

Kwasniewski, Klaus

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## Out-dated World Monetary System

The monetary system of the world is in a permanent state of crisis. The symptoms are too clear to permit any longer the illusion that the various monetary crises we have experienced so far are no more than a crisis of the French Franc, of the Pound Sterling, of the D-Mark or of the Dollar. All too frequently disappointment has followed the hope that the crisis of the particular moment, once overcome, would definitely prove to be the last.

The latest currency crisis so far was primarily triggered off by the United States. In view of the disappointing performance by the economy during the past year, the US Government felt obliged to replace their restrictionist economic policy by a policy of cheap money and other measures to stimulate business. This expansionist policy had unfavourable effects on the endeavours of the European countries—and particularly those of the Federal Republic of Germany—to achieve stability. In fact, they all but paralysed them. The agreement of 1944 setting up the International Monetary Fund (IMF) lays down that all currencies should be convertible at fixed rates and that capital must be allowed to move freely from one country to another. This so-called "Bretton Woods Agreement" left the Federal Banks no choice: they had to buy up the billions of dollars that were flowing into Europe to benefit from the higher rates of interest obtainable on this side of the Atlantic. The dollars already circulating on the Euro-dollar market—some 50 bn of them—considerably aggravated the situation. The chronic balance-of-payments deficit, though not the only cause of the presence of these dollars in Europe, certainly did much to render the crisis more acute. The result of the crisis was that the Federal Republic of Germany and the Netherlands temporarily allowed their currencies to find their own levels. Austria and Switzerland saw themselves obliged to revalue their currencies.

All this demonstrated once again that the international monetary system is capable of functioning only if even short-term deficits in the US balance of payments are immediately dealt with

by internal deflationary measures. This is the only way of making sure that diverging economic trends abroad do not cause monetary and economic difficulties in other countries. The US Government believes, however, that it can safely disregard appreciable balance-of-payments deficits even over long periods. World-wide coordination and harmonisation of all the different economic policies with a view to preventing business trends from diverging is likely to remain a far-distant utopian aim as long as individual countries have their own ideas of what they should aim for and also as long as they are disinclined to tolerate any encroachment on their sovereignty. In the circumstances, a repetition of the most recent monetary crisis is not unlikely.

In the search for a possible way out of this dilemma, no solution to the problem should be considered that does not attack the root-causes of these monetary crises; mere tinkering with the symptoms is not enough. Measures designed to support the dollar because it is the leading currency will not do; what is wanted are steps to free the dollar from its "onerous" position of being the world's principal reserve currency. This might be achieved by floating the exchange rates or changing to a "crawling peg" system — methods which at present find little favour with IMF. Another way would be to replace the present dollar-standard by a "Special-drawing-rights" standard. This method would leave it open to the members of the IMF whether they wish to fix their parities in terms of gold and/or special drawing rights instead of in terms of the dollar or whether they would rather agree to allow their exchange rates to fluctuate within wider limits. The monetary situation would already be somewhat improved, if all the partners of the proposed European Monetary Union were to anticipate now one part of what they wish to achieve finally by using for their interventions in the foreign exchange markets the currencies of the member-states of the Community and not only the dollar. In this way the functions of the dollar as the leading currency would in part be switched to Europe.

*Klaus Kwasniewski*