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The Heritage of the Committee of Twenty

The IMF's "Committee on Reform of the International Monetary System and Related Issues", the so-called Committee of Twenty (C-20) met for the last time in Washington on June 12 and 13, 1974. It is succeeded by an Interim Committee of the Board of Governors.

At the Nairobi Meeting of the IMF the C-20 had submitted a "Draft of First Outline of Reform" of the world monetary system. This, however, left many questions still open. It was intended to have them solved by July 31, 1974. The premature termination of the work does not mean that the envisaged purpose has been achieved. It has rather become obvious that a comprehensive and fundamental reform of the system, as it was originally planned, cannot be realized in the foreseeable future. The Committee therefore concentrated on overcoming the day's monetary problems. Its work thus deviated almost inevitably from the suggestions of the First Outline, but then it referred more closely to actual monetary policy.

This more realistic approach becomes most evident in the considerations of the C-20 concerning the improvement of the adjustment process. It must be admitted that the principle of fixed but adjustable parities laid down in the First Outline is still recognized officially. But it has been referred to the sphere of the so-called long-term reform which, at some later date, from the historian's view will probably be rated as an attempt to carry familiar but traditional ideas over into a changed

world. Immediate requirements, however, are to be met by floating exchange rates which were originally provided for special situations only.

The efforts for a smooth functioning of floating exchange rates are mainly aimed at preventing as far as possible a devaluation race, just as it was the case when the Bretton Woods system was introduced. This appears to be not only justified but also of utmost urgency in view of the price increase of crude oil, the worldwide acceleration of the inflation rate, and the hazards for employment connected therewith. However, the rules prepared so far on orderly floating are much too general to be suited as a binding policy for individual cases. In this connection it will be necessary to discuss anew the problems of intervention indicators and a multi-currency intervention system.

Under conditions of managed floating the problem of creation and distribution of liquidity appears in a somewhat different light than with fundamentally fixed though adjustable parities. The control of exchange reserves of monetary authorities comes to the fore particularly in a multi-intervention system. The Committee's resolution to entrust the Fund in future not only with the control of global liquidity but also with that of exchange reserves takes this fact into account. It remains to be seen, of course, how such control becomes effective in actual practice.

For the time being, the SDRs will not adopt the role of the

principal reserve medium. A step in the right direction is the decision to value the SDRs on the basis of a currency basket composed of sixteen major currencies. This measure is at present relevant above all for the envisaged oil facility of the IMF: the currency basket offers a comparatively great protection against the loss of value of individual currencies. Over and above this, a 5 p.c. rate of interest on SDRs is envisaged.

The oil facility is a first attempt to steer the investment of excessive exchange reserves of the oil producing countries in line with global requirements. The amounts which, to begin with, will probably be comparatively small, should be used by the Fund primarily as balance-of-payments aid for the LDCs which are struck particularly hard by the oil price increase. There are, above all, two reasons for this: The resolution of the Group of Ten permitting countries with acute balance-of-payments difficulties to pledge their gold reserves at a market-related price for one thing. This resolution is favouring only states with gold reserves, to which developing countries hardly belong. For another thing, the proposed "link" connecting development aid with the creation of SDRs has again been postponed. It is doubtful whether the link in its original conception will ever materialize at all. Here the Interim Committee is faced with the largest mortgage out of the C-20's estate which does not account for many assets anyhow.

Hans-Eckart Scharrer