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## Monetary policy without LDCs

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## Monetary Policy without LDCs

The international monetary crisis has been settled temporarily. In a number of bilateral and multilateral negotiations the industrial nations' representatives agreed on solutions that for the time being should secure calmness on the exchange markets. Once again the less developed countries (LDCs) were only mute observers and this despite the fact that the latest monetary crisis affected them considerably. For the real value of their reserves dropped more steeply than that of the developed countries. At the end of 1972 the industrial nations kept 31 p.c. of their currency reserves in gold and 58 p.c. in foreign exchange (mainly US \$); the LDCs, however, only 13 p.c. in gold, but 81 p.c. in foreign exchange. While the real value of gold reserves has climbed considerably vis-à-vis all currencies, the dollar has lost much of its value during the last two years. Only countries which at the beginning of 1973 prudently converted their reserves into yen, Swiss francs, D-marks or other hard currencies derived profits from the monetary crisis.

The LDCs' foreign indebtedness has at the same time increased in real terms, i.e. in future they will have to sell more goods abroad for paying interest for and amortisation of their foreign liabilities. This applies to all debts (including suppliers' credits), that are not expressed in dollar. This effect will be all the more pronounced if the 10 p.c. dollar devaluation is not balanced by rising dollar prices of raw materials, the LDCs' main export products. The dollar liabilities, however, have declined in real values.

Still uncertain is the development of the terms of trade. In 1972 and 1973 raw material prices have climbed vigorously. The price increases of capital goods caused by the strong upward trend of costs and prices in the industrial countries could thus be offset. To what extent the LDCs will succeed in enforcing—in addition to these market conditioned price increases—upward adjustments of prices for balancing the reduced purchasing power of the dollar, cannot be said generally. Countries that already rank high among their fellow LDCs, i.e. the oil producing states, have the best opportunities.

The LDCs' medium-term prospects in the field of monetary policy are rather gloomy. The International Monetary Fund has to a large extent lost its authority as the unbiased and competent administrator of their interests. In the latest negotiations the Fund was not even represented as an observer. The LDCs' most important monetary claim, the link between SDRs and development aid, has for the present no chances of being realised: In view of the industrial nations' super-abundant supply of international liquidity, they have little inclination for creating additional SDRs. And in the commercial field there is every indication that the industrial countries will turn to more protectionism — a trend promoted still by the latest monetary events.

What can be done in this situation in the short run? The LDCs would be ill-advised if they pressed the reform negotiations as onesidedly as hitherto towards a realisation of the "link". At

least of the same importance for them is the reduction of the industrial nations' trade restrictions. It is their business to draw the developed countries' attention time and again to the fact that trade restrictions have no *raison d'être* in a regime of floating exchange rates and in the last instance oppose the rich countries' own growth interests. Moreover, by floating their own currencies the LDCs could more than hitherto utilise their location advantages.

True, the LDCs' opportunities for monetary self-help are limited. They need the cooperation of the industrial nations, which could play up to the LDCs' needs in the following ways: First, by introducing a value guarantee arrangement for reserves invested in dollar, which could secure the LDCs against losses occurring by any further deterioration of the dollar exchange rate. Such a guarantee system, which would have to be linked to binding rules for the favoured countries' reserve policies, would also be to the industrial nations' own advantage: destabilising currency conversions of the LDCs could thus be prevented. Second, periodical special allocations of SDRs to LDCs might be considered — as already recommended formerly. They would not only be favourable for the LDCs, but also for the industrial nations: In the struggle for markets (as manifested by the recent monetary decisions) an outlet would be found through the opening up of new markets—i.e. the LDCs — allowing all industrial nations to realise the export surpluses they are striving for. *Hans-Eckart Scharrer*