;

— inasmuch as the share of gold in the stock of international liquidity tends to decrease, and the share of currencies to increase, the monetary system — gold exchange standard — tends to become more unstable and more precarious, in spite of the various schemes conceived to prop it;

— let us not forget that the debasement of currencies in terms of gold corresponds to a century-long experience, and that this historical phenomenon expresses the reverse of the ever-increasing need for liquidity;

— finally, the present system of international payments is, if not formally at least in practice, deprived of an effective mechanism for the rapid adjustment of balances of payments; we have thus, in spite of increased international co-operation, or even co-ordination, no assurance that imbalance will in the future be less than it has been.

Such a situation, where the odds are if not overwhelmingly at least distinctly against a standstill, cannot but lead to the conclusion that foresight and caution are necessary. What then can be done? To remain realistic one should not forget that international discussions are often governed by the rule of the smallest common denominator; that Governments show reluctance to leave the — in the short-term — relatively safe ground of what exists, to embark upon what could be considered far-fetched and adventurous plans, however technically well-founded they might be; and that everyone tends to appreciate the future according to the strength of his present position. It is therefore perhaps not possible to give a straight, plain and simple answer.

Prevention is better than cure. In the field we are discussing, this implies that the fact that interdependence is bound to go on growing must *effectively* be taken into account. So each country should continue to subject itself to the rules of *monetary discipline*, i.e. its authorities should in the formulation of their economic policies have constant regard *for the requirements of maintaining balance of payments equilibrium*. This, however, is more easily said than done. To invoke monetary discipline has no exorcising power; countries willing to behave according to its rules are not always able to go the whole hog because such rules have their political limitations; moreover, the substance of monetary discipline seems to vary according to time and place: what does monetary discipline exactly imply when surpluses in the balance of payments co-exist with creeping inflation, and deficits with stagnation and unemployment?

The volume of currency reserves being limited, what is good for one country can adversely affect others. Therefore, international monetary co-operation should lean more and more towards *co-ordination of policies*. May I venture to say in this connexion that central bank co-operation, especially in the limited field of foreign exchange operators, is far from being enough in the longer run; such a co-operation should be an integrant part of a wider confrontation including all the more important sectors of the national economies and embracing the main instruments of present-day economic policies.

Anyway, it is obvious that national monetary discipline, and international co-operation and co-ordination could contribute a lot to the lessening of the magnitude and the duration of imbalance.

Currency speculation should continue to be stifled: the short-term capital flows it entails serve no functional or constructive purpose, except in quite definite conditions; they are self-inflammatory and therefore dangerous, even destructive. All international arrangements designed to prevent or curb such speculation — like the " Paris (borrowing) agreement ", etc. — are welcome, and should be continued as long as confidence in key currencies has not been restored and the world economy has not recovered a permanent stability.

There remains the problem of how to adapt the volume of national or international monetary reserves to the requirements of a smooth functioning of the international economy. What strikes me in this connexion is that there is at the core of each of the plans I have outlined a sensible enough idea:

- the prime importance of the general application of a stricter monetary discipline, in Mr. *Rueff's* plan for a return to the gold standard;
- the necessity, in the *Triffin* Plan, to reduce the unsteadiness of the gold exchange standard through the internationalization of currency reserves and to increase the stock of international liquidity through a wider use of the banking principle at international level;
- the ingenious linking of the need to augment development capital with expanded liquidity requirements, in the *Stamp* plan;
- the alternating and recurrent character of balance of payments deficits, and the need to relieve central banks of the risks involved in the holding of weak currencies, in the *Maudling* plan;
- the consolidation of the currencies' share in international liquidity by compulsory holdings of central banks, in the *Posthuma* suggestions;
- the long-term inescapability of the debasement of currencies, unless new ways are found to provide the international economy with the liquidity it requires, in the proposal to revalue gold.

Some of these ideas are contradictory. They should nevertheless all be considered, by an international conference of experts for instance, with a view to carrying out at least those which are thought to be beneficial and falling within the limits of the politically acceptable to all. It would naturally be possible to do for a time without new devices, but at the risk of serious disturbances in the international system of payments later on.

Following his talk, Monsieur Heimo answered various questions put to him on the subject with authority and great clarity.

A cordial vote of thanks was proposed by Mr. O. Grob, Hon. Member and past President of the Society, and this was warmly supported by all present.

W.B.

SWISS CHURCH

SERVICES EN FRANCAIS: à l'Eglise Suisse, 79 Endell Street, W.C.2, tous les *dimanches* à 11h00 et 18h30. L'Eglise est ouverte le dimanche: pour le lunch l'après-midi et le soir; le *lundi* soir: dès 18h30; le *jeudi*: dès 15h00 et le soir.

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