

'Freedom of trade and the European Payments Union' from Bulletin du Conseil National du Patronat Français (December 1950)

Caption: In December 1950, the Bulletin du Conseil National du Patronat Français (Bulletin of the National Council of French Employers) considers the position of France and Germany on the European Payments Union (EPU).

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Freedom of trade and the European Payments Union

[...]

II. — European Payments Union

[...]

I. — France's position

One must remember that France was the main beneficiary of drawing rights in 1948 and 1949. Once the EPU was set up, France might have been expected to become very quickly a debtor country. In fact, the complete opposite happened, and on 30 September 1950, France, with a cumulative net surplus of 186 million dollars (accounting currency) was the largest creditor of the EPU.

This situation had its risks, especially from a monetary standpoint. In accordance with the workings of the EPU, the following settlement was made: France gave the EPU a credit of 145 million dollars (accounting currency) and received from the EPU 41 million real US dollars. In other words, 186 million dollars worth of goods and services were exported to Western Europe, giving rise to an equivalent sum in francs, that is about 65 000 million francs, in the form of 14 000 million in American dollars and 51 000 million in EPU credit lines. The result was undoubtedly inflationary.

The French credit, which had gone down to \$162.7 million on 31 October, would, by the end of November, have probably returned to its level of 30 September, even though the exact figure is unknown. However, it is likely that the rise in the price of raw materials bought in sterling will reduce this sum in the months to come. It is even possible that France will be running a deficit in sterling, and it will thus be able to obtain real benefit from the EPU, thanks to the possibility of settling this deficit with the help of credits outstanding to other countries.

II. — Germany's position

The position of Germany is at the opposite extreme to that of France.

The German 'quota' is \$320 million (accounting currency). All liabilities less than or equal to 20 % of this sum, i.e. \$64 million, are settled by a credit from the EPU. From 64 to 120 million can be settled partly by an EPU credit and partly by transfers of gold — or dollars. Above \$320 million, it is settled only by payments in gold or dollars.

On 31 July 1950, Germany had liabilities of \$29 million (accounting currency). Her debts amounted to \$82 million on 31 August, \$185 million on 30 September and \$311 million on 31 October. Its quota was therefore completely used up.

Faced by this dangerous acceleration of German debt, the OEEC instructed two experts, Mr Cairncross and Mr Jacobson, to draw up a report on the situation. The conclusion of the report was that the two basic causes of the German deficit were to be found in the changes to the terms of payment and the deficit in the current balance of payments. On the one hand, Germany tended to settle its imports in cash, whilst agreeing to generous terms of credit for its exports. On the other hand, and above all, the strength of its economy, together with its desire to rebuild stocks of raw materials, entailed a significant increase in imports at a time when prices were rising.

Noting that German exports were expanding fast, the two experts came to the conclusion that the difficulties that Germany was facing were temporary: Accordingly, the Steering Committee of the EPU proposed some temporary solutions to the OEEC. These may be classified under four headings:

1. Germany must take a certain number of measures, especially in the budgetary and credit areas, aimed at reducing unnecessary imports. It must also prevent speculative imports, requiring a 50 % down payment from importers. On the other hand, it must continue to encourage exports.
2. The other Member States should, as far as their position within the EPU allows, encourage imports from Germany.
3. For a limited amount of time, the EPU will give Germany special credit facilities.
4. The ECA will be asked to lend Germany \$30 million from the 'Administrative Aid Fund'.

The ECA has said that it is not prepared to grant this loan, because the resources of the Administrative Aid Fund should be used only as a last resort. On the other hand, the OEEC was satisfied with the action programme prepared by Germany, and it therefore decided, on 13 December, to grant Germany the special terms recommended by the EPU. These terms consisted of a credit line of \$120 million (accounting currency) bearing interest at $2\frac{3}{4}$ % per annum, whose reimbursement would extend from May to September 1951. This credit line was to be guaranteed by the dollar assets that the German Central Bank held with the Federal Reserve in New York.

Another solution was contemplated at one time which involved an increase in the German quota with the EPU. Wisely, it was abandoned, because such a solution would have appeared to reward a deficit. It is possible, however, that this increase will be reviewed when Germany has the situation under control. Calculated on the basis of Germany's trade balance in 1948, the quota no longer bears any relationship to the much-increased level of German imports and exports.

A lesson should be learned from this experience. The EPU certainly represents a significant step forward compared to monetary bilateralism, in so far as it implies a return to the transferability of currencies. It may, however, be improved by restoring true convertibility, giving free reign to conventional self-regulating mechanisms. Early on, this point was brought to the attention of the French Government by the CNPF, and it is to be hoped that the OEEC will support this point of view.