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THE INTERNATIONAL MONETARY FUND: ITS PRESENT ROLE AND FUTURE PROSPECTS

BRIAN TEW

INTERNATIONAL FINANCE SECTION
DEPARTMENT OF ECONOMICS
PRINCETON UNIVERSITY
Princeton, New Jersey

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The author, Brian Tew, is Professor of Economics at the University of Nottingham. He has written extensively in the area of international monetary theory and policy, and in 1952 published a volume on INTERNATIONAL MONETARY CO-OPERATION.

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FRITZ MACHLUP, *Director*
International Finance Section

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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.