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The World Currency Problem

At its annual meeting in Rio de Janeiro the International Monetary Fund has not departed from its assigned fundament, the Bretton Woods Agreement. A free balance of payments equilibrium with stable exchange rates and autonomous cyclical policy remains the uppermost principle of international currency policy also in the future. The abolition of the incidental condition of "stable exchange rates" was not seriously discussed, and the rejection thus indirectly expressed of a pat solution for the world currency problem by means of flexible exchange rates is truly and surely to be welcomed. On the other hand, however, an "autonomous cyclical policy" remains upheld. This means that one also came no nearer to the opposite solution of the world currency problem by way of synchronisation of the cyclical policies of the various countries.

Instead, the Club of the Ten succeeded in Rio in bringing about a compromise: The improvement of international liquidity resulting from the newly created special drawing rights widens, if and when necessary, the margins of international payments and thus narrows the tensions between stable exchange rates, on the one hand, and autonomous economic policy, on the other.

But it is doubtful whether a higher liquidity alone will suffice to reduce the dangers of the present Dollar reserve currency. Replacing the Dollar by another reserve component, such as, for instance, the special drawing rights, would mean that with this measure as such nothing would yet be gained on principle. It is to be held against all such solutions that they circumnavigate the pivotal question: the synchronisation of cyclical policies. It is all too easily overlooked that the world's monetary imbalance is not so much a question of the currency system but rather one of the economic and monetary trend in the various countries themselves. The financing of balance of payments deficits by means of special drawing rights can also not do away with the necessity of national adaptations, and the economic policy of any given country must also take its effects on other countries into due consideration. Remarkable as the progress achieved through the creation of special drawing rights is for the rationalisation of the World Currency System, one still must attempt to replace the monetary imbalances by discipline in cyclical policies and international co-operation in these important matters.

It is true, the first beginnings of an aimed world wide liquidity policy are now detectable, but there is no sign of preliminaries of a new phase which would bring about a cyclical policy within the frame of the entire Western world. One thus remains clinging to the starting point of Bretton Woods in trying, as before, to tally autonomous cyclical policy and stable exchange rates.

If, however, it proves impossible to return to the gold standard which would chain credit policies and cyclical policies world wide to the stability of the exchange rates, and if also there is no chance to unify globally the cyclical policy, then the possibility of a global solution must be ruled out altogether.

But the regional solution on the strength of European integration offers another way to approach the world currency problem: The European industrial "power field" in which the tendency towards autonomous economic policy in the various states had its strongest effect should be placed uniformly aside, and on par with, the American, Soviet Russian and Japanese economic entities. The path into a new world economy therefore leads via the regional solution as initial stage towards a harmonious world economic order.

In this context, a uniform European currency policy—not necessarily tantamount to a common currency—is not only an essential part of European integration but also an all important pre-condition for a solution of the world currency problem. It would be possible to overcome most of the difficulties if concurrence could be brought about only between the economic blocs of North America and Europe and between these two and Japan, respectively. This train of thought applies foremostly also to the questions of international liquidity and the problem of the Dollar reserve currency which were discussed in Rio.

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