SAFEGUARDS AGAINST INFLATIONARY AND DEFLATIONARY PRESSURES FROM ABROAD

Statement made by the Norwegian Representative
at a meeting of the Working Party on 17 December 1954

1. I should like to say a few words with regard to the proposal for a new article to be inserted between Articles XIV and XV of the General Agreement - a proposal which has been distributed to the CONTRACTING PARTIES today in W.9/112.

2. The proposal is based on views similar to those which have found expression in the proposal for a "scarce currency clause" and it carried somewhat further the idea contained in the proposal by New Zealand for an article dealing with full employment (W.9/79).

3. The Norwegian proposal would enable members to take action to safeguard their economies against inflationary or deflationary pressures from abroad. The main idea behind this proposal may be stated briefly as follows: For any multilateral trade and payments system to work effectively it is of importance that not only the external policies be co-ordinated and governed by common rules, but that also the internal economic policies of the various countries be harmonized to the largest possible extent. Each country must be willing to adapt itself to the others in the pursuit of the objectives, which we all agree upon and which are so clearly brought out in the preamble of our Agreement. In particular, it is of the greatest importance that each country takes the necessary steps to prevent inflationary or deflationary tendencies from developing within its own economy.

4. I think we are all aware of the necessity of countries, in which inflationary tendencies arise, to take all appropriate steps to check inflation in order to prevent balance-of-payments difficulties from arising. If this is not done, the result may be a reintroduction of quantitative restrictions in the country concerned. If the country in question plays an important rôle in world trade, the situation may lead to balance-of-payments difficulties for other countries and possibly force those countries to reintroduce quantitative restrictions. It may be said that the multilateral system itself will compel countries to check inflation if they wish to keep their currencies convertible. However, theory and practice may differ considerably, and we find that our common interest in this respect should be covered by a specific provision as proposed by my delegation to the effect that the CONTRACTING PARTIES may, under well-defined conditions and with due regard to Article XII, paragraph 3(b), decide that a
contracting party, pursuing an inflationary policy, shall not be permitted to institute import restrictions under Article XII. Such a provision will, in our opinion, have the effect of influencing the country or countries concerned to maintain internal financial stability not only to their own benefit, but also to the benefit of other countries.

5. A deflationary policy will on the other hand meet no similar automatic sanction by the multilateral system itself. A country pursuing a deflationary policy may strengthen its balance-of-payments position, but to the detriment of the interests and payment positions of other countries. The danger of spreading deflation, if deflationary tendencies arise in one or more countries, is therefore in our opinion much larger than in the case of inflation. If all countries pursued economic policies in full accordance with the objectives generally agreed upon, namely to raise the standard of living, to expand production and to ensure full employment and a steadily growing volume of real income and effective demand, there would of course be no danger of deflation, or a spread of deflation among countries. But even if we all agree that convertibility must not be obtained at the cost of the expansion of production and high employment, and even if we all intend to avoid by all means a retreat from the freedom of trade, which we are aiming at, there will be no guarantee that deflation may not arise in a country and cause difficulties for others, and in the next stage possibly lead to a setback in the liberalization efforts.

6. The Norwegian proposal is to be considered as an attempt to prevent such situations from arising. With a provision along these lines the members will feel obliged in their own interest to turn a possible deflationary development into expansion. It is of course our hope that it will never be necessary to put such a provision into effect. It should only be used as a method of last resort and after careful consideration by the CONTRACTING PARTIES.

7. As I have already mentioned the proposal is closely related to those put forward by the United Kingdom and New Zealand delegations. Considering the United Kingdom and the Norwegian proposals, we find that they differ somewhat, and I will try to explain in a few words what these differences are in substance. Both proposals would give the contracting parties the right to restrict through collective actions imports from a persistent creditor. However, the main prerequisite for such collective action according to the United Kingdom proposal is a finding by the International Monetary Fund that the currency of the country concerned is generally scarce in world trade, whatever the reasons may be. The Norwegian proposal contains the right for contracting parties to discriminate against countries pursuing deflationary policies, whether the currency concerned has become scarce or not. Furthermore, it is according to the Norwegian proposal up to the CONTRACTING PARTIES themselves to determine whether action shall be taken or not. The basic idea behind the New Zealand proposal is the same as in the proposal of my delegation. The New Zealand proposal, however, does not indicate what concrete measures shall be taken by contracting parties to safeguard their economies against deflationary and inflationary pressures from other countries, but leaves it to the CONTRACTING PARTIES to decide on the basis of consultations.
8. I do not find it necessary to give any further comments at this stage, but it is our hope that the representatives will give thought to our proposal during the Christmas recess on the basis of the document and the explanations we have given to you.