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THE EMERGING PATTERN OF INTERNATIONAL PAYMENTS

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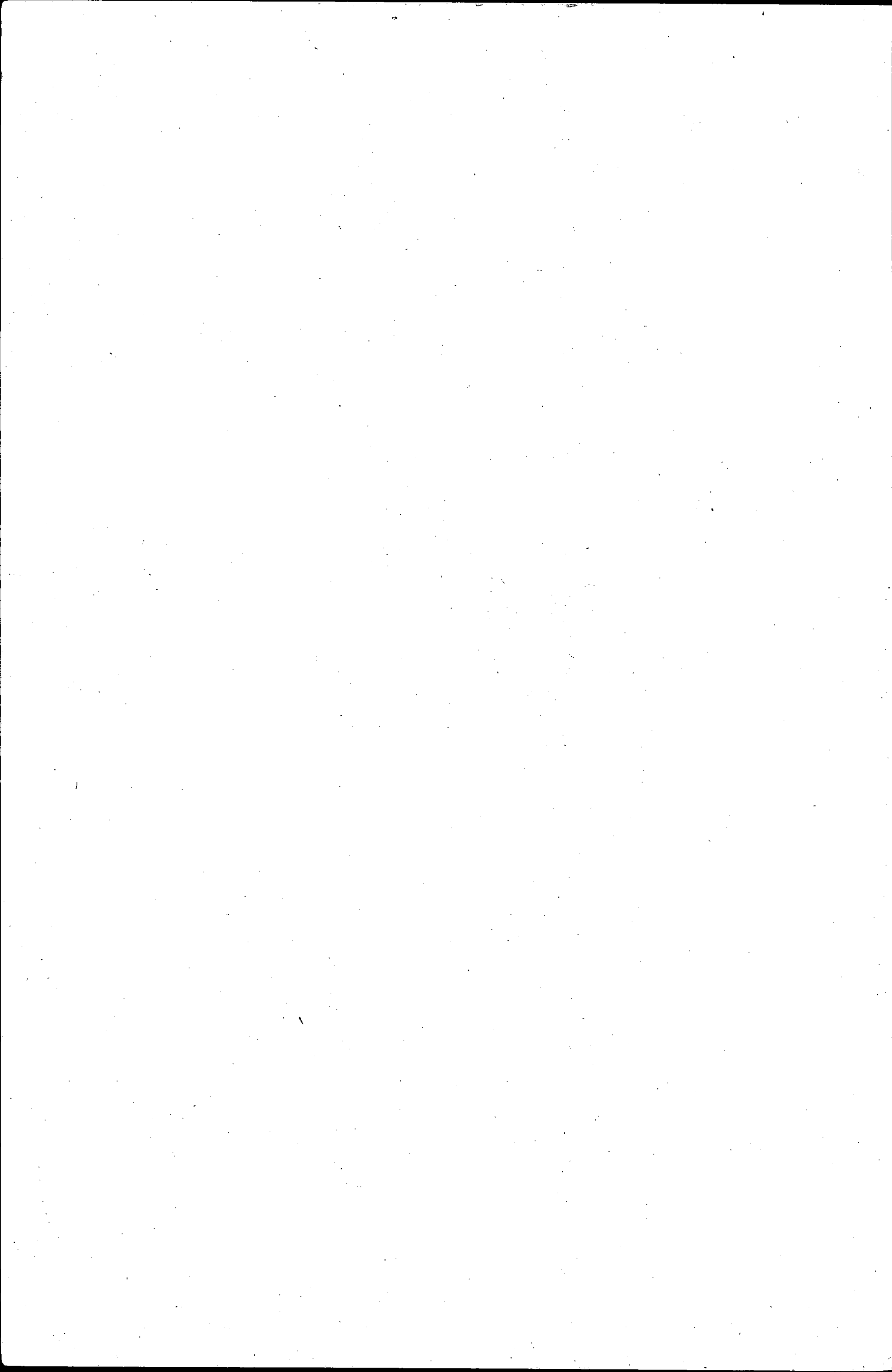

THE EMERGING PATTERN OF INTERNATIONAL PAYMENTS*

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I. INTRODUCTION

ECONOMIC and political conditions are rarely considered as being "normal" by the contemporary generation; "normalcy" is the judgment of a backward look from a position of marked change. The tendency to regard history as a reversible process has permeated the thinking of most planners in every period following a great political and social upheaval. But the idea of "back to normalcy," by definition, looks at the problem of transition from the wrong direction.

The International Monetary Fund Agreement established a code of fair exchange practices and the General Agreement on Tariffs and Trade (GATT) a code of fair trade practices, which were based on the experience of the past and were designed to come into force as soon as conditions in each member country would permit the assumption of the obligations of the codes. This period of readjustment, called the "postwar transitional" period, was of unspecified length and the conditions to be achieved before countries could be expected to assume their obligations were ill-defined. Nearly nine years after V-J day, and after a recovery of world production and trade far above pre-war levels, the vast majority of the signatories are still invoking the transitional period exemptions from the codes. Surely by now the postwar transitional period has lost whatever significance it originally had. The world is always in transition but some periods seem more transitional than others!

Perhaps the major difficulty with the postwar transition formula, however, was the expectation that individual countries could *one by one* assume the obligations of the Fund and the GATT with respect to their exchange and trade practices. For most countries the ability to restore convertibility on current account has not been determined simply by

* Many of the subjects discussed in this essay have been dealt with in greater detail in my *Foreign Exchange in the Postwar World*, The Twentieth Century Fund, New York, 1954.

the degree of economic recovery and financial stability of the individual country but also by the balance of payments position of the group of countries with which it has the closest economic relations.

In recent months there have been encouraging signs that the rigid controls over trade and payments which have characterized much of the world's commerce are being relaxed and that conditions are becoming favorable for some kind of currency convertibility. But the decade and a half of controlled exchanges in most of the nations of the world have left their mark. Direct balance of payments controls often have become as important a set of tools in the bureaucratic kit as the somewhat older fiscal and monetary implements. And while a more favorable international climate may lead nations to relax their use or even lay them aside for a time, they are not likely to be forgotten or to be thrown out of the tool box.

In considering these questions it must be borne in mind that national exchange control policies and techniques have emerged as parts of a system or systems of international trade and payments. Although the sterling area, the European Payments Union (EPU), and the vast network of bilateral trade and payments agreements were established as temporary arrangements for dealing with immediate problems, they have, like the underlying exchange control systems themselves, left their mark and are unlikely to be quickly swept away by a rising tide of multilateralism. As the world moves toward full multilateral settlements, we may expect the retention of institutions and administrative arrangements which will permit an orderly retreat to some form of limited or regional multilateralism should the future bring a less favorable international climate.

It is the purpose of this essay to consider postwar payments arrangements as an emerging process, determined more by the immediate economic and political environment than by a desire to create an ideal international payments mechanism. In addition, by means of a projection of this process as an emerging continuum from the past and the present, alternative courses for the future will be suggested.

II. THE TRANSITION TO THE EARLY POSTWAR PAYMENTS AGREEMENTS

The basic mechanisms employed in the postwar payments systems were developed in the 1930's. Payments agreements, clearing accounts, trade-quota agreements, tied sales or purchases, balances blocked or restricted in use, multiple exchange rates and broken cross-rates, as well as the various techniques for mobilizing and allocating foreign exchange resources, had all been employed by the middle thirties. In spite of the

widespread use of these devices, however, the system of international payments at that time was basically multilateral in character and perhaps 80 per cent or more of the world's trade was financed with generally convertible currencies, principally the dollar and sterling.

The motivations in the early 1930's for certain countries, chiefly Germany and the nations of Central Europe, for using bilateral clearing and payments devices to by-pass the multilateral payments mechanism grew out of a decline in their international liquidity position and the desire to gain commercial advantages in the desperate competition for the depression-shrunk markets. To a considerable degree these motivations were inseparable, just as they have been in the postwar period. And while the so-called Schachtian devices of the Nazis were frowned upon as instruments of economic warfare, countries like Britain, Belgium and Switzerland, whose foreign exchange positions were relatively strong, were not above engaging in practices which undermined the system of multilateral payments in order to further their own commercial advantage. Thus, in January 1939, Britain was a party to nine bilateral payments or clearing agreements, Belgium to thirteen, France to twelve, the Netherlands to seven, and Switzerland to twelve.

The bilateral clearing agreements of the early 1930's provided a means of partially freeing trade and financial payments from the strictures of exchange controls and currency blocking initially imposed by certain countries as temporary measures for dealing with balance of payments crises. They were negotiated between exchange control countries and between the free exchange and exchange control countries, but generally not between countries which maintained free exchange markets. The bilateral clearing agreements enabled creditor countries to collect their frozen credits from the debtor countries by requiring those importing from the debtor country to pay their own currency into a special account, a portion of which was then set aside to make payments to the individual creditors. At the same time, exporters in the creditor countries were anxious to maintain their markets in the debtor country and the debtor country was anxious to obtain imports from the creditor country, provided it could do so without a loss of free exchange. All of these objectives could be realized through the operation of clearing agreements.

But the clearing agreement was not entirely satisfactory to free exchange countries. For one thing, exporters were required to wait for payment until importers made deposits into the account; and free exchange countries had to require importers from the clearing agreement country to make payments into a special account rather than use normal exchange facilities. Both of these objections were obviated by the bilateral payments agreement which came into general use after

the negotiation of the first payments agreement between Argentina and Great Britain in May, 1933.

The bilateral payments agreement was a major innovation embodying a fundamental principle that was carried over into the wartime and postwar exchange systems: governmental control over the use of balances acquired by non-residents. The prewar payments agreements were usually negotiated between a free-exchange and an exchange control country with the currency of the free exchange country being employed as the unit of account. Foreign exchange payments to the exchange control country were made into special accounts in the banks of the free-exchange country and balances in these accounts could be used only for certain purposes. Unlike other balances in the free-exchange country, they were not freely convertible into third currencies and in some cases they were not available for the purchase of all goods and services from the free-exchange country. Most of the payments agreements required that any balances in these special accounts which remained after making certain payments for debt settlement, had to be employed for purchases in the free-exchange country.

With few exceptions, the postwar bilateral payments agreements have been negotiated between two exchange-control countries, both of which require exporters to surrender their foreign exchange earnings to the exchange authorities. Under these conditions either currency or both currencies may be employed as the means of payment, and the problem arises as to how much one partner is willing to hold of the other's currency. This problem did not arise under the typical pre-war payments agreement between a debtor country with exchange controls and a free-exchange country, since only the creditor country's currency was used and the debtor country was required to plan its trade so as to reduce its indebtedness by means of a surplus with the creditor.

The first war-time payments agreement between the Western European countries virtually ignored the problem of balance. Owing to the gravity of the Nazi threat in 1939, Britain and France concluded an agreement which obligated each country to supply without limit its own currency to the other for use within their respective currency areas. Such an agreement was tantamount to a currency union except for the fact that each country maintained trade and payments controls with respect to transactions with the other country. The Anglo-French agreement of December 1939 set the pattern for the Anglo-Belgium agreement (1943) and the other European bilateral agreements negotiated during the war and early postwar periods, with the important exception that these later agreements generally provided limits to the amounts of the partner's currency which each agreed to hold without demanding a gold settlement.

These agreements were thought of as a means of freeing trade from the restrictions temporarily necessitated by the war on residents in their dealings with nationals of the partner countries and on the balances held by non-residents. By limiting the use of the domestic currency paid to non-residents, it was possible to reduce somewhat the restrictions on residents' foreign transactions. Thus there developed out of the old pre-war payments agreements a distinction between controls over payments and transfers by residents on the one hand, and restrictions upon the availability and transferability of domestic balances owned by non-residents on the other.

The practice of controlling the use of non-resident accounts became an especially important feature of international payments arrangements with the formalization of the sterling area. When she first introduced exchange controls in 1939, Britain did not control transfers of sterling between non-residents. This circumstance resulted in a dual rate for sterling: an official rate in London for the dollar and other currencies; and a free market rate for sterling in the New York and other free markets. The free market was soon dried up however, first by gradually reducing the types of payments for which free market sterling could be used and thereby reducing the demand for it; and second, by curtailing the supply of free sterling through the blocking of the proceeds from the sale of foreign-owned British securities and requiring all transfers of resident account sterling to non-residents to take place through British authorized banks. Transactions within the sterling area were financed by resident account sterling which, although freely transferable within the area, could not be legally transferred to a non-resident account except in accordance with the British exchange regulations. Thus the fundamental principle of the payments agreement, namely the control over the disposition of balances held by foreign nationals, became the basic element of the sterling area exchange control system.

Unlike the usual payments agreements between pairs of countries, however, the sterling area was not based on a written agreement. The prewar practice of making international payments by drafts on London banks and their overseas branches provided a ready made mechanism for the control of transfers of the means of payment employed by the Commonwealth countries (except Canada) together with a few other countries with close economic and political ties with Britain. During the war period at least, it was not even necessary for Britain to place formal limitations on the amounts of resident sterling that could be converted to dollars or transferred to (convertible) American account sterling, since commodity and shipping shortages limited the demand. All that was necessary was to prevent unauthorized capital transfers;

this could easily be done with the cooperation of the exchange control authorities of the independent sterling area countries.

Within the sterling area system, which in a sense is an unwritten multilateral payments agreement based on sterling, the problem of balance was avoided by the fact that although Britain became a debtor to the rest of the system the prestige of sterling was such that the other members were willing to hold large amounts of sterling balances. The same thing was true during the war and early postwar periods, with respect to a number of other countries with which Britain had bilateral payments agreements based on sterling as the sole means of payment. But with the revival of postwar trade, the problem of balance soon appeared under the two-currency agreements negotiated between Britain and her continental neighbors.

By the end of the war the bilateral payments agreement had become the accepted mechanism for financing trade among non-dollar countries and during the months following V-E day the network of payments agreements expanded to cover virtually the entire non-dollar world, with only a few gaps in the web. In March 1947 about 200 bilateral payments agreements were in effect and this number had nearly doubled by 1950. There was, to be sure, some variation in the pattern. The sterling area was a self-contained system of multilateral settlements and stood as a unit in payments agreements with other countries. The Dutch, French, and Belgium-Luxemburg currency areas represented smaller pools of multilateral settlements within the larger bilateral framework. Moreover, the bilateral agreements themselves differed in many particulars. Nevertheless, these agreements had certain common features which served the needs of the non-dollar countries in the restoration of their trade. First, they provided liquidity, not in terms of gold or convertible currencies which the countries believed they could not spare, but in terms of credits extended in the form of overdrafts arising out of trade and repayable in terms of goods or inconvertible currencies. Second, the agreements enabled some countries to finance trade in their own currencies, removing the risk of currency depreciation. And, third, they provided a mechanism for conducting trade through normal channels without the necessity of resorting to state trading or barter agreements.

It is interesting to speculate what might have happened if this payments network had not developed and nations had organized their postwar trade on a convertible basis. The low levels of liquidity and the demand for dollar goods would undoubtedly have kept trade between non-dollar countries at a substantially lower level. Competition for markets would probably have forced countries to depreciate and unless internal deflationary steps had been taken, hyper-inflation might have occurred in a number of countries. But the pattern of production and

trade would probably have adjusted itself far more rapidly to a system of non-discriminatory trade and currency convertibility than it has in the nine years since V-E day. However, the social and economic costs of this adjustment would undoubtedly have been more than the non-dollar countries of the world were willing to pay and it would be difficult to prove that they were wrong in adopting the course they did.

A major effort to break through the network of bilateral trade and payments occurred in 1947 when Britain sought to establish a form of sterling convertibility. It is worth noting that the British system of convertibility was attempted within the framework of the sterling payments agreements and of the arrangements which constituted the sterling area itself. Under the terms of a series of new agreements concluded in 1946-1947 following the Anglo-American Financial Agreement of July, 1946, a number of countries agreed to continue to accept sterling in payment for their exports and to limit sales of sterling against other currencies to amounts needed for meeting current deficits with non-sterling countries. Thus the fundamental principle of the payments agreement, namely that of limiting the use of non-resident accounts was preserved. Sterling area countries were of course expected to avoid transfers of sterling outside the sterling area for capital transactions and to continue clearing their financial transactions with non-sterling countries through London. In other words, British convertibility in 1947 did not contemplate the elimination of the sterling dollar pool nor of most of the other sterling arrangements other than the informal agreements to discriminate against the dollar area.

The British convertibility experiment failed. The reasons were many, including the failure of certain countries to live up to their agreements. But in this attempt can be seen a pattern for the more successful, be it more limited, system of multilateral payments which was subsequently developed, and a hint as to the likely pattern for future progress toward a system of full multilateral settlements.

III. FROM BILATERALISM TO LIMITED MULTILATERALISM

The failure of the sterling convertibility experiment in 1947 led to an indefinite shelving of the hope for a quick restoration of a world-wide system of multilateral payments. The dollar shortage began to be accepted as a more or less permanent state of affairs deducible from the structural changes in world production and trade relationships and from differences in economic policies between the United States and the rest of the world. Some economists developed complex and tortured explanations to square their views of a chronic dollar shortage with the

classical theory of international trade, while others saw the problem of international imbalance as being readily amenable to exchange rate adjustments coupled with rigorous fiscal and monetary action in the deficit countries.

More fruitful were the efforts to develop a system of multilateral trade and payments among the non-dollar countries as an intermediate step between bilateralism and full convertibility. One mechanism for such a system was provided by the sterling transferable account system.* However, several important countries dropped out of the transferable account group after August 1947 and those countries which remained in the system conducted the bulk of their trade with other non-sterling countries, not through sterling transfers, but under bilateral payments agreements with their non-sterling partners. Countries like Belgium, Argentina, Canada, Portugal and Switzerland regarded sterling as too weak to warrant their membership in a system which obligated them to accept sterling without limit. Others regarded sterling as too scarce to justify their giving up their bilateral payments agreements with the rest of the non-dollar world.

By the end of 1947 the fundamental weaknesses of the network of bilateral payments agreements had become quite apparent. The target trade balances established by the trade-quota agreements negotiated between the partner countries often were not being realized. The economically weaker countries could not provide the scheduled exports, or their prices were out of line, while the import demands of those same countries often exceeded the target amounts set by the agreements. The total of the individual deficits or surpluses for the soft currency countries usually exceeded by a considerable margin their net deficits with their trading partners as a group, but so long as no mechanism for multilateral settlements existed the bilateral positions could not be reduced. As the credit margins provided by the payments agreements were exhausted the impetus given to non-dollar trade in the early postwar period disappeared and trade between some pairs of countries threatened to grind to a halt.

For the Western European countries the problem of bilateral unbal-

* The sterling transferable account system was originally established in 1946-1947 by a series of bilateral agreements under which a number of countries agreed to accept sterling from the sterling area and from one another in settlement of current transactions and to limit transfers to one another and to the dollar area to amounts needed for settlement of current transactions. After August, 1947, transferable account sterling could no longer be transferred to the dollar area but remained automatically transferable for current payments within the transferable account group. In March, 1954, the British expanded the transferable account system to include nearly all countries outside of the dollar area. Transferable account sterling is now automatically transferable among members of the system and with the sterling area for the financing of both current and capital transactions.

ance was partially solved by a special distribution of Marshall Plan aid, which in effect paid dollars to the bilateral creditors in return for a writing off of their bilateral credits. In addition, during the period 1948-1950, feeble attempts at multilateral settlements were made through the multilateral offset system operated by the Bank for International Settlements. But the establishment of a completely multilateral system for the Western European countries and their associated monetary areas did not take place until the summer of 1950 with the setting up of the European Payments Union.

Payments difficulties have also existed in the trade between Western Europe and Latin America during the postwar period. To some extent Western Europe's deficits with those countries were settled by the repatriation of capital investments and by Marshall Plan purchases in Latin America for delivery to Europe. Nevertheless, trade under the bilateral payments agreements between Europe and South American countries has been subject to even greater difficulties than intra-European trade, a factor which helps to account for the relatively low level of commerce between the two areas. Most of the countries of the Far East, except Japan and the Philippines, are members of European currency areas, and hence their payments facilities for trading with the rest of the non-dollar world have been bound up with the development of the Western European payments system.

The European Payments Union provides a mechanism for multilateral settlements for about 40 per cent of the world's trade, or about two-thirds of the world's non-dollar trade. Moreover, a large portion of this trade has been freed of quantitative restrictions and those which do exist are largely non-discriminatory. Before it was possible to establish this system several conditions were necessary. First, the trade imbalance within the EPU group had to be reduced and the relative degrees of strength or hardness among the currencies of the members narrowed. This was accomplished in large measure by the rapid recovery of production in Western Europe, greatly facilitated by American aid; by the currency revaluations of 1949; and by the achievement of greater internal financial stability. Second, it was necessary for these countries to agree to give up a large measure of their bilateralism in trade relations with one another and to accept the disciplines of competition. Third, it was necessary to provide additional liquidity for the financing of trade. These last two conditions were provided in considerable measure by the Union mechanism itself and by the accompanying OEEC trade liberalization program. Finally, it was necessary for these countries to achieve a greater degree of overall balance, including balance with the dollar area.

These same conditions must also be met if countries are to become

members of a world-wide system of multilateral settlements. There must not be a tendency for imbalances to be concentrated on one country or on a small group of countries; in other words there cannot be large differences in the relative strength of the important currencies. In addition there cannot be large overall deficits or tendencies toward deficit for individual countries, especially the major trading nations. Finally, there must be a willingness on the part of all members to give up discriminatory trade and exchange arrangements.

The disciplines of membership in a large regional multilateral payments system like the EPU are similar to those required for membership in a universal multilateral system. Thus, the EPU and the accompanying European trade liberalization program may quite properly be regarded as a step toward a fully convertible system. While critics of the EPU have argued that it sets up a self-perpetuating soft currency system and that it has delayed the restoration of convertibility in Belgium and certain of the stronger members of the EPU group, it may also be argued that the EPU mechanism has been a means of lifting the Western European countries and their associated monetary areas as a group out of the jungle of bilateral dealings. The leveling process achieved by a limited multilateral system may have involved some retrogression on the part of certain countries, but the gains to be derived from lifting a large group of highly interdependent countries to a stage at which the conditions for full convertibility are realized in considerable degree, may well be worth the price.

The EPU mechanism represents a logical development from the network of bilateral trade and payments agreements which formed the basis for trade among its members and their associated monetary areas before 1950. In the beginning, the Union agreement represented a simple amendment to the existing bilateral payments agreements; namely, the substitution of monthly settlements through the EPU for the swing credit and excessive balance settlement arrangements of the old agreements. The obligation to accept the currency of the bilateral partner and the controls over the use of non-resident balances remained as before. Except for the special arrangements for automatic sterling transfers among the transferable account countries, non-resident balances held by bilateral partners could only be transferred (without special administrative permission) between residents of the partner countries. In many cases transferability of non-resident balances was confined entirely to transactions between authorized banks in the two countries.

Over the past two years there has been a considerable broadening of the freedom to transfer non-resident accounts within the European Payments Union area. This process was initiated by Britain in 1952 and 1953. Following that country's establishment of a free dollar market

for authorized banks in December 1951, Britain permitted the authorized banks to engage in arbitrage transactions in certain currencies with the banks of the European countries whose currencies were involved. Before May, 1953, however, the arbitrage operations of the exchange banks were, with a few minor exceptions, confined to bilateral transactions with the partner country and triangular arbitrage was not permitted. On May 18, 1953, eight EPU countries* entered into an arrangement whereby their authorized banks were permitted to engage in multilateral arbitrage transactions involving the currencies of the members of the arbitrage group.

This system, while representing a significant departure from the operation of the earlier bilateral payments agreements, nevertheless embodies the fundamental principle of control over non-resident accounts. The area of transferability is broadened, and since the problem of the settlement of balances is dealt with through the EPU clearing mechanism, it could well be extended to all Union members. The limits of transferability are well defined and observance of the rules of the game are in large measure assured by confining exchange dealings to authorized banks whose operations are under governmental supervision.

The same principles involved in the European exchange markets might very well become the pattern for a wider degree of convertibility. Thus, convertibility into dollars might initially be available for central bank holdings of non-resident balances of EPU currencies. Such convertibility might take place only through the Union for the creditor countries. Gradually, however, the system of exchange arbitrage might be extended to include operations in the dollar markets of Britain and certain other countries, but all transactions would be limited to those of authorized banks. Rules might be devised for limiting sales of sterling for dollars in the London market, to amounts representing current account surpluses of sterling. In other words, the concept of free exchange markets may take on a different meaning in a future world of currency convertibility from what it had in the pre-war period.

IV. POSTWAR EXCHANGE RATE POLICIES AND NEW FORMS OF COMPETITIVE DEPRECIATION

The major issue for exchange rate policy in the prewar period was between the gold standard system and flexible exchange rates. The issue in the postwar period has been between fixed rates maintained by tight trade and exchange controls and flexible rates with or without

*The United Kingdom, France, Germany, Belgium, the Netherlands, Denmark, Sweden and Switzerland. Norway was subsequently added to this group. Arbitrage transactions are permitted in both spot and forward exchange.

balance of payments controls. For the immediate postwar period, at least, flexible rates had few supporters outside of conservative academic circles in the United States.

Majority opinion held that for the countries severely affected by the war, devaluation would aggravate internal inflation and could not be expected to expand exports until productive capacities had been restored. But with the recovery of production in Western Europe and the termination of sellers' markets in late 1948 and 1949, it became clear to the officials of the Monetary Fund and of the United States Treasury that existing European parities, many of which had not been changed since 1939, were out of line with world prices and were interfering with the expansion of exports to hard currency markets.

It was at this point that the real debate began. This debate was not so much concerned with the question of establishing an equilibrium rate, since equilibrium for Western Europe was not believed possible at least until after mid-1952, the termination date of the Marshall Plan. Rather, it was with the effects of devaluation upon the terms of trade and internal financial stability. It was generally admitted, of course, that unless internal prices could be held within reasonable bounds following devaluation, a change in the exchange rate might do more harm than good. The ability of a country to hold down wages in the face of a rise in international commodity prices frequently involved a serious internal political problem. By and large, however, the internal adjustments traceable to the 1949 devaluations were less severe than had been expected.

Since national planning of imports had been substituted for the operation of the price system, the question turned, in part, on whether or not devaluation would improve or reduce foreign exchange earnings. The analysis of export demand elasticities made by some economists appeared to give a negative answer to this question, while others denied the validity of the results of such investigations. But, even assuming that devaluation would increase foreign exchange earnings, the question was raised as to whether the increase in foreign exchange earnings would be worth the additional resources required to procure them. In other words, would the reduction in the terms of trade be too large to justify the increase in foreign exchange earnings?

But the Americans and others who urged devaluation for Britain and Western Europe often were arguing from the premise of a freely competitive economy and looking to the longer run effects of a revaluation of currencies upon the structure and production of trade. Usually they were not viewing the problem from the standpoint of a monopolist trying to decide on the price to sell his wares in the international market. The fact was, of course, that the countries of Britain and Western

Europe were neither wholly state trading monopolies nor were they freely competitive. Moreover, both the short-run and the longer-run effects of devaluation had to be considered.

The devaluation problem for Britain and Western Europe was complicated by the fact that part of their trade was conducted under bilateral trading arrangements in which price was perhaps less important than the availability of the desired goods and the determination of the level of trade for which a target balance could be struck; and the remainder was conducted with the dollar area. Considering the nature of the bilateral bargaining, most countries saw little advantage in reducing their terms of trade with their bilateral partners.

When devaluation finally occurred in September 1949, it was brought about more by a crisis of confidence in sterling than by a decision that devaluation would improve the balance of trade or, still less, restore equilibrium. In fact, when the crisis had passed, a number of British economists, together with the staff of the Economic Commission for Europe, argued strongly for an upward revaluation of sterling and other European currencies.

Competition for Dollar Markets

While the system of bilateral payments and trade agreements discouraged price competition in non-dollar markets, many countries sought to cheapen their currencies in terms of dollars while maintaining their parities with other soft currencies. Early in the postwar period France and Italy adopted systems involving fluctuating rates for dollars and fixed rates for soft currencies. Broken cross-rates were severely frowned upon by Britain and by the Monetary Fund and largely as a result of external pressures, these systems were abandoned in 1948 in favor of stable and unified rates. A number of non-European countries, however, including Lebanon, Syria, Thailand, Hong Kong, and Peru, have maintained broken cross-rate systems throughout most of the postwar period.

Other countries have employed more subtle means of competitive depreciation to improve their sales in dollar markets. The use of retention quotas, which allow the exporter to retain a certain percentage of his dollar earnings to purchase dollar imports not ordinarily licensed, was for sometime in widespread use among the Continental countries. Frequently exporters were permitted to sell their "rights" to use the retention quotas to other residents, so that the dollar export rate became in effect the official rate plus the price of the rights. From time to time Austria, Denmark, France, Germany, Greece, the Netherlands, Spain, Sweden and Turkey have employed retention quotas. Most of these countries abandoned the practice in 1953, partly as a result of the

efforts of the Monetary Fund and partly because they were becoming less effective as a means of expanding dollar exports. As commodities, both dollar and non-dollar, became more plentiful the value of the rights declined. Moreover, as a consequence of the elimination of bilateralism within the EPU area, European goods became more competitive with dollar goods at the official exchange rates, and there was less need for special incentives. Finally, the general use of retention quotas had increased to the point where countries felt justified in giving up the practice if other countries agreed to do likewise. It was thus possible for the Monetary Fund to obtain a more or less general agreement for their abandonment, although a number of countries still employ other incentives to dollar exports, including rebates of social security and other taxes.

Competition for dollars has also taken the form of commodity arbitrage and arbitrage in inconvertible currencies. Certain countries, notably the Netherlands, have encouraged their traders to engage in commodity switch transactions. These involve the purchase of goods from another soft-currency country for sale in dollar markets. The dollar proceeds are then used to buy dollar goods for sale at a substantial premium in soft-currency countries. While the sale of the soft-currency goods for dollars frequently involves a loss, this is more than compensated by the other leg of the transaction, namely, the sale of the dollar goods for soft currencies. Countries which provide the special import licenses for such transactions sometimes require that a certain percentage of the dollars earned from the switch transactions be surrendered to the exchange control authorities.

Closely related to commodity switch transactions are the sales of inconvertible currency balances and clearing account funds for dollars. Quotations for a number of currencies and clearing funds, including more than a dozen types of sterling, are available from New York dealers. Since these currencies cannot be held in the name of American residents, their purchase and use requires the cooperation of a resident of a second soft-currency country. The currencies must be used to purchase goods or services for the account of the resident of the other soft-currency country, but arrangements are made through trans-shipment, falsification of documents or otherwise for the goods or services to be delivered to the American purchaser of the soft currencies.

So-called cheap currency dealings and commodity switch transactions are more important when there is a substantial margin between the official and the unofficial dollar prices of the soft currencies which are traded. Sales against cheap currencies represent a form of competitive depreciation even though the exporting country does not earn

the dollars. In some cases such sales have been arranged with the full knowledge of the exporting countries who may be anxious to expand their sales without reducing the official dollar prices of their exports. Japanese clearing account dollars arising out of payments under the Brazilian-Japanese payments agreement have recently been sold by Brazilians to American textile importers with the full knowledge and cooperation of the Japanese authorities. Certain Latin American countries license the exportation of wool for soft currencies knowing full well that the wool will enter the American market. When the dollar market for wool is strong, however, the authorities in these same countries may refuse to license wool exports except against dollar payment.

Because sterling is transferable over a wide area, sterling has been the principal medium for so-called cheap currency deals. Over the past 12 months transferable account sterling has risen from about $2.70 per pound (in January 1953) to virtual parity (in February 1954). There has been a similar decline in the discounts on other European currencies. The existence of these markets frequently makes it possible for American exporters to export for soft currencies to countries which do not make dollars available for imports, and then to sell their soft-currency proceeds at a relatively modest discount.

While commodity switch and cheap currency transactions have probably never accounted for more than a small percentage of trade between the dollar and the non-dollar areas, they have provided a form of free-market link between markets in the two areas. Their significance will decline as the major trading currencies of the world become stronger. For example, as sterling and other EPU countries become harder the advantage to a Latin American or Middle Eastern country of importing dollar goods by paying sterling will decline. Similarly, there will be little advantage for an American to acquire Latin American or European goods by first acquiring a European currency.

Multiple Exchange Rates

Of some 60 countries whose currencies are regularly quoted in *International Financial Statistics,* about 40 per cent employ multiple exchange rates. Multiple rate systems occur chiefly in Latin America and in the non-sterling countries of the Middle and Far East. Although several OEEC countries, including France, Italy, Austria and Greece, have employed multiple rates during the postwar period, Iceland was the only member of this group with multiple rates at the time of writing. By and large the sterling area countries have not employed multiple rate systems, but Hong Kong, Iceland, and Jordan are exceptions. In the

northern Latin American countries and in certain Eastern Hemisphere countries, including Lebanon, Syria, and Thailand, multiple exchange rates have been employed largely without quantitative trade restrictions, but in other areas they have usually been accompanied by such restrictions.

The purposes of the multiple rate systems are not confined to the rationing of foreign exchange by means of cost restrictions as opposed to quantitative restrictions. They are not simply devices for the protection of the balance of payments, to be removed with an improvement of the payments position of the country imposing them. This may have been the principal purpose when they were first introduced in Latin American countries in the 1930's, but today their functions are far broader. Multiple rates are an integral part of the systems of economic controls of the countries employing them. For a country whose price system is heavily dependent upon international prices, multiple rates serve as a price control mechanism and a means of taxing or subsidizing local production and consumption. Such uses of a multiple rate system led to the absurd situation in Paraguay where at one time there were literally hundreds of effective rates, a different rate for each type of transaction or even special rates for each transaction.

The use of trade and exchange controls for a variety of economic purposes—influencing the direction of economic development, taxation, export and import subsidies, industrial and agricultural protection, controlling foreign investment and the earnings of foreign investors, attracting tourists and the like—is likely to continue irrespective of what happens to the world's dollar position or to the international balance of payments conditions generally. These devices have become a part of the arsenal of national economic controls of the underdeveloped countries. It is true that the Monetary Fund has had some success in inducing certain of its Latin American members to simplify their multiple rate systems and some countries have found that their systems broke down under the weight of their administrative complexity. Nonetheless, the roots of these practices lie in a philosophy of economic nationalism which shows little evidence of waning in the near future.

Well over half of the countries with multiple exchange rates employ broken cross-rates, and even where broken cross-rates are not explicit the multiple rate structures are frequently rigged in such a way as to involve implicit broken cross-rates. For example, commodities largely sold in the dollar area frequently are assigned more favorable rates than those sold largely to soft-currency countries. If sterling and the other major EPU currencies were to become convertible and if the EPU countries were to trade with all countries on a non-discriminatory basis, broken cross-rates would largely disappear.

The New Interest in Floating Rates

During the past year or two there has been increasing sentiment both in the United States and abroad in favor of "floating" rates.* Not only did the Canadian system, adopted on September 30, 1950, prove successful as a step toward full convertibility, but a floating rate for the pound is reported to have been included as a part of the British Commonwealth plan of December, 1952. Favorable official opinion in the United States toward floating rates was reflected in the *Report* of the Commission on Foreign Economic Policy of January 1954.

There are two major reasons for the changed attitude toward exchange rate flexibility. First, the larger European Payments Union countries have over the past two years introduced a measure of free exchange dealings under the European arbitrage scheme and some of them permit authorized banks to carry on exchange dealings in non-EPU currencies as well. Britain, for example, has permitted authorized banks to deal in United States and Canadian dollars in exchange markets at home and abroad since December 1951. While demand and supply of foreign exchange is still controlled through surrender requirements and the licensing of payments for goods and services, the techniques of free exchange markets are gradually being introduced in place of rigid controls and exchange monopoly exercised by treasuries and central banks.

A second factor is the greater degree of equilibrium in international payments and the increase in exchange reserves held by the Western European nations. Several EPU countries, including Britain, Belgium, the Netherlands, and Germany,† may shortly be in a position to introduce convertibility for non-resident balances, provided both that they could retain at least some of their existing trade restrictions, relaxing or intensifying them as required by their balance of payments positions, and also that they could rely on moderate fluctuations in the existing rates to meet pressures. Thus a floating rate system is regarded as a technique to be employed in restoring a form of convertibility at something like the existing pattern of exchange rates. It is not thought of as a means of achieving current account balance by letting the rate "find

* There is no standard definition of a "floating" rate. It usually refers to a rate which is permitted to respond to market forces, but with these market forces being tempered by a certain amount of direct government restrictions on demand and by some buying and selling in the market by the monetary authorities themselves. Letting a rate "find its own level," on the other hand, usually means that the government does not intervene in any way in the market.

† Switzerland is already a convertible currency country in that residents may freely convert their Swiss francs into dollars. Such convertibility does not exist for francs acquired in current trade by residents of countries with which Switzerland has payments agreements.

its own level" in the absence of continued governmental controls or market support.

The present-day case for a floating exchange rate rests primarily on its efficacy as a means of cushioning and limiting speculative movements against a currency. In spite of the widespread use of exchange controls over both current and capital transactions, speculative movements against controlled currencies have at times been responsible for a large part of the losses of dollar reserves from the nondollar countries.* A part of these losses are not the consequence of illegal evasions of exchange regulations but rather arise from leads and lags in foreign payments and receipts to and from foreign traders. When a currency is weak and is expected to fall in value importers in that country will make foreign payments in advance if possible, while foreign importers will delay payment or even borrow the weak currency, expecting to repay at more favorable exchange rates. Foreign banks and nonresident firms will reduce their holdings of the weak currency to minimum levels and perhaps borrow funds to meet their operating expenses. These bear movements are quickly reversed when there occurs a decline in the exchange rate to what is believed to be a minimum level or when confidence in the currency is restored. On top of these movements are the illegal capital exports of residents achieved through cheap currency deals, overvaluation of imports and undervaluation of exports, smuggling of banknotes, furs and jewels and other means of acquiring foreign balances. Even these movements are reversible over a period of time when confidence and perhaps convertibility of a currency has been restored.

By permitting an exchange rate to fall in response to a speculative movement against it a country can conserve its reserves and at the same time discourage speculation at the lower rate. So long as speculators are confident that a fixed rate can move only in a downward direction, they run little risk in taking a short position in that currency. But if the government is prepared at any time to support the rate at a higher level, speculation against the currency becomes risky. For the same reasons a rate that can float upward tends to discourage inward capital movements and, in addition, to limit their impact upon the monetary system of the recipient. This was the principal reason for the adoption of a fluctuating rate by Canada.

Several Latin American countries have employed a floating rate for capital and other invisible transactions as a part of their multiple rate

* For an excellent recent discussion of speculative capital movements and of their relation to floating exchange rates, see Arthur I. Bloomfield, *Speculative and Flight Movements of Capital in Postwar International Finance*, International Finance Section, Princeton University Press, Princeton, N.J., 1954.

systems. This device makes it possible for these countries to remove restrictions on capital transfers without endangering their reserves in an effort to support a rate which is under pressure as a result of capital outflows. At the same time, the rates for commercial transactions are relatively unaffected.

V. THE TRANSITION TO A FULLY MULTILATERAL SYSTEM

The system of world payments has made substantial progress from the rigid bilateralism of the pre-EPU period to the present time. As already noted, the Union provides a mechanism of multilateral settlements for some 40 per cent of the world's trade, and the bulk of the trade is non-discriminatory as regards other members of the group. Another 40 per cent of the world's trade is conducted in dollars and convertible sterling, while a portion of the remainder is financed with inconvertible sterling, which is transferable with few exceptions throughout the entire nondollar world. Nevertheless, in spite of the opportunities for multilateral settlements in nondollar currencies, a large part of the non-dollar trade outside the European Payments Union is conducted under bilateral trade and payments agreements. There is little reason at present for the existence of this bilateralism on balance of payments grounds and facilities ought to be developed for bringing it into the areas of multilateral settlements provided by the sterling and the EPU systems. This is particularly important if the European countries move toward general convertibility, since the larger the area of multilateral settlements the greater will be the possibilities for earning convertible currencies—and so the greater the stability of the system.

The central problem of creating a fully multilateral payments system is the convertibility of sterling and other major EPU currencies held by non-residents. If such convertibility were accompanied by the elimination of all discriminatory trade practices on the part of Western Europe and the countries associated with them in the same monetary areas, the field for bilateralism would be very narrow, accounting for less than 5 per cent of the world's commodity trade. It is sometimes argued that a virtually complete multilateral system would be restored if sterling were to become a convertible currency at least for non-resident holders. This is an oversimplification. Trade financed with inconvertible sterling probably accounts for less than 35 per cent of the world's total, and trade financed with dollars and other convertible currencies accounts for perhaps 40 per cent of the total. Sterling is less important as an international payment medium than it was before the war. In spite of British efforts to increase the use of sterling as a medium for multilateral settle-

ments, sterling transfers between non-sterling countries amounted to only £379 million in 1952. The recent expansion of the transferable account system may result in an increase in the use of sterling.

Not only would sterling convertibility alone leave at least a quarter of the world's trade on a discriminatory and inconvertible basis, but there is considerable doubt whether or not sterling could "go it alone," if the rest of the non-dollar world were then to discriminate against Britain as it does against the dollar area. It is even possible that some of the outer sterling area members would continue to trade on a discriminatory basis with inconvertible currency countries. Independent sterling area members conduct a portion of their trade with one another and with other non-dollar countries under trade-quota agreements and in a few cases have actually negotiated separate payments agreements with non-sterling countries.

Two Approaches to Convertibility

There are two approaches to the restoration of a multilateral system, namely, the individual country approach, and the regional or group approach. The method provided for in the International Monetary Fund Agreement was that each country, when its position became sufficiently strong, would break away from the network of bilateral payments arrangements and establish convertibility. This path to convertibility has been blocked by two developments: (1) the failure of sterling convertibility in 1947; and (2) the decision on the part of the Western European countries to create, with the assistance of the United States, a regional or limited multilateral payments system.

Those who favor the country by country approach have frequently been critical of the European Payments Union on the grounds that it has delayed the resumption of convertibility by the stronger members of the EPU system and that it has resulted in the establishment of a self-perpetuating soft-currency bloc. It is true that certain EPU members, notably Belgium and Switzerland, have been in a position to resume full formal convertibility throughout most of the postwar period. These countries were not, however, prepared to trade on a nondiscriminatory basis in a world of trade discrimination. The adoption by one or two additional countries of the Swiss system of maintaining dollar convertibility for residents but continuing to restrict the convertibility of non-resident balances and of trading with all non-dollar countries on a discriminatory basis, would not advance to any significant degree the cause of universal multilateralism. In other words there is no evidence that in the absence of the EPU any European country would have given up trading with non-dollar countries under bilateral trade and payments agreements.

The regional or group approach to a fully multilateral system begins with the formation of a system of multilateral settlements and nondiscriminatory trade for a group of countries with close economic ties and then proceeds with the progressive removal of discrimination against the outside world by all members of the group. The chief advantage of the group as opposed to the country-by-country approach is that it reduces the tendency of the nonconvertible members to discriminate against a member who pursues more liberal policies on imports and payments with nonmember countries. If a number of countries whose trade among themselves is relatively free of restrictions can reduce their discrimination against the dollar area while maintaining nondiscriminatory trade among themselves, each member is relieved of the danger of the loss of export markets to sellers in other members of the group. All members will of course face the possibility of losing markets to competitors, say in the dollar area, but for any country embarking upon convertibility and nondiscrimination, the problem of adjustment is easier, the wider the area of multilateral trade.

Certain other advantages of first creating a regional system of multilateral settlements rather than seeking to move directly from bilateralism to full convertibility on a country-by-country basis have already been noted. The wider area of competition provided by regional multilateralism and the removal of trade restrictions against intra-regional trade, the necessity of achieving overall balance with a large group of countries without the assistance of severe quota restrictions, and the creation of foreign exchange markets and banking and credit facilities for the financing of multilateral trade over a wide area—are all essential disciplines and institutional arrangements required for the ultimate resumption of full convertibility.

A gradual approach to convertibility for a group of countries whose trade among themselves is largely free of quantitative restrictions would require a progressive relaxation of discriminatory trade restrictions against imports from outside the group. Such relaxation, which would involve placing a progressively larger percentage of all imports under open general license, should of course take place without tightening restrictions on intra-group trade. In fact, it would be desirable for the EPU countries gradually to expand the proportion of their imports under world open license while at the same time continuing to increase the percentage of liberalization of intra-EPU trade. Indeed, if in the process of becoming nondiscriminatory EPU countries found it necessary substantially to tighten up restrictions against one another, it would be an indication that as a group they were still in fundamental disequilibrium with the dollar area.

Convertibility and the Payments Mechanism

Any substantial relaxation of discriminatory controls by the EPU members against the dollar must be accompanied by the introduction of a payments mechanism which permits the running of continual deficits and surpluses between individual members and the EPU area as a whole. A number of payments mechanisms are possible, including: (1) the use of the EPU settlement mechanism with 100 per cent gold settlement at the end of each accounting period; (2) the use of the EPU system as in (1) above but with some provision for overdrafts for countries with overall deficits on current account; (3) the abolition of the EPU structure in favor of monthly settlements between central banks; or (4) settlements through sterling which has been made convertible for balances held by foreign central banks. No attempt will be made here to fill in the details for these or other possible systems. It may be well, however, to consider the possible payments techniques which may emerge from the developments of the recent past.

First of all, the principle of confining exchange dealings to authorized banks and dealers is likely to continue.* This practice, coupled with that of requiring authorized dealers to turn over foreign exchange holdings in excess of minimum working balances, provides a means of mobilizing foreign exchange resources and of achieving a better control over speculative capital movements. A second technique—developed out of the experience with bilateral payments agreements and also employed in the operation of the Tripartite Agreement of 1936—which is not likely to be abandoned, is to confine gold and dollar settlements to transactions between central banks or treasuries. This would be consistent with central banks agreeing to support one another's currencies in their own markets and to settle excessive balances at the end of each accounting period.

A third technique which is likely to be continued in any future system of convertibility is that of exercising some control over non-resident accounts. For example, Britain might continue her restrictions on the transfer of transferable account sterling to residents of the dollar area. She might, however, permit the Netherlands central bank to convert any holdings of sterling above agreed working balances into dollars. She might further limit the convertibility of Dutch sterling to amounts acquired as a result of current transactions. This was the type of convertibility envisaged under the Anglo-American Financial Agreement of 1946.

* Dealers in international commodity markets and others who require daily use of foreign exchange are frequently permitted to hold foreign exchange in their own names and to operate in international markets freely within certain regulations established by the exchange control authorities. These operations are subject to auditing by the authorities.

Alternatively, if Britain were to continue membership in the EPU, sterling holdings of EPU members might be convertible *only* through the EPU. This represents a fourth technique developed during the post-war period, namely, settlements of *net* balances through a clearing union. Such an arrangement under a fully multilateral EPU system would mean that members would not be able to convert their surpluses with other individual members into dollars, but only their net surpluses within the group. In some respects the effects would be the same as in the case of bilateral settlements among the members, but the technique would have certain advantages over bilateral settlement. First, there would be some conservation of reserves and a reduction of the number of gold settlements. Second, if an arrangement were worked out whereby countries would pool a portion of their reserves in a clearing union, it would be possible to extend overdraft facilities to debtor countries. The reserve position of the clearing union could be strengthened further by limiting gold settlements with net creditors to amounts needed for meeting deficits with *nonmembers*. Hence members with overall surpluses would not draw in gold the full amount of their surpluses with the clearing union.

Retaining these techniques and the regional clearing union device would give rise to special problems with respect to the trade of members with non-dollar countries outside the Union area. First of all, it would probably be necessary for the EPU countries to terminate or revise all payments agreements which called for the acceptance by EPU members of inconvertible balances, inasmuch as EPU countries would not be permitted to employ discriminatory measures in order to avoid the accumulation of inconvertible balances. In other words trade with the non-dollar area would have to be financed either in fully convertible currencies or in the currency of an EPU country. Currencies of EPU members held by non-dollar countries outside the EPU area might be made convertible for current transactions, provided the holder agreed not to discriminate against the EPU country. Alternatively, such balances might be made transferable to any EPU member. Thus, if Belgium received sterling from Argentina in payment for current transactions, Belgium could present these balances to the EPU at the time of the monthly clearings. Still another alternative would be to expand the EPU to include new countries.

The methods of settlement suggested above would be quite consistent with the EPU arbitrage scheme presently in operation. Central banks would agree to support one another's currencies within a fixed range above and below parity, with settlements of balances to be made either through the EPU or bilaterally. Special problems would be created in the event of the establishment of floating rates. The margin of fluctua-

tion between EPU currencies would have to be established with reference to the average daily cross-rates on the dollar. The cross-rate problem would be simplified if all member currencies fluctuated together vis-à-vis the dollar by stabilizing with reference to the pound or some other member currency.

Advantages of Retaining the EPU

There are certain advantages to be derived from retaining the EPU structure during and following the transition to a fully multilateral system. These may be mentioned briefly as follows:

(1) The EPU and the associated trade liberalization program provide an organization for a gradual elimination of trade discriminations and for the hardening of settlements without endangering the liberation achievements of the present intra-European trading system. Abandoning the system in favor of a country-by-country approach to convertibility, on the other hand, might result in a revival of discrimination, especially against the countries attempting convertibility.

(2) The EPU could continue to provide short-term credits for overall debtors in the system. Despite the recent increases in international liquidity, many countries' reserves are still well below what the authorities consider a safe margin. Moreover, the OEEC has had a considerable degree of success in achieving a reversal of debtor positions through its consultations with both debtors and creditors. Regional organizations have certain advantages in this field over the Monetary Fund.

(3) The retention of the EPU structure would provide a standby mechanism for maintaining at least a regional system of multilateral settlements should the recurrence of the dollar shortage lead the rest of the world to increase its discrimination against dollar imports.

(4) Retention of the EPU system may provide a means of moving toward *de facto* worldwide convertibility by means of payments techniques which have developed during the postwar period and which nations have found to be effective in controlling the transactions of their own residents. Moreover, these techniques are designed to achieve better control over capital movements.

Many of these same advantages might also be realized by the scrapping of the EPU in favor of a broadening of the sterling transferable account system along the lines developed by Britain in 1946 and 1947. But aside from the many political complications, there are reasons for doubting if sterling is likely to have the strength to become *the* key currency for postwar Europe. Alternatively, they could also be achieved by a system of central bank cooperation organized by the Bank for International Settlements or even by the Monetary Fund. But the EPU

and the Organization for European Economic Cooperation have the advantage of the experience of several years of successful operations.

VI. THE ROLES OF THE FUND AND THE GATT

The International Monetary Fund, while by no means the complete failure that its critics would have us believe, has not realized the hopes of its founders nor has it begun to achieve its full potentialities. The Fund has at once attempted too much and too little. When it failed to achieve converts to convertibility through the country-by-country approach, it virtually closed its doors to await a new millennium (or the return of an old one) and refused to soil its principles by working in the more fertile field of limited or regional multilateralism. This job was left to other organizations. The Fund was also shackled by the transitional provisions (or its interpretation of them) which left it virtually powerless to administer a code of fair practices until the end of the vague and ill-defined postwar transition period. Finally, the jurisdiction of the Fund was limited to one aspect of the trade problem, namely the financing technique. Its indispensable partner, the proposed International Trade Organization, was never established, and its counterpart in the trade field, the Contracting Parties to the General Agreement on Tariffs and Trade (GATT), had most of the disabilities of the Fund plus the lack of money and a clear legal standing.

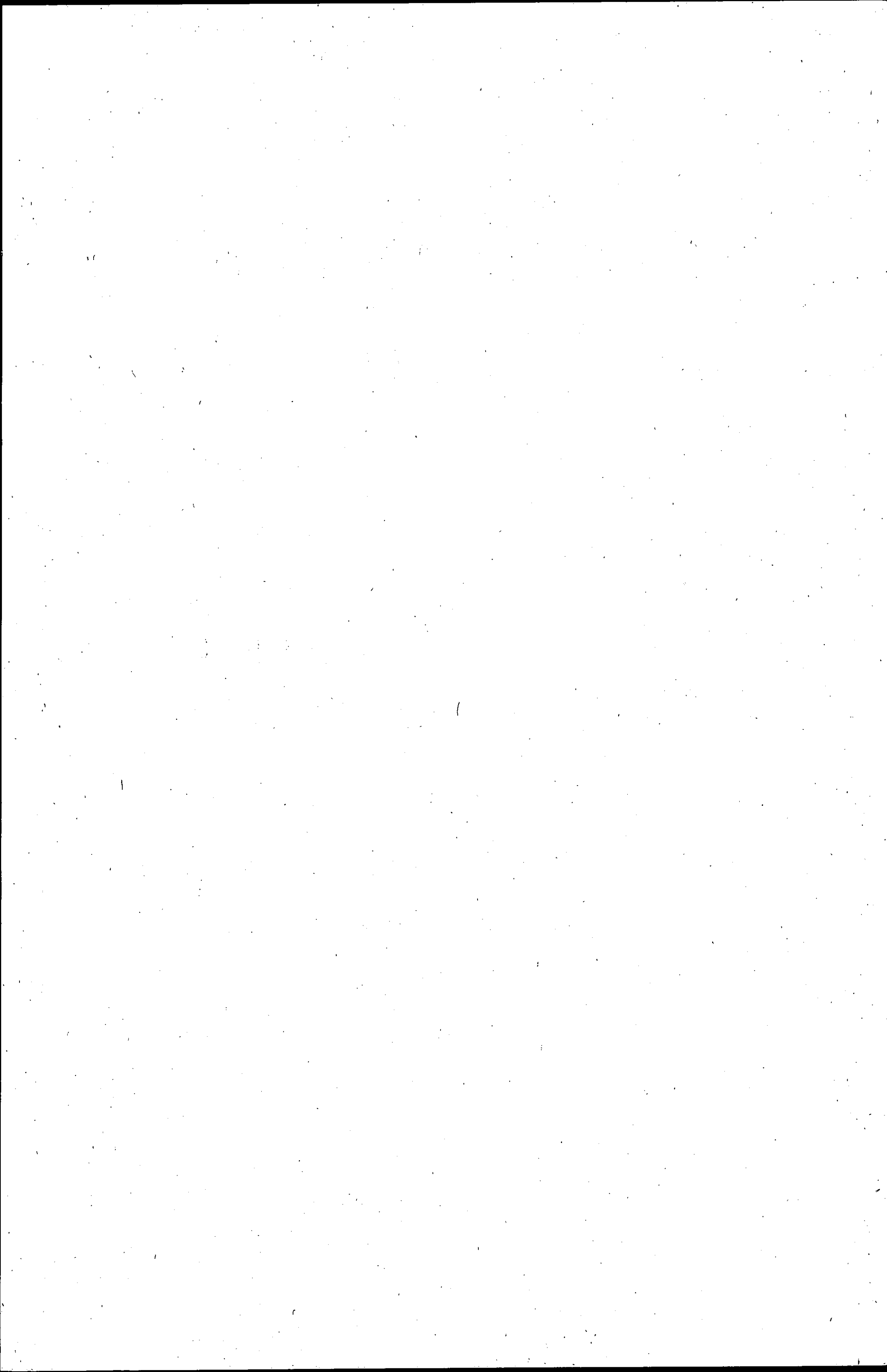
But all this is history. What can the Fund and perhaps a reorganized GATT do in a world which may be on the verge of a transition to some kind of convertibility? First of all, it is clear that the Fund and the GATT can work more closely with such regional organizations as the European Payments Union and the Organization for European Economic Cooperation.The Fund might undertake to provide additional reserves required by the EPU.* Such assistance would be particularly helpful in the period of transition to a fully multilateral Union. As has been suggested by Professor Robert Triffin (in an unpublished memorandum) the Fund might rely heavily on regional associations of countries in dealing with questions of exchange rates, the use of exchange restrictions, the removal of discriminatory arrangements, and the provision of short-term credits.

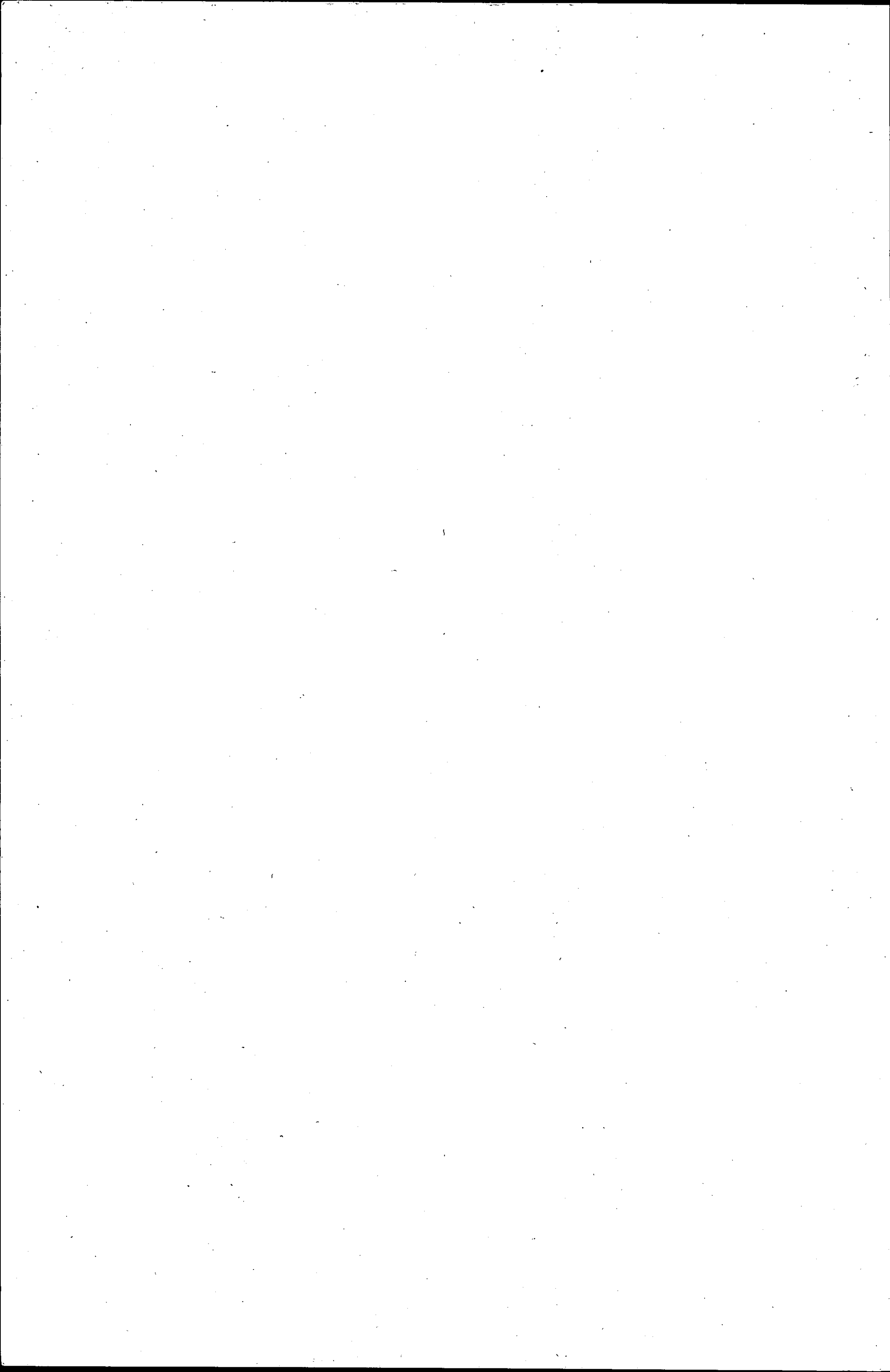
Perhaps the most important contribution that the Fund and the GATT could make would be to initiate and coordinate a definite program for the gradual elimination of discrimination and the restoration of full multilateral settlements. If the OEEC members could agree upon a definite schedule for removing all discriminatory trade restrictions,

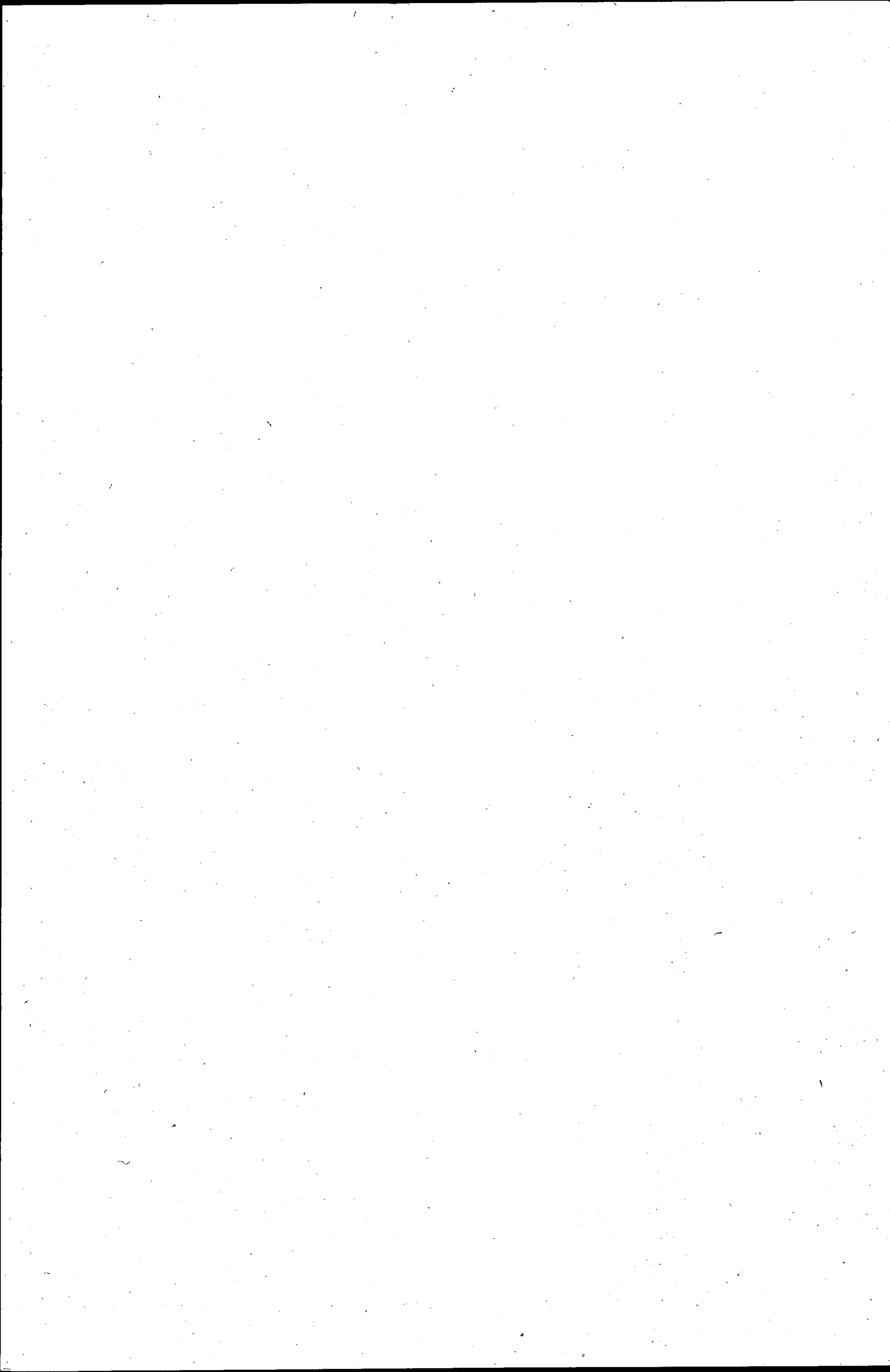
* I have discussed the mechanics by which this might be accomplished in my *Foreign Exchange in the Postwar World, op.cit.*, pp. 510-512.

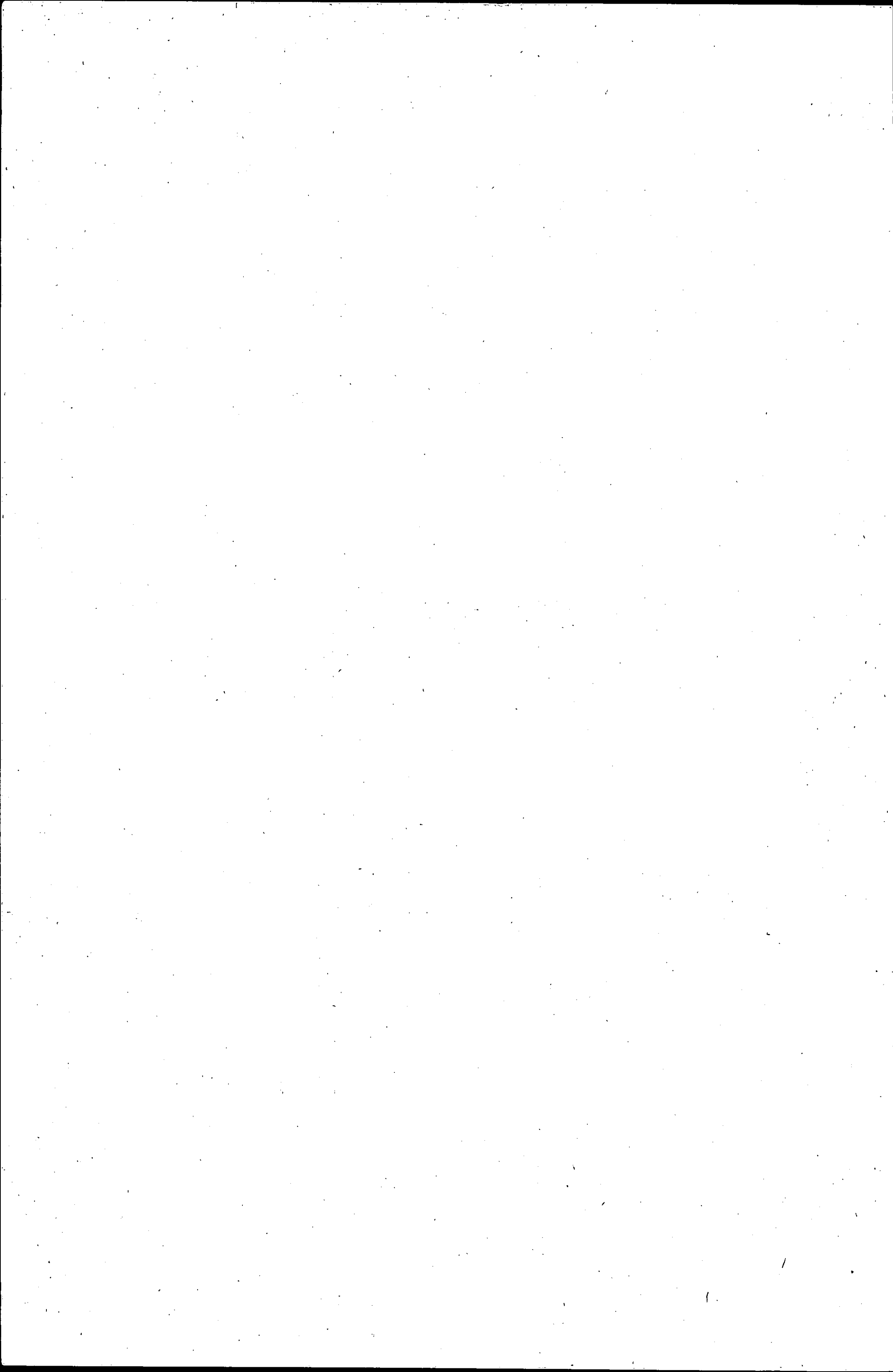
the Fund and the GATT might work out a comparable schedule for the elimination of discriminatory trade and exchange restrictions for the rest of the world. Once the currencies of Western Europe became convertible for non-resident holders, the transitional period could be declared to be at an end, and discriminatory arrangements could be outlawed. For example the Fund could advise Latin American countries that ample payments facilities existed for intra-Latin American trade and that bilateral payments agreements were no longer justifiable on balance of payments grounds. Countries continuing to employ such arrangements could be declared ineligible for drawings from the Fund and for most-favored-nation treatment by members of the GATT.

The Fund and the GATT must also be prepared to deal with the emergence of a regional disequilibrium or dollar shortage situation in the future. The scarce currency provision of the Monetary Fund, and its counterpart in the GATT, failed to establish a mechanism by which the rest of the world could continue to trade among themselves on a non-discriminatory basis while maintaining discriminatory controls against the scarce currency country. Still less did it provide a means of gradually eliminating a scarce currency situation on a regional as opposed to a country-by-country basis. In the event of a new disequilibrium condition, the world should not be allowed to fall into a morass of bilateralism while the Fund closes its doors to await the return of conditions more congenial to the articles of its charter.









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