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Outlines of a monetary reform

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Outlines of a Monetary Reform

Twenty-five years after the Bretton Woods Conference the world's monetary system is about to enter a new phase of development. At the annual IMF meeting in Washington the contours of a modern and flexible over-all order for the inter-state traffic in goods and capital became recognisable. In accordance with the unanimous wishes of all 111 member-countries of the IMF this order will loosen the foreign trade shackles which up to now have narrowed the national margin of movement for the realisation of the aims of internal economic policy: full employment, price stability and growth.

Together with gold, foreign exchange and IMF quotas, the newly created Special Drawing Rights will in future be an additional instrument for world liquidity. This new instrument will provide the world with a liquidity medium which may be stepped-up at random. It is not tied to the incident of physical production, like gold, and cannot lead to a further unhealthy inflating of the international volume of credit. The technical pre-conditions for a rational liquidity control long since a matter-of-course in the sphere of the domestic economy, are thus fulfilled now also internationally. True enough, though, one has so far not yet succeeded in establishing the operational criteria for the fixing of the optimal volume of world liquidity nor, for that matter, the liquidity structure. Nevertheless it can now be said that the danger of an under-supply with international liquidity—as far as this danger ever existed—has been banned once and for all.

Greater flexibility of parities will be the second most important structural symptom of the international monetary order of the future. This is quite corresponding to the intentions of the fathers of the Bretton Woods system who had thought of solving the conflict between the domestic and the international economic equilibrium by means of changes of parity rates. Contrary to their perceptions, however, a great intrinsic value is today attached everywhere to fixed parities. Following the discussions in recent years, not least in the Federal Republic of Germany, of a great number of suggestions for a controlled stepping-up of the flexibility of foreign exchange rates, a system of floating parity adjustments now unfolds itself. It is characterised by frequently repeated but minor revaluations and devaluations limited altogether to 2–2½ p.c. of the respective parity rates of the year before, but which are—if and when necessary—to be in fact carried out. It is still undecided whether the parity corrections will be made automatically by applying the yardstick of a floating average value, or discretionary, that is to say after regular resolutions by the national authoritative bodies responsible for monetary policy.

One of the advantages of this scheme is that it will be possible for entrepreneurs to guard against the risks of parity changes, which even today always exist, or, at any rate, to foresee them. As the periodical variations will, in their size, not exceed other operational criteria (for instance wages or interest rates), the economic activities of those engaged in foreign trade will not be impaired. The often painful and occasionally uncontrollable domestic processes of economic adjustment will be stabilised. Finally, it may well be that speculative movements of capital which, in recent years, have more than just once or twice brought the international monetary system to the verge of collapse, will in future cease or at least be very considerably watered-down.

It is to be desired that after the German general elections the Federal Republic, which in recent months has been unwilling to obey the rules of the game for the prevailing monetary order, will forthwith set upon the necessary preliminaries for a limited flexibility of the Deutschmark. In view of the fact that the IMF as well as the German Federal Bank sympathise with this intention, it is now for the Federal Government in Bonn to move.

Hans-Eckart Scharrer