The International Chamber of Commerce takes the view that a number of countries have gone a long way in re-establishing internal stability but that a number of problems still stand in the way of effective working of convertibility.

One factor is that in many countries public expenditure still remains very high, in some, as much as 35 to 45 per cent of the national income, for such purposes as government-controlled investment in housing, welfare, nationalized industries, etc. Not only is such public expenditure apt to leave budget deficits but it imposes a very high tax burden with the result that, in the words of the Report, "The spirit of enterprise is deadened, costs are increased and the flow of savings is reduced."

Another difficulty, of course, is presented by the restrictions and barriers which impede the flow of world trade and here I would like to quote the Report at greater length:

> In the first place, there are the restrictions imposed with greater or less justification for balance-of-payments reasons by countries which have found themselves in particularly difficult situations. During the transition period they have been able to resort to trade restrictions, more especially as emergency measures; in administration there is, in fact, a tendency to consider the immediate rather than the ultimate effects. It has, however, been found again and again that a reduction in imports has not led to a contraction in spending but has just caused money to be diverted to the home market, thus bringing about an increase in purchases of domestic goods and services, so that fewer of these have been available for export. Moreover, no country can really know the true value of its currency as long as it maintains severe import restrictions which impede the normal functioning of markets. The return to convertibility without a freeing of trade would be a mere sham, and there is no reason to suppose that this fundamental fact has not been realized: an abundant flow of trade and an adequate degree of economic freedom represent the only foundation upon which a sounder currency can be built.
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> But the restrictions imposed for monetary purposes which grew up during the war are not the only hindrance to the flow of trade; there are also the long-standing tariff-barriers, among which, of course, the U.S. tariff is of particular importance as far as the convertibility of foreign currencies into dollars is concerned. Fortunately, opinion in the United States—including that of important industrial circles—is beginning to demand substantial reductions in the existing duties and to realize the extreme importance for a creditor nation to accept the goods and services of other countries. Any other course would be tragedy. The amount of aid granted has brought it home to the average American that it may be more to his advantage to permit the entry of goods from abroad than to go on subsidizing other countries. It should no longer be possible for anybody to fail to recognize the common sense behind the slogan "trade instead of aid".

The Report of the International Chamber of Commerce's subcommittee on monetary reserves and convertibility, created by its Commission on Commercial and Monetary Policy, then considers the need for increased mnoetary reserves and some of the difficulties which a return to convertibility might have in its wake when gold and dollar reserves are barely adequate. As the Report says, "If reserves are slender every difficulty is likely to turn into a crisis." In the period of transition from a controlled to a free system in payments and foreign trade temporary deficits may have to be covered. Once convertibility has been re-established it is important that continuous liquidity be maintained in order to avoid a recurrence of the situation in 1931, when, after most countries had