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INFLATION EXPORT FROM THE UNITED STATES OF AMERICA AFTER WORLD WAR II

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One of the interwar characteristics has been the export of deflation by the United Kingdom which despite the substantial growth of the United States economy had remained until 1938 the dominant economy within the world economy. As a matter of fact her imports and exports exceeded those of any other country[1], its market was in both cases the leading world market, its credits and its investments all over the world[2] were higher than those of any other country. It followed that as long as the United Kingdom was obliged to apply deflation and to restrain credits and investments all over the world for reasons connected with the maintainance of the equilibrium of its balance of payments and with the reduction of dangers connected with its overvalued currency, even after the suspension of the gold standard in the United Kingdom, this was felt everywhere. Credits needed for the satisfactory operation of the economy and investments indispensable for growth or for development whose service, repayment and transfer were sure, were however often withheld for reasons connected with the balance of payments equilibrium of the United Kingdom and the latter's currency supply and demand in the foreign exchange markets.

Whilst deflation was one of the main characteristics of the twenties and even more of the thirties, except of course Nazi Germany, inflation is representative

1) Cf. D. J. Delivanis., L'affaiblissement des répercussions des fluctuations des investissements de l'économie dominante sur la liquidité internationale, Revue d' Economie Politique 1963, pp **919** - 47 and particularly pp. 919-33.

2) Cf. D. J. Delivanis, op. cit. pp 928 - 31.

since 1939. This applies to the whole world economy and also to the new dominant economy, y mean the United States of America, where of course the rate of inflation has shown and is showing fluctuations which led and even now lead frequently to the export of inflation whenever the latter has been stronger than in other countries with which the intercourse of the United States is substantial[3].

This essay will be divided in four paragraphs dealing respectively :

A) with the possibilities of the inflation prevailing in the dominant economy to influence the world economy or at least a number of countries,

B) with the repercussions in the third countries,

C) with the possibilities and the conditions of reaction s of third countries,

D) with the case of the United States of America after World War II.

Conclusions will follow in E.

A. The reasons for which the inflation prevailing in the dominant economy influences the world economy or at least the economies of those countries which for any reason, as great intercourse with the dominant economy, are the most affected, the mechanisms developing in the dominant economy and leading to inflation there and the repercussions in the dominant economy of the latter's possibility to influence developments in the world economy or at least in certain countries will be examined in the three sections of this paragraph.

a) The reasons for which the inflation prevailing in the dominant economy influences the world economy or at least the economies of those countries which for any reason as great intercourse are the most affected are connected with the impossibility of replacing the dominant economy as supplier or as buyer of a number of commodities, of securing loan or venture capital[4] from any other country and of getting the appropriate know how any where else. As a matter of fact the production of a good whose market is in the dominant economy cannot continue if for any reason whatsoever the demand of this good is stopped or

3) Cf. D.J. Delivanis, The legend of the permanent stability of foreign exchanges, Thessaloniki 1980, pp. 5-6 (in Greek).

4) The securing of venture capital is useful mainly when connected with the appropriate know how, with the machinery and the transportation needed in the case considered and with the ability to establish, launch and run the firm concerned.

5) This happened in the twenties when first in Turkey and then in other Islamic countries the bearing by men of the «fez» was discontinued with catastrophic results for the Hungarian town where the production was concentrated until then.

at least substantially curtailed[5]. Also when the supply of credit for the satisfaction of certain needs is concentrated wholly or on a substantial scale in one country and the latter owing to war or to some other catastroph is unable to supply same[6] substantial troubles develop until substitutes are created and the latter get the appropriate experience.

The influence of the dominant economy is even more felt when developments in other countries are moving in the same direction, when the latter serve simply as channels towards the dominant economy and when the same factors exert their repercussions. It has to be stressed in this connection that the countries most affected by developments in the dominant economy are those where the production of the commodity involved is substantial and affects on a great scale the gross national product, employment, public receipts, foreign trade and in general intercourse with foreign countries. If on the other hand [7] a country has the monopoly of the production of a commodity and the latter gets interrupted all users will be affected at least when the inventories available will have been exhausted and until substitutes are found [8].

It has at last to be stressed that the dominant economy exerts also its pressure as far as the price fixing is concerned but it has not to be omitted that in this connection the influence of the possibilities of substitution has not to be underestimated particularly in the Western world with its unlimited progress in engineering, physics, chemistry, biology etc as the OPEC countries had to learn. This induced them in combination with the depression in which the stagflation has now developed [9] to forget the possibility of continuous price rises which have encouraged the efforts of substitution [10] but have been discouraged by the

6) This happened 1914 with the outbreak of World War 1 when suddenly the West- and Central European money and capital markets got unable to operate obliging thus not only the belligerent but also the neutral countries to have recourse to central bank credit despite its inflationary repercussions.

7) This case is rather seldom.

8) This applied to oil after its appreciation 1973 and 1979 and when hopes of substantial price reductions vanished.

9) This is shown by the reduction of the various aggregates and by the 20 % reduction of the average wholesale prices of the Reuter and Moody price indexes and even more by the fall of the price of gold from $850 per unce to 420 (March 1983) where however the high interest rates all over the world and the appreciation of the United States dollar in terms of Western European currencies have to be considered.

10) Independently of the campaign against the operation of nuclear plants.

oil glut which until now (March 1983) has been somewhat mastered by the appropriate decision of the OPEC council to cut output.

b) The mechanisms pushing inflation in the dominant economy are wellknown:
— the price increase,
— the increase of wages, salaries, interest rates and rents,
— the increase of investments,
— the increase of demand,
— the forecast of further price rises,
— the reduced bargaining power of the buyers and of course the primordial and indispensable increase of M_1 without which all other factors may be easily neutralised.

Provided M_1 increases through rising of the central bank credits to both the public and the private sectors and through capital inflow from abroad without a corresponding increase of production and of imports or a substantial diminution of inventories it is natural to notice a continuous price rise even if foreign prices are not increasing or if the latter's increase is neutralised by a corresponding move of the foreign exchanges. These price increases are caused by expansion of demand, growing costs, reduced bargaining power of the buyers in view of the forecast of further price rises and by the expectation of shortages of supply even if the latter do not prove right.

The price rises which are continuous in inflation induce the factors of production, particularly labour, to claim continuously increased rewards which the producers are ready to grant as long as they do not face difficulties in shifting the resultant rise to the prices paid by the consumers and in general the buyers, as they do not want to miss the possibility of supplying their customers and of increasing same nor to be condemned to remain idle when demand is brisk and when inventories are not expanding. Of course for relatively short periods price and wage increases may be prevented by governmental prohibitions but the latter's enforcement is not easy even in well organized countries and with an efficient governmental machinery[11].

The increase of investments with its inflationary repercussions as the demand of labour, capital, capital goods and consumer goods expands, is dictated.

11) Of course without knowing the outcome when the war between Iran and Irak will have finished and the damages as far as oil is concerned will have been repaired.

— by the forecast of a continuous expansion of demand independently of the evolution of the trade cycle [12],

— by the fear of the exhaustion, at least up to a certain degree, of inventories particularly when owing to increased demand and owing to the foreseen expansion of the latter, as noted above, it would be necessary to increase production, except if greater imports from abroad could secure the appropriate size within a short time and anyhow satisfactory as seen by those in charge,

— by the desire to forestall the annihilation of the savings available even by investing in projects securing a low yield,

— by the will to contract loans in inflation ridden and thus depreciating currency whilst the proceeds are affected to investments which, particularly if well chosen, will appreciate, at least in proportion to inflation securing thus a supplementary profit which as a rule is nor taxed [13]. Increased demand is expected reasonably as long as incomes rise, as further price rises are foreseen, inducing thus savers to «invest» in increased inventories[14] and as a shortage of both home produced and foreign goods may be expected. In the first case the shortage may be caused by excessive demand, as exposed before, by the difficulty of securing the appropriate machinery with qualified labour and the appropriate transportation whilst imports may be hampered by shortage of foreign balances, by limitations of supply and of transport facilities abroad owing, to raturai phenomena, strikes and political troubles.

Last but not least with the expectation of further price rises and the continuation of inflation the bargaining power of buyers, both national and foreign, gets weaker and thus contributes to the strengthening of inflation not only in the dominant economy but also in dependent economies in view of the importance of their intercourse.

c) The possibility of the dominant economy to influence through inflation the world economy and in particular the countries[15] with whom the intercourse is the most important lead to

12) As it happened in the fifties and in the sixties all over the world, at least in the West.

13) At least not in the appropriate short time.

14) Contributing so to increased demand until those concerned drop the expectation of further price rises which will then lead to reduced demand and thus to stronger and longer depression that would have occured otherwise.

15) Except if they revaluate their currencies. Cf. O. Issing, Das europâische Wàhrungssystem, Volkswirtschaftliche Korrespondenz der Adolf Weber Stiftung, Miinchen, No 1/1979 pp. 1-4 and particularly page 4.

— the weakening of inflation in the dominant economy in comparison with what would otherwise happen,

— the increase of goods and services available, as imports increase and exports diminish, as long as the latter become less competitive, except if monetary devaluation is carried out in the dominant economy and provided certain other conditions are fulfilled,

— the intensification of economic activity,

— the reduced deterioration of the balance of payments,

— the possibility of contracting loans abroad.

As long as inflation prevailing in the dominant economy is exported abroad which means that prices, wages and salaries increase not only in the dominant economy but also in the others, local prices of goods and services in the dominant economy appreciate less than they would have risen if their whole demand would have had to be satisfied within the country. At the same time the export of the dominant economy's inflation abroad will rise prices and wages thus rendering the related goods and services less competitive than they would otherwise have been facilitating thus the competition of the imports from the dominant economy. Of course the latter's problems may be alleviated at least for some time through monetary devaluation provided nominal incomes are not increased at the same time or within short time. If the latter does not happen the goods available in the inflation ridden dominant economy will increase provided of course the other economies are willing and able to supply the goods and services needed without claiming a barter but being satisfied when their exports get paid which is most wellcome when the country concerned runs a deficit in its trade balance and even more in its current balance of payments or is supplied with insufficient international liquidity.

The limitation of the degree of inflation prevailing in the dominant economy permits the latter to remain more competitive both in its home market and in foreign markets with favourable repercussions on its economic activity and on its contribution to world exports[16]. At the same time the problems caused by inflation are less acute and do not lead as much to social tensions and particularly to strikes.

On the other hand the balance of payments of the dominant economy does

16) G. Haberler «On stagflation» in W. Fellnsr (ed), Contemporary economic problems, Washington 1977, pp. 255-72 insists on the necessity of making the economy more competitive as monetary restraint alone is not enough independently of the danger of increasing unemployment.

not deteriorate as much as it would have been otherwise independently of the facility of contracting loans abroad by the dominant economy in case of emergency[17] either by the issue of bonds or simply by crediting foreign creditors in its local currency[18]. It may accordingly be concluded that the export of inflation from the dominant economy to other economies simplifies the problems created to the dominant economy by its inflation particularly in its external equilibrium[19]. Provided of course foreign powers are ready to bear a part of the part of inflation[20]. those responsible in the dominant economy will certainly not prevent the export of inflation.

B. The export of inflation from the dominant economy affects the other economies as far as

— the rate of inflation,
— the intensity of economic activity,
— the gross national product,
— investments in infrastructure, plants and inventories,
— prices and incomes,
— the foreign exchange value of the local currency,
— international liquidity,
— and the balance of payments are concerned.

a) The export of inflation from the dominant economy is due to the export of high priced goods, of capital goods, of capital with high interest rates and of manpower whenever particularly skilled and indispensable even with high wages and salaries. It follows that as long as the other economies cannot afford to carry on without these items they will have to pay the high prices which owing to the interdependence of prices will push also local prices upwards.

17) As shown by the contraction of loans by the United States in Western Germany and in Switzerland in the late seventies when the United States dollar was particularly weak and the federal budget deficit quite substantial.

18) The result is stronger when the amounts involved are bought by the central bank of the creditor country. This has to happen earlier or later.

19) Cf. D.J. Delivanis, The influence of inflation in the international economy on international liquidity, Thessaloniki 1979, pp. 3 - 5 (in Greek).

20) Thus during the Vietnam war a number of European governments pressed the United States government to curb inflation which they were feeling disagreably by a reduction of its budget deficit and by increased interest rates whose application however since 1980 has led to vehement protests of the same governments, as they pretend that thus the recovery of their economies is delayed or at least more expensive. Cf. E. Chalmers, The money world, London 1974, pp. 190-1.

The creditors and those who have to satisfy themselves with fixed incomes when the latter are not increased for any reason whatsoever will carry the burden of the adaptation whilst debtors, free professions, business and the Treasury will secure advantages in the first case even without the payment of income tax.

b) The reduction of the burden of debts and increased profits will intensify the economic activity in the country concerned importing inflation from the dominant economy and will allow the latter to avoid strenuous efforts in order to reduce costs, to increase productivity and to replace prematurely plants, means of transportation and infrastructure. Of course in this way other projects which would have had to be postponed owing to the necessity of giving priority to investments aiming the reduction of costs, the expansion of productivity and the improvement of infrastructure in view of the latter's overall influence on production possibilities and costs will be more easily realised of course at a higher cost as it will have risen under the influence of inflation imported from abroad. It is not sure in advance that bottlenecks will not prevent the intensification of economic activity, but as receipts from the dominant economy will be available the neutralisation of the bottlenecks by recourse to foreign suppliers will not be particularly difficult[21] provided the world economy is not in a period of very great prosperity.

c) The gross national product of the country importing inflation and securing the diminution of the debts' burden provided no bottlenecks develop will increase as long as the production factors needed will be available without too long delay, as long as the labour's propensity to work does not diminish on a great scale[22], as long as the governmental machinery's deficient operation does not constitute an obstacle to satisfactory developments in both the private and the public sectors, as long as inventories available are not excessive and as long as foreign countries do not indulge in dumping. Another danger may appear in this connection if the foreign exchange value of the currency is not adapted to the rate of inflation imported from abroad[23] without omitting the possibility of mistakes in the relative calculations[24].

21) Except of course when the rate of inflation will become stronger than in the dominant economy in the country importing inflation from the latter.

22) This happens always up to a certain degree when unemployment shrinks or even disappears.

23) As it happened in the sixties and in the early seventies with the maintainance of the United States dollar's parity with strong currencies despite the erosion of the latter's purchasing power.

24) When the purchasing power of the United States' dollar diminished and the United

d) Investments in plants, housing, inventories and infrastructure are facilitated by the import of inflation as long as the monetary illusion is kept up and as long as optimistic forecasts for the evolution of demand prevail. The latter are also influenced by political conditions and even more by the prospect of war which of course favours certain investments. There is no doubt that inflation in the dominant economy encourages those firms which expect to export there even more with rising prices which are not deflated by the appropriate price indices at least not in the first stages of inflation when the latter is not considered important. The prospect of exports in the dominant economy and elsewhere presupposes that those ordering various purchases will be able to pay both in local currency and in the country of the exporter[25] even if foreign exchange control in applied in the country of the importer. Of course if the rate of inflation is very much stronger in the latter difficulties may appear particularly in the private sector which cannot secure unlimited credits from the banking system and even less from the central bank.

e) Inflation imported from the dominant economy and in general from abroad pushes prices and incomes upwards particularly in those sectors which have most contacts with foreign countries. This leads to a redistribution of national income with the wellknown results favoring in general debtors and particularly the Treasury and business. It is not excluded to have a rise of the foreign exchange value of the currency if the rate of inflation is very big abroad whilst the stability of prices and incomes within the country is secured and its maintainance is considered of primordial importance by those in charge[26].

f) If inflation in the dominant economy is stronger than in the other countries the international liquidity available to same will increase alleviating thus any previous problem of scarcity of international liquidity or even leading

States government refused until December 1971 to proceed to devaluation the West European and the Japanese governments with strong currencies ought to proceed to a revaluation of their currencies. They refused however to do so because they were afraid of the appearance of unemployement and of the substantial diminution of their competitiveness whilst underestimating the size of the inflation they were importing. On the other hand they were not sure how much the other governments with the same problem would appreciate their currencies. So they preferred to abstain in order to be able to believe they were on the safe side.

25) Aufbringung und Uberweisung. Cf. G. Haberler, Der internationale Handel, Berlin 1933, pp. 58 and 68.

26) The change of parity may be usually secured by the appropriate decision of the central bank or less frequenthy by the reaction of the market forces.

to a surplus[27] of same and to the application of measures aiming to restrict unfavourable repercussions and particularly an excessive price rise. Of course this increase of international liquidity may induce the countries concerned to abolish restrictions of imports and in general of payments abroad in combination with the reimbursement of debts payable abroad before they become due. The latter may be carried out by contracting loans within the country and when not possible through the issue of bonds with the central bank[28] which will be reimbursed in a number of years corresponding to that within which the reimbursement of this foreign debt had to be carried out.

g) The balance of payments of the dominant economy deteriorates as long as its inflation is stronger than in other countries. This may be easily achieved by crediting the foreign creditors or the latter's banks in the currency of the dominant economy except if the foreign countries involved refuse[29] and claim the repayment in gold or in convertible currencies if of course this is feasible[30]. It also presupposes the availability of a machinery permitting the central bank acting on behalf of the government to oblige creditors of foreign firms and of foreign banks to conform to this line of behaviour. Foreign exchange control or adequate supplementary taxation of the remittances not agréable to the government is indispensable provided it may be enforced which is not certain in many cases independently of the probable unfavourable repercussions on the exporters who may lose their customers, particularly if they have competitors not obliged by their government to apply the same line of behaviour.

C. The countries exposed to the import of inflation from the dominant economy may prevent or at least weaken same :

— by revaluation,

27) Or even a glut as it happened with the United States dollar 1971 - 79.

28) Particularly when the depreciation of the currency in which the foreign debt is serviced is not expected to last.

29) This has happened with the dollar glut in virtue of the stipulations of the statutes of the International Monetary Fund.

30) In those years of the seventies when the United States dollar was particularly weak the oil exporting countries had threathened more than once that they will stop accepting the United States dollar in payment of their oil deliveries. This threat was however not serious because important payments cannot be carried out in any other currency except the United States dollar as nobody would be able to absorb unlimited United States dollar balances and to offer substitutes at commercially acceptable rates. Cf. M.N. von Whitman, op. cit. pp. 214 and 218.

— by the abolishment or by the reduction of custom duties and of import restrictions,

— by the prohibition of certain exports or by the imposition of export custom duties,

— by the abolishment of exchange control on payments abroad,

— by the imposition of exchange control on receipts from abroad,

— by the prohibition of the purchase of foreign balances, of foreign banknotes and of foreign cheques by banks, firms and individuals in general or when exceeding a certain amount or when not the result of commercial deals.

a) The import of iiflation may be prevented by the revaluation of the local currency [31] as long as in this way the exporters will be obliged to reduce their prices in local currency in order to be able to secure buyers in the dominant economy. This will not prove possible in many cases and will oblige the exporters concerned not to accept orders and thus not contribute to the increase of their purchasing power and so of the country's purchasing power whilst the goods available within the country, as long as some exports will not materialise, will increase. That presupposes however that before the change of parity goods exported were missing on the home market[32] where lower prices prevailed. Producers are thus induced to prefer exports abroad independently of inflation considerations. The relation of incomes and of goods available will thus be modified and will lead eventually to a fall of prices. On the other hand thanks to the revaluation of the local currency in terms of the currency of the dominant economy imports will increase provided their elasticity of demand is important and provided demand had not been saturated before the change of parity.

b) The fighting of inflation is also possible by the abolishment either of custom duties or of import restrictions as quotas or of both. These steps will reduce the prices not only of the foreign goods directly affected but also owing to the interdependence of prices and to competition between the various goods and services, both local and foreign. This price fall will reduce the rate of inflation, provided the range of goods affected is substantial, provided the certitude prevails that these measures will be applied for a long time and provided these measures are not neutralized by others [33].

31) Cf. J. Fleming, Inflation, p. 37. Oxford 1976.

32) This is often the case in Eastern European countries when the issue of loans in the West is not possible and the shortage of foreign balances induces those concered to channel abroad goods even when missing in the home market.

33) This may happen if the reduction of custom duties is combined or at least followed by

c) The fighting of inflation as long as it is caused by the shortage of goods available may be secured by the prohibition of the export of those goods whose prices influence substantially the index of the cost of living. The same result may be reached up to a certain degree by the imposition of export custom duties, provided the demand of the goods concerned abroad is not elastic, provided substitutes are not available and provided saturation has not been achieved until now. It has to be stressed in this connection that the imposition of export prohibitions and of export custom duties is forbidden by many multilateral[34] aud bilateral agreements and thus can be carried out only in violation of obligations assumed which only big powers may afford for a relatively long time.

d) The abolishment of foreign exchange control on payments abroad may increase the demand for foreign currencies and thus increase their prices whilst the purchasing power available is reduced. This will cut demand and up to a certain degree the price level and thus the rate of inflation. In the first period after the abolition of the foreign exchange control on payments abroad the demand of foreign currencies will increase much more than its normal level as debts abroad will have accumulated and as certain transfers will be carried out abroad in advance as those concerned will fear that the abolition of foreign exchange control on payments abroad will not be permanent. The evolution of demand of foreign currencies will also be influenced by the trend of the foreign exchange rates and by the forecasts, even if proving wrong ex post, of their further development inasmuch as assets to which access was restricted and becomes unrestricted are less desired and thus less demanded provided institutional changes are not foreseen, at least not in the near future which in these cases alone counts.

e) The abolishment of foreign exchange control on payments abroad may be combined with the establishment of same on receipts from foreign countries. Their purchase by the banks may depend from the realisation of certain conditions connected with the source of these receipts. As a rule the tendency prevails to permit the banks to purchase only those remittances which are connected with

an increase of excise duties or by other measures increasing the prices of the goods concerned.

34) Gatt, European Economic Community and European Free Trade Area.

exports and with the payment of interest and of redemption funds of loans granted earlier abroad[35] whilst the import of capital is discouraged[36].

f) The imposition of foreign exchange control on receipts from abroad which presupposes a lot of bureaucratic interference may be replaced by the prohibition for the central bank to buy foreign currencies and gold and to grant the other banks loans whose proceeds are to be used for this purpose. Whilst the first prohibition is very simple and may be easily enforced the enforcement of the second is much more difficult at least ex ante. It has not to be forgotten that the central bank is the banker of the other banks which may for any reason demand loans from the central bank without practical possibilities to check the purposes to which the proceeds of its loans are affected. Their affectation for the purchase of gold, of foreign currencies and of foreign balances may be proved in the balance sheet and punished only ex post under the condition that these assets will not be included in the item «other assets». It is wellknown however that many possibilities are available in bookkeeping to circumvene any prohibition except if every bank is directed by good faith and by the strong will to comply with the prohibition[37].

It may accordingly be concluded that the spread of inflation from the dominant economy and from other countries to the country concerned may be prevented only if certain requirements are fulfilled and if those running the banks comply in good faith with the regulations issued for this purpose. This does not happen easily and explains why the prevention of the spread of inflation is not often successful.

D. In view of this conclusion the export of inflation from the United States of America after World War II seems to be quite natural. As far as 1) the relation of the intensity of inflation in the United States of America and in the

35) Independently of the tendency prevailing in some countries as in Belgium to have a different rate for commercial intercourse and another for all other purposes. The latter is more favourable for the local currency and thus more onerous for the currencies of foreign countries from which the remittances are sent.

36) For practical reasons this discouragement applies also often to the invisible receipts of the balance of payments.

37) The most known example of this prohibition and of its best application concerns Sweden in World War 1 where the purchase of gold and of foreign balances and banknotes by the central bank was forbidden. This decision was expected to reduce inflation which was then very strong in the neutral countries all over the world.

world, 2) the relation of the needs and of the availability of United States dollars in the world economy are concerned it is possible to distinguish a) the years 1945 — 58 when the inflation prevailing with some minor exceptions outside the United States of America exceeded the latter's inflation and when the needs of the United States dollars exceeded those available in the world economy inasmuch as until 1949 and up to a certain degree even later the dollar rates were unrealistic in a great number of countries and the gold stocks were valued all over the world at their 1934 unrealistic price of an unce of fine gold at 35 $[38]. This was detrimental to the interests of the Western and Central European governments, of Japan and of the private gold hoarders all over the world and particularly in the Middle East[39] which otherwise could jeopardize the United States foreign economic policy and impose their views, at least up to a certain degree, b) The years 1959-72 which were marked by stronger inflation in the United States of America[40] than in the other Western countries and when the dollar shortage still visible in the late fifties[41] gradually and in the last years of the period dramatically changed into a dollar glut with continued but vain efforts to reduce same at least within the frontiers of the country concerned[42] and with the vain hope that the end of the Vietnam war[43] would contribute to a return to more normal conditions in the United States of America, c) The years 1973-9 marked once more despite the end 1975 of the Vietnam war by a very strong inflation in the United States of America exceeding substantially the inflation rate in the numerous other Western economies [44]. The growing appearance of stagflation all over the world, the increase 300% of the price of oil on January 1, 1974 and 100% of the new price level

38) This was the only good whose price had not changed as the United States government insisted on this unrealistic attitude may be in order to impose without major an.end.nents of the Bretton Woods statutes a United States dollar standard.

39) Even more the two great gold producers, I mean the Sowiet Urion and South Africa, which were not popular in the United States inasmuch as both governments tried not to consider the United States wishes in many sectors.

40) Cf. R.V. Roosa, The dollar and world liquidity, New York 1961, pp. 58-61.

41) Cf. D. J. Delivanis, L' influence de l' inflation sévissant depuis 1939, Paris 1970, pp. 129 - 31.

42) Sterilisation was also tried with minor success.

43) It happened in 1975.

44) Cf. Fr. Hirsch and J.H. Goldthorpe, (edit), The political economy of inflation, Oxford 1978, pp. 42-3 and 60-1.

45) But producing very disagereable paychologic reactions on the United States dollar rate.

in 1979 in combination with the unrealistic[45] threat of the oil exporting countries that they would stop invoicing their oil exports in United States dollars and accepting same in settlement of their invoices and a substantial depreciation of the United States dollar in terms of the strong Western European currencies and of the Japanese yen were noticed 1973 - 9. d) The period begun in 1980 and marked by aa) the gradual shifting all over the world from stagflation to stagnation, which strengthened the United States dollar rate particularly when the fight against inflation in the United States started to be successful, bb) the substantial fall of the rate of inflation in the United States, Japan, Western Germany and the United Kingdom whilst remaining stationary in Switzerland and deteriorating in France and in many other countries in combination with an important rise of the interest rates which affect the outlay and the investment of the private but not of the public sector whose deficits not only did not fall but on the contrary rose ; cc) the spectacular inflow of private capital from all over the world into the United States of America in order to profit from the very high interest rates prevailing there with three results :

— the unprecedented rise of the dollar rate[46].

— the absorption up to a substantial degree of the dollar glut,

— the increased facility of the United States authorities to secure thus the funds needed to cover without recourse to the central bank the deficits of the federal budget [47]

— the contribution of this deficit to the reduction of the slow down of the United States economy independently of the non realisation until now (March 1983) of the hope of the President of the United States that the reduction of the income tax rates would increase substantially and within a relatively short time the propensity to invest of the private sector and thus the intensity of the economic activity in the United States leading to the gradual but quick absorption of the deficit of the federal budget of the country. It has to be added in this con-

46) From 1,50 Swiss francs at the end of 1978 to 2,08 in March 1983. M. v. Whitman, International interdependence and the United States economy in W. Fellner (éd.) op. cit. pp. 188 — 224 attributes the maintainance of freedom in international trade to these fluctuations, particularly p. 212.

47) Independently of the facilities and of the unexhaustible resources of the New York capital market even for very substantial amounts as those needed by the United States government in our days to cover its growing deficits.

nection that huge deficits[48] appear in the budgets also of those countries of the West which have better monetary conditions [49].

On the hasis of these considerations it seems that the export of inflation from the United States started only in the sixties and finished at the end of the seventies but in order to justify this assumption it is necessary to compare

— the rate of inflation as shown in the consumers price index,

— the rate of increase of the nominal income per head,

— the evolution of the budget [50],

— the evolution of the public debt,

— the balance of payments deficit,

of the United States and of another representative country. The latter ought to be Western Germany or Japan in view of the spectacular growth in the sixties and in the seventies of both these countries and of their importance in the world economy in the present but it has to be marked that in view of their destruction in World war II the initial figures were very low. That means that their rate of growth looks to have been excessive. For this reason the comparison ought to be done with the economy of a country less shaken by World War II. Switzerland seems to be the best case[51]. The latter and the United States practically did not suffer from World War II. Switzerland was neutral and its neutrality was respected

48) Not only in absolute figures but also in relation to the gross national product, the inhabitants and the size of their countries.

49) Japan, Switzerland and Western Germany.

50) Of the federal budget in the case of federal states.

51) The population of Switzerland amounts to approximately 12 % of that of France or of the United Kingdom and for this reason the author wondered if the comparison of the United States ought to be carried out with one of these two countries and not with Switzerland. He concluded however that they were not eligible for the corrparisor as both :

— carried out nationalisations on a great scale contributing thus to the internsification of inflation,

— strikes were and are rather frequent leading to wage and salary increases not justified by productiviy but intensifying inflation,

— indulged in substantial deficits of their budgets and even more of the budgets of nationalised firms covered by non orthodox methods and thus increasing the rate of inflation.

The author accordingly proceeded to the comparison of the United States of America data with those of Switzerland inasmuch as the latter is very important in international banking and in international finance not only for developing but also for developed countries as shown by the frequent issue of loans from their authorities, banks and firms in Switzerland.

by all belligerents[52]. The United States of America contributed the most to the victory of the Allies and lost a great number of soldiers, marines and airmen in a most gallant fight but had the advantage that their economy did not suffer from World War It. Much was realised thanks to the efforts of those who were unemployed when in December 1941 the United States entered the war. The intensified operation of plants and of transportation available secured a substantially increased output not comparable to that achieved, by the European and Asiatic allies and enemies[53]. Accordingly

— the presentation of the data mentioned before of the United States of America and of Switzerland for the years 1949 - 1982,

— the comparison of these data and the effort to reach conclusions for every period separately,

— the drawing of a general conclusion which will follow in E will constitute the end of this essay.

E. When examining the data of the United States and those of Switzerland as published in the International Financial Statistics it may be seen that.

— The present increase of the consumers price index of the two countries per year is not evolving with the same speed as out of 34 years (1949-82) in 14 the consumer price index increase was greater in Switzerland than in the United States and in twenty the price increase was greater in the last named country; it has however to be stressed that since 1974 the consumer price increase is continuously greater in the United States ;

The intensity and the continuousness of inflation in the United States leading to its export in the sixties and in the seventies may be shown by the developments

52) Except some minor bombardments in frontier areas.

53) Of course the renewal and new investments were delayed until the end of the war but were carried out quickly and thoroughly in the fourties when the financing of the Marshall plan imposed new burdens on the United States economy. The latter constituted a phenomenon of world wide importance as for the first time in history a freely elected government imposed without meeting the smallest protest for four years a supplementary effort and expense on their people who had fought just before four more years covering not only their own needs but also those of their allies with the result that Europe West of the river Elbe remained on the side of the United States of America contributing thus to the supremacy of the Western camp in the s.ruggle for freedom.

A the deficit of the federal budget of the United States in billions $

B the deficit of the current balance of payments of the United States in billions $

C the evolution of the public debt of the United States (federal) in billions $

D the dollar rate in Swiss francs

Table I

	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960
A	1	2	8	0	5	—	3	4	2	+2	+13	—
B	+5	+ 1	+4	+4	+5	+5	+4	+6	+7	+5	+2	+6
C	214	220	214	215	218	222	224	219	215	220	230	231
D	4,30	4,29	4,37	4,28	4,29	4,28	4,28	4,28	4,28	4,31	4,32	4,30
E	—2,3	—1,3	8,1	2,1	0,8	0,4	—0,2	1,4	3,6	2,7	0,9	1,5
F	—0,7	—1,6	4,46	2,7	—0,6	0,7	1,1	1,3	2,1	1,9	—0,8	1,6

	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
A	2	6	4	6	2	4	9	25	+3	3	23
B	+6	+5	+7	+5	+4	+4	+4	+1	+1	+3	2
C	233	242	248	253	256	256	254	271	269	276	295
D	4,32	4,32	4,31	4,32	4,32	4,33	4,32	4,30	4,32	4,32	3,91
E	1,1	1,1	1,2	1,2	1,7	3,1	2,6	4,2	3,4	5,9	3,3
F	1,8	4,3	3,4	3,1	3,4	4,8	3,9	2,4	2,6	3,6	6,5

	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
A	17	8	11	75	57	51	44	28	69	73	42
B	6	11	+10	99	+10	9	9	+4	+12	+44	n.a.
C	332	339	351	407	506	564	618	658	738	828	859
D	3,77	3,24	2,54	2,62	2,4	2—	1,62	1,58	1,76	1.80	2—
E	3,3	6,3	10,9	9,2	5,8	6,5	7,5	11,3	13,5	9,1	n.a.
F	6,7	8,8	9,7	6,7	1,7	1,6	0,8	3,6	4,1	6,2	n.a.

E the change percent of the consumer's price index over the previous year in the United States

F the change percent of the consumer's price index over the previous year in Switzerland.

— Thus the deficit of the latter's federal budget is growing whilst the rather insignificant last surplus was marked in 1969 ;

— the current balance of payments of the United States has a rather small surplus despite the deterioration of the barter terms of trade through the two oil shocks and of course independently of the evolution of the capital transfers in combination with the repercussions of the operation of the Euromarket ;

— the increase of the public debt of the federal government of the United States by nearly 200% is the most characteristic sign of the latter's unability to cover its needs by the tax proceeds available whilst for the time being the amounts needed have been secured through the capital market where of course interest rates have increased substantially and thus have rendered more difficult and certainly more expensive the securing of capital by the private sector ;

— the devaluation of the United States dollar in terms of the Swiss franc and of the other West-and Central European currencies had reached its maximum in November 1978 whilst in the eighties the United States dollar rose nearly 50% under the influence of political troubles in various countries and of the transformation of the stagflation into stagnation[54].

The data available permit us to conclude that the inflation prevailing in the United States in twenty years out of thirty four in the years 1949- 82 has been stronger than in Switzerland. That means that the United States were exporting inflation mainly in the second half of the sixties and in the seventies contributing thus in view of their importance in the world economy to the intensification of inflation all over the world. This conclusion is strengthened by the substantial and continuous increase of the debt of the federal government of the United States and by the fall of the United States dollar rate in Swiss francs reaching its lowest point 1978-9. On the other hand the evolution of the current balance of

54) Not only the currencies of developing countries or of countries with a chronic deficit of their current balance of payments due to excessive inflation or to structural reasons but also highly developed countries as Belgium, Denmark, Finland and Sweden have devalued in terms of the United States dollar in order to face as far as possible the difficulties of their exporters and of their producers.

payments does not support the view but as capital transfers are so important in the case of the United States and up to a certain degree pass through the Euro-dollar market this aspect does not have an excessive importance able to over-throw the conclusion reached.

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