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THE INTERNATIONAL MONETARY FUND: ITS PRESENT ROLE AND FUTURE PROSPECTS

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International Finance Section

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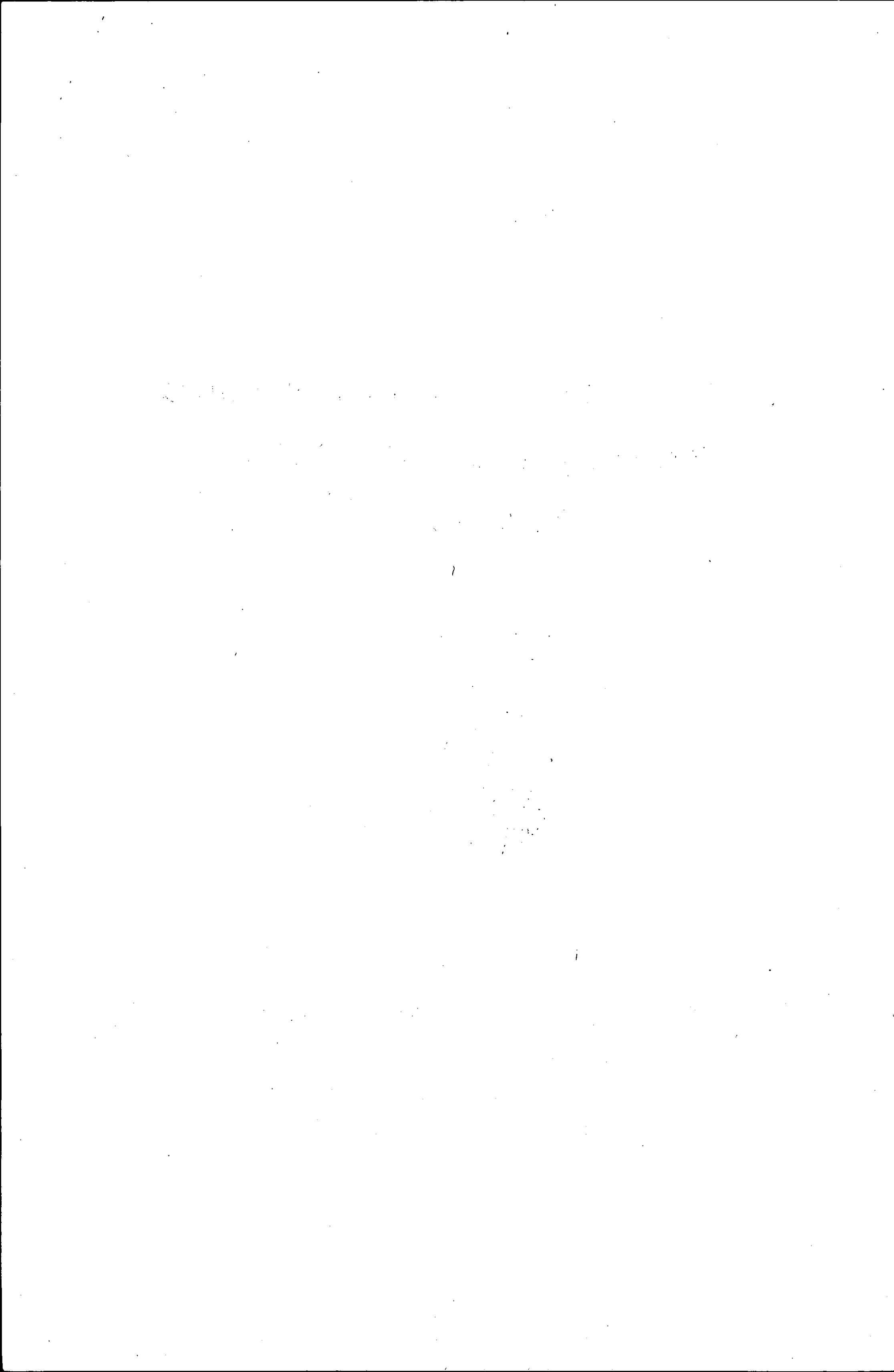


THE INTERNATIONAL MONETARY FUND: ITS PRESENT ROLE AND FUTURE PROSPECTS

IN THE vivid jargon of writers on economic growth, the Fund's "take-off" occurred in the course of the second half of the 1950's. Right until the end of the period covered by its autobiographical *The First 10 Years of the International Monetary Fund*, published in August 1956, the Fund was still making its way cautiously and tentatively. But before the end of the fifties, it was boldly assuming responsibility in a variety of fields, wherein virtually no one was disposed to challenge its competence or question its mastery of technique.

What are these fields? I think that we may reasonably subsume most of them under the following three headings which I have adopted to delineate the scope of the next three sections of this essay:

(1) Provision of short-term finance and of technical assistance to economically backward countries, so as to facilitate the sound development of their monetary institutions and the adoption of policies favourable to economic development.

(2) Support (particularly by the provision of short-term finance) of the system of multilateral settlement which Professor Triffin has labelled "convertibility à la 1959."*

(3) Collaboration with the Contracting Parties to the General Agreement on Tariffs and Trade (G.A.T.T.) in the dismantling of restrictions on international payments and trade, and in the formulation and enforcement of appropriate "rules of the game" to minimise the ill effects of such restrictions as survive the dismantling process.

The Fund and Under-developed Countries

Though provision of finance to under-developed countries as such does not figure explicitly among the stated objectives of the Fund and did not apparently receive particular attention in the negotiations which preceded

Note: I acknowledge with gratitude the invaluable advice and criticism of many economists with much better qualifications than mine to write about the International Monetary Fund: among others, H. G. Aubrey, E. M. Bernstein, A. G. B. Fisher, J. H. Furth, J. O. Stone, and Robert Triffin. However I alone am responsible for what I have written, and in particular for the insular prejudices which, despite all criticism, have survived in my final draft.

* *Gold and the Dollar Crisis*, p. 19.

the Bretton Woods agreement, a considerable number of the Fund's earliest transactions were in fact with under-developed countries. Chile, Mexico, and Turkey exercised their drawing rights in 1947, and Brazil, Costa Rica, Egypt, Ethiopia, India, Nicaragua, and Yugoslavia followed suit in the next two years. However, as we see from Table 1, the dollar value of

TABLE 1

I.M.F. EXCHANGE TRANSACTIONS

GROSS DRAWINGS BY GROUPS OF COUNTRIES

(Millions of dollars)

	O.E.E.C. Members	*Latin America*	*Other Under-developed Countries*[1]	*All Other*[2]	*Total*
1947	431	31	5	—	468
1948	122	2	69	16	208
1949	—	38	44	20	101
1950	—	—	—	—	—
1951	—	28	7	—	35
1952	—	38	12	35	85
1953	—	81	20	129	230
1954	—	48	15	—	62
1955	—	—	28	—	28
1956	562	21	110	—	693
1957	415	205	229	129	977
1958	131	118	53	36	338
1959	50	115	15	—	180
TOTAL	1,711	724	605	365	3,404

[1] Burma, Ethiopia, India, Indonesia, Iran, Pakistan, Philippines, Morocco, Sudan, Turkey, United Arab Republic, Yugoslavia.

[2] Australia, South Africa, Israel, Japan, Czechoslovakia, and Finland.

their combined drawings in the three years represented only about a quarter of the $777 million drawn by all members during this period, the remaining three-quarters being drawn mainly by the war-devastated countries of Western Europe.

In the following year, 1950, the Fund did no new business at all. It also did very little in the following five years, but of total drawings, taken on a gross basis, about 60 per cent ($277 million out of $440 million) were by under-developed countries. (On a *net* basis, as will be seen from Table 2, drawings by the under-developed countries were approximately zero, but for other countries were on balance negative.) During the 5-year period

TABLE 2

I.M.F. EXCHANGE TRANSACTIONS
NET DRAWINGS BY GROUPS OF COUNTRIES
(Millions of dollars)

	O.E.E.C. Members	*Latin America*	*Other Under-developed Countries*[1]	*All Other*[1]	*Total*
1947	425	31	5	—	462
1948	110	2	69	16	197
1949	−1	36	44	20	99
1950	−21	—	−3	—	−24
1951	−38	2	6	−10	−39
1952	−27	−31	7	35	−16
1953	−206	41	20	53	−91
1954	−128	47	−38	−29	−148
1955	−70	−22	−31	−81	−205
1956	516	−7	70	−1	579
1957	415	157	212	128	913
1958	−29	58	34	−93	−31
1959	−393	38	−36	−37	−428
TOTAL	555	352	360	1	1,268

[1] As in Table 1.

in question, several countries (and notably Belgium) could have drawn more, by virtue of unused stand-by facilities, but we can see from Table 3 that the amounts in question were very small.

TABLE 3

I.M.F. STAND-BYS OUTSTANDING AT END OF EACH YEAR
(Millions of dollars)

	Latin America	*Pakistan, Morocco*[1]	*Finland*	*Spain*	*S. Africa*	*Belgium*	*Netherlands*	*France*	*U.K.*	*Total*
1952			5			50				55
1953						50				50
1954	40					50				90
1955	13					50				63
1956	66					50		263	739	1,117
1957	63						69	([2])	739	870
1958	134	25			14				739	911
1959	159	25		25						208

[1] Pakistan in 1958, Morocco in 1959.
[2] None of France's second stand-by, opened in January 1958 for $131 million, was outstanding at the end of the year.

Thereafter, the Fund's business became much brisker in total, and though much of it was with Western Europe, particularly Britain and France, a considerable amount was also done with under-developed countries. According to Table 1, of the total of $2,188 million of gross drawings by all members in the four years 1956-1959, $866 million was by under-developed countries, while on a *net* basis the figures (from Table 2) were $1,033 million and $526 million respectively. The under-developed countries also enjoyed, during the period, a certain amount of unused stand-by facilities, though as Table 3 shows the main beneficiaries of such facilities were Britain and France.

In recent years the Fund's financial assistance to under-developed countries has typically been only one element in a comprehensive stabilization scheme, incorporating e.g. fiscal reform, banking reform, the abolition or the simplification of exchange controls and multiple currency practices, and any other measures necessary to check inflation and restore confidence in the member's currency. The earliest stabilization scheme of this kind was arranged for Peru in February 1954: other South American countries (Bolivia, Chile, Colombia, and Paraguay) followed in 1956 and 1957, Argentina and Turkey in 1958, Mexico, Spain, Haiti, Honduras, and the Dominican Republic in 1959, and finally Iceland in 1960. The Fund's contribution to such stabilization schemes has typically included not merely finance but also technical assistance:

> It has been the experience of the Fund in these various transactions that countries are willing to discuss their affairs much more frankly with Fund officials than with representatives of private banking institutions or individual governments. This is, of course, of particular importance when it comes to the elaboration of effective stabilization programs.*

It would however be wrong to think that technical assistance has been provided *only* in connection with such schemes. Special technical missions have in fact been sent to under-developed member countries from the earliest days of the Fund, one of the earliest being the mission to Ecuador in 1947. By 1951 the Fund's *Annual Reports* had referred to missions to Colombia, Costa Rica, Chile, Ethiopia, to Greece, Guatemala, Iceland, Honduras, Nicaragua, Paraguay, the Philippines, and Thailand, while the next *Report* (for 1952) noted that "over the course of the twelve months covered by this Report, 36 members of the staff have been engaged at various times on missions and technical assignments." The annual figures quoted in the following two *Reports* were 43 and 54.

Another aspect of the Fund's technical assistance to under-developed countries was its Trainee Programme, originally announced in May 1950.

> There is a general world-wide shortage of competent technicians in the monetary and economic field and the shortage is particularly acute in the countries where the need for co-ordinated technical assistance is most keenly felt. The Fund's training programs provide for a six months'

* From Dr. Per Jacobsson's address to the International Chamber of Commerce, April 23, 1959.

specialized course in balance of payments techniques designed to improve the technical competence of officials of member governments in the preparation, analysis, and presentation of balance of payments data; and a twelve months' general course designed to give qualified young nationals of member countries a broad knowledge of the policies, functions, and operations of the Fund as well as technical training in the interpretation of monetary and economic data. The establishment of the programs was announced in May 1950.

By 1956, about 100 technicians from 48 countries had participated in the trainee programme; by 30th April 1960, the corresponding figures were 191 technicians from 61 countries.

*The Fund and Convertibility à la 1959**

Following the British convertibility crisis of August 1947 (less than six months after the Fund had commenced operations) most of its members put aside for the time being all idea of a second attempt to re-establish multilateral settlement on a world-wide basis and turned instead to existing or *ad hoc* regional arrangements (invariably incorporating measures of anti-dollar discrimination) such as the sterling area, the Intra-European Payments Schemes and the European Payments Union (E.P.U.). In this search for a second best, the Fund made little attempt to co-operate.** The Fund played no part in the Marshall Plan, the recipients of Marshall Aid being for all practical purposes denied access to the Fund. The Intra-European Payments Schemes and the European Payments Union were set up without the financial or technical co-operation of the Fund, though a European office was opened to facilitate liaison. As regards the sterling area, the Fund adhered to the rigid doctrine that the obligations of Fund membership applied separately to each of its sterling area members, and could in no wise be replaced by an obligation relating to the sterling area as a whole.*** As might be expected, during this phase of its career the Fund did very little business.

Whether it was wise for the Fund thus to hold itself aloof is a matter which leaves scope for debate. On the one hand, it was always recognised, in the early discussions preceding and during the Bretton Woods confer-

* Readers wishing to refresh their memory of the events treated in this and subsequent sections are referred to my chronological table in Appendix II.

** An exception was the stand-by arrangement negotiated with Belgium in June 1952. This was clearly intended to ease the difficulties she faced through being in surplus with her fellow members of the E.P.U. but in deficit with the dollar area. See I.M.F. *Annual Report*, 1952, p. 44.

*** At the fifth session of G.A.T.T., at Torquay in 1950, the Fund apparently reported in favour of the relaxation of hard currency import restrictions by some sterling area countries but not by others, thus deliberately ignoring the fact that the sterling area had a common hard currency pool and in some degree a concerted policy on hard currency import restrictions. British economists inclined to the view that the sterling area should have been judged as a whole, the members of the area being left to decide among themselves which of them should relax their hard currency import restrictions, whenever the balance-of-payments position of the area *as a whole* was such as to call for such a relaxation.

ence, that the Fund was not intended to cope with the problems of post-war reconstruction: other arrangements would have to be made for the reconstruction period, both as regards finance (hence the Anglo-American Loan) and as regards exchange control (hence the provisions of Article XIV of the Fund Agreement). But the post-war disequilibria proved to be severe and intractable, thereby inordinately delaying the resumption of world-wide multilateralism, and during this long period the Fund seemed content to sit on its considerable hoard of specie and exchange, waiting for the golden age when the world would be fit for the Fund to operate in. This period was obviously bad both for the Fund's goodwill and for its morale. Perhaps therefore it would have been better if some more important role could have been assigned to the Fund in the regional arrangements of the late forties and early fifties, even though participation therein would have been difficult to reconcile with either the letter or the spirit of its Charter.

Anyway, for better or worse, the Fund had little to do with those arrangements. It bided its time and in due course its time came, thanks among other things to the devaluations of September 1949, the clearest symptom of the new order of things being the British decision on 24 February 1955 to support transferable account sterling on the free markets of Zurich and other overseas centers and thus to make non-resident sterling *de facto* convertible. Convertibility in February 1955 was thereafter seen not to have the same consequences as convertibility in July 1947: here at last was a world in which multilateral settlement seemed a practicable proposition.

None the less, though the fiasco of August 1947 was not repeated in 1955, it might well have been repeated towards the end of 1956, following the Suez expedition. But by then the Fund was ready to rise to the occasion, and to forestall another relapse into inconvertibility by a massive and highly successful rescue operation.

In due course, in December 1958, the new order of things in international monetary affairs received official recognition by the formal resumption of non-resident convertibility by all the major countries of Western Europe. As a consequence the E.P.U. was wound up, and though the sterling area remains in existence, it is steadily reverting to its pre-war state, which was a loose and informal grouping, neither exclusive nor discriminatory.

As the result of these developments, the world is now operating a monetary regime more or less on the lines of the one which was established in the late 1920's, only to collapse in 1931. Is "convertibility à la 1959" going to prove a more stable structure, or must we share Professor Triffin's fears of another "collapse à la 1931"? The dangers are clear enough: the present regime is essentially a gold exchange standard which is already, by historical standards, fairly highly geared (i.e. with a rather high ratio of exchange to gold in official reserves), yet the gold foundation on which the edifice has been erected cannot increase by more than about two per cent per annum—a rate considerably less than the annual rate of increase in

the volume (and a fortiori in the value) of international trade that one may reasonably expect under conditions of continuing economic progress and prosperity. Thus what we have to fear is *either* that our gold standard becomes progressively more and more highly geared even compared with what is at present *or* that the growth of international trade will eventually be retarded by a shortage of international liquidity.

Now of these two dangers, the latter is in my view unlikely to arise in the 1960's except as the result of the former: only if there is a convertibility crisis, such as could conceivably occur with the progressively higher gearing of our gold exchange standard, is the growth of the exchange component in international reserves likely to prove inadequate to compensate for the relatively slow growth in the gold component.

This view which I take of the future is based predominantly on the expectation of a considerable proliferation of reserve media. Under the gold standard of the nineteenth century there were two reserve media, gold and sterling; under its successor in the 1920's there were these plus the dollar, and the same has so far been largely true of the gold standard as re-introduced in the 1950's. But already the mark is highly eligible for holding in reserves, and several other currencies may well become so in the near future. Thus even if Britain and the United States prudently seek to set a limit to the external holdings of their respective currencies, there seems little reason—convertibility crises apart—why the growth in the total amount of national currencies in international use should proceed at a slower rate in the 1960's than in the 1950's.

But against the advantages, from this point of view, of a proliferation of reserve media are to be set the disadvantages of an aggravated danger of switches or flights from one reserve medium to another. Admittedly it could be argued that a proliferation of national currencies in international use would serve to make the gold exchange standard more, rather than less, viable, in that though switches or flights might well occur, they would only rarely be into *gold*, since among the range of eligible national currencies there would always be at least one whose convertibility would be beyond suspicion. But surely the history of the internal banking systems of most countries gives us little ground for such optimism. Once a run starts it tends to spread, and to spread quite indiscriminately.

My conclusion then is that the present gold exchange standard, if it is permitted to continue in existence, is liable to become an increasingly unstable structure, whose viability will become increasingly dependent on the support which can be afforded by international institutions, particularly the I.M.F.

What support can be afforded by the I.M.F.? The most obvious is financial support, of which we should however distinguish two separate species. For the gold standard of the 1960's conforms somewhat more closely to the key-currency proposals of Professor John Williams* than to the Universalism that (as I shall shortly describe) carried the day at Bretton Woods, in as much as the efficient operation of this standard calls

* See his *Post-War Monetary Plans.*

for the widespread international acceptability not of gold alone but also of a number of national currencies—at the present time, I suggest, the major European currencies, the two North American dollars, and the yen. (This list is of course longer than a list of *reserve* currencies.) Hence the Fund's supporting operations can in principle take two forms, which can for the most part also be distinguished fairly clearly in practice:

(a) operations, like the post-Suez operation in 1956, designed to restore confidence in one or more of the 'key' currencies

(b) operations to assist members, international confidence in whose currencies is not essential to the smooth working of the gold standard in its present form.

There can be no doubt that it is operations of the former kind which may well be vital to the survival of our present international monetary arrangements. Operations of the latter kind, invaluable though they are for other reasons (e.g. the restoration of internal monetary stability), contribute to the viability of the gold standard of the 1960's only by enabling members (in so far as they can count on temporary assistance from the Fund) to manage with smaller reserves.*

But the support which the Fund can afford to the gold standard is not limited to financial operations. In the first place, the Fund offers to members the facilities of a club where they can explain their actions and intentions, lodge complaints, negotiate informal understandings, and coordinate their monetary policies. I doubt however whether the Fund will ever wholly supplant in this role the Bank for International Settlements, if only because the informal meetings at the B.I.S. enjoy what must (at any rate for some purposes) be the advantage of bringing together, in the absence for their Treasury colleagues,** the representatives of a small number of very important central banks.

Another function of the Fund is that of providing a platform for weighty pronouncements of world-wide significance. The Fund's annual meetings provide an especially suitable occasion for such events. There was, for instance, Mr. Butler's public rejection in September 1955, at the Annual Meeting at Istanbul, of the possibility of unpegging the sterling exchange rate. Similarly the Annual Meeting in September 1957 was the occasion for public denials of an imminent depreciation of the pound or appreciation of the mark.

Last, but not least, the Fund shares with G.A.T.T. the job of supervising, and wherever possible removing, artificial barriers to international trade and payments—a task which is vital to the viability of the gold standard

* If the above analysis is correct, it suggests that support for the measures taken in 1959 to increase the Fund's resources came from two quarters: *first* from those who wanted to assure that the Fund could undertake an adequate rescue operation for any of the 'key' currencies and *second* from those who were anxious that the Fund should further extend its work among its smaller and less developed members. By its very nature an increase in the Fund's quotas can facilitate both objectives.

** The United States is exceptional in sending Treasury representatives, as well as Federal Reserve representatives, to the B.I.S. meetings.

and indeed to any regime of multilateral settlement. For the danger of imbalance in international settlements, and therefore of an eventual breakdown in the system, is reduced to the extent that surplus countries can be persuaded to reduce their restrictions or (as a second best) deficit countries permitted to increase theirs *without fear of retaliation.* Moreover, quite apart from such unilateral changes in restrictions, multilateral reductions of restrictions help to create an environment in which the more traditional cures for disequilibria are given a chance to work: if trade and payments are comparatively free from restriction, deficits and surpluses can much more readily be competed away by movements in relative prices.

The Fund and Restrictions on Payments and Trade

This brings me to the third topic to which I referred in my introduction: the Fund's collaboration with G.A.T.T. in the dismantling of restrictions and in the enforcement of appropriate rules of the game on such restrictions as survive the dismantling process. This was of course one of the main functions envisaged for these two organisations both in the earliest negotiations and at Bretton Woods and Havana, and many Articles in both of the basic Agreements are devoted thereto.* Indeed it might well be argued that the relevant functions of the Fund and G.A.T.T. are spelled out in unduly legalistic detail, for progress in this field may seem prima facie to have been impeded by a number of difficulties which were either created or aggravated by the provisions of the Agreements. Thus:

(1) There is the anomalous division of responsibility between the Fund and G.A.T.T., the former being concerned with restrictions on payments, the latter with restrictions on trade. Since the two kinds of restrictions are frequently alternative means to the same end, the choice between them being largely a matter of administrative convenience, it would probably have been more efficient to have entrusted the supervision of both kinds of restriction to one and the same international agency. The division of responsibility is in practice made even more anomalous by the fact that the Fund and G.A.T.T. have different (though of course overlapping) memberships and different voting procedures. Before condemning this anomaly, however, it is well to bear in mind that both the Fund and G.A.T.T. are international organizations which could be created only because countries were willing to surrender a certain amount of their jealously-guarded sovereignty. That surrendered to the Fund was to an institution in which the weighted vote was extremely important; that to the G.A.T.T. was to one in which all countries, ostensibly at least, had an equal voice. Had there been any tendency to bring the field of import restrictions levied for balance-of-payments purposes within the direct jurisdiction of the Fund, with its weighted vote, it is most unlikely that the Fund would have succeeded in attracting its present world-wide membership. Most countries are not

* I give in Appendix I the text of those Articles in the Fund Agreement which are referred to in this essay.

yet ready for the surrender of sovereignty which would have been involved.

It needs also be be borne in mind that the Fund and G.A.T.T. have in practice managed to settle down to a reasonably sensible working basis. Provision for this is indeed written into the text of the G.A.T.T. Articles: under Article XII paragraph 2(a), which seeks to limit restrictions to safeguard the balance of payments:

(a) to cases where a country needs them to forestall the imminent threat of, or to stop, *a serious decline in its monetary reserves,* and
(b) to cases where they are needed by a country with *very low monetary reserves,* in order to achieve *a reasonable rate of increase in its reserves,*

the interpretation of the three crucial phrases in italics is confided by Article XV, paragraph 2, to the discretion of the I.M.F. Perhaps one of the clearest symptoms of the amicable relations between the Fund and G.A.T.T. is that by mutual agreement the Fund's annual Reports on Exchange Restrictions, the first of which was published in March 1950, have always reported on all restrictions (on trade no less than on payments) ostensibly imposed for balance-of-payments reasons.

(2) Another anomaly in the treatment of restrictions has been that the only provisions for the reduction of restrictions by a process of bargaining relate to bargaining, under the auspices of G.A.T.T., about *tariffs*; there is no provision for bargaining about quantitative trade restrictions or about exchange restrictions. The American representatives who participated in the drafting of the Fund and G.A.T.T. charters may have favoured this arrangement, in the belief that (the United States herself having no quantitative or exchange restrictions) their country would be at a bargaining disadvantage vis-à-vis countries with a well-stocked arsenal of restrictions of all kinds. In the event, however, the arrangements prescribed in the Fund and G.A.T.T. charters have hitherto operated to the U.S.A.'s *dis*advantage, in that other countries have readily agreed to reciprocal tariff concessions, which have on their side been robbed of their value by recourse to quantitative restrictions ostensibly needed for balance of payments reasons. With the end of the dollar shortage, the scope for such manoeuvres has been (one hopes) substantially reduced, but none the less only an optimist can have confidence in the rapid disappearance of quantitative restrictions without any process of bargaining, once they are no longer necessary for balance-of-payments reasons.

(3) Finally there was no provision in the Fund and G.A.T.T. charters for regional arrangements about quantitative and exchange restrictions. The principle of Universalism, which (as we shall see) so influenced the drafting of the two Agreements, allowed no explicit provision for such arrangements as the sterling area or the European Code of Liberalisation.

The passage of time, the growth of goodwill, and the practice of common sense have served to mitigate at least some of the apparent shortcomings of the Fund and G.A.T.T. Agreements: The "transitional" period has been permitted to continue far beyond the period of post-war disequilibrium for which alone it was presumably intended, thereby condoning many lapses from an unattainable perfection; the annual consultations under Article XIV of the Fund Agreement have created an atmosphere of mutual respect and accommodation between the member countries and the Fund secretariat and among the member countries themselves; the Fund's missions to member countries have not hesitated to appeal to common sense even in cases where this might seem to involve a conflict with a strict interpretation of the Agreement;* and lastly (but not least important) the willingness of members to acknowledge the authority of the Fund in matters of exchange restrictions has been enhanced to the extent that the Fund has been prepared to undertake financial transactions.

Further Reflections on the Fund's Activities

In the preceding three sections I have attempted to survey such of the Fund's activities as fall under my three main headings: do any important fish escape these nets? One such is the French stabilization scheme of 1958, which provided a very important exception to the rule that the stabilization schemes in which the Fund has participated have been for under-developed countries.

Another topic which has escaped my consideration is that of exchange rates. The Fund's charter was drafted by experts who vividly remembered the competitive exchange depreciations of the 1930's and who saw in the Fund a bulwark against a recurrence thereof in the post-war world. But since competitive depreciation is a malady peculiar to times of widespread depression, there has in fact been little or no sign of it in the prosperous (and indeed inflationary) period since the Fund's commencement of business in March 1947. The Fund therefore has rarely, if ever, been called upon to restrain its members from unjustifiable devaluations. On the contrary, the need has rather been for a modicum of discreet prodding to help members overcome their reluctance to devalue in circumstances where their internal cost structure had become so out of line with international prices that realignment was clearly impracticable at the existing exchange rate. There can be no doubt that the Fund welcomed the flood of devaluations in September 1949 as timely, if not overdue, though admittedly the percentage by which sterling was then devalued (30%) may have been thought by some members to be unnecessarily high. Not infrequently an appropriate degree of devaluation has been an ingredient in the stabilization schemes (including the French scheme of 1958) in which the Fund has participated.

Apart from the instances I have just mentioned, I have the impression

* See second footnote on p. 15 below (about the I.M.F. mission to Ecuador in 1947).

that my three headings provide a reasonably comprehensive cover for the Fund's main activities. But though adequately comprehensive, my headings may be open to criticism on another ground, namely that they may seem to imply that the Fund deliberately differentiates between its members, by offering different facilities to under-developed countries, on the one hand, and to countries like (say) Britain, on the other. Such an implication is certainly not intended: on the contrary I am convinced that the Fund makes every effort to treat all members alike. The hard fact remains however that members are *not* alike, so that the same facilities offered to dissimilar members have inevitably given rise to differences between the Fund's relationships with its various members—differences which the Fund has tried to minimise but which (unable to eliminate) it has had to learn to live with.

Economism, Universalism and Legalism

Economism, Universalism and Legalism were, according to Mr. Richard Gardner,* the three influences pervading the atmosphere of the discussions and negotiations which preceded the setting up of the Fund. To what extent, if any, can these influences be regarded as having a lasting, and possibly injurious, effect on the Fund's development?

Economism, Gardner's label for the view that economic affairs could best be left to economic experts, was no impediment at all, for it was abandoned even before the Fund was born. The curse pronounced by Keynes's malicious fairy at Savannah was that the "two brats [the Bank and the Fund] shall grow up politicians,"** and so indeed has it come to pass. But surely Keynes misjudged the situation. This fairy was no Carabosse, but a worldly-wise fairy godmother, who realised that though the Fund's fields of activity are all economic, they are much too important politically to be handed over to a team of experts, however able and well-intentioned. Given the world as it is, the Fund could not be accorded supranational powers, nor could it operate as a purely technical agency, like the International Postal Union. Instead it had to be, in effect, a permanent conference of sovereign states, with procedures reflecting the prevailing balance of power and the prevailing national interests of these states. The relatively predominant position afforded to the United States,*** thanks particularly to the weighted voting prescribed in Article XII, Section 5, has therefore to be regarded as a device to ensure a wise conformity between the Fund's internal arrangements and the realities of the world outside.

From the second influence distinguished by Mr. Gardner, Universalism,

* *Sterling-Dollar Diplomacy*, p. 383.

** R. F. Harrod, *The Life of John Maynard Keynes*, p. 632.

*** The predominance of the United States in the Fund is not overwhelming. She does not invariably get her way and sometimes does not even press for it. That such is the case will be seen from the fact that none of the considerable net income earned by the Fund since 1956 has in fact been distributed, even though under Article XII, Section 6(b), the United States would have been the main beneficiary.

the Fund has not so readily escaped. Indeed it was this influence which (I have already suggested) kept the Fund aloof from the regional arrangements (such as the sterling area, the E.P.U., and the O.E.E.C.'s Code of Liberalisation) which were so important in the first ten years of the Fund's life. On the other hand, the Fund has from the first shown itself considerate of the under-developed countries' peculiar problems, and sympathetic to special arrangements needed for their solution. Moreover, as I have already argued, the Fund has not hesitated to underwrite the gold exchange standard as reintroduced in the 1950's, even though this has something in common with the key-currency ideas which found so little favour at Bretton Woods.

Mr. Gardner's third influence, Legalism, is undoubtedly very much in evidence in the Fund's Charter, as it is also in G.A.T.T.'s. One's first reaction is that the draftsmen of the two documents might well have given more weight to Napoleon's recommendation that constitutions should so far as possible be (a) brief and (b) meaningless. But subsequent reflection does not bear out this initial reaction. In the first place, *some* legalism is inevitable in an international agreement as far-reaching as the Fund's charter: the parties to the agreement are independent states, jealous (as I have already stressed) of their sovereign rights, and therefore completely unprepared to sign anything in the nature of a blank cheque. In the second place, an important provision in Article XVIII greatly mitigates the apparent legalism of the other Articles of Agreement by making the Fund in effect the final interpreter of its own charter.

Moreover when we turn from the text of Agreement to the Fund's behaviour in practice, we find little evidence that its freedom of action has been unduly hampered by an inflexible constitutional corset. Article IV, Section 2 was not for long an impediment to the reopening of the London gold market, nor Section 3 of the same Article to the adoption of floating exchange rates by Canada and Peru.* Article VIII Section 3 has not prevented the Fund from giving its conditional blessing to multiple currency practices in appropriate circumstances, as in Ecuador in 1947,** nor did Article VI prevent the Fund from helping the U.K. to meet a speculative capital outflow after the Suez crisis in 1956. The transitional provisions (Article XIV), which were presumably intended to tide over the difficulties of the immediate post-war years, have none the less continued to operate long after the end of post-war reconstruction and of the post-war dollar shortage.

* Mr. Rooth, reported in *International Financial News Survey* of May 21, 1954, p. 1.

** ". . . the very first mission sent to a country by the Fund to advise it on exchange control matters recommended, with the approval of the Fund's Executive Board, a system of exchange surtaxes—tantamount to multiple rates—and of a floating, free market exchange rate for luxury imports and all invisible transactions. This was in picturesque Ecuador, in the spring of 1947." Robert Triffin, *Europe and the Money Muddle*, p. 125.

Innovation in Techniques

But it is in the development of techniques for undertaking financial transactions that the Fund has most clearly displayed its readiness to do business in ways which were not envisaged at Bretton Woods, and might in some cases have been viewed with disfavour. The innovations in lending techniques came in a flood in 1952. As a preliminary, the Executive Board decided in that year that "as a general rule, any increase in the Fund's holdings of a members' currency originating from transactions by the member should be reduced within a period not exceeding three to five years," thus making it quite explicit that the Fund intended to provide only short-term accommodation.* Having decisively settled this issue, the Board then made provision for a much bolder use of the Fund's resources. It expressed its readiness to provide stand-by facilities, and in June 1952 negotiated its first stand-by arrangement (with Belgium). It also agreed that drawings within the so-called "gold tranche" should be virtually automatic, and on a later occasion announced a more liberal attitude towards drawings in the first credit tranche, that is, for Fund holdings of a currency of 100 per cent to 125 per cent of the quota.

Also in 1952 the Managing Director had stated that he would be prepared "in all appropriate cases" to recommend "if a waiver is necessary for a transaction of more than 25 per cent of the member's quota, that this waiver be granted under the conditions provided in Article V, Section 4 of the Fund Agreement."** On the same occasion the Managing Director expressed his willingness, notwithstanding Article IV, Section 6, to consider doing business with a member who had "not agreed a par value with the Fund."

The course of subsequent events showed the Fund's actions to be consistent with its words. The stand-by agreement with Belgium in June 1952 was followed by further ones with Finland in December 1952, with Mexico and Peru in the year 1953-1954, and with Chile early in 1956, while at the time of the Suez crisis large stand-by facilities were given to Britain and France. France also received a stand-by credit in January 1958, as the first step in her stabilization scheme of that year. Thus the technique is now very firmly established, as will be seen by reference to Tables 3 and 4.

The new gold tranche arrangements were made use of by Paraguay, Turkey and Brazil during the year 1952-1953 and by Brazil, Bolivia, Chile, Mexico, and Japan in the following year. Since then virtually all members have been able to take it for granted that their gold tranche has been available on demand.

* This ruling was supported by a decision taken in the preceding December, whereby the Fund introduced a revised scale of charges on the use of its resources, the new scale being deliberately devised to increase the cost to a member of extended continuous recourse to the Fund, while making temporary recourse less expensive.

** Mr. Ivor Rooth's address to the Annual Meeting, September 1952, reported in *International Financial News Survey*, Sept. 12, 1952. The 25 per cent limitation appears in Art. V, Section 3(a) (iii).

TABLE 4

I.M.F. STAND-BYS
(Millions of dollars)

	Agreed	*Drawn*	*Reconstituted or Increased by Repurchase*	*Expired*	*Outstanding (at end of year)*
1952	55	—	—	—	55
1953	—	5	—	—	50
1954	62	22	—	—	90
1955	—	—	22	50	62
1956	1,077	25	3	1	1,117
1957	183	443	17	4	870
1958	339	235	26	89	911
1959	315	111	221	1,129	208

The "waiver" arrangements, enabling a member to draw an amount in excess of 25 per cent of his quota in a period of 12 months, were first brought into use in 1953, the earliest beneficiaries being Turkey, Peru, and Mexico. Between then and the middle of 1956 six out of fifteen exchange transactions were of a magnitude which required the Fund to grant a waiver. Thereafter the waiver was used very freely, *inter alia* in respect of the facilities granted to Britain and France at the time of the Suez crisis.

The willingness of the Fund to do business with a member who had not an agreed par value was demonstrated in the stand-by agreement with Peru in February 1954. Several other member countries have been allowed access to the Fund's resources, although their exchange rates have been fluctuating beyond the margins prescribed by the Fund.

A slightly later development in the Fund's methods of doing business has been joint participations by the Fund and other providers of finance. Thus the arrangement with Peru in February 1954 involved joint participation with the U. S. Treasury and the Chase National Bank, and the same applied to subsequent arrangements with Chile and Bolivia. Similar "parallel arrangements" were later made with Argentina, Turkey, Mexico, and Chile, and likewise in 1956 with Britain, in 1958 with France, and later with Iceland and Spain.

We surely must conclude that in all aspects of its work, the Fund has, at any rate since 1952, shown willingness to innovate and initiate which cannot well be reconciled with the view that it has suffered from any undue Legalism in its charter.

The Awakening of the Fund

Why was the Fund, having presented the appearance of relative inactivity for so long, able to spring into action at the time of the Suez crisis? In the first place, the case for action was unusually persuasive. The

experience of the preceding eighteen months had served to show that the chronic disequilibrium of the post-war years was at last coming to an end, so that a regime of world-wide multilateral settlement was now not only practicable, but viable without recourse to additional trade restrictions. This regime was indeed put in jeopardy by the Suez crisis, but clearly this was only a temporary (though severe) shock, the remedy for which could very appropriately be short-term assistance of the kind the Fund was intended to afford, provided that this could be furnished on a sufficiently massive scale.

In the second place, though in the preceding years the Fund had been relatively inactive in the sense of transacting only a small volume of business, it had in many ways been preparing itself for a more active future. The secretariat had been gaining experience both qua experts and qua members of a team, the Executive Board had likewise gained experience in team-work, and many useful innovations (e.g. stand-by arrangements) had been introduced into the Fund's terms of providing accommodation to its members.

In the third place, it is difficult to avoid giving some weight to questions of personalities. The appointment on December 3, 1956, of Mr. Per Jacobsson as the third holder of the office of Managing Director, undoubtedly contributed to the authority and prestige which the Fund commanded at the end of 1956.

Last, though certainly not least, is the fact that opinion in member countries, particularly the United States (whose views inevitably carry much weight), had clearly been steadily crystallising in favour of assigning to the Fund a more important role in world affairs.

But whatever may have been the reasons for the decisive action taken by the Fund at the time of the Suez crisis, the fact that it was taken, and with such obvious success, clearly served to put the Fund in a much more favourable position for undertaking future operations of all kinds. For in the first place, members thenceforth could judge, and judge with much greater confidence than hitherto, what their rights qua members amounted to. They knew that "the practice of the Fund is that in the case of a member's request to draw an amount equivalent to its own gold subscription, normally 25 per cent of its quota, the country has the overwhelming benefit of the doubt; for the next 25 per cent, the country requesting assistance must show that it is making reasonable efforts to solve its problems. Requests for drawing beyond these limits require substantial justification,"* but (in the light of Britain's experience after Suez) there clearly were circumstances which would be held to provide such justification. Britain's experience in December 1956 also demonstrated the value of stand-by arrangements—the more so that in the event none of the British stand-by had to be utilised.

Lastly, the events of December 1956 established the precedent that sov-

* From Mr. Per Jacobsson's address to the International Chamber of Commerce, April 23, 1959.

ereign states, and even very important ones, have to be prepared to agree to conditions when obtaining large-scale access to the Fund's resources:

> ... assistance obtained by the United Kingdom in December 1956 was granted on the basis of a declaration by the British Government that strict financial and credit policies would be pursued; that quantitative restrictions would not be reimposed, and that the value of the pound sterling would be maintained. It has become a regular feature of all important Fund transactions that the governments receiving assistance inform the Fund about the policies which they intend to follow.*

The Increase in Quotas

The clearest symptom of the improved prestige of the Fund was the increase in quotas effected in 1958-1959. In the course of the former year it began to be felt that the Fund's liquid resources were inadequate to give member countries the confidence that, in the Fund, they could count on sufficient second-line reserves, to cope with the difficulties that might arise. At the Annual Meeting of the Fund in New Delhi in October 1958, the U.S. Government raised the question of the desirability of an enlargement of the Fund's resources. Before the end of the year a detailed report had been presented by the Executive Directors, in which they proposed a general increase of 50 per cent in the quotas of the member countries, together with additional special increases for certain countries. These proposals were duly adopted in principle by the Board of Governors, whereupon it rested with the individual member countries to decide whether they should avail themselves of the proposed increases. Affirmative replies were however in due course received from most member countries, with the result that by September 1959 the Fund was able to announce that 40 members, representing about 83 per cent of total Fund quotas, had intimated their agreement—i.e. more than were needed to bring the scheme into operation. The effect of the increase in quotas may be seen in Table 5.

Though the increase in quotas involved members in subscription payments of about $1.2 billion in gold, and thus likewise depleted national reserves, the resources that the Fund is able to make available to members rose much more. Besides gold, the equivalent of almost four billion dollars was subscribed in members' own currencies, of which about one billion was in U.S. dollars. The pooling of these subscriptions in the hands of the Fund clearly made a substantial net increase to world liquidity. The contrary could be the case only if the Fund refused its members access to the common pool even within the limits of their gold tranche—and this, as we have just seen, is scarcely conceivable. Most members have quasi-automatic access to their gold tranches and also fairly ready access to at least one credit tranche.

* Mr. Per Jacobsson, *op.cit.* Britain's declaration to the Fund in 1956 amounted to no more than a declaration to pursue policies already adopted on their own merits, but even so it presumably committed her to avoid changing these policies except after prior consultation with the Fund.

TABLE 5

I.M.F. QUOTAS AT END OF AUGUST 1958 (BEFORE THE GENERAL INCREASES CAME INTO EFFECT) AND AT END OF JULY 1960

(Millions of dollars)

Member	*Aug. 1958*	*July 1960*	*Member*	*Aug. 1958*	*July 1960*
Afghanistan	10	10	Japan	250	500
Argentina	150	280	Jordan	3	4.5
Australia	200	400	Korea, Republic of	12.5	18.8
Austria	50	75	Lebanon	4.5	4.5
Belgium	225	337.5	Libya	5	7
Bolivia	10	22.5	Luxembourg[1]	10	10
Brazil	150	280	Malaya	25	27.5
Burma	15	15	Mexico	90	180
Canada	300	550	Morocco	35	52.5
Ceylon	15	45	Netherlands	275	412.5
Chile	50	75	Nicaragua	7.5	11.2
China	550	550	Norway	50	100
Colombia	50	75	Pakistan	100	150
Costa Rica	5	5.5	Panama	.5	.5
Cuba[1]	50	50	Paraguay	7.5	8.8
Denmark	68	130	Peru	25	27.5
Dominican Republic	10	15	Philippines[1]	50	50
Ecuador	10	15	Saudi Arabia	10	55
El Salvador	7.5	11.2	Spain	100	150
Ethiopia	6	7.8	Sudan	10	15
Finland	38	57	Sweden	100	150
France	525	787.5	Thailand	12.5	45
Germany (Fed. Rep.)	330	787.5	Tunisia	12	14.1
Ghana	15	35	Turkey	43	86
Greece	40	60	Union of So. Africa	100	150
Guatemala	5	15	U. Arab Rep.: Egypt	60	90
Haiti	7.5	11.2	U. Arab Rep.: Syria	6.5	15
Honduras	7.5	11.2	United Kingdom	1,300	1,950
Iceland	1	11.2	United States	2,750	4,125
India	400	600	Uruguay	15	15
Indonesia	110	165	Venezuela	15	15
Iran	35	70	Viet-Nam	12.5	14.5
Iraq	8	8	Yugoslavia	60	66
Ireland	30	45			
Israel	7.5	25			
Italy	180	270	Total	9,228	14,429

[1] These members have agreed to an increase in their quotas but have not yet completed all formalities.

Now it might be argued that the basic increase of 50 per cent in members' quotas did no more than restore the real value of the Fund's resources to what was intended when the quotas were originally agreed, so that the majority of members, who merely agreed to the basic increase and no more, were simply re-affirming in 1958-1959 what they had already ac-

cepted at the time of assuming membership of the Fund. But this is not how the issue was treated in the typical member country. Most countries decided to support the U.S. proposal only because they were convinced that the Fund was a useful institution and because they were interested in making use of it. Such was a fortiori the case as regards most of the countries whose quotas were increased by more than 50 per cent. Though several of these special increases (notably Germany's and Japan's) were meant to correct anomalies, the majority were aimed simply at giving the members concerned greater access to the Fund's resources.

An example of the changing attitude of countries to the Fund is provided by Australia, a country which (like New Zealand, which did not even seek membership, and is still to-day a non-member) had originally been inclined to treat the institution with considerable reserve, as though assistance from the Fund was only doubtfully compatible with national sovereignty. Yet in 1960 we find the Australian Treasurer reporting to Parliament that:

> In January of this year the Government decided to apply for a further increase in Australia's quota. It was obvious that such an increase, if it could be obtained, would represent a considerable strengthening of Australia's external financial position and would enable the Government to move with greater confidence towards the freeing of imports from quantitative restrictions; and it was felt that the Fund Board could be expected to receive sympathetically an application by Australia for an increase because of the exceptionally wide swings to which the Australian balance of payments is subject. This expectation was fulfilled. The Fund Board, after considering the case, recommended an increase in Australia's quota of the full amount requested.

The Future: The Fund and Under-developed Countries

The three headings I have already used for describing the Fund's past activities will serve equally well for a consideration of the scope for future activities. First, then, what is the scope for technical and financial assistance to under-developed countries?

As regards technical assistance, I have little to suggest apart from a continuation and extension of the kind of assistance which has been given in the past. The only danger to be guarded against is that of an excessive reliance on experts familiar with the problems of Western Europe or the United States, but lacking experience of the newer countries, the evolution of whose financial institutions is still in progress or has at any rate occurred within living memory. Thus I would expect that Australia, a country which has in her time received a good deal of well-intentioned advice from Londoners, but has none the less managed to develop institutions peculiarly suited to her own circumstances, might well be able to pass on quite a few useful hints to countries following her example in economic development.

The scope for financial assistance raises more difficult questions:

(1) In the first place, is the Fund supposed to afford assistance to a country which readily accepts (or even encourages) inflation as a means of achieving economic development? I would answer negatively, if only on the ground that the Fund could have no reasonable confidence that accommodation afforded to such a country would prove to be short-term. I also attach weight to a further ground for a negative answer, namely that such a country may well be pursuing a misguided policy, which it would be equally misguided to facilitate by the offer of financial assistance. My position on this point derives from practical considerations rather than from general principles. I have no objection in principle to the proposition that a country with appropriate institutional arrangements and an appropriately efficient and resolute government may be able to increase saving, and thereby facilitate economic development, by an appropriate dose of controlled inflation. I merely question whether these necessary conditions are in practice likely to obtain, over a reasonable run of years, in the under-developed member countries.

(2) My answer to question (1) implies my answer to the second question needing to be posed, namely: should the Fund attach conditions to the granting of accommodation, so as to ensure that measures are taken by the receiving country with the aim of mitigating the danger of inflation? Clearly my answer has to be: yes, whenever necessary. This answer can be given with even greater confidence since December 1956, for with the example of Britain before them, under-developed countries cannot now reasonably take it as a slight upon their national honour that the Fund should, before granting accommodation, seek prior assurances as to intended economic policies. If it then be objected that under-developed countries will readily make reassuring plans ex ante, which they will not scruple to abandon ex post, the most convincing answer is an appeal to the record. An appraisal in the August 1960 issue of the *Monthly Letter* of the First National City Bank of New York of "Economic Stabilization in Latin America" leads to the conclusion that the results so far obtained by the stabilization schemes in which the Fund has participated "have been highly encouraging." This does not of course prove that the Fund can always take promises at their face value or can never make bad debts: nevertheless it surely does imply that the calculated acceptance of credit risks is not incompatible with sound business.

(3) Now I come to the last but most important question: is the Fund just one more source of development finance for under-developed countries or have such countries a need for short-term finance as such? The fact that the record of under-developed countries as regards promptitude of repayment is not significantly different from that of other countries surely suggests an affirmative answer to the latter question. I myself would distinguish three grounds on which under-developed countries may have a need for short-term finance per se:

(a) Due mainly to their frequent dependence on the export of one or several primary products, the prices of which are notoriously unstable, such countries typically experience much greater short-period fluctua-

tions in their balance of payments than does the typical industrialised country. If therefore the typical under-developed country, in coping with the very large external deficits it will occasionally experience, has perforce to rely solely on its own monetary reserves, without any external assistance, then success can be assured only by holding reserves which are on the average (taking good years and bad) very large indeed—much larger, in relation to (say) annual G.N.P. or annual imports, than would be the case for the typical industrialised country. Not unnaturally, many under-developed countries have in the past shown little enthusiasm for investing so heavily in assets which will be of use only at some unpredictable and possibly distant date in the future. Instead they have preferred to take a chance, and when unlucky have been forced to have recourse to import restrictions, exchange control, or currency depreciation. To-day, however, with the advent of the Fund, the under-developed country can escape from its unenviable dilemma: it can operate successfully with reserves adequate in average size only for modest fluctuations in its external balance, relying on the Fund for short-term accommodation to bridge over the occasional major deficit.

(b) Short-term accommodation is also appropriate for stabilization schemes under which a country hitherto suffering from inflation settles on a new (and more realistic) exchange rate and tries to persuade the international business community that this new rate can and will be held. Stabilization schemes, as applied at all times since the first world war to economies at all stages of development, have almost invariably needed the support of a substantial line of external credit, even when this credit has not in the event been utilised, for only thus can the natural distrust of the private trader or speculator be fully allayed. Once, however, the new exchange rate is firmly established and accepted, the prop of the external credit can safely be removed. In other words, short-term credit, or even only a stand-by facility, is what is required, and this can be appropriately sought from the Fund.

(c) Finally, short-term accommodation is needed by an under-developed country which temporarily and inadvertently accelerates its development programme to a degree which is excessive in relation to the availability of long-term development finance. Of course the provision of short-term finance in such cases is open to abuse, in that the recipient may fail to take appropriate steps either to slow down the rate of development expenditure or to step up the flow of development finance. The Fund should therefore be cautious in dealing with such cases, for fear of its finance becoming frozen, but nevertheless bona fide applicants surely have a good claim on the Fund's resources.

My conclusion, therefore, is that, for the three reasons I have mentioned, under-developed countries are liable to be in frequent need of short-term finance and that this need is quite distinct from their need for long-term development finance. Thus the Fund has a very important task to perform, and this task is complementary to that of other international agencies (such as the World Bank) whose job it is to provide development finance.

The Future: The Fund and the Gold Exchange Standard

I do not propose to consider here the case for abolishing the gold exchange standard and for setting up in its place a system of international settlement using a new international paper currency, on the lines of the Bancor in Keynes's *Proposals for an International Clearing Union.* Suffice it to say that Professor Robert Triffin has made out such a case* which I personally find convincing. Here I shall limit myself to the question of the future role of the Fund in sustaining the regime which Professor Triffin refers to as convertibility à la 1959, so long as this regime remains in existence. Thus I shall in effect be considering the ability of the Fund to undertake rescue operations like the one undertaken at the time of the Suez crisis.

The large rescue operation which was then mounted in favour of the United Kingdom (like the smaller one in favour of France) was impressive in its complete success. The assistance afforded to Britain corresponded to the then size of her quota, namely $1,300 million, and the form it took was a drawing of U.S. dollars plus a stand-by which, had it been utilised (which in the event proved not to be necessary), would have been used to draw further U.S. dollars. From this example we see that the size of a possible rescue operation depends on:

(a) the size of the quota of the member concerned—the ultimate ceiling in this respect being that the Fund's holding of a member's currency, plus any stand-by enjoyed by that member, may never exceed 200 per cent of the member's quota. (Of this 200 per cent, 75 per cent corresponds to the amount normally acquired by the Fund as the result of the member's initial subscription.)

(b) the size and composition of the Fund's assets, in that generally speaking the drawing member can have access only to such national currencies as are available in the Fund's pool, or can be obtained by the Fund by converting its holding of gold, under Article VII, Section 2(ii).

Thus it is impossible to give any simple answer to the question of how large a rescue operation the Fund is now in a position to mount. But clearly the increase in quotas which was negotiated in 1959 would facilitate the mounting of larger operations than were previously possible. This indeed is one aspect of the "substantial net increase to world liquidity" to which I referred on page 19.

But another relevant consideration, to which I did not then refer, is the amount of "dead stock" carried by the Fund: the Fund's holdings of currencies which are not in fact demanded can serve no useful purpose whatever in the Fund's financial operations. So far, only seven of the 66 currencies held by the Fund have ever been purchased and, as we can see from Table 6, one of these seven (the U.S. dollar) has predominated over all the others. With the widespread adoption in December 1958 of non-

* *Op.cit.*

TABLE 6

I.M.F. EXCHANGE TRANSACTIONS
GROSS DRAWINGS BY CURRENCIES DRAWN TO END OF 1959
(Millions of dollars)

Currency	
Belgian Francs	11
Canadian Dollars	15
German Marks	76
French Francs	13
Guilders	5
Sterling	230
U.S. Dollars	3,054
TOTAL	3,404

resident convertibility, it is surely to be hoped that Fund members will not continue to demand U.S. dollars almost to the exclusion of other convertible currencies (even ones standing at a premium vis-à-vis the U.S. dollar in foreign exchange markets). If purchasing members would express a willingness to purchase any key currency, and not just U.S. dollars, the Fund's effective stock in trade would increase from about $5.3 billion to nearly $10 billion.* Thus there is good ground for the suggestion recently made by the Governor for the United Kingdom that a study should be made of the currencies to be drawn from the Fund.

But even after the mobilisation of a certain amount of dead stock, the *masse de manoeuvre* at the Fund's disposal might still be thought inadequate to deal with all emergencies. Hence the attraction of the proposal recently advanced by Mr. Edward Bernstein** whereby the great trading countries should agree in advance their readiness to subscribe, under Article VII, Section 2(i), to Fund debentures denominated in the subscriber's currency:

> . . . Thus, if the United States would undertake to subscribe $2.5 billion, the United Kingdom $1.25 billion and France, Germany, Canada and other great trading countries $2.75 billion of these debentures, the Fund would be assured of emergency resources of up to $6.5 billion to meet any contingencies that would arise.
>
> These emergency resources would be used by the Fund only for waiver transactions with a fixed repurchase date. No country would be called on to take up its subscription unless it had an equivalent surplus

* I have taken the key currencies to be those of the North American and E.E.C. countries, plus those of the U.K., Japan and Sweden. Other currencies held by the Fund (amounting to a total of nearly four billion dollars) are unlikely to be drawn in any appreciable amount, if only because they cannot be (a) readily sold in large amounts on the foreign exchange markets or (b) temporarily invested in a well-organised money market.

** In a paper for private circulation, which Mr. Bernstein has very kindly permitted me to read and to quote.

in its payments and were increasing either its gold reserves or its gold plus foreign exchange reserves. Furthermore, the debentures would have a fixed maturity not later than five years after issue, and subscribers would be permitted to use the debentures prior to maturity to purchase any currencies in the Fund, provided their reserves were decreasing and the currencies were needed to meet balance of payments deficits.

My final comment on the Fund's techniques for mounting rescue operations to deal with possible flights from a major currency is that if these techniques were believed to be effective they would never have to be used. The efficacy of the Fund in this role is not to be measured by the volume of its transactions.

The Future: The Fund and Restrictions

In this third sphere of interest of the Fund (the one which the Fund shares with G.A.T.T.) there are a number of issues currently under consideration but so far unresolved, or due for consideration in the near future:

(1) What attitude should be adopted to the new discriminatory trading areas in Europe (the European Economic Community and the European Free Trade Association) and to similar areas which are being or may be set up in other parts of the world? As explained above, the Fund's attitude to earlier discriminatory regional arrangements, like the E.P.U. or the sterling area, was far from enthusiastic, even though in these cases it was possible to present a more or less plausible defense of the discrimination by appeal to balance-of-payments considerations. But the new regionalism of the 1960's can present no such defense: in particular the anti-dollar discrimination to be found in all these new regional arrangements is to-day a glaring anachronism. What then should be the Fund's attitude to these developments?

(2) Quite apart from the E.E.C., the E.F.T.A., and similar manifestations of the new regionalism, there are still many discriminatory (mainly anti-dollar) restrictions, which linger on as a relic of the dollar shortage, but which can no longer be defended on balance-of-payments grounds. Already the Fund has denounced the continuance of discrimination: in October 1959, "the Board of Executive Directors unanimously approved a statement that, in view of the substantial improvement in the reserve positions and the widespread move to external convertibility, the Fund considered that there was no longer any balance of payments justification for discrimination by members whose current receipts were largely in externally convertible currencies."* The fourteenth session of G.A.T.T., which ended in May 1959, was obviously seized of the German case, while at the fifteenth G.A.T.T. meeting at Tokyo in 1959, a number of other countries, including Australia, Japan and Italy, were subject to keen questioning as to the need for the retention of import restrictions at their then

* Quoted from Mr. Per Jacobsson's address to the U.N. Economic and Social Council on April 8, in *International Financial News Survey*, April 15, 1960.

level* in the light of their balance-of-payments position as assessed by the Fund and communicated under G.A.T.T. Article XV, paragraph 2.

(3) Another immediate problem is that of effecting a belated transition from Article XIV to Article VIII of the Fund Agreement. Even though the world is now well clear of the economic aftermath of the war and the dollar shortage has long since disappeared, virtually all the Fund members outside North America, Central America, and the north of South America still continue to impose restrictions under Article XIV, "Transitional Period." Once the Article XIV countries forego the protection of this Article, they may still be permitted to impose restrictions, but no longer without the express consent of the Fund. Many countries, however, now appear to be ready (or nearly so) to agree to the transition, which would have the advantage of reinforcing the Fund's authority over exchange restrictions and of extending the range of national currencies which may be used by a member to repay financial accommodation obtained from the Fund.** On the other hand, will it be possible to effect the transition from Article XIV to Article VIII without sacrificing (a) the annual consultations which have been so valuable under Article XIV or (b) some, at least, of the flexibility which was possible under Article XIV? As regards (a), most countries seem to be agreed that the Article XIV consultations have been valuable and would like to see them continued. On the other hand, those countries already operating under Article VIII, and which have not therefore previously been subjected to the "indignities" of such consultations, have been a little apprehensive about committing themselves to them in future. Here, of course, by far the most important country concerned is the United States: no doubt Congress would object to the United States' national policies being determined by an international institution like the I.M.F. The Fund has attempted, in a recent decision, to meet this problem by pressing the advantage of *voluntary* consultations under Article VIII. As regards (b), opinion generally favours the view that however leniently a member country may be treated once it has effected the transition from Article XIV to Article VIII, it must be prepared to *start* under Article VIII with a clean sheet, i.e. with no restrictions needing approval under that Article. This point is taken in the Fund decision which I have just mentioned, the relevant passage reading:

> Before members give notice that they are accepting the obligations of Article VIII, Sections 2, 3, and 4, it would be desirable that, as far as possible, they eliminate measures which would require the approval of the Fund, and that they satisfy themselves that they are not likely to need recourse to such measures in the foreseeable future.

It remains to be seen how many members, in the light of the Fund's pronouncement, are prepared to take the decision to transfer to Article VIII.

* There have since then been considerable reductions: in particular Australia swept away the whole of her import control system in February 1960.

** Currencies of certain countries under Article XIV have already been drawn from the Fund, but it has not been permissible under the Fund's Articles to use these currencies in repayments to the Fund. The acceptance of Article VIII generally removes this limitation.

The Prospects

Is there any reason for doubting that the Fund will do justice to the possibilities of future action, the potential scope of which I have tried to sketch in the preceding sections?

(1) In respect of assistance to under-developed countries, the only danger is that such countries should come to adopt the practice of irresponsibly accepting Fund finance without taking reasonable steps to ensure that it will be short term *de facto* as well as *de jure*. Otherwise I believe that all members of the Fund, and especially the United States, will want the Fund to press on with its work in this field, even to the point of consenting to further increases in quotas, whenever this proves to be necessary. The potential scope of the work is immense, and only the Fund seems capable of undertaking it, for though other international institutions offer long-term development finance, none has so far attempted to provide the kind of facilities offered by the Fund. Everything therefore turns on the attitude of the under-developed countries themselves. The historical record of their past dealings with the Fund has been reassuring: surely one may reasonably infer that more and more of the countries concerned are coming to see it as a matter of great expediency, and maybe also of national prestige, to be in good credit with their banker.

(2) The lesson which I draw from the Suez crisis is that the gold exchange standard of today is viable only with the Fund's support, which I further believe will become more and more vital in the future, so long as the gold exchange standard remains in existence in its present form. If the present regime were to be replaced by something on the lines of the Triffin Plan, then some measure of institutional change would be called for, since there would then be a need for an international body with the essential attributes of a central bankers' central bank. But if the Triffin Plan were to be adopted on a world-wide, and not simply regional, basis, the Fund is obviously an eligible candidate for the prescribed role. In this way the extent of institutional change would be minimised and the Fund would emerge with added responsibilities and enhanced status.

(3) Responsibility in the future for dealing with restrictions on international payments and trade is likely (it seems to me) to rest squarely on the Fund and G.A.T.T., except to the extent that they have to share this responsibility with the new regional organisations like the E.E.C. and E.F.T.A. I am not however prepared to make any suggestions as to how this responsibility could best be shared.

APPENDIX I

The I.M.F. Agreement

Of the twenty Articles of Agreement, nine seem particularly relevant to my essay. I therefore give below the headings of these Articles, the number of separate Sections contained in each Article and, where relevant to my essay, verbatim extracts from the text of the Sections.

ARTICLE III. Quotas and Subscriptions [5 Sections].

Section 3 *Subscriptions: time, place and form of payment.*

(a) The subscription of each member shall be equal to its quota. . . .

(b) Each member shall pay in gold, as a minimum, the smaller of—

(i) 25 per cent of its quota, or
(ii) 10 per cent of its net official holdings of gold and U.S. dollars. . . .

(c) Each member shall pay the balance of its quota in its own currency.

ARTICLE IV. Par Values of Currencies [9 Sections].

Section 1 *Expression of par values.*

(a) The par value of the currency of each member shall be expressed in terms of gold as a common denominator or in terms of the U.S. dollar of the weight and fineness in effect on 1st July 1944.

Section 2 *Gold purchases based on par values.*

The Fund shall prescribe a margin above and below par value for transactions in gold by members, and no member shall [deal in gold at prices outside these limits].

Section 3 *Foreign exchange dealings based on parity.*

The maximum and minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity, in the case of spot exchange transactions, by more than 1 per cent. . . .

Section 4 *Obligations regarding exchange stability.*

(a) Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.

(b) Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other mem-

bers only within the limits prescribed under Section 3 of this Article. A member whose monetary authorities, for the settlement of international transactions, in fact freely buy and sell gold within the limits prescribed by the Fund under Section 2 of this Article shall be deemed to be fulfilling this undertaking.

Section 5 *Changes in par values.*

(a) A member shall not propose a change in the par value of its currency except to correct a fundamental disequilibrium.

(b) A change in the par value of a member's currency may be made only on the proposal of the member and only after consultation with the Fund.

(c) . . . If the proposed change, together with all previous changes, whether increases or decreases—

(i) does not exceed ten per cent of the initial par value, the Fund shall raise no objection;

(ii) does not exceed a further ten per cent of the initial par value, the Fund may either concur or object, but shall declare its attitude within seventy-two hours if the member so requests;

(iii) is not within (i) or (ii) above, the Fund may either concur or object, but shall be entitled to a longer period in which to declare its attitude.

(f) The Fund shall concur in a proposed change which is within the terms of (c) (ii) or (c) (iii) above if it is satisfied that the change is necessary to correct a fundamental disequilibrium. In particular, provided it is so satisfied, it shall not object to a proposed change because of the domestic social or political policies of the member proposing the change.

Section 6 *Effect of unauthorized changes.*

If a member changes the par value of its currency despite the objection of the Fund, in cases where the Fund is entitled to object, the member shall be ineligible to use the resources of the Fund unless the Fund otherwise determines. . . .

Section 7 *Uniform changes in par values.*

Notwithstanding the provisions of Section 5(b) of this Article, the Fund by a majority of the total voting power may make uniform proportionate changes in the par values of the currencies of all members, provided each such change is approved by every member which has ten per cent or more of the total of the quotas. The par value of a member's currency shall, however, not be changed under this provision if, within seventy-two hours of the Fund's action, the member informs the Fund that it does not wish the par value of its currency to be changed by such action.

Section 8 *Maintenance of gold value of the Fund's assets.*

(b) Whenever (i) the par value of a member's currency is reduced, or (ii) the foreign exchange value of a member's currency has, in the opinion of the Fund, depreciated to a significant extent within that member's territories, the member shall pay to the Fund within a reasonable time an amount of its own currency equal to the reduction in the gold value of its currency held by the Fund.

ARTICLE V. Transactions with the Fund [8 Sections].

Section 2 *Limitations on the Fund's operations.*

Except as otherwise provided in this Agreement, operations on the account of the Fund shall be limited to transactions for the purpose of supplying a member, on the initiative of such member, with the currency of another member in exchange for gold or for the currency of the member desiring to make purchase.

Section 3 *Conditions governing use of the Fund's resources.*

(a) A member shall be entitled to buy the currency of another member from the Fund in exchange for its own currency subject to the following conditions:

(i) The member desiring to purchase the currency represents that it is presently needed for making in that currency payments which are consistent with the provisions of this Agreement;

(ii) The Fund has not given notice under Article VII, Section 3, that its holdings of the currency desired have become scarce;

(iii) The proposed purchase would not cause the Fund's holdings of the purchasing member's currency to increase by more than twenty-five per cent of its quota during the period of twelve months ending on the date of the purchase nor to exceed two hundred per cent of its quota, but the twenty-five per cent limitation shall apply only to the extent that the Fund's holdings of the member's currency have been brought above seventy-five per cent of its quota if they had been below that amount;

(iv) The Fund has not previously declared under Section 5 of this Article, Article IV, Section 6, Article VI, Section 1, or Article XV, Section 2(a), that the member desiring to purchase is ineligible to use the resources of the Fund.

Section 4 *Waiver of conditions.*

The Fund may in its discretion . . . waive any of the conditions prescribed in Section 3(a) of this Article . . . .

Section 5 *Ineligibility to use the Fund's resources.*

Whenever the Fund is of the opinion that any member is using the resources of the Fund in a manner contrary to the purposes of the Fund it shall [after prescribed preliminaries] declare it ineligible to use the resources of the Fund.

Section 6 *Purchases of currencies from the Fund for gold.*

(a) Any member desiring to obtain, directly or indirectly, the currency of another member for gold shall, provided that it can do so with equal advantage, acquire it by the sale of gold to the Fund.

(b) Nothing in this Section shall be deemed to preclude any member from selling in any market gold newly produced from mines located within its territories.

Section 7 *Repurchase by a member of its currency held by the Fund.*

(a) A member may repurchase from the Fund and the Fund shall sell for gold any part of the Fund's holdings of its currency in excess of its quota.

(b) At the end of each financial year of the Fund, a member shall repurchase from the Fund with gold or convertible currencies, as determined in accordance with Schedule B, part of the Fund's holdings of its currency under the following conditions:

(i) Each member shall use in repurchases of its own currency from the Fund an amount of its monetary reserves equal in value to one-half of any increase that has occurred during the year in the Fund's holdings of its currency plus one-half of any increase, or minus one-half of any decrease, that has occurred during the year in the member's monetary reserves. This rule shall not apply when a member's monetary reserves have decreased during the year by more than the Fund's holdings of its currency have increased.

(ii) If after the repurchase described in (i) above (if required) has been made, a member's holdings of another member's currency (or of gold acquired from that member) are found to have increased by reason of transactions in terms of that currency with other members or persons in their territories, the member whose holdings of such currency (or gold) have thus increased shall use the increase to repurchase its own currency from the Fund.

(c) None of the adjustments described in (b) above shall be carried to a point at which

(i) the member's monetary reserves are below its quota, or

(ii) the Fund's holdings of its currency are below seventy-five per cent of its quota, or

(iii) the Fund's holdings of any currency required to be used are above seventy-five per cent of the quota of the member concerned.

Section 8 *Charges.*

(c) The Fund shall levy charges uniform for all members which shall be payable by any member on the average daily balances of its currency held by the Fund in excess of its quota. These charges shall be at the following rates:

(i) *On amounts not more than twenty-five per cent in excess of the quota*: no charge for the first three months; one-half per cent per annum for the next nine months; and thereafter an increase in the charge of one-half per cent for each subsequent year.

(ii) *On amounts more than twenty-five per cent and not more than fifty per cent in excess of the quota*: an additional one-half per cent for the first year; and an additional one-half per cent for each subsequent year.

(iii) *On each additional bracket of twenty-five per cent in excess of the quota*: an additional one-half per cent for the first year; and an additional one-half per cent for each subsequent year.

ARTICLE VI. Capital Transfers [3 Sections].

Section 1 *Use of the Fund's resources for capital transfers.*

(a) A member may not make net use of the Fund's resources to meet a large or sustained outflow of capital, and the Fund may request a member to exercise controls to prevent such use of the resources of the Fund . . .

Section 3 *Controls of capital transfers.*

Members may exercise such controls as are necessary to regulate international capital movements . . .

ARTICLE VII. Scarce Currencies [5 Sections].

Section 2 *Measures to replenish the Fund's holdings of scarce currencies.*

The Fund may, if it deems such action appropriate to replenish its holdings of any member's currency, take either or both of the following steps:

(i) Propose to the member that, on terms and conditions agreed between the Fund and the member, the latter lend its currency to the Fund or that, with the ap-

proval of the member, the Fund borrow such currency from some other source either within or outside the territories of the member, but no member shall be under any obligation to make such loans to the Fund or to approve the borrowing of its currency by the Fund from any other source.

(ii) Require the member to sell its currency to the Fund for gold.

Section 3 *Scarcity of the Fund's holdings.*

(a) If it becomes evident to the Fund that the demand for a member's currency seriously threatens the ability of the Fund to supply that currency, the Fund . . . shall formally declare such currency scarce and shall thenceforth apportion its existing and accruing supply of the currency with due regard to the relative needs of members . . .

(b) A formal declaration under (a) above shall operate as an authorization to any member . . . temporarily to impose limitations on the freedom of exchange operations in the scarce currency . . .

ARTICLE VIII. General Obligations of Members [6 Sections].

Section 2 *Avoidance of restrictions on current payments.*

(a) Subject to the provisions of Article VII, Section 3(b), and Article XIV, Section 2, no member shall, without the approval of the Fund, impose restrictions on the making of payments and transfers for current international transactions.

Section 3 *Avoidance of discriminatory currency practices.*

No member shall engage in . . . any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund. If such arrangements and practices are engaged in at the date when this Agreement enters into force the member concerned shall consult with the Fund as to their progressive removal unless they are maintained or imposed under Article XIV, Section 2, in which case the provisions of Section 4 of that Article shall apply.

Section 4 *Convertibility of foreign held balances.*

(a) Each member shall buy balances of its currency held by another member if the latter, in requesting the purchase, represents

(i) that the balances to be bought have been recently acquired as a result of current transactions; or

(ii) that their conversion is needed for making payments for current transactions.

The buying member shall have the option to pay either in the currency of the member making the request or in gold.

(b) The obligation in (a) above shall not apply [in certain specified circumstances, the most important cases being where currency balances have been accumulated during the "transitional" regime provided for in Article XIV, or where the currency of the member requesting the purchase has been declared scarce under Article VII].

ARTICLE XII. Organization and Management [8 Sections].

Section 1 *Structure of the Fund.*

The Fund shall have a Board of Governors, Executive Directors, a Managing Director, and a staff.

Section 2 *Board of Governors.*

(a) All powers of the Fund shall be vested in the Board of Governors, consisting of one governor and one alternate appointed by each member in such manner as it may determine. Each governor and each alternate shall serve for five years, subject to the pleasure of the member appointing him, and may be reappointed. No alternate may vote except in the absence of his principal. The Board shall select one of the governors as chairman.

(c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by five members or by members having one-quarter of the total voting power.

(e) Each governor shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him.

Section 3 *Executive Directors.*

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Fund, and for this purpose shall exercise all the powers delegated to them by the Board of Governors.

(b) There shall be not less than twelve directors who need not be governors, and of whom

(i) five shall be appointed by the five members having the largest quotas;

(iii) five shall be elected by the members not entitled to appoint directors, other than the American Republics, and

(iv) two shall be elected by the American Republics not entitled to appoint directors.

(i) Each appointed director shall be entitled to cast the number of votes allotted under Section 5 of this Article to the member appointing him. Each elected director shall be entitled to cast the number of votes which counted towards his election. When the provisions of Section 5(b) of this Article are applicable, the votes which a director would otherwise be entitled to cast shall be increased or decreased

correspondingly. All the votes which a director is entitled to cast shall be cast as a unit.

Section 4 *Managing Director and Staff.*

(a) The Executive Directors shall select a Managing Director who shall not be a governor or an executive director. The Managing Director shall be chairman of the Executive Directors, but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors, but shall not vote at such meetings. The Managing Director shall cease to hold office when the Executive Directors so decide.

(b) The Managing Director shall be chief of the operating staff of the Fund and shall conduct, under the direction of the Executive Directors, the ordinary business of the Fund. Subject to the general control of the Executive Directors, he shall be responsible for the organization, appointment and dismissal of the staff of the Fund.

Section 5 *Voting.*

(a) Each member shall have two hundred fifty votes plus one additional vote for each part of its quota equivalent to one hundred thousand United States dollars.

(b) Whenever voting is required under Article V, Section 4 or 5, each member shall have the number of votes to which it is entitled under (a) above, adjusted

(i) by the addition of one vote for the equivalent of each four hundred thousand United States dollars of net sales of its currency up to the date when the vote is taken, or

(ii) by the subtraction of one vote for the equivalent of each four hundred thousand United States dollars of its net purchases of the currencies of other members up to the date when the vote is taken;

provided, that neither net purchases nor net sales shall be deemed at any time to exceed an amount equal to the quota of the member involved.

Section 6 *Distribution of net income.*

(a) The Board of Governors shall determine annually what part of the Fund's net income shall be placed to reserve and what part, if any, shall be distributed.

(b) If any distribution is made, there shall first be distributed a two per cent non-cumulative payment to each member on the amount by which seventy-five per cent of its quota exceeded the Fund's average holdings of its currency during that year. The balance shall be paid to all members in proportion to their quotas. Payments to each member shall be made in its own currency.

ARTICLE XIV Transitional Period [4 sections].

Section 1 *Introduction.*

The Fund is not intended to provide facilities for relief or reconstruction or to deal with international indebtedness arising out of the war.

Section 2 *Exchange restrictions.*

In the post-war transitional period members may, notwithstanding the provisions of any other articles of this Agreement, maintain and adapt to changing circumstances (and, in the case of members whose territories have been occupied by the enemy, introduce where necessary) restrictions on payments and transfers for current international transactions. Members shall, however, have continuous regard in their foreign exchange policies to the purposes of the Fund; and, as soon as conditions permit, they shall take all possible measures to develop such commercial and financial arrangements with other members as will facilitate international payments and the maintenance of exchange stability. In particular, members shall withdraw restrictions maintained or imposed under this Section as soon as they are satisfied that they will be able, in the absence of such restrictions, to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund.

Section 4 *Action of the Fund relating to restrictions.*

Not later than three years after the date on which the Fund begins operations and in each year thereafter, the Fund shall report on the restrictions still in force under Section 2 of this Article. Five years after the date on which the Fund begins operations, and in each year thereafter, any member still retaining any restrictions inconsistent with Article VIII, Sections 2, 3, or 4, shall consult the Fund as to their further retention. The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favourable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement. . . .

ARTICLE XVIII Interpretation.

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Directors for their decision. . . .

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board the Fund may, so far as it deems necessary, act on the basis of the decision of the Executive Directors.

APPENDIX II

Chronological Table

1943

Publication by the U.K. Treasury of *Proposals for an International Clearing Union* (the Keynes Plan).

Publication of the *United States Proposal for a United and Associated Nations Stabilization Fund* (the White Plan).

1944

July. The Bretton Woods Conference (at which were drafted the charters of the I.M.F. and World Bank).

1945

Negotiation of the Anglo-American Loan Agreement. Britain offered a line of credit of $3.75 billion, subject to her agreeing to certain conditions (see below).

1946

March. The inaugural meeting of the I.M.F. at Savannah.

July. Entry into force of the Anglo-American Loan Agreement, negotiated in 1945. Under Sections 7, 8(i) and 8(ii) of this Agreement, Britain committed herself to abolish her exchange restrictions on current transactions much sooner than the end of the Transitional Arrangements under the I.M.F. Agreement. (Britain was not thereby precluded from imposing quantitative trade restrictions, as distinct from exchange restrictions, on imports from the U.S.A., though Section 9 required that after the end of 1946 such restrictions should be applied, with certain exceptions, in a non-discriminatory manner.)

As the immediate result of the Loan Agreement, sterling held by residents in the United States and in many countries of Latin America was designated American Account sterling; such sterling was fully convertible.

1947

March. The I.M.F. commenced operations, the first Managing Director being M. Camille Gutt.

April. Opening of preparatory conference at Geneva to negotiate the General Agreement on Tariffs and Trade (G.A.T.T.). First round of tariff bargaining under G.A.T.T.

June 5. General Marshall's Harvard speech, which opened up the possibility of what came to be known as the Marshall Plan.

By July 15, sterling held by most countries outside the sterling area and American Account area had been designated Transferable Account sterling, carrying the right of unfettered transferability (for current payments) to all other accounts, including American Accounts.

Aug. 20. Britain, alarmed at the imminent prospect of the exhaustion of the U.S. line of credit, suspended the right of Transferable Account countries to transfer their sterling to American Accounts. Thereupon many

Transferable Account countries reverted to Bilateral status (though Canada assumed American Account status). Britain also defaulted on her obligation to avoid quantitative trade restrictions discriminating against imports from the United States.

November. Agreement on Multilateral Monetary Compensation between 14 of the European countries which later founded the O.E.E.C.

1948

April. Establishment under the Marshall Plan of the Organisation for European Economic Co-operation (O.E.E.C.).

April. The Fund's decision that a member benefiting from Marshall Aid should request the purchase of U.S. dollars from the Fund only in exceptional and unforeseen circumstances.

October. The first Intra-European Payments Agreement, under the auspices of the O.E.E.C.

November. Opening of the Havana Conference to draft the stillborn I.T.O. Charter and the G.A.T.T.

1949

April. Opening of G.A.T.T. conference at Annecy: second round of tariff bargaining.

June. First consideration by the O.E.E.C. of a scheme of Intra-European Trade Liberalisation, under which member countries would free an increasing proportion of their mutual trade from quantitative restrictions.

July. The second Intra-European Payments Agreement, under the auspices of the O.E.E.C.

Sept. 18th. Sterling devalued by 30 per cent. Britain's example followed by all sterling area countries except Pakistan, and by Finland, Egypt, the Netherlands, and the 3 Scandinavian countries. France, Germany, Belgium, Portugal, Italy and Canada also devalued, but in all cases by less than 30 per cent.

December. The O.E.E.C. scheme for Intra-European Trade Liberalisation first came into operation.

1950

March. Publication of I.M.F.'s *First Annual Report on Exchange Restrictions.*

July. The Intra-European Payments Agreement allowed to lapse and replaced by the European Payments Union (E.P.U.). The E.P.U. provided for a fully multilateral system of settlement operating as between all the members of the O.E.E.C.

September. Opening of G.A.T.T. conference at Torquay; fourth round of tariff bargaining.

October. Canada cancelled the official parity of the Canadian dollar, the value of which was henceforth left to be determined by conditions of supply and demand.

1951

August. Mr. Ivar Rooth appointed Managing Director of the I.M.F. in succession to M. Camille Gutt.

December. Revised schedule of charges on use of Fund's resources, designed to increase the cost to a member of extended continuous recourse to the Fund's resources, while making temporary recourse less expensive.

December. U.K. widened the spread between the official buying and selling rates for spot dollars from 2.79⅞-2.80⅛ to 2.78-2.82 (i.e. to nearly the maximum spread allowed by the I.M.F.). By this and similar changes relating to other currencies, the British authorities encouraged the reopening of the London foreign exchange market.

1952

February. I.M.F. laid down as a general rule that repayments should be made within a period not exceeding 3 to 5 years. About the same time, the Fund announced its willingness to consider applications for stand-by drawing accounts and its readiness to provide quasi-automatic accommodation within the limits of a member's "gold tranche."

June. I.M.F.'s first stand-by agreement (with Belgium).

The first regular consultations between the Fund and members imposing restrictions under the "transitional" provisions of Article XIV of the I.M.F. Agreement.

1953

May. Britain, France, Switzerland, Belgium, the Netherlands, Germany, and the 3 Scandinavian countries entered into an agreement whereby foreign exchange dealers in these countries were permitted to undertake spot arbitrage transactions as between any of the 9 currencies concerned.

August. The I.M.F. set an important precedent in waiving (in favour of Turkey) the requirement that drawings by any member in a 12-month period should be limited to 25 per cent of that member's quota.

1954

March. U.K. abolished Bilateral Account sterling. All Bilateral Accounts became Transferable Accounts, from which sterling could be transferred to any other accounts *except American Accounts*.

March. Re-opening of the London gold market.

1955

January. The O.E.E.C. decided to raise from 75 per cent to 90 per cent the percentage of intra-European trade subject to the provisions of the Trade Liberalisation scheme, the higher percentage to be operative as from September 30.

February. Transferable Account sterling began to be officially supported in the "free" markets, and thenceforth became *de facto* convertible at a very slight discount.

August. Settlements through the E.P.U. mechanism to be henceforth 75 per cent in gold and 25 per cent in credit, instead of 50 per cent each in gold and credit.

1956

July. Seizure of the Suez Canal.

October. France concluded stand-by agreement with the I.M.F. for

$262 million, equal to 50 per cent of France's quota. This right was subsequently utilised.

November. Suez expedition.

December 3. Mr. Per Jacobsson appointed Managing Director of the I.M.F., in succession to Mr. Ivar Rooth.

December 10. Britain drew $561 million from the I.M.F. and negotiated a stand-by arrangement (which was in the event never utilised) for $739 million. (The total of $1,300 million exactly equalled what was then the size of Britain's I.M.F. quota.)

December 22. U.K. negotiated $500 million loan from the Export-Import Bank; first drawing in October 1957.

1957

March. Signature of Treaty of Rome, establishing the European Economic Community.

1958

January. Stand-by credit of $131 million opened by I.M.F. in favour of France.

August. Publication by the I.M.F. of the Study (prepared by members of its staff) on *International Reserves and Liquidity.*

October. At the Annual Meeting of the Fund in New Delhi, the United States raised the question of the desirability of an enlargement of the Fund's resources.

October. French franc devalued by approximately 17 per cent.

December. France adopted a stabilization programme, supported by a credit of $131 million from the I.M.F., $250 million from the E.P.U., and $274 million from various U.S. agencies.

December. Publication by the I.M.F. of Report by Executive Directors on the *Enlargement of Fund Resources Through Increases in Quotas,* proposing a general 50 per cent increase in quotas, with larger increases for Canada, Germany and Japan.

December. Thirteen European countries, and fifteen other countries (most of which were related as members of a monetary area to one or other of the European countries) introduced non-resident convertibility. At the same time, the E.P.U. was terminated and the European Monetary Agreement brought into operation. Transferable Account sterling was assimilated to American Account sterling, both thenceforth being called External Account.

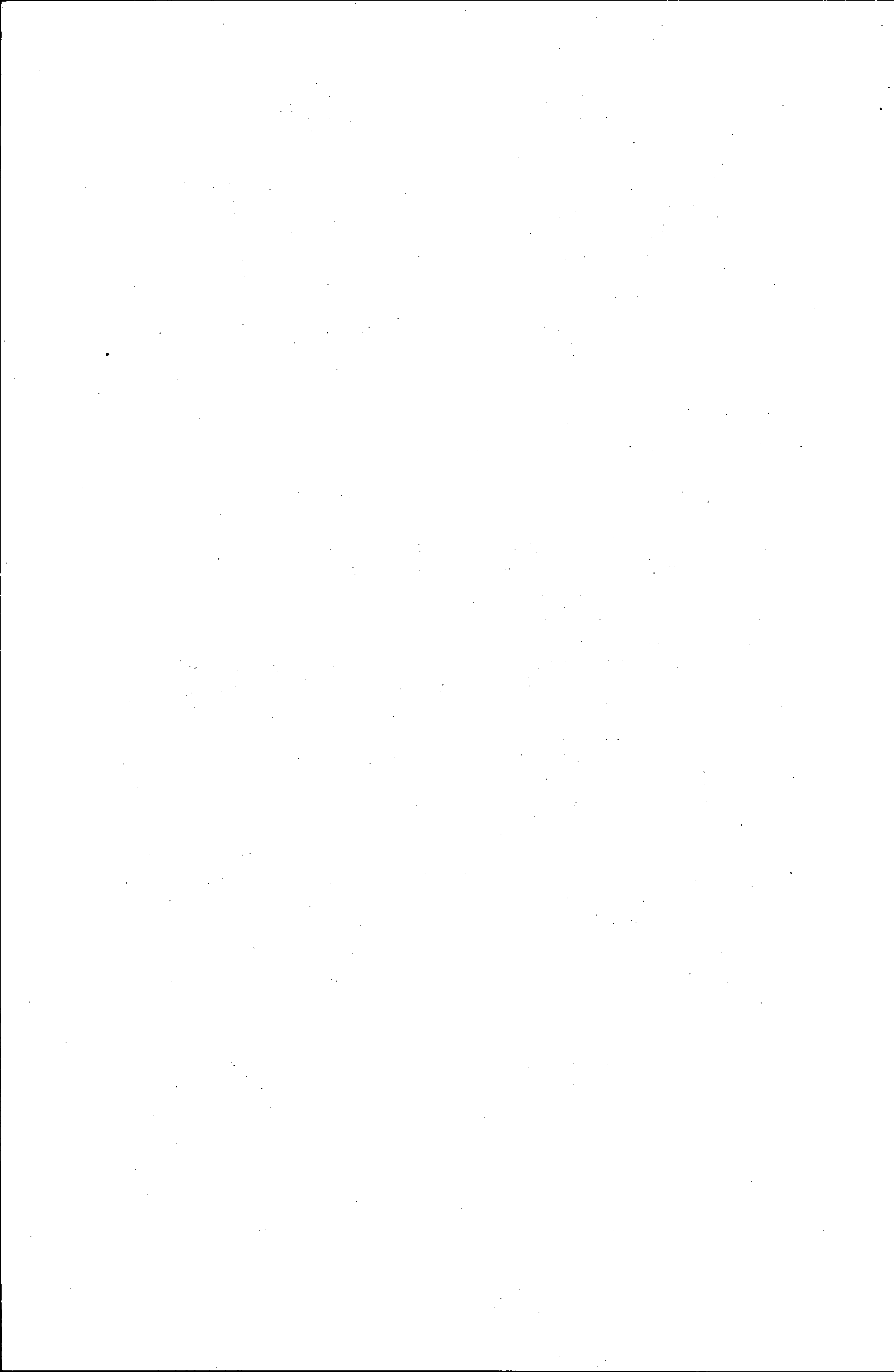
1959

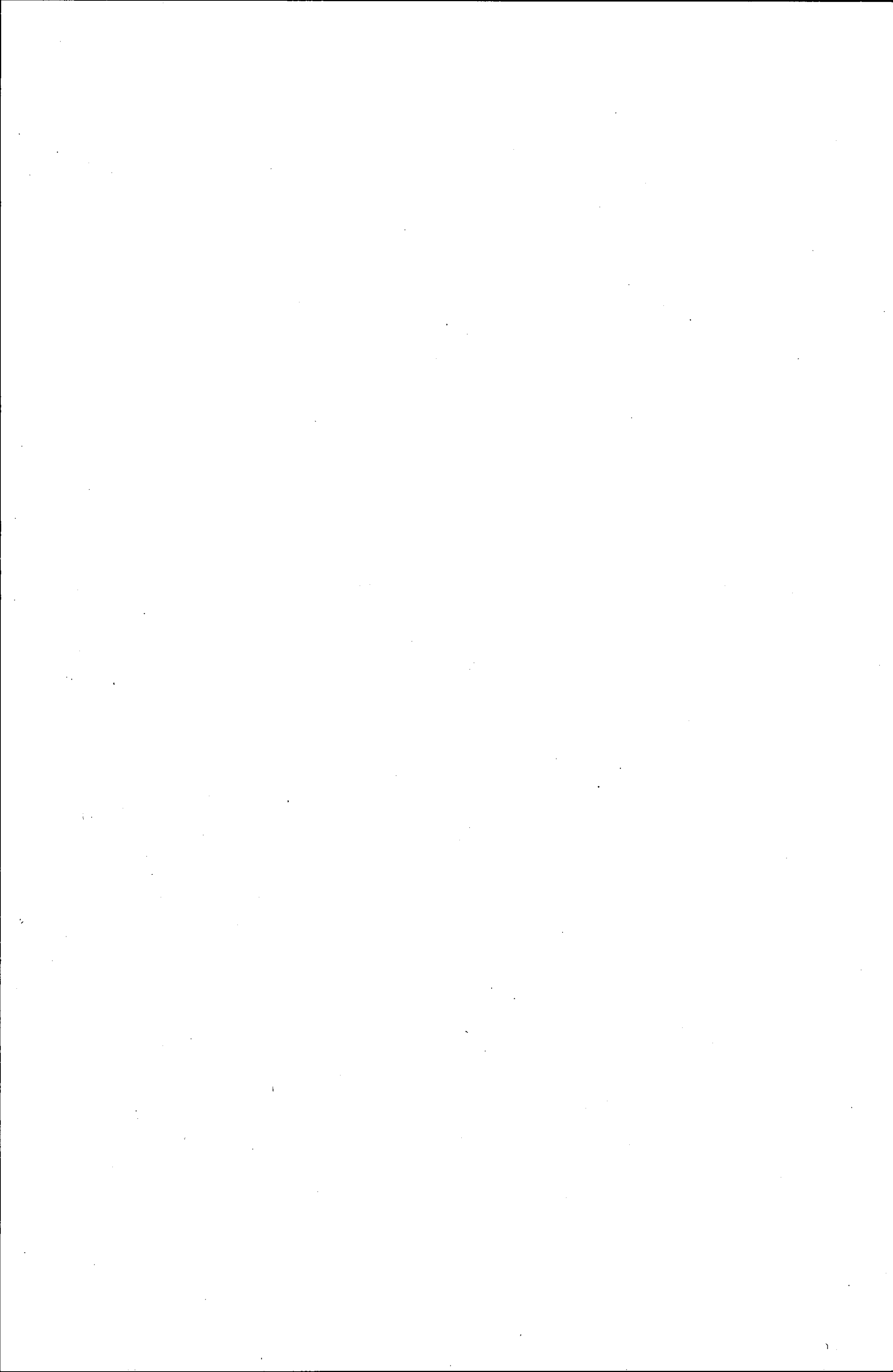
February. Adoption by the I.M.F. of a resolution recommending a general increase in members' quotas (in most cases by 50 per cent but in some cases by more), the increase to become effective, *inter alia,* when countries having 75 per cent of total quotas had notified their consent.

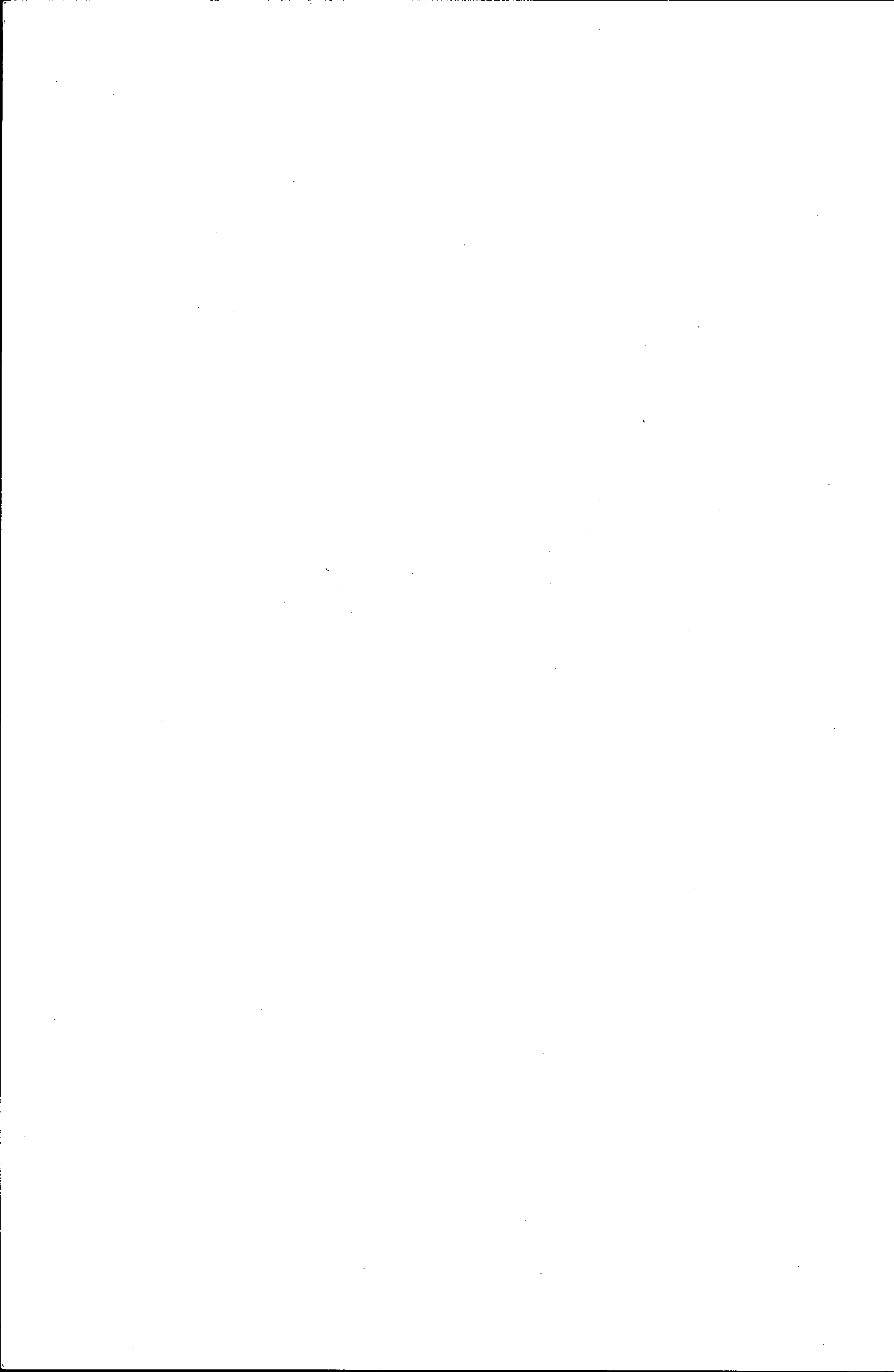
September. The Fund announced that 40 members, representing about 83 per cent of total Fund quotas, had agreed to increases in their quotas.

October. Opening of G.A.T.T. conference at Tokyo.

December. European Free Trade Association: text initialled.







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