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Protracted Monetary Reform

The IMF Conference in Washington ended without concrete results. Whereas the Governors of the 118 member states developed bold plans for a reform of the Bretton-Woods system, they showed themselves unable to solve the acute problems. In fact, all governments agree that the period of floating exchange rates should come to an end as soon as possible. They also agree in principle that a general realignment of parities is unavoidable. But it proves to be extremely difficult to fix new par values. In spite of frequent meetings of various bodies, the negotiations are still in their opening phase: the representatives of the Group-of-Ten countries have not yet surpassed the stage of mutual probing, and it is still unknown what price the USA will demand for a removal of the import surcharge. The chances for an early settlement of the currency crisis are therefore rather poor.

Regarding the long-term perspectives of the international monetary system, the politicians have meanwhile developed more day-dream ideas than the theorists from their "ivory-towered" view. Indeed, the ideas of some ministers often seem to be too good to be true. This applies above all to the hopes pinned on the Special Drawing Rights: they are to replace gold as the primary reserve medium, to dethrone the dollar as key currency and thereby force the USA to a balance-of-payments discipline, to enable a non-in-

flationary growth of the world economy and, finally, to cover the developing countries' capital requirements.

The replacement of the dollar by Special Drawing Rights is the main topic of present considerations. A prerequisite for the countries' readiness to keep their currency reserves in future in the form of Special Drawing Rights is, however, a better yield of these assets, for central banks, too, are return-conscious. Moreover, any suggestions of such reform depend on the readiness of the USA to renounce in future a special treatment of the dollar and to subject itself to the common rules of the monetary game. This involves *inter alia* that in the case of a fundamental disequilibrium the dollar—like all the other currencies—must be devaluated. A sceptical view vis-à-vis the bold plans for a new and "rational" monetary system is appropriate also in so far as unequivocal criteria for the world economy's demand for international liquidity, and thus for the volume of SDR creation, do not exist. The experiences gained hitherto with Special Drawing Rights give rise to fear that the majority of IMF members will take a generous creation of liquidity as a panacea to get rid of all currency problems.

Up to now the politicians have paid less attention to the adjustment problem than to the liquidity problem. This is all the more inconceivable as the dollar crisis was actually caused

by the poor performance of the adjustment mechanism. The suggestions so far considered which, above all, amount to a slight widening of exchange rate margins from ± 1 to ± 3 p.c. around par, are by no means adequate. It is true, a widening of margins can contribute towards enlarging the domestic economic policy's scope of action and discouraging speculative capital movements. But it cannot remove the structural balance-of-payments problems resulting from the divergency of long-term national economic developments.

Recent experiences have shown, however, that fully flexible exchange rates are no solution either since most countries cannot resist the temptation to "corriger la fortune" by intervention in the market mechanism. Therefore, it is important to develop binding rules for a gradual and smooth adjustment of par values, and to supplement the IMF Articles of Agreement accordingly. The IMF should find the courage to submit soon a concrete proposal to the Governments. The alarming alternatives to an improvement of the adjustment mechanism have been demonstrated by many countries in the last few months: cumulative encroachments of dirigisme in the field of capital movements and foreign trade which threaten the prosperity of the whole world. This dangerous development cannot be countered by Special Drawing Rights alone.

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