

Introducing Currency Convertibility in Western Europe in the 1950s¹

Kalman Dezseri

Hungarian Academy of Sciences, Institute for World Economy, Budapest

In the last days of 1958, ten European countries, who were shortly followed by 5 more² declared their currencies to be convertible according to IMF Articles. In addition, fifteen other IMF member countries took steps to adjust their exchange-control regulations to the new conditions. Most of these countries were associated in a monetary area with one of the European countries. This simultaneous transition into convertibility of most of the Organisation for European Economic Cooperation (OEEC) member countries' currencies represented a significant milestone in the history of European currencies³.

This collective step to external convertibility only in 1958 meant the end of most of the foreign-exchange restrictions implemented before World War II. Even the return to current-account convertibility was only the result of a long process of economic policies and extensive debates, strongly supported by industries and banks⁴. The

¹ I am very grateful to Prof. Peter Kenen of Princeton University (USA) and Ms Robin Matthewman (Washington D.C.) for their extremely valuable comments. The mistakes and the views expressed are mine and do not necessary reflect their views.

² The 10 countries were: Great Britain, France, F.R.Germany, Italy, the Benelux states, Denmark, Norway, and Sweden. The five countries were: Austria, Finland, Greece, Ireland, and Portugal.

³ See Horsefield (1969). For more about the history and general experience of introducing currency convertibility in Western European countries, see Limmer (1956). The American view is described by Heilperin (1953).

⁴ Inter alia, Mendéz-France (1953), Mangoldt (1955), Bauer (1955), Marget (1956). *Chambre de Commerce Internationale* (1954). The effects of convertibility on the banking sector was analyzed using the case of the German banking sector by Friedl (1968).

economic development and economic policies of the participating countries and the functioning of the European Payments Union (EPU) contributed to the success. The process of introducing convertibility lasted for more than a decade. During this period, these Western European countries accumulated various lessons which are worth surveying. These lessons can be useful for countries which are in the process of introducing convertibility with pegged exchange rates.

In the late 1940s and early 1950s, Western European countries relied on exchange controls and their gradual liberalisation because of historical conditions that included: a) foreign indebtedness, b) reparation payments, c) reconstruction, d) a dollar shortage (lack of convertible currency) and e) the international political situation, rearmament⁵. Significant exchange restrictions and multiple currency practices were still in force, despite requirements by the newly-founded IMF to remove them after a transitional period. Imports from the so-called dollar area⁶ were especially restricted because these countries' aim was to reduce their deficit in US dollar payments and to protect their gold and dollar reserves.

Under these economic conditions, the introduction of convertibility could not mean immediate free trade in an absolute sense. The first reason was that trade was still hindered by the existing obstacles (e.g. customs duties, import quotas and other types of state protectionist measures). Another reason was that only the so-called "external" or "non-resident" convertibility on current account was adopted by these countries in the last years of the 1950s. This level of convertibility permitted current-account earnings in domestic currencies held by non-residents to be exchanged for foreign currencies at exchange rates within margins around parities as defined by IMF Articles. Most of the problems which emerged were overcome by the OEEC and the European Payments Union (EPU). These organizations played important⁷ roles in the following years.

⁵ Heilperin (1951/52).

⁶ The dollar area consisted of the US, Canada, and parts of Latin America.

⁷ Marsan (1954), Limmer (1956), de Vries *et al.* (1969). The role of the EPU is analyzed in detail by Jacobson (1950), Comité Direction de l'OEEC (1954), Triffin (1957), Holzapfel *et al.* (1959), Coffey-Presley (1971), Welcker (1973), and Posthuma (1982).

The practice of current account convertibility introduced in various Western European countries in the late 1950s, differed in several ways. Variations in the practice of these countries existed because of, (1) the differences among the various definitions of the term non-resident and, (2) the bilateral payments arrangements⁶ which were still in force. Therefore, many of the existing practices could be deemed to be restrictive under Article VIII, Section 2(a).

Except for West Germany, unrestricted freedom for residents to make payments and transfers for current international transactions and to make capital transfers was not granted in 1958. In this respect, convertibility was narrower than the level of convertibility established either by Article VIII, Section 2 of the IMF, or by the concept of "de facto" convertibility.

Looking at the process of introducing currency convertibility in Western Europe, the decade-long period can be divided into six phases:

(1) *The first effort by the UK in 1947.* This attempt failed after six weeks. It probably would not have been so disastrous if the dollar-pound sterling rate had not been so out of line or if the rate had been more flexible and had adjusted.

(2) *The first phase of the EPU between 1950-52.* The EPU promoted the removal of direct restrictions (quantitative restrictions, non-tariff barriers) and the reduction of customs duties on intra-European trade and resulted in a new dynamic. The liberalization contributed to a large increase in intra-European trade. Between 1949 and 1956, the import volume among the member countries rose by 226%⁷. The EPU could not, however, make an apparent contribution to a wider system of trade and payments among the industrialised countries. The division between the dollar area and the non-dollar world remained as impenetrable as ever because little progress was achieved in reducing European

⁶ Any bilateral agreement, including a clearing agreement is fully incompatible with market convertibility [Hinshaw (1952), Coppieters (1959), etc.].

⁷ IMF Exchange Arrangements and Exchange Restrictions 1957

restrictions on imports from the dollar area. The main reason was that the gold and dollar reserves of the EPU countries remained at such a low level¹⁶ that they were actually lower in 1952 than at the end of 1945.

(3) *Progress toward non-resident convertibility after 1953.* This progress was based on the rise of the Western European countries' reserves after 1954. The increase in reserves was basically a reflection of the Western European economic recovery and improved export performance. This encouraged a sharp reduction in European restrictions on imports from the dollar area-countries.

(4) *Progress toward resident current-account convertibility.* The increasing ratio of reserves to imports meant that the possibility introducing resident convertibility in Western Europe increased. The improvement in reserves made it possible to tighten the settlement rules of the EPU and to remove the restrictions and discrimination of Western Europe against the dollar area. With gradually increasing central-bank convertibility, the financial incentive for trade discrimination against the outside world could become progressively weaker and the increase in reserves could progressively enlarge the degree of resident convertibility.

(5) *Plans to introduce partial convertibility of the pound in 1952-1953.* The principles of these plans were very similar to those of the plan of 1947. As in 1947, the restrictions on imports of goods and services and on capital transfers imposed by the sterling area on the rest of the world were to remain unchanged. This remained a plan and was not actually carried out. The main differences between the 1947 plan and the plan in 1952-1953 concentrated on two issues. First, there were changes in exchange-rate policy. The pound was devalued in 1949, resulting in a more realistic rate. The economic policy of the UK changed its preference in favour of a floating exchange rate *vis-*

¹⁶ Western European gold and dollar reserves

(billion \$ at the end of year)

1945: 10.5 1947: 7.7 1950: 10 1951: 10.1 1957: 17.7

Source: IMF: *annual reports between 1946 and 1958*

à-vis the dollar even under the rules of the fixed exchange-rate system of Bretton Woods. Second, the new plan envisaged the introduction of market convertibility instead of central bank convertibility. The exchange rate was to be determined by foreign-exchange markets rather than by interbank supply and demand. To this end, the British authorities started to restore private foreign-exchange markets.

(6) *Increasing transferability of several Western European currencies.* Following the policy of the UK, more and more types of transactions were gradually liberalized in the other Western European countries. In some cases, currencies became *de facto* convertible. Thus, in April 1954, West Germany simplified and liberalized its currency controls in the same way as the UK. Similar measures were also taken by other Western European countries and as a result, current-account convertibility was introduced for non-residents in 1958. Only West Germany went further to grant non-resident convertibility on capital account. Later, these measures were followed by steady relaxation of controls on both current and capital accounts, and consequently reflected substantial progress towards 'resident and non-resident', that is full convertibility. In spite of this progress it was still current-account convertibility. This liberalization process led to an arrangement of formal convertibility which was worked out by the EPU. After this act, the EPU was replaced by the European Monetary Agreement (EMA) in 1958.

1. The British Approach to Convertibility

By the end of World War II, the multilateral use of the pound had almost disappeared; it was replaced by bilateral arrangements covering virtually all countries outside the sterling area and the American account area. It was hoped by many economists and government officials, that once the war was over, most of the controls could be removed.

The British government was convinced that convertibility of the pound could be restored in a short period after the war. The Anglo-American Financial Agreement of 1945 had, therefore, envisaged an

early restoration of sterling convertibility¹¹. It implied a fast and individual approach to convertibility. Despite the official optimism, the first attempt failed. Pound-sterling convertibility was achieved only in 1958, that is more than ten years later¹². It turned out to be a gradual process which was coordinated with the policies of other Western European countries.

(A) The first attempt at pound-sterling convertibility

After the war, the excess money which accumulated in the hands of the public through suppressed inflation, furnished a significant increase in spending. The aggregate supply was mainly confined to domestic products because imports were still restricted, due to the controls that had aimed to prevent the balance of payments from deteriorating during the war. Although the UK's economic policy aimed at extending the use of sterling for current transactions, since 1946, the pound could not be transferred between the various payments or currency areas.

The formal restoration of current-account convertibility of the pound with the US dollar took place in July 1947. The main features of the restored pound-sterling convertibility were the following: (1) it was limited to payments for current transactions; (2) it was to be put into effect over a period of nine months; (3) convertibility was confined to new payments only and the amounts accumulated earlier on different sterling accounts were excluded. The pressure was, however, increased on the pound by foreign-held pound balances because these could be used to pay for imports from the Sterling Area and the UK; (4) the dollar-pound exchange rate (£1=\$4.025) was fixed and the pound very soon became overvalued.

¹¹ In the so called "Loan Agreement" concluded between the US and UK in 1945 there was a clause which required that the UK should introduce the convertibility of sterling in exchange for the \$3.75 bn credit. This was Article 8 (ii) of the Agreement that required an extended convertibility of sterling: "not later than one year after the effective date of this Agreement ... they will impose no restrictions on payments and transfers for current transactions".

¹² The economic history, and the economic policy, of this period (1945-58) introducing convertibility have been analyzed in most detail by Harrod (1963), Triffin (1957), Hawtrey (1961).

This quick formal restoration of convertibility was in force for 36 days only. It turned out to be a premature attempt and it led to a heavy drain on the international reserves of the UK. Under the fixed-exchange rate regime of Bretton Woods, this rapid depletion of international reserves undermined the maintenance of convertibility.

The most significant reason for the rapid collapse of the first attempt to introduce convertibility was the sterling overhang. Other factors can be also mentioned to explain the failure. Had British exporters been in a position to supply goods and services as readily as their American competitors, even limited sterling convertibility would not have caused so much trouble. The British companies were then much less competitive than the American ones.

Several later studies analyzed the fast collapse of pound convertibility. Most of them agreed that in order to avoid this failure "it would not have been necessary to wait for pound convertibility until the current account is favourable. The old balances should have been properly blocked. Proper arrangements should have been concluded with soft-currency countries about the method of payments for the exports from the UK. It should have been done through the IMF". Moreover, "the domestic policy should have been revised so that the balance of trade could turn in equilibrium"¹³. And most importantly, a more realistic exchange rate should have been set.

After the failure, the British government had to accept the inexpediency of a rushed policy urged upon it by dogmatic enthusiasts in the UK, and pressed upon it by the insistence of the US. The revised economic policy reversed many previous decisions concerning foreign exchange, trade liberalisation and reduction of controls. Moreover, a new foreign-exchange policy was urgently needed.

(B) Introducing convertibility by a gradual approach

The convertibility of sterling was restored for the second time

¹³ Harrod (1951).

slowly and in several stages between 1951/52 and 1959¹⁴. The result was not full convertibility, because the right of conversion was largely confined to non-residents¹⁵.

After the failure of 1947, convertibility was not considered an imminent aim. The stabilization of the economy got priority. This policy included a devaluation of the pound in 1949 which resulted in a more realistic exchange rate (£1=\$2.8019). Devaluation became inevitable because the financing of the deficit with the dollar-area countries from aid money could not be a sustainable option¹⁶. Monetary policy, including a more realistic exchange rate-improved the balance of payments and as a result the pound became stronger¹⁷. Meanwhile, trade and foreign-exchange controls were extended, justified by the continuing inflation. After 1949, however, the inflationary pressure caused by the monetary overhang ceased to be a main source of trouble.

The three stages of introducing pound convertibility included the following:

Stage 1: During the period between 1949 and 1951, the UK and the non-sterling area industrialized countries made substantial and concerted progress in preparing the steps towards convertibility. The proposed “progressive stages” policy towards pound convertibility required certain conditions¹⁸: (a) stand-by credits from the US and the IMF as a stabilization fund¹⁹; (b) wider band limits on exchange-rate fluctuation, although the EPU provided a system of international clearing facilities and also facilities for deferring the settlement of adverse balances in order to assist in the maintenance of the stability of Western European exchange rates; (c) imports were to be

¹⁴ The conditions of introducing convertibility were analyzed by Hawtrey (1956), and (1959).

¹⁵ The notion of resident and non-resident convertibility was analyzed by Küng (1953).

¹⁶ See more details by Harrod (1952)

¹⁷ Germain-Martin (1953).

¹⁸ Kenen (1960).

¹⁹ Experts calculated a necessary external support of US\$ 5 bn (3 bn from the US, and 2 bn from the IMF). James (1954/55)

liberalized, the commodity markets had to be reopened, and the gold market had to be gradually freed.

Stage 2: The period between 1951 and 1955 was the time of the return to classical monetary policy. This policy led to the introduction of *de facto* convertibility²⁰ in early 1955.

In 1951, the general economic situation deteriorated and became unfavourable compared to the previous preparatory stage: (a) international reserves decreased; (b) the current account and the balance of trade suffered large deficits; (c) the inflation rate increased; (d) a monetary crisis emerged, partly because controls over the credit supply became too lax.

The sudden deterioration in the economic situation opened up the following options for economic policy: (1) devaluation and a Keynesian anti-cyclical budget policy, or (2) return to classical monetary policy with variable interest rates. The second option was chosen by the British government. The government resumed an active monetary policy. Anti-inflationary policy consisted of financial retrenchment and the freeing of prices. Money markets were reopened. Forward and future markets in London, and banking activities, were to be fully freed. After these necessary economic-policy decisions had been taken, the declaration on convertibility as a final target could be made²¹.

Taking these steps opened the discussion on such questions as the choice between fixed or flexible exchange rates²², whether import restrictions should be fully or partially abolished, and the option between individual or collective approaches.

During this stage, an alternative project was elaborated in 1952. This project option was called Operation Robot²³. The main element in this scheme was control over the various types of sterling balances.

²⁰ Ferber (1972)

²¹ Convertibility as a final target was declared at the Commonwealth Conference in 1952.

²² Harrod (1958) pp.54-56.

²³ Operation Robot was a secret code name. The history of this project was researched by Newton (1986).

All sterling balances were to be blocked or severely controlled but any type of pound-sterling account was to be made fully convertible for non-residents. The exchange rate was to be set free to fluctuate, and the government could raise the interest rate if it became necessary. This scheme was rejected by the government in the end. According to subsequent evaluation, this scheme might have worked well and could have altered the whole course of British economic history²⁴.

The rejection of the Operation Robot scheme reaffirmed that pound convertibility would be introduced in a gradual way. In certain respects, the principles of the plans of 1952-53 were the same as in 1947. There were, however, some differences as well. The main differences were in the exchange-rate policy and in the introduction of market convertibility instead of inter-bank convertibility²⁵.

The first steps towards introducing convertibility were made by EPU member countries during 1953. Among eight of the EPU countries²⁶, foreign-exchange arbitrage was resumed. Authorized banks were permitted to carry out spot arbitrage operations. The arbitrage facilities were extended to forward operations but were limited to the settlement of firms' commercial contracts. Other substantial steps also helped the introduction of pound convertibility such as (a) measures designed to open up possibilities for currency transfers with non-EPU and EPU countries, (b) the re-opening of international commodity markets (metals, coffee, etc.), (c) the opening of a limited gold market in London, (d) the re-establishment of commodity markets involving partial relaxation of control over imports of the commodities. This could be interpreted as a partial restoration of pound convertibility, since its holders could use sterling for the purchase of commodities at world prices in the UK.

²⁴ Shonfield (1958) pp.216-223

²⁵ One of the main differences between the two types of convertibility is that the access to foreign-exchange markets is almost unrestricted in the first case, while it is provided to banks only in the case of inter-bank convertibility.

²⁶ Belgium, Denmark, France, Germany, the Netherlands, Switzerland, Luxembourg, and the UK from 18 May 1953. The arbitrage operations displaced a considerable amount of multilateral transactions previously performed by the EPU. The aim of this arrangement was to return as many of these operations as possible to the private arbitrage markets.

Meanwhile the EPU also had to be gradually changed. Changes became necessary because after spot transactions, forward transactions were also permitted. Prior to the authorisation of arbitrage arrangements, EPU countries' exchange rates were kept in general rigidly fixed, and central banks settled their EPU obligations at the official parities. The use of newly-introduced financial market instruments could offset the adverse effects of larger exchange-rate fluctuations. Thus, larger exchange-rate fluctuations could be already tolerated.

Further progress toward *de-facto* non-resident convertibility was made in 1954, when the UK simplified its exchange controls and system of different accounts. Now the pound could be used to make payments to any part of the world except the dollar area, implying that a *de-facto* non-resident sterling convertibility had been introduced. This step was significantly supported by the macroeconomic conditions (see attached tables). The current-account balance became positive, the growth rate was high and the inflation rate was modest. The discount rate was decreased in 1952. The economy, however, became overheated by 1955. Prices increased, the balance of trade and the balance of payments significantly deteriorated, and the discount rate was increased several times in 1955. The aim of the restrictive policy was to stabilise the economy and to improve the balance of payments. Even under such economic conditions, significant progress was made in the introduction of pound convertibility.

Stage 3: In February 1955, *de facto* sterling convertibility - basically for current-account transactions and for non-residents - was restored. Capital movements were not yet freed and import restrictions were not totally removed. The pound's exchange rate was fixed *vis-à-vis* the already convertible currencies. These features were compatible with the notion of convertibility which was widely accepted at that time²⁷. Although the system of different account was further simplified, the multiple exchange system remained in force. All in all, even this

²⁷ This can be demonstrated by an example. "Convertibility is one thing; restriction on the freedom of residents to export their capital is something quite different" and there was all the difference between floating and fixed exchange rates: "Only the latter justifies the description of 'convertibility'". Harrod (1958) pp.175 and 174, respectively.

stage of convertibility surpassed the unsuccessful attempt in 1947 and the envisaged plan in 1952-53 in some respects. In 1955, the *de-facto* convertibility was announced by the declaration that the so-called transferable-pound (used in the trade between the sterling area and the dollar area) exchange rate would be supported at a point near to parity.

In spite of the supported exchange rate, a currency crisis broke out in 1957. At this time the weakening of sterling was not caused by balance of payments problems, but by fears that the pound would be devalued because the international reserve position became weak. This crisis was the first most significant test of pound convertibility.

In 1958, further exchange controls were abolished. In December of the same year, the different accounts were merged, and thereby the market mechanism in foreign exchange was restored. This final step represented *de-jure* pound convertibility²⁸. A still more formal step was taken in the spring of 1961 when the UK accepted the obligation of IMF Article VIII. International capital movements remained regulated till 1979 when restrictions were abolished as part of a general liberalization policy in the UK. Both exchange controls on capital-account transactions and their elimination significantly influenced the real economy²⁹.

2. The West German Approach to Convertibility

In the early 1950s, West Germany belonged to the group of countries which proposed and advocated the abandonment of restrictions on the use of foreign exchange³⁰, and the liberalization of

²⁸ Ferber (1972) pp.151-2

²⁹ The history of exchange control on capital account was drawn up by Fvitt (1958) and the regulations and practice regarding international capital movements were summarised as they were effective in early 1961 [Committee of London...(1961)]. The exchange controls on capital account till 1979 was presented by Miller and Wood (1979), and the Bank of England (various), and its different effects were analyzed by Manser and Bannoch (1985), Chrystal (1986)

³⁰ In the 1930s, Germany was one of the first countries which introduced foreign exchange controls and constrained foreign trade.

foreign trade. Both liberalized international payments and trade were viewed as necessary, so that a faster reconstruction of war damage could be accomplished and war reparation payments could be carried out. The gradual but relatively quick process of introducing DM convertibility went through several phases until it was completed in 1958. This process depended on the West German economic recovery. However, the convertibility of DM significantly contributed to boosting economic growth.

Stage 1: Period of economic stabilization. The West German economic situation after World War II was characterized by partly destroyed production capacity which still remained significant, trade deficits, huge debt obligations and reparation payments, budget deficits, depleted foreign-exchange reserves and high inflation repressed by price controls until mid-1948. The negative trends continued until the second half of 1948, followed by a recovery that started in the early 1950s.

This economic recovery was due to (a) an orthodox credit policy; (b) a progressive and systematic abolition of quantitative and other controls; (c) elimination of the excess purchasing power accumulated during the war and postwar years by the currency reform in 1948; (d) a deliberate policy of making the DM scarce. After the currency reform, production increased and started to generate a demand for additional money supply. The monetary authorities were then in a sound position to assure that the money supply should not rise faster than, or only as fast as, the increase in output³¹.

In the 1950s, the German economic situation was significantly different at the beginning and at the end of the process of introducing DM convertibility. The beginning was marked by the so-called 'German Crises' in the winter of 1950-51 when the trade deficit and balance of payments deficit reached dramatic proportions and international reserves were depleted significantly³². Economic policy

³¹ Krüger (1957) p.68

³² Giersch *et al.* (1991) pp.125-131

measures and the economic effects of the Korean War soon changed these trends. After March 1951, Germany's balance of trade, balance of payments and its EPU position improved significantly and then West Germany quickly became a net creditor within the EPU. This position prevailed until the EPU was abolished in the late 1958. This significant current-account surplus was necessary because reparation and debt repayment obligations resulted in a capital-account deficit³³.

Stage 2: The liberalization process between 1952 and the end of 1953. Germany's economic performance was rapidly improving: low inflation, improving competitiveness of exports that enhanced the current-account surplus, an increase in international reserves, balance of payments surpluses with the EPU area and other countries increased. The move towards DM convertibility was possible only in conjunction with similar moves by other OEEC countries, especially by the UK.

Trade and foreign-exchange liberalisation for currency convertibility was carried out relatively quickly³⁴.

(A) *Trade Liberalization.* During the period between 1949 and 1953, quantitative restrictions were removed on imports from the EPU area and with a slight delay from other non-dollar countries. By the early 1950s, most of the approvals for foreign trade and payment transactions became formal. The external liberalization corresponded to the gradual freeing of the internal economy from most direct controls.

(B) *Foreign Exchange Liberalization.* After the war, currency control was an integral part of the West German foreign-exchange system. In the case of payments agreements with other countries, settlements had to be effected through the channel and in the currency specified in the agreements. All foreign-exchange proceeds from exports to the US, Canada and 20 other countries had to be received

³³ The debt of West Germany amounted to DM 26.5 bn at the end of 1951. The London Debt Agreement of early 1953 cut the pre-war and post-war debt including obligations incurred under the Marshall Plan by more than 50% from DM 29.3 bn to 14.5 bn. This agreement followed the settlement in 1952 with Israel on payment of US\$ 3.5 bn restitution. The settlement of these two problems opened the way for the restoration of capital-transaction convertibility. Meinhold (1954), Allenspach (1953).

³⁴ Meyer (1954)

in US dollars. For exports to EPU countries or to the sterling area, payments could be received in the currency specified in the agreement, or in sterling.

By the end of 1953, the following level of liberalization was reached:

Current transactions:

(a) balance of trade: West Germany gradually liberalized imports from the EPU area: import licences and the necessary foreign exchange were allocated increasingly automatically. With regard to the Bilateral Offset Account countries, the so called "free import list" was gradually extended. In the direction of Dollar Area trade liberalisation was introduced for the first time in February 1954³⁵.

(b) invisible transactions: payments for the imports of services from all areas were gradually freed (in 1954 it was about 54%). This applied not only to business activities but also to tourism. The free transfer of earnings from investment was allowed again.

Capital transactions:

(a) investment by West German residents abroad: all capital exports with the aim of foreign investment in the form of securities by German residents were subject to control. Permission was needed for the establishment of German enterprises abroad. It was required that German investments abroad should contribute to promote economic relations.

(b) foreign investments in Germany could be financed from different sources either in the form of purchase of securities or establishment of production branches. Earnings and proceeds from new foreign investments could be freely transferred.

Stage 3: Completing convertibility. The last phase of introducing convertibility started in 1954 and ended in 1958. British moves in 1953

³⁵ The list of liberalised goods contained 2000 items out of the 6000 ones on the official Statistical Nomenclature. The main products on the free list included cotton, tobacco, non-ferrous metals, chemicals, wood and a wide range of semi-manufactured and finished goods. These products represented some 30 % of the value of total imports from this area in 1953.

toward broader transferability privileges and the relaxation of capital controls were immediately and closely paralleled by West German economic-policy measures.

A limited DM convertibility was introduced on 31 March 1954. A type of account freely transferable outside the Dollar Area (that is in non-dollar countries) was provided to non-residents in the same way as transferable pound-accounts functioned³⁶. In September 1954, the account system was simplified and further liberalized, which made it possible to effect payments between West Germany and nearly all the countries outside the dollar area in transferable DM or in any foreign currency. The exception was that residents were still not allowed to pay in dollars to non-dollar countries.

By this time, the West German government was already determined to introduce internal convertibility as well as external convertibility. This concept implied:

(a) removal of restrictions on current commercial transactions of non-residents and residents. The longer-lasting restrictions applied mainly to the dollar area, while restrictions against other countries were already extremely small. The discrimination on payments against the dollar area had the objectives of: (a) preventing a significant deterioration in the favourable dollar balance of payments³⁷; and (b) avoiding a further rise in credits to other non-convertible currency countries.

(b) non-resident convertibility had a secondary importance, in contrast to the British position. While the UK had considerable interests in strengthening the acceptability of sterling as an international currency by broadening the scope of its use, West-Germany did not have a similar ambition for the DM.

³⁶ Resident and non-resident convertibility in West Germany is discussed by Küng (1953).

³⁷ However, despite the liberalization of certain dollar imports in February 1953 the West German balance of payments with the dollar area remained favourable in 1953 because of (1) extraordinary receipts for military expenditure by the US, (2) unexpectedly lower payments on foreign debts and (3) the fact that the demands for imports of dollar commodities was held back by licensing of imports and a significant amount (approximately 1/4) of dollar commodities were bought indirectly from payments-agreement countries.

(c) Liberalization of capital transactions. The still-remaining restrictions on the transfer of foreign-held DM balances to dollar-account countries were removed. The transfer right to all formerly blocked assets was gradually extended, which did not bring about a significant withdrawal of funds from West Germany. The removal of restrictions on capital exports and imports depended on political conditions and on the internal capital market. However, the free transfer of capital may result in two problems. First, capital flight could not be excluded in a certain international political situation. Second, uncontrolled capital inflows could boost money supply, under a fixed exchange rate. Because of these concerns, capital controls were not immediately abandoned but were applied with gradually more laxity.

The last steps of introducing convertibility included the establishment of the so-called freely convertible DM accounts and partly convertible DM accounts³⁸ and then the freeing of the transfer of liberalized capital demand. In June 1958, as a first step, liberalized capital accounts were abolished. In December of 1958, the so-called freely convertible DM account and the partly convertible DM account were merged. All foreign convertible currency could be deposited into this new account. Full DM convertibility was introduced by the freeing of all international payments. After the introduction of DM convertibility, payments between West Germany and other countries could be made in DM or in any foreign currency.

The introduction of DM convertibility was carried out relatively fast. West Germany could well afford to increase the degree of liberalization with regard first to the dollar area and also to institute full non-resident convertibility for the DM, without impairing her international reserves. This was made possible by the significant balance of trade surplus. The trade surplus made the DM consistently strong and created pressure for the appreciation of the

³⁸ The funds in the "freely-convertible DM account" could be used without any restriction, to effect all payments relating to the transfer of goods, services and capital transactions. The free exchange of DM amounts at any moment into dollars at the official exchange rate was guaranteed. Funds in the "partly-convertible DM accounts" could be used for payments which were in accordance with the payments agreements with the relevant countries. These DM amounts could not be converted into free dollars.

DM. A stable fixed exchange rate was, however, preferred even when other currencies became more “flexible” by more frequent devaluation.

3. Lessons of Introducing Currency Convertibility in a Collective Way in a Fixed Exchange-Rate Regime

In practice, there are basically three different alternatives for introducing convertibility⁹. In the 1950s, a group of Western European countries opted for the alternative of forming a payments union, the EPU. This was the only payments union which ever led successfully to convertibility. Those Western European countries which were not members of the EPU started a gradual process towards currency convertibility. Although suspensions or reversals of liberalization temporarily took place in these countries, their export growth was usually significant enough to permit the resumption of import liberalization. Liberalisation among EPU countries progressed faster than with other countries. Current-account convertibility was first *de facto* established by 1955 and it was declared *de jure* three years later.

The payments union was based on the fixed exchange-rate regime, and on current-account liberalization only for non-residents at the beginning. The fixing of exchange rates made it possible and necessary to harmonize the steps of liberalization and to complete this process by a collective rather than individual route.

Any approach provides lessons which can be looked at from the following aspects: (1) external economic conditions, (2) domestic

⁹ (a) Standard gradualist approach: its most important element is that import control is gradually relaxed and current-account liberalisation is followed by the opening up of capital account. (b) Payments union: a multilateral clearing system guarantees that liberalization within a region will continue and regional convertibility can be ensured even before general convertibility is declared. (c) Currency auctions with retention systems where foreign exchange is traded either by the state and/or by exporting companies. Companies are allowed to retain a part of their export proceeds in foreign exchange. The smaller the retention quota the more significant the premium on the foreign currency. A gradualist approach implies a gradual increase of the retention quota partly so that premiums and exchange rates can decrease. Bergstein and Williamson (1991)

economic preconditions, (3) economic policy measures, and (4) effects of convertibility.

1) External Economic Conditions

In the early 1950s, the restoration of the convertibility of the Western European currencies was facilitated by several factors. There was a rising prosperity in the world economy and reasonably well-balanced international payments. The American cyclical recession ended⁴⁰.

The US balance of payments situation, however, played a particular role. The fact that the deficit in the capital account was larger than the surplus of the current account resulted in a balance of payments deficit which was financed by US gold reserves. This quantity of gold constituted a significant part of the reserve basis for restoring convertibility in Western Europe. Therefore, it was a very special historical situation when both an endeavour to increase international reserves in Western Europe and a necessity to reduce gold reserves in the US coincided. The attempt to restore the convertibility of these currencies would have most probably failed without this new distribution of international reserves.

Besides the balance of payments surplus, the international reserves of Western European countries were boosted by credits from international institutions and by the US. These sources together provided an adequate amount of international reserves which was important because of the need to intervene in exchange markets under the fixed exchange-rate regime.

The general coordination of convertibility was made possible by the OEEC and the EPU. These organizations promoted the liberalization of trade and currency policies on a regional basis. The creation of the EPU represented the first major step in dismantling the bilateral agreements that had governed payments among the member countries earlier. As a parallel move, the OEEC adopted the Code of Liberalization of Trade⁴¹. As not every country had

⁴⁰ Harrod (1955)

⁴¹ The Code of Liberalization required that countries removed quantitative restrictions on 75 % of merchandise imports. A year later the Code was extended to cover services and other invisible transactions.

introduced full liberalization, trade and payments restrictions still remained in effect.

OEEC policy encouraged increased trade and brought about an improvement in the balance of foreign-exchange payments. The OEEC proposed 90% liberalization of foreign trade. This was to be achieved by the end of 1955. Significant progress was made by most European countries; only France and the UK delayed liberalization. As a result of this policy, the average rate of liberalization stood at 87% in 1956⁴² and was approximately 95% in 1958 when convertibility was declared in several Western European countries.

The EPU also made short-term stabilization credits available to help countries meet temporary difficulties in their balance of payments. Later, the clearing and credit systems of the EPU⁴³ were improved considerably by a new institution, the EMA (European Monetary Agreement). The EMA made these credits discretionary rather than automatic, and subordinated them to agreed criteria with respect both to needs and to the adjustment policies to be pursued by the borrowing country. In this way, Western European countries were able first to attain the degree of *de facto* convertibility and then to be in a position to accept the obligations of IMF Article VIII.

2) Domestic Economic Preconditions

In most Western European countries, the transition to currency convertibility became feasible after some domestic economic conditions had been met. The most important were the rebuilding of war-shattered economies, overcoming the constraints imposed by the severe scarcity of tradable supplies, restoring equilibrium in the domestic market, significantly improving the balance of payments situation, with a sufficient increase in international reserves. The general improvement and stabilization of national economies supported the success of introducing convertibility.

⁴² BIS 26 Annual Report, 1956

⁴³ The evaluation of the functioning of EPU has an extended literature, *inter alia*, Posthuma (1982), Jacobsson (1950), Coffey and Presley (1971), Comité Direction de l'OEEC (1954), Reichert (1962), Triffin (1957)

An important conclusion was that, whichever form of convertibility a country chose, the state of the domestic economy played an important role. Thus, a country should maintain an internal balance, and should avoid inflationary monetary policies, budget deficits, the diversion of resources to unproductive ventures, and failure to offset relative price and/or income rises not related to productivity. An unbalanced economic situation could threaten the introduction or maintenance of convertibility. Convertibility is, in essence, the external manifestation of internal solvency and integrity in fiscal and monetary affairs.

Domestic economic policies have various elements which are closely linked to the convertibility issue.

a) Exchange-Rate Regime

In the 1950s, a fixed exchange-rate was considered the sole possible exchange-rate regime for a convertible currency. According to this view, the use of quantitative restrictions to restore balance of payments equilibria was less harmful than the use of a floating exchange-rate policy⁴⁴. This view gave less importance to the fact that a fixed exchange rate has some adverse effects on the maintenance of convertibility (e.g. speculation on a possible revaluation or devaluation, or if a balance of payments surplus is monetized it results in an increase in domestic money supply which can raise particular concern if domestic and/or world inflationary tendencies prevail).

From the point of view of convertibility, the choice between fixed or floating exchange-rate regimes is less important than whether an exchange rate reflects the equilibrium level or not⁴⁵. An equilibrium exchange rate is an indispensable precondition for currency convertibility. Domestic costs and prices at the existing exchange rate have to be in line with those of trading partners and the world market. Otherwise, any attempt to introduce convertibility will certainly fail, as it did in the UK in 1947.

⁴⁴ Posthuma (1982)

⁴⁵ Attempts have been made to find ways to estimate equilibrium rates, but no widely-accepted method has been found. Fluctuations in real exchange rates at fixed rates could be a certain proxy. Thus, equilibrium exchange rates can be estimated indirectly by defining overvalued and undervalued exchange rates. Bacha and Taylor (1971)

b) Internal Equilibrium

Under fixed exchange-rate regimes in the 1950s, the experience of introducing convertibility in Western European countries showed that internal stability and low inflation rates were required. These aims were achieved by orthodox fiscal and monetary policies. Some countries (e.g. Belgium, West Germany) followed a policy of dear money. When balance of payments difficulties became acute, an increase in the official discount rate was an effective remedy. A stricter credit policy, however, could not help unless sound budgetary measures were implemented. Convertibility and sound monetary and fiscal policies are closely linked.

The level of interest rates was influenced primarily by domestic demand conditions. For example, West Germany proceeded with credit easing (interest-rate lowering) only as rapidly as domestic considerations (an anti-inflationary policy) permitted. Meanwhile the UK experienced four successive foreign-exchange crises between mid-1955 and mid-1957 before decisive stabilization action was taken. After this period, the domestic financial policies of the two countries were decisively adjusted. These were followed by similar collective actions in other Western European countries.

c) International Reserves

Under the conditions of any pegged exchange-rate regime, one of the preconditions of the introduction and smooth functioning of currency convertibility is a sufficient quantity of international reserves. These reserves perform a buffer function to mitigate the unavoidable fluctuations of exchange rates. The bigger these reserves, the longer any trade policy intervention to diminish or to put an end to the balance of payments deficit can be avoided⁶⁰.

⁶⁰ The forms of international reserves have gradually gone through significant changes in the course of the last few decades. Their components differed in the 1950s from the 1980s: a) convertible currency reserves with the central banks; b) private foreign-exchange reserves of firms or individuals in banks; c) credit-lines through the European Fund and IMF in the 1950s, and by any convertible currency country or any group of these countries now; d) international credits facilities through central banks only to each other in the 1950s, through any commercial bank nowadays.

The reserve/import ratios of the UK, Germany, France were about 40%⁴⁷ in 1957. The view was expressed already in the 1950s that a country with meagre reserves and a precarious external balance could adopt convertibility with less risk if the exchange-rate margins were rather wide than narrow⁴⁸. Flexible or floating exchange rates decrease the need for international reserves. The practice also showed that extreme reserve losses were followed by currency devaluation or temporary recourse to floating exchange rates, rather than by ceasing currency convertibility.

Reserves can also be depleted by capital movements. Investment abroad having higher return than at home may induce residents to draw on their savings and transfer them abroad. That is a particular instance which may cause an adverse balance of payments. The kind of capital movement which particularly endangers the reserves is caused by distrust in the currency. Residents want to convert their savings into assets abroad, not because the foreign assets are inherently more attractive but because they fear a depreciation of their own money.

The latter kind of capital movement may attain strength in a very short time, and it may happen that no ordinary measures can halt it (e.g. in the UK in 1947). When reserves can no longer be drawn on to support the foreign-exchange market either exchange control or devaluation remain to avert complete collapse. Exchange control may be necessary even though the current account is favourable, but the control is only needed so long as there is distrust in the local currency. The right way to guard against such distrust is to adopt a clearly defined monetary policy, and to make it manifest to everyone that the credit system is being used and will be used as an instrument for carrying out the policy.

d) Commodity Convertibility

Most currencies of developed market economies are convertible

⁴⁷ Triffin (1959)

⁴⁸ The opposite view was expressed by Harrod (1961).

in both commodity⁴⁹ and financial senses. Experience showed that some degree of financial convertibility could be more easily introduced when commodity convertibility had previously been attained. This implies that financial convertibility is not very feasible as long as the double standard⁵⁰ and shortages exist. One standard of quality and a sufficient supply of goods are needed, that is goods and services must be available in the quantity and of the quality that markets require. Thus, the economy and industry must be efficient. This relates to the level of development and structural problems and structural adjustment⁵¹ of economies.

The more developed a country the easier it is to introduce convertibility. The attainment of convertibility of Western European currencies could be attributed to a number of underlying factors (e.g. improved payments position, terms of trade improvement, etc.) but the restoration and extension of productive capacities and export possibilities also played a very important role.

3) Economic Policy Measures

Convertibility requires, as a support, a policy package which makes the country internationally competitive and economically efficient. This policy must aim at achieving a competitive economy without price and wage controls, rationing, non-tariff trade barriers, discriminatory practices, exchange restrictions, and bilateralism. International financial deregulation makes clear whether a country has to make painful adjustments to meet adverse external circumstances. Moreover, liberalization of various types mutually supports these processes but it can be successful only when there is a

⁴⁹ Commodity convertibility means that the holder of a currency is entitled to purchase any desired goods or services at prevailing prices in the currency's home market. Money alone was sometime not sufficient to provide a claim on goods because other types of authorization (e.g. rationing, planning) was also needed. This term was first used by Altman (1960).

⁵⁰ Double standard: production for home consumption and for exports. The case of the UK is analyzed by Svennilson (1955). A similar situation prevails in many other countries (e.g. in Eastern Europe).

⁵¹ Bolz (1989)

competitive private sector. The liberalization process has some important aspects:

(A) Trade Regime Liberalization

(a) The experience of countries suggests that the diverse high levels of import tariffs have to be replaced by reasonably uniform optimal tariffs. Alternatively, tariffs and export subsidies should be partly replaced by exchange-rate changes. Exports must not be subsidized and any restriction should be abolished.

(b) The continuation of liberalization should also cause the average extra import premium derived from import restrictions to fall and the bias against exports to substantially diminish. In other words, the effective exchange rate of exports should come closer to the effective exchange rate of imports⁵².

(B) Liberalizing the Capital Account after having liberalized the Current Account

The planning of liberalization and stabilization and sequencing of liberalization measures are important issues. Liberalizing in the wrong sequence or with inadequate regard to complementary policies can become self-defeating. Western European economic-policy decisions were preceded and accompanied by extensive debates⁵³. In retrospect, their decisions could be partly verified and partly refuted by experience.

(a) Restrictions on movements of long- and medium-term funds were gradually minimized in the 1950s. The restrictions on short-term ones were retained because of the fear of their destabilising effects under fixed exchange-rate regimes.

(b) In general, external convertibility was established first and internal convertibility later. Formal recognition was usually eventually given to the *de facto* convertibility established by a series of administrative acts. This process included a number of stages. This

⁵² Bhagwati (1978)

⁵³ *Inter alia* Marson (1954), German-Martin (1953), James (1954/55).

gradual process has not proved to be the only real optimal solution from the point of view of formal economics.

(c) Just after the introduction of convertibility, current-account deficits did not emerge in general. Current accounts seemed to be only slightly influenced by convertibility, especially when the introduction of convertibility was carried out slowly. Trade movements could adjust and tended to be balanced.

(d) The economic-policy aspects (growth rate, employment, prices, wages, private and public savings and consumption, etc) of an open economy are significantly influenced by external economic developments through the exchange rate. The internal economic policy of a country which introduces currency convertibility loses its full autonomy from the rest of the world⁵⁴. Under these conditions, economic integration among countries takes on special importance.

(e) Liberalization was not completed by one step but was a progressive action over a period of time. This process necessarily involved uncertainties, but by a gradual programme and with proper guidance the ultimate objectives could be achieved without incurring any unnecessary risk. This aim was served by the use of different foreign-exchange accounts. This system allowed governments to systematically liberalize transactions for particular groups of agents or particular kinds of transactions. The accounts system was more extensively used by Western European countries in the 1950s than by other countries in the last few decades⁵⁵.

(f) The economic-policy actions of these countries were to a considerable degree interdependent. The ability of one country to eliminate exchange restrictions was often a function of the policies and actions of others. This emphasized the need for a concerted and coordinated programme so that the policies and practices of every country would to the maximum extent assist, rather than frustrate, the efforts of those countries which tried to abolish these restrictions. Instruments for coordination and cooperation in the monetary field

⁵⁴ Dornbusch (1983)

⁵⁵ Detailed descriptions of the British and West German account systems are given in the Appendix.

were provided by various international institutions (e.g. OEEC, EPU, BIS, IMF, World Bank). In the case of Western European countries, the EPU and the OEEC made it possible for the central banks of the member countries to multilaterally settle trade imbalances and to make progress in liberalization⁵⁶.

C) Effects of Convertibility

After the introduction of convertibility, significant problems are unlikely to arise with regard to the balance of payments if internal problems are successfully solved and certain preconditions are met⁵⁷, such as: 1) sufficient equilibrium in the budget; 2) no undue credit expansion in the money or capital market; 3) balance in the price and cost structure (internally and in relation to other countries); and 4) well functioning capital (including foreign-exchange) markets.

It is very important that all the major issues involved in the introduction of currency convertibility are addressed already at the stage of drawing up the programme or strategy of introducing convertibility⁵⁸. It should consist of the following: (a) the framework of the system; (b) trade-policy aspects; (c) financial aspects; (d) monetary aspects; (e) organizational aspects; (f) foreign-exchange markets and liberalization; and (g) international capital flows.

Successful accomplishment of convertibility, particularly if the exchange rate is pegged, is more likely and easier if it takes place contemporaneously in leading countries and in a dynamic world economic environment. Since the maintenance of convertibility is no easy matter once it is established, it needs to be ensured by economic policy, regional cooperation, joint activities, foreign credits, etc. Otherwise, international reserves have to be built up, while employment and the balance of payments are adversely affected by introducing convertibility. Then, an adjustment process and time are required.

⁵⁶ Triffin (1954).

⁵⁷ Jacobson (1955).

⁵⁸ Similar efforts were made by Triffin (1954), Holzapfel, Sieberger and Feifel (1959), Jacobsson (1953).

The technical and economic success or failure of liberalization and the introduction of convertibility cannot be considered independently of their political implications. Liberalization attempts have to be assessed on the basis of whether they have been technically workable, on their impact on the level and stability of exchange rates and on their real effects on the economy. A key question is whether the failures were due to poor management or flawed programme design.

From this point of view, the experience of Western Europe highlighted the importance of confidence factors both in making exchange markets work satisfactorily and in stimulating a supply response from liberalization measures. A lack of sufficient credibility in economic policy can frustrate its success (e.g. in the UK in 1947). Credibility needs consistency in economic policy, a strengthened role of institutions that guarantee that the announced economic-policy will not be changed. Confidence is built on economic-policy predictability and economic-policy predictability in turn is built on reasonable monetary stability. If economic policies are not trusted, unanticipated portfolio demand for foreign exchange may induce more exchange-rate volatility than is implicit in pure transactions-demand movements. This situation may, however, undermine the maintenance of convertibility.

Thus, successful maintenance of convertibility depends to a great extent on the successful harmonization of various aspects of economic policy; first of all, on the stability of a currency and on monetary policy⁵⁹.

⁵⁹ Gatz (1955).

APPENDIX

STATISTICAL TABLES OF THE UK

TABLE 1 - Balance of payments of the United Kingdom between 1946-1962 (in millions of pounds sterling) (net values)						
	1946	1947	1948	1949	1950	1951
Goods and services	-228	-364	60	79	322	-399
a) trade balance	-80	-415	-192	-137	-126	-747
Transfers	-121	-49	79	166	120	43
Current account	-349	-413	139	245	442	-356
Capital and monetary						
gold	-281	413	-139	-245	-442	356
a) private	.	-299	-145	-212	-82	-261
b) official and						
banking instit.	.	712	6	-33	-360	617
	1952	1953	1954	1955	1956	1957
Goods and services	169	123	217	-67	250	302
a) trade balance	-102	-215	-195	-356	-64	-27
Transfers	100	56	-7	-25	-58	-73
Current account	269	180	210	-92	192	229
Capital and monetary						
gold	-269	-180	-185	-27	-304	-390
a) private	-103	-141	-172	-70	-260	-260
b) official and						
banking instit.	-166	-39	-13	43	-44	-130
	1958	1959	1960	1961	1962	
Goods and services	419	209	-501	274	594	
a) trade balance	91	-60	-1073	-364	-227	
Transfers	-74	-70	-263	-314	-333	
Current account	345	139	-764	-40	261	
Capital and monetary						
gold	-472	-181	-75	107	-510	
a) non-monetary	-210	-200	-460	230	-48	
b) monetary	-262	19	385	-123	-462	

Source: IMF Balance of Payments Yearbook

year	US\$/£	year	US\$/£	year	US\$/£
1946	4.025	1952	2.8094	1958	2.8019
1947	4.0275	1953	2.8106	1959	2.7994
1948	4.0275	1954	2.7844	1960	2.8031
1949	2.7988	1955	2.8031	1961	2.8075
1950	2.7988	1956	2.7850	1962	2.8019
1951	2.7812	1957	2.8088		

Source: IMF International Financial Statistics

year	balance	% of GNP	year	balance	% of GNP
1946	-1,890	-21.9	1954	-39	-0.2
1947	-40	-0.4	1955	-175	-0.9
1948	350	3.4	1956	-122	-0.6
1949	72	0.7	1957	-238	-1.1
1950	374	2.8	1958	-115	-0.5
1951	-185	-1.3	1959	-455	-1.9
1952	-482	-3.0	1960	-301	-1.2
1953	-276	-1.6	1961	-221	-0.8

Source: IMF International Financial Statistics

year	rate	year	rate	year	rate	year	rate
1946	.	1951	2.50	1956	5.50	1961	6.00
1947	.	1952	4.00	1957	7.00		
1948	.	1953	3.50	1958	4.00		
1949	.	1954	3.00	1959	4.00		
1950	2.00	1955	4.50	1960	5.00		
quarter	1957	1958	1959				
I	5.0	6.0	4.0				
II	5.0	5.0	4.0				
III	7.0	4.5	4.0				
IV	7.0	4.0	4.0				

Source: IMF International Financial Statistics

**TABLE 5 - Value and growth rate of money supply and GNP growth rate
(billions of pounds sterling: end of the year) and (in %)**

year	Money supply				GNP growth rate %
	(money)		(incl. deposits)		
	bn £	%	bn £	%	
1946	4.95	.	6.81	.	.
1947	5.03	1.6	7.00	2.8	6.5
1948	5.11	1.6	7.15	2.1	11.4
1949	5.18	1.4	7.22	1.0	7.1
1950	5.27	1.7	7.38	2.2	5.1
1951	5.35	1.5	7.39	0.1	10.1
1952	5.37	0.4	7.60	2.8	8.6
1953	5.53	3.0	8.09	6.4	6.5
1954	5.72	3.4	8.35	3.2	5.7
1955	5.70	-0.4	8.14	-2.5	6.5
1956	5.76	1.1	8.22	1.0	8.8
1957	5.71	-0.9	8.44	2.7	5.4
1958	5.85	2.5	8.69	2.7	4.4
1959	6.09	4.1	9.09	4.6	4.4
1960	.	.	9.02	-0.8	5.6
1961	.	.	9.16	1.6	5.9

Source: IMF International Financial Statistics

TABLE 6 - International reserves (gold and convertible currencies)					
(millions of US \$: end of the year)					
	1946	1947	1948	1949	1950
Total reserves	2,861	2,228	2,009	1,752	3,443
gold	2,430	2,020	1,605	1,350	2,900
convertible currencies	266	59	251	338	400
other currencies	165	149	153	64	143
Reserves/imports in %	54.6	30.8	24.0	27.5	47.2
Imports/GNP	15.0	19.5	20.3	20.7	22.6
	1951	1952	1953	1954	1955
Total reserves	2,374	1,958	2,546	2,798	2,156
gold	2,200	1,500	2,300	2,550	2,050
convertible currencies	135	346	218	212	70
other currencies	39	112	28	36	36
Reserves/imports in %	21.9	26.1	27.1	29.7	19.8
Imports/GNP	30.7	25.2	19.6	18.7	20.2
	1956	1957	1958	1959	1960
Total reserves	2,172	2,374	3,105	2,750	3,239
gold	1,800	1,600	2,850	2,500	2,800
convertible currencies	333	673	219	236	431
other currencies	39	101	36	14	8
Reserves/imports in %	20.1	20.7	29.6	24.7	25.4
Imports/GNP	18.5	18.4	16.4	16.7	18.0
	1961	1962			
Total reserves	3,324	3,308			
gold	2,300	2,581			
convertible currencies	1,018	225			
other currencies	6	502			
Reserves/imports in %	26.9	26.3			
Imports/GNP	16.4	16.7			

Note: convertible currencies meant between 1946-1958: US\$ and Canadian \$ only.

Source: IMF International Financial Statistics

Table 7 - Rate of Inflation in Great Britain 1946-61 (1948=100)					
year	wholesale prices	costs of living	year	wholesale prices	costs of living
1946	80	87	1954	150	132
1947	87	92	1955	155	138
1948	100	100	1956	161	146
1949	105	103	1957	165	150
1950	120	106	1958	167	155
1951	146	116	1959	168	156
1952	149	126	1960	171	158
1953	150	130	1961	175	163

Note: Wholesale prices include all industrial goods

Source: IMF International Financial Statistics

APPENDIX 2

STATISTICAL TABLES OF WEST GERMANY

	1948	1949	1950	1951	1952
Goods and services	-3,430	-3,547	-2,496	765	2,335
a) trade balance	-3,572	-3,242	-2,300	1,528	2,179
Transfer payments	3,517	2,887	2,086	1,791	452
Current Account	87	-660	-410	2,556	2,787
Capital and monetary Gold	-144	766	762	-2,169	-2,998
a) private	-	-	-	-	-16
b) official and banking instit.	-144	766	762	-2,169	-2,982
	1953	1954	1955	1956	1957
Goods and services	4,129	3,982	2,882	5,522	7,513
a) trade balance	3,678	3,997	3,348	5,806	7,519
Transfer payments	-53	-389	-813	-1,105	-1,647
Current Account	4,076	3,593	2,069	4,417	5,866
Capital and monetary Gold	-3,838	-3,177	-2,302	-4,966	-7,561
a) private	-95	-359	-170	62	129
b) official and banking instit.	-3,743	-2,818	-2,132	-5,028	-7,690
	1958	1959	1960	1961	1962
Goods and services	7,880	7,389	8,050	7,353	2,914
a) trade balance	7,673	5,104	8,400	9,634	2,984
Transfer payments	-1,649	-3,247	-3,370	-4,432	-5,128
Current Account	6,231	4,142	4,680	2,921	-2,214
Capital and monetary Gold	-5,577	-4,453	-6,186	-3,173	1,320
a) private	-330	-1,066	-234	-2,705	524
b) official and banking instit.	-5,247	-3,387	-5,952	-468	796
Source: IMF Balance of Payments Yearbook					

year	DM/US\$	year	DM/US\$	year	DM/US\$
1948	3.333	1953	4.2	1958	4.178
1949	4.2	1954	4.2	1959	4.170
1950	4.2	1955	4.215	1960	4.171
1951	4.2	1956	4.196	1961	3.996
1952	4.2	1957	4.202	1962	3.998

Source: IMF International Financial Statistics

year	balance	% of GNP	year	balance	% of GNP
1950	-0.74	-0.8 %	1956	1.13	0.6 %
1951	-0.56	-0.5 %	1957	-2.44	-1.1 %
1952	0.34	0.3 %	1958	-0.22	-0.1 %
1953	1.51	1.0 %	1959	-4.85	-2.0 %
1954	1.19	0.8 %	1960	-1.36	-0.5 %
1955	1.96	1.1 %	1961	0.32	0.1 %

Source: IMF International Financial Statistics

year	rate	year	rate	year	rate
1950	6.0	1954	3.0	1958	3.0
1951	6.0	1955	3.5	1959	4.0
1952	4.5	1956	5.0	1960	4.0
1953	3.5	1957	4.0	1961	3.0
quarter	1957	1958	1959		
I	4.5	3.5	2.75		
II	4.5	3.0	2.75		
III	4.0	3.0	3.0		
IV	4.0	3.0	4.0		

Source: IMF International Financial Statistics

year	Money	Quasi-money	GDP growth rate
	%	%	%
1946	4.95	.	6.81
1950	14.6	.	13.1
1951	14.7	28.8	22.0
1952	11.3	44.7	14.3
1953	10.1	40.7	7.3
1954	12.6	29.5	7.5
1955	10.4	12.9	14.0
1956	7.4	17.8	10.2
1957	12.2	24.2	8.6
1958	13.4	18.4	6.4
1959	11.8	20.4	8.5
1960	6.8	15.0	13.9
1961	14.8	11.2	9.9

Note: Quasi-money comprises time deposits of the private sector with deposit money banks.

Source: IMF International Financial Statistics

	1950	1951	1952	1953	1954	1955
Total reserves	274	518	1,190	1,956	2,636	3,076
Gold	-	28	140	325	626	920
Foreign exchange	274	491	1,050	1,630	2,010	2,156
— liabilities	432	156	86	13	34	33
Net for. exchange	-158	335	964	1,617	1,977	2,124
Reserves/imports (in %)	10.1	14.8	31.2	51.8	57.6	53.2
	1956	1957	1958	1959	1960	1961
Total reserves	4,291	5,644	6,321	5,767	7,697	7,433
Gold	1,494	2,542	2,639	2,637	2,971	3,664
Foreign exchange	2,797	3,102	3,682	1,896	3,766	2,878
and other claims				1,234	960	891
— liabilities	37	170	89	98	102	84
Net for. exchange	2,760	2,932	3,594	1,798	3,664	2,794
Reserves/imports(in %)	64.9	75.3	85.4	67.5	75.6	67.5

Source: IMF International Financial Statistics 1960

TABLE 7 - Inflation rate in West Germany between 1950-61 (1950=100)

year	Producers' prices		Cost of living (c)	year	Producers' prices		Cost of living (c)
	industry (a)	agricult. (b)			Industry (a)	agricult. (b)	
1950	100	100	100	1956	121	129	113
1951	119	118	108	1957	124	135	114
1952	121	116	110	1958	125	135	119
1953	118	114	108	1959	124	139	120
1954	116	116	108	1960	125	136	121
1955	119	125	110	1961	128	135	125

Source: IMF International Financial Statistics

TABLE 8 - Rate of liberalisation of imports of West Germany between 1952-1958 (in %)

end of	OEEC area	dollar area	bilateral agreement in %	
			—	—
1952	81.0	.	.	.
1953	90.1	.	.	80.0
1954	90.5	57.0	.	85.0
1955	91.3	68.0	.	.
1956	99.9	93.0	.	.
1957	99.9	93.4	.	.
1958	100.0	100.0	.	.

Source: IMF Annual Reports on Exchange Restrictions

REFERENCES:

- ALLENSPACH HEINZ, (1953): "Die Abkommen über die deutsche Auslandsschulden," in *Aussenwirtschaft* H.2 p.108-119
- ALTMAN O.L., (1960): "Russian gold and the Rouble" in *IMF Staff Paper* April
- BACHA E. and L.TAYLOR, (1971): "Foreign Exchange Shadow Prices: A Critical Review of Current Theories," in *Quarterly Journal of Economics*, No.85 pp.197-224
- BANK OF ENGLAND: *A Guide to UK Exchange Control* various issues
- BAUER GÉRARD, (1955): "Convertibilité des monnaies et liberté des échanges," in *Bulletin de la Chambre Suisse de l'Horlogerie* No.6
- BERGSTEN F. and J. WILLIAMSON, (1991): "Currency Convertibility in Eastern Europe", in *Central Banking Issues in Emerging Market-Oriented Economies*, FED Kansas City pp.35-50
- BHAGWATI JAGDISH N., (1978): *Anatomy and Consequences of Exchange Control Regimes* NBER, Ballinger Publishing Co.
- BOLZ KLAUS, (1989): "Konvertibilität der osteuropäischen Währungen nicht vor der Jahrtausendwende," in *Hamburger Jahrbuch für Wirtschafts- und Gesellschaftspolitik*, 34.Jahr pp.225-233
- CHAMBRE DE COMMERCE INTERNATIONALE, (1954): "Étapes vers la convertibilité", in *CIC Cahiers* No.163
- CHRYSAL K. ALEC, (1986): "The Abolition of Exchange Controls in the UK: Are there Any Lessons for other Countries?" in *Capital Controls and Foreign Exchange Legislation*. Euromobiliare Occasional Paper
- COFFEY P. - J.R. PRESLEY, (1971): *European Monetary Integration*, Macmillan London
- COMITÉ DE DIRECTION DE L'OEEC, (1954): "Problèmes liés a l'établissement de la convertibilité I-II," in *Problèmes Économiques*, No.335 p.1-5 and No.336 pp.1-5
- COMMITTEE OF LONDON CLEARING BANKERS, (1961): "UK Regulations and Practice regarding International Capital Movements", in *Journal of the Institute of Bankers* August p.276-289
- COPPIETERS EMMANUEL, (1959): *L'accord monétaire européen*. Les progres de la convertibilité des monnaies, Institut Royal des Relations Internationales, Bruxelles
- DORNBUSCH RUDIGER, (1983): "Flexible Exchange Rate and Independence", in *IMF Staff Paper* No.30 pp.3-30
- EVITT H.E., (1958): *Exchange and Trade Control in Theory and Practice*, London Sir Isaac Pitman & Sons.
- FERRER ROLF E., (1972): *Die britische Währungspolitik nach dem Zweiten Weltkrieg*, Schulthess P. Verlag
- FRIEDL KLAUS, (1968): Die Bedeutung der Einführung der freien Konvertibilität am 28. Dezember 1958 für die westdeutschen Geschäftsbanken Dissertation Nürnberg
- GATZ WERNER, (1955): "Ist die Konvertibilität der Währungen (noch aktuell ?)" in *Wirtschaftsdienst* Heft 3, März pp.139-146

- GERMAIN-MARTIN M. HENRY, (1953): "La convertibilité des monnaies", in *Nouvelle revue de l'économie contemporaine*, An.XII No.48 pp.14-18
- GIERSCH H. - K-H. PAQUÉ - H. SCHMIEDING, (1991): *The Fading Miracle - Forty Years of Economic Policy in West Germany* (mimeo) pp.348
- HARROD ROY F., (1951): *And so it Goes On*, R. Hart-Davis, London
- (1952): "The Pound Sterling", in: *Essays in International Finance* No.13 Princeton University
- (1954): "Convertibility Problems", in *The Bankers' Magazine* October Vol.CLXXVIII No.1327 pp.299-307
- (1955): "The Prospects for Convertibility", in *Optima* (South Africa) Vol.5 No.3 pp.69-74
- (1955:b): "Convertibility Problems", in *Economia Internazionale* Vol.VIII No.1 pp.20-38
- (1956): "Progress towards Convertibility", in *Optima* (South Africa) Vol.6 No.3 pp.71-75
- (1958): *Policy Against Inflation*, Macmillan
- (1961): "The Convertibility of Sterling," in: *Topical Comments* pp.61-85
- (1963): "Sterling", in *The British Economy* Chapter 6, McGraw-Hill
- HAWTREY RALPH G., (1954): *Towards the Rescue of Sterling*, Longman London
- (1956): "Approach to Convertibility", in *The Bankers' Magazine* December No.1353 pp.435-442
- (1959): "Implication of Convertibility", in *The Bankers' Magazine* April No.1381 pp.281-287
- (1961): *The Pound at Home and Abroad*, Longman London
- HEILPERIN MICHAEL A., (1951/52): "La convertibilité monétaire et le réarmement," in *Comptes-rendus des travaux de la Société d'économie politique de Belgique* No.205
- (1953): "Currency Convertibility - Now", in *Aspects of the Pathology of Money* (Essays Heilperin) (1968) pp.231-242
- HINSHAW RANDALL, (1952): "Towards European Convertibility" in: *Essays in International Finance* No.3 Princeton University
- HOLZAPFEL K. - F. SIEBERGER - H. FEIFEL, (1959): *Konvertibilität der Währungen - Idee und Gestalt*, Deutscher Sparkassen Verl. Stuttgart
- HORSEFIELD J.KEITH, (ed.)(1969): *The International Monetary Fund*, Vol.I-III, IMF Washington, D.C.
- INTERNATIONAL MONETARY FUND:(a) *Balance of Payments Yearbook*
(b) *International Financial Statistics Yearbook*
(c) *Exchange Arrangements and Exchange Restrictions* (Annual)
- (1977): *The Monetary Approach to the Balance of Payments*, Washington
- JACOBSSON PER, (1950): "Monetary Improvements in Europe and Problems of a Return to Convertibility," National Bank of Egypt, Cairo
- (1953): Voies et moyens du retour à la convertibilité monétaire, in *Les Cahiers Économiques*, Janvier pp.1-7

- (1954): "Die Konvertibilität der Währungen als realisierbares Ziel", see *A.Hunold* (ed.) pp.60-75
- (1955): "Problems of the Return to Convertibility," in *Economia Internazionale* Vol.VIII No.1 pp. 39-54
- JAMES É., (1954/55): "Convertibilité 1954," in *Union des exploitations électriques en Belgique*, No.1 Mars pp.3-10
- KAPLAN JACOBS, - *Gunther Schleiminger* (1986): EPU Oxford
- KENEN PETER, (1960): "British Monetary Policy and the Balance of Payments 1951-1957," in *Harvard Economic Studies* Vol.CXVI
- KRÜGER FRANK, (1957): Voraussetzungen und Maßnahmen zur Herstellung der Konvertibilität der Währung der Bundesrepublik Deutschland Dissertation FU Berlin
- KÜNG EMIL, (1953): "Konvertibilitätsprobleme" in *Privatkommerzbank A.G. - Zürich* Jg.VII Juli pp. 3-12
- LIMMER HERBERT, (1956): Die Konvertibilität der Währungen (Dissertation Nürnberg)
- MANGOLDT H.K., (1955): "Zwischenbilanz der Konvertierbarkeitsbestrebungen," in *IFO Sonderschrift* No.17
- MANSEY W.A.P. - GRAHAM BANNOCH, (1985): "The Impact of the Abolition of Exchange Control in the UK," in *EIU Special Report* No.203
- MARGET ARTHUR W., (1956): "Der Weg zur Konvertibilität," in *Zeitschrift für Nationalökonomie* pp.194-211
- MARSAN HENRI, (1954): "Dollar et or, facteurs décisifs de l'opération convertibilité," in *Revue politique et parlementaire*, Année 56 No.12 pp.354-362
- MENDES-FRANCE PIERRE, (1953): "La convertibilité internationale des monnaies," in *Revue Économique*, No.6 pp.847-851
- MEINHOLD HELMUT, (1954): "Konvertibilitätsreife und internationale Arbeitsteilung," in *Wirtschaftsdienst Monatschrift*, Jg.34, H.2 Februar, pp.78-87
- MEYER FRITZ W., (1954): "Die Währung der Bundesrepublik Deutschland auf dem Weg zur Konvertibilität," see *A.Hunold* (ed.) pp.242-56
- MILLER ROBERT - JOHN B. WOOD, (1979): "Exchange Control for Ever?" in: *Institute of Economic Affairs Research Monographs* No.33
- NEWTON SCOTT, (1986): "Operation 'Robot' and the Political Economy of Sterling Convertibility 1951-52," in: *EUI Working Papers* No. 86/256
- POSTHUMA S., (1982): *Analyses an Beschonwingen in Retrospect*, H.E.Stenfert Kroesbe B.W. Leiden/Antwerpen:
- *Note on Convertibility* pp.275-287
- *Some Remarks on the European Payments Union* pp.289-304
- REICHERT JOHANN ERNST, (1962): Die Rückkehr zur Konvertibilität der Währungen, Diss. Universität Basel
- SHONFIELD ANDREW, (1958): *British Economic Policy Since the War*, Penguin Special No.170
- TRIFFIN ROBERT, (1954:a): "Die Konvertibilität die innereuropäische wirtschaftliche und finanzielle Zusammenarbeit," in *Aussenwirtschaft* 9Jg 3.H pp.215-223

- (1954:b): "Convertibilité ou intégration?" in *Économie Appliquée*, Tome VII, No.4 pp.357-375
- (1957): *Europe and the Money Muddle. From Bilateralism to Near-Convertibility 1947-1956*, Yale University Press - Oxford University Press
- (1959): "Le retour à la convertibilité," in *Bulletin SEDEIS*, No.723 pp.1-31
- DE VRIES MARGARET - J.KEITH HORSEFIELD, (1969): *The International Monetary Fund 1945-1965* Vol.II Analysis
- WELCKER JOHANNES, (1973): "Fünfzehn Jahre Konvertibilität," in *Sparkasse* Jg.90, II.12, pp.368-372

