The International Monetary Fund

Arnold Van Peteghem

Carroll College

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The

INTERNATIONAL MONETARY FUND.

By

Arnold Van Peteghem.

A dissertation submitted to the Department of Business Administration of Carroll College, Helena, Montana, in partial fulfillment of the requirements for the cum laude recognition.

CARROLL COLLEGE,
Helena, Montana.
United States of America.
April 1957
This thesis for "cum laude" recognition has been approved for the Department of Business Administration of Carroll College, Helena, Montana, U.S.A. by:

________________________________________

[Signature]

Date: April 16, 1957
This is a brief study of the International Monetary Fund set up by an International Monetary Conference at Bretton Woods, New Hampshire, U.S.A., in 1944, shortly after the second World War. It was intended to regulate international monetary policies in the best interest of world trade, production and mutual exchange of goods.

In the first chapter, I deal with certain important aspects of similar monetary cooperation in the past. In the second chapter is explained the general situation around which the Bretton Woods Plans were developed; the purposes of the Fund are explained here in detail. The third chapter explains the organization and techniques of the Fund in working with its members; it also gives the reader an idea about the extent of its transactions up till now. To what extent the Fund accomplished its purposes in the international monetary situation of today is explained in chapter four. Finally, chapter five is an elaboration on some valuable criticisms of the Fund.

I would especially like to thank Mr. Gaston Froment, Lic.AgR.Cc., of the University of Ghent, Belgium, for his constant cooperation and encouragements when I was preparing this work. Dr. R. Kent, Finance professor at the University of Notre Dame, South Bend, Indiana, Mr. Michel Norro, Lic. cc., of the Catholic University of Louvain, Louvain, Belgium and Mr. J. Reid of the Fund's staff have also provided me with a good deal of information. Also Father J. Mackin, M.A., of the Carroll College Department of Business Administration has given me several valuable ideas.

I hope my good parents may be proud when my work is approved by the Department of Business Administration of Carroll College, Helena, Montana.
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INTERNATIONAL MONETARY COOPERATION IN THE PAST.

The "errors of the world" with which the International Monetary Fund was established to deal with, were brought forward especially during the first half of our century, as a result of two world wars and a major economic depression.

The International Monetary Fund is not the first attempt at international monetary cooperation. Ninety years ago, the Latin Monetary Union was set up to regulate the supply and use of silver coins by its members; this is one successful example of cooperation in the monetary field. (1)

After the end of World War I, a series of international conferences examined the monetary and exchange problems in Europe. At the International Financial Conference at Brussels in 1920, it was the general desire to return to the international gold standard, and to use a kind of international medium of payment "le billet international de stabilisation des changes" to settle temporary deficits in the nations' balances of payments (2). The necessity of an international monetary system with stable currencies was further discussed at the International Economic Conference of

(1) International Monetary Fund, First Ten Years International Monetary Fund, Washington D.C., 1956, p. 2.
(2) International Monetary Conference at Brussels, Memorandum on the World's Monetary Problems, Harrison & Sons, London, 1920, see Papers XIII and XII.
Goma in 1922. (5) The Reports of the Golddelegation at the Financial Commission of the League of Nations in 1922 express their belief that, at this stage of world economic development, the gold standard remained the best available monetary mechanism. (4) A "controlled" international gold standard was seen as the only solution in the Macmillan Report in 1951. (5) All these discussions did not end up with much practical results; international monetary cooperation continued in a variety of forms, and the establishment of the Bank for International Settlements in May 1930 provided a convenient center for central bank cooperation. (6)

The need for international monetary cooperation was emphasized more sharply by the payment difficulties that emerged in the 1930's. Many nations were guilty of changing exchange rates in order to obtain competitive trade advantages over their neighbors; in some instances nations employed multiple exchange rates for discriminatory purposes; exchange controls were also used to prevent transfers of funds arising from current as well as from capital movements. In most cases, exchange rate adjustments were made by the different nations independently and in disregard of their neighbor's interest in orderly adjustments. All over the world, serious economic disturbances in production as well as in international trade took place.

Many traditional exchange parities were abandoned, and

exchange rates were usually depreciated substantially. These far-reaching changes in exchange rates were no doubt necessary to cope with the payment difficulties, that grew out of the depression. The measures taken to protect employment and the balance of payments of one country intensified the pressures on others. Exchange instability and the imposition of higher tariff rates and of quantitative limitations on imports constituted serious obstacles to the recovery of the world economic situation. The World Economic Conference in London in 1933 attempted to deal with these problems. It was not able to produce any immediate results, but it prepared the way for effective, although limited international cooperation during the next few years in the field of foreign exchange and international payments. (7)

At this conference in London, President Roosevelt said in his speech that the United States was seeking the kind of dollar which a generation hence would have the same purchasing and debt-paying power as the dollar value existing at that time. (8) From this statement it is evident that Fisher's "Compensated Dollar Plan was accepted by the leading nation in the world. Fisher's Plan proposed a means of payment fixed in purchasing power and therefore variable in weight. (9) The English "Movable Parities Plan" of Keynes considered the gold standard already as a barbaric relic in 1929. This plan preferred stability of the internal price level, rather than stability of the external exchanges, and was less successful as compared to the American Fisher's Plan, on the international monetary level. (10)

(7) IMF, 10 Years of International Monetary Fund, op.cit., p. 2.
In the Tripartite Declaration of 1936, the Governments of the United States, the United Kingdom and France announced their intention to consult on exchange policy in order to avoid new exchange disturbances that might arise from the devaluation of the French Franc. Furthermore, the Declaration called for the expansion of international trade and the relaxation and ultimate abolition of exchange controls and quantitative restrictions on imports. (11) The Governments of Belgium, the Netherlands and Switzerland later also affirmed their adherence to these principles in order to stimulate production and international trade.

Through the Tripartite Declaration the position was affirmed by many of the great trading countries that the problem connected with foreign exchange and world payments were matters of international concern. But when dealing with the problems that were immediately pressing at that time, the Declaration had only a limited effectiveness. Its adherents were actually few in number. The agreement on exchange policy was in terms only of principle. It carried with it no binding commitment, and there was no machinery for continuous consideration of the problems involved. Above all, no common resources were provided to enable countries to abide by the principles of the Declaration at times when their reserves were under pressure.

(11) IMF, 10 Years of International Monetary Fund, op.cit, p.2.
This kind of loose international monetary cooperation continued to have its negative influences on the world economy. In the situation created by the outbreak of World War II, the Tripartite Declaration had no longer any significance. The Fund was welcomed by intelligent people everywhere as an institution that gave promise of stamping out these extreme forms of nationalist action, and to put an end on this international situation of economic warfare.
By the outbreak of World War II, there was no international monetary cooperation at all. During the war, however, the conviction steadily strengthened that international cooperation on a more comprehensive basis was necessary to deal with the overwhelming problems that would have to be faced at the end of the War.

This conviction was particularly strong in relation to international monetary cooperation, and plans were prepared in both the United States and in the United Kingdom to be put into effect immediately after the war. Canada, France and other countries prepared plans also for international monetary reform, but they were less successful. (12) The plan agreed upon at Bretton Woods is a compromise between the American White Plan and the British Keynes Plan.

According to Keynes, a quantum of international currency, which is neither determined in an unpredictable and irrelevant manner as, for example, by technical progress of the gold industry, nor subject to large variations depending on the gold reserve policies of individual countries would do the job; but it would have to be governed by actual current requirements of world com-

merce, capable of deliberate expansion and contraction to offset deflationary and inflationary tendencies in effective world demand. To put his proposal into practice, Keynes would establish a Currency Union, his "International Clearing Union", based on international bank money, called, let us say, the "bancor", and fixed in terms of gold and accepted as the equivalent of gold by the British Commonwealth and the United States and all the other members of the Union, for the purpose of settling international balances. The Central banks of all member states and perhaps also of the non-members, would keep accounts with the International Clearing Union through which they would be entitled to settle their exchange balances with one another at their par value as defined in terms of bancor. Countries having a favorable balance of payments with the rest of the world as a whole would find themselves in possession of a credit account with the Clearing Union, and those having an unfavorable balance would have a debit account. Measures would be necessary to prevent piling up of credit and debit balances without limit, and the system would have failed in the long run if it did not possess sufficient capacity for self-equilibrium to secure this. A member's country quota is determined primarily by reference to the value of its foreign trade; Keynes thought this seems to offer the criterion most relevant to a plan which is chiefly concerned with the regulation of the foreign exchanges and of a country's international trade balance. The plan aims at the substitution of an expansionist, in place of a contractionist, pressure on world trade, according to Keynes. He favors an international monetary system which no longer can be called an
international gold standard; the "bancor" is still connected with gold, but it is not fixed to a definite amount. The main objection to this plan at the Bretton Woods discussions was that it does not say how the central banks are supposed to keep the value of their monetary unit equal to that of gold, how the Union regulates the value of gold, and which is the standard of the value of the bancor. (13)

White on the other hand, limits his plan to the International monetary exchange, he wants an international, managed monetary standard, based on a multilateral basis. Just like Keynes, White proposes the establishment of an International Stabilisation Fund, as a permanent institution for international cooperation with the purpose of providing the present international monetary mechanism with a definite system. This system would consist of providing the debtor-nations, according to a certain code of rules as agreed upon by its members, with the necessary means of payment to bring their deficit positions in their international balances of payments into equilibrium. This International Stabilisation Fund would be allowed to do business in gold, currency and government (treasury) bonds of the member-countries. Its accounts however would be kept exclusively in the new international monetary unit, called the "Unitas". Its value would be fixed at 137 1/7 grains of fine gold, i.e. equal to ten U.S. dollars, subject to change by a majority vote of 85% of the member countries. It may be said therefore that this plan is intended to solve the same problems on a striking similar way as it appears in the Keynes Plan, so that an eventual compromise at Bretton Woods was not too difficult. The difference

between the two plans is mainly that in the Keynes Plan the debtor countries take the lead, while in the White Plan the creditor countries determine the course of action: in the former plan, the amount of foreign currencies the Fund can possess is limited to the original quota, so that this limits the size of credit that may be granted, while in the latter plan the size of the credit depends on the maximum credit granted to the deficit countries. (14)

Although the plans were independent in origin, they had much in common. Discussions between the United States and the United Kingdom were soon extended to include other countries. Finally, the principles of a common plan emerged and were embodied in a Joint Statement of Experts, which recommended the establishment of an International Monetary Fund. The United States Government issued an invitation to 44 countries to meet in a United Nations Monetary and Financial Conference at Bretton Woods on July 1, 1944. This conference drew up the Articles of Agreement of the International Monetary Fund as well as the Agreement for the International Bank for Reconstruction and Development. (15)

The wide interest in postwar international monetary cooperation stimulated public discussion of these plans while they were still in the formative stage. In the light of these discussions, some provisions of the original plans were modified and some amendments made in national legislation that provided membership

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(14) George N. Halm, op. cit., pp. 85-86 and 92.
(15) While the resources of the Fund are to be used strictly for monetary purposes, i.e., provide countries with currencies on a short term credit basis so that they can straighten out temporary deficits in their balances of payments, the Bank's resources are intended to make long term loans to war damaged and underdeveloped member countries.
in the Fund. Thus it was recognized from the outset that the success of the Fund must ultimately depend upon public support. The Articles of Agreement entered into force on December 27, 1945, and the Inaugural Meeting of the Board of Governors of the Fund was held in Savannah, Georgia, from March 3 to March 18, 1946. In its first year of operation, 59 countries became members of the Fund; today there are 60 members. Afghanistan and Korea and Argentina joined in 1955, while the government of Vietnam applied for membership in 1956. (16)

The basic premise on which the Fund was built is that in a world increasingly dependent on international trade and investment it is essential that order should be maintained in exchange relations. It was foreseen that in the postwar period there would be serious payment difficulties. Before and during World War II, as explained already, abnormal exchange practices has been widely adopted, and unless proper precautions were taken it seemed likely that the postwar difficulties of a world in which many countries had inadequate reserves would mean still more disorderly and more discriminatory exchange and trade practices. Accordingly, the members of the Fund agreed on standards of fair exchange practice which were set out in the Fund Agreement. The Fund was given resources in gold and national currencies which were to be used for temporary assistance to its members, and thus became an important source from which reserves

(16) For the member countries of the Fund, see Table I in chapter III; also compare with original members in the International Monetary Fund’s First Annual Report, Washington D.C. 1946, pp. 7, 8.
could be drawn by the central banks and treasuries of its members, as I shall attempt to explain in the following chapter.

What makes the Fund unique as an international institution is especially this acceptance by its members of a code of fair exchange practices based upon its Articles of Agreement, and the authority that has been given to it by members to deal with certain matters in the field of foreign exchange and international payments. These are fields in which governments have traditionally exercised exclusive authority, deciding policy with reference to their own national interests. The realization that the well being of all countries depends on the policies that each pursues in matters affecting the world economy has made it possible to entrust to an international institution the responsibility for setting fair standards on foreign exchange transactions and the settlement of international payments.

The purposes of the International Monetary Fund, as stated in the Articles of Agreement, include the following:

To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation;

To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade;

To give confidence to members by making the Fund's resources available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. (17)

To achieve these purposes, the Fund has been given considerable powers and resources. The intention is not to force countries with different problems and widely varying institutional arrangements into a uniform mold. While the Fund Agreement sets fair exchange standards to which members have undertaken to adhere, they are given time to adjust actual policy to these standards. The Fund has authority to permit temporary departure from these standards when that is necessary. The Fund has not been able to impose immediate conformity to its standards through the application of sanctions, but through the limited nature of its Articles of Agreement, the Fund has sought to secure their gradual adoption through "persuasion". As will be explained later, this has often been called one of the major inefficiencies of the Fund. (18)

The standards of the Fund in the fields of foreign exchange and international payments have not been adopted as an end in themselves, but they have been agreed upon in order to help achieve the expansion and balanced growth of international trade, the promotion and maintenance of high levels of employment and real income, and the development of the productive resources of all members, all of which are indirectly included among the Fund's purposes. Unless there are generally acceptable fair standards, the restrictive measures taken by one country to deal with its payments problem might increase the difficulties of the others. Resort to restrictive measures which ignored the interests of other countries could only extend and intensify world payment difficulties.

(18) This is discussed in chapter v.
As will be explained in chapter iv, countries can gain undoubtedly temporary advantages at certain times by the use of restrictive and discriminatory measures which enable them to achieve a forced balance in their national balances of payments with other countries. These advantages are quickly wiped out if many countries resort to such discriminatory policies, they will ultimately balance their balances of payments most probably, but at a level of trade so low that their own well-being and that of their trading partners will be impaired. On the other hand, policies directed toward the achievement of international balances through the expansion of world trade will contribute to the growth in real income throughout the world.

There is now a much greater appreciation than in the 1930's of the benefits which result to all countries from expanded world trade based upon unrestricted and non-discriminatory exchange practices. In no other sphere of international economic action has so wide an area of common interest been so generally recognized. The manner in which the Fund has worked with its members to secure wider adherence and closer conformity to the principles of the Fund will be discussed in the next chapter; to what extent the Fund has accomplished its purposes so far is explained in chapter iv.

CONCLUSION:

The International Monetary Fund is an international organization whose main purpose is cooperation in the solution of exchange and payments problems, so that the world's productive capacity and international trade may be expanded to maximum points. The Fund tries to accomplish this by helping its member nations maintain stable currencies and assist them when they have financial difficulties in dealing with other nations.
A press statement by Mr. Ivar Rooth, Managing Director and Chairman of the Board of Executive Directors of the Fund, released in Istanbul on Sept. 12, 1955, mentions three main tasks of the Fund, which I think summarize pretty good the basic objectives and intentions of the Fund:

The first task of the Fund is to help to restore international balance. Many countries still have more or less difficult payments problems, which manifest themselves largely, though not exclusively in the form of a dollar payments problem. Assistance from the United States and U.S. purchases abroad of military equipment and supplies have been substantial factors in improving the international payments situation. However, despite the necessity felt in many countries, to provide large resources for defense, there has been during some years encouraging evidence of recovery based on firmer and more permanent foundations than external aid can provide. The problem can be satisfactorily solved if the members of the Fund themselves pursue proper policies. This means that deficit countries might fight inflation by keeping the use of credit within proper bounds, and ensure appropriate cost-price relationships by reducing excessive spending both by Government and by business. This is the only way in which they can make the prices of their exports competitive in world markets and thus balance their requirements for foreign goods with their foreign currency earnings. The surplus countries too have an important role in the achievement of healthy world trade conditions. We look to them to maintain their economies stabilized at high levels of income and productivity, with liberal access for foreign goods and services in their large and profitable markets.
With effective cooperation on both sides balance of payments difficulties are much less likely to appear.

The Fund has furthermore an obligation to provide technical assistance to help members work out the monetary and fiscal policies required to solve their payments problems. But while the Fund can help, encourage and advise its members, it is they and they alone who can make the right measures effective.

The second big task of the Fund is to help its members to establish the convertibility of their currencies. The establishment and maintenance of convertibility depend upon the restoration of international balance. That does not mean of course that the convertibility of any single currency has to await the solution of all the world’s payments problems. The convertibility of the leading currencies would itself be a powerful force inducing both the countries immediately concerned and others to put into effect and to maintain the sound financial policies that are essential for a lasting solution of their payments problems. The extension of convertibility is in the direct interest both of the countries immediately concerned and of the rest of the world.

The third big task of the Fund is to minimize the international impact of business fluctuations. The use of the Fund resources to supplement national reserves so that a tolerable level of imports can be maintained would moderate the international effects of a recession. In international finance, as in domestic finance, the sensible policy is not to intensify a recession by deflation, but to alleviate it by a judicious use of credit.

It would, of course, be easier to attain exchange convertibility and trade liberalization if political tension were removed. The key to the effective functioning of the Fund, however, is always
the same—sound national policies both in deficit and in surplus
countries. That means that countries should try (a) to get rid of
inflation, (b) to follow proper fiscal, monetary and wage policies,
and (c) to liberalize their trade and payments policies. (19)

(19) IMF, Pamphlet on A Press Statement by Dr. Ivar booth, Managing
director and Chairman of the Board of Executive Directors,
111. STRUCTURE AND FUNCTIONS OF THE FUND.

How did the monetary experts in Bretton Woods, New Hampshire, in 1944 organize the Fund? How has the Fund operated so far? The answers to these questions are considered in this chapter.

The International Monetary Fund is open for membership to all nations that subscribe to its Articles of Agreement. Presently its membership embraces practically all of the countries of the world except those of the Communist bloc. (20) As far as I know of today, it has 60 members. (21) Under the Articles of Agreement of the International Bank for Reconstruction and Development, Fund membership is a prerequisite to membership in the Bank. As of April 30, 1956, all members of the Fund were also members of the Bank.

Each member of the Fund is assigned a quota which determines the member's voting power and the amount of foreign currency which eligible members may purchase from the Fund. The quotas of members

(20) Yugoslavia is the only member of the Communist bloc.
(21) For members, see Table.
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<td>0.57</td>
<td>750</td>
<td>0.74</td>
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<tr>
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<td>1.14</td>
<td>1,250</td>
<td>1.23</td>
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<tr>
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<td>0.39</td>
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<tr>
<td>Sweden</td>
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<td>1.14</td>
<td>1,250</td>
<td>1.23</td>
</tr>
<tr>
<td>Syria</td>
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<td>0.31</td>
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<tr>
<td>Member</td>
<td>QUOTA Amount</td>
<td>% of 1,000,000</td>
<td>Total</td>
<td>% of 1,000,000</td>
</tr>
<tr>
<td>---------------------</td>
<td>--------------</td>
<td>----------------</td>
<td>-------</td>
<td>----------------</td>
</tr>
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<td>680</td>
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<td>Union of South Africa</td>
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<td>1.23</td>
</tr>
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<td>51.43</td>
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<td>400</td>
<td>0.39</td>
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<td>Venezuela</td>
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<td>400</td>
<td>0.39</td>
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<tr>
<td>Yugoslavia</td>
<td>60.0</td>
<td>0.69</td>
<td>850</td>
<td>0.83</td>
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</table>

Taken from International Monetary Fund, Annual Report 1956, Washington D.C., 1956, see Appendixes.
who were represented at Bretton Woods are set forth in the Articles of Agreement, although a few of these have since been changed by the Fund at the request of the members concerned. The quotas of other members are determined by the Fund as part of the terms of membership. The subscription of each member is equal to its quota and is payable partly in gold and partly in the member's own currency. Quotas range up to $1,300,000,000 for the United Kingdom and $2,750,000,000 for the United States to $500,000 by Panama.

As of April 30, 1956, total assets of the Fund included, in round figures, $1,811,400,000 in the gold account, $6,105,900,000 in various national currencies including $1,776,900,000 in U.S. dollars, and $814,500,000 in currency balances not yet due from member countries whose initial par values have still to be agreed upon. Total assets were approximately $8,756,666,000. (22)

The highest authority of the Fund is exercised by the Board of Governors consisting of one Governor and one Alternate appointed by each member country. Many countries have named their Ministers of Finance or the Governors of their Central Banks to the Board of Governors. For example, the United Kingdom and Mexico have appointed their Ministers of Finance; Belgium and Cuba have appointed the Governors of their Central Banks; other countries such as Canada and India have had both the Minister of Finance and the Governor of the Central Bank on the Board of Governors.

Normally, the Board of Governors meets once a year, and this constitutes an annual meeting of the important financial officials.

of member countries. These annual meetings are held jointly with those of the International Bank. The Governors may take votes by mail or other means between annual meetings. During the last few years, it has become customary for the Finance Ministers of the British Commonwealth countries to get together immediately after the Annual Meeting of the Fund, and the Latin American Governors have also found it convenient to meet for discussion at the time of the Annual Meeting. In this way, the practice of international cooperation is carried over into other financial fields in which the members of the Fund have similar interests.

The Board of Governors has delegated many of its powers to the Board of Executive Directors. However, the conditions governing the admission of new members, adjustment in quotas, election of directors, and certain other important powers remain the sole responsibility of the Board of Governors. This Executive Board consists at present of 12 Executive Directors. Five Directors are appointed by the members having the five largest quotas: United States, United Kingdom, China, France and India; eleven others are elected by the other members through their representatives on the Board of Governors, for a two-year term, each Director representing a member country or a group of member countries. Each Executive Director appoints an Alternate from his own country or from one of the other countries that he represents. Thus the membership of the Executive Board assures an adequate voice to all regions and strengthens the predominant tendency to give full weight to international considerations. The Latin American members, for example, are entitled, under the Articles of Agreement, to two places on the Executive Board.
Except for the powers reserved to the Board of Governors, the Executive Board has power to give approval in all matters requiring Fund consent. Thus it may concur with or object to changes proposed by members in the par values of their currencies. It may approve the imposition by members of restrictions on payments and transfers for current international transactions, discriminatory currency arrangements, or multiple currency practices, which are not otherwise authorized under the Fund Agreement. The transactions by which the resources of the Fund are made available to its members are under the jurisdiction of the Executive Board. The views of the Fund are transmitted to members or to the other international organizations after discussion and approval by the Executive Board. The Board functions in continuous session, so that the business of the Fund can be carried on without interruption.

The Managing Director is Chairman of the Board of Executive Directors, as well as head of the Staff of the Fund. Under his supervision, the day-to-day work of the Fund is carried out by its staff. This work includes consultations with members, transmission of members' request for approval by the Fund, and preparation of material for the Executive Board regarding world economic conditions and the economic situation in individual countries.

The Executive Board met for the first time on May 6, 1946, and chose Mr. Camille Gutt, formerly Minister of Finance in Belgium, as Managing Director. He served a full five-year term ending May 5, 1951. He was succeeded by Mr. Ivar Rooth, of Sweden, who assumed his duties as Managing Director on August 3, 1951.
Mr. H. Merle Cochran of the United States was appointed Deputy Managing Director on February 21, 1955. In October 1956, Mr. Ivar Rooth was succeeded by Mr. Per Jacobsson, a Swedish national also, who previously had been a member of the Bank for International Settlements, of the Central Bank of Ireland and of an expert committee to inquire into German balance-of-payments questions, set up by the Organization for European Economic Cooperation in 1950. (23)

On April 30, 1956, the Staff consisted of 419 persons from 43 countries. (24) They bring the Fund the broad experience it needs to operate on a truly international basis.

The three principal methods by which the Fund works to achieve its objectives as discussed in the former chapter are: (a) by affording a continuous monetary conference in the meetings of its Board of Directors where full consultation on monetary and exchange matters may be conducted; (b) by furnishing, upon request, expert technicains to advise and assist members in working out their financial and monetary problems and (c) by making its foreign exchange resources available, under proper safeguards, to its members to meet short-term, current payment difficulties.

In all these activities the Fund seeks to help its members find practical solutions to their foreign exchange problems that will be in accord with the cooperative principles of the Articles of Agreement. As can be readily seen from the nature of its purposes, its most important way of operation is the third method in the outline above, and I will therefore pay more attention

(24) IMF, Annual Report 1956, op. cit., p. 132
in this chapter to the Fund's exchange operations than to its other methods of helping its members, which, after all, are only the result of its exchange transactions.

CONSULTATION:

Through consultation with its members, the Fund applies an international code of conduct in the exchange field. It is becoming recognized that, in currency, exchange and international trade, the interests of the community as a whole are in the long run, the interests also of each member of the community.

The Fund encourages and may initiate consultations with individual members on their international financial situation, or it may bring together the views of all members on specific monetary problems. In signing the Articles of Agreement, member governments have accepted a set of standards for their conduct of financial and exchange affairs. Members consult with the Fund to ensure that their monetary and exchange policies are in accord with their obligations under the Agreement. Consultation has taken place on such matters as par values for members' currencies, multiple rate systems and exchange discrimination and restrictions.

The Fund is responsible, under its Articles of Agreement for keeping under review the financial and monetary conditions of member countries. Members are required by the Articles to provide the Fund with detailed economic and financial information. (25)

By these means —consultation through the Board of Executive Directors, direct technical discussions and staff studies (26)—

(25) IMF, Articles of Agreement, op.cit., Art. VIII, sec. 5, p. 17
Fund members are kept constantly informed about the changing financial scene throughout the world. Regardless of their size or degree of technical advancement, they have access to competent advice based upon the accumulated experience and knowledge which the Fund brings to bear upon its problems.

**TECHNICAL ADVICE:**

The Fund has maintained an extensive program of technical assistance through staff missions to many parts of the world and provides studies, reports and publications on international financial subjects. (27)

It has advised countries on changes in par values or exchange rates (28), modifications in multiple currency practices and exchange restrictions, and on questions of monetary, credit and fiscal policy that have an important bearing on international payments. Its technicians have assisted members in establishing or adapting to their needs institutional machinery such as central banking and exchange systems. With many countries the Fund has conferred on techniques for improving their collection and presentation of financial statistics. It has discussed with members the monetary impact of development programs, levels of monetary reserves, use of Fund resources, gold transactions and other questions of importance to economic development and harmonious international monetary relations, as discussed in the next chapter.

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(27) See p. 22
Since 1951, the Fund has conducted a training program for nationals of member countries. The participants in the program are at the Fund for one year, during which they study specific fiscal and monetary problems, sometimes under close supervision of senior members of the Fund staff. Thus far, about 100 technicians from more than 45 countries have participated in the program. (29)

EXCHANGE TRANSACTIONS

The principal functions of the International Monetary Fund is to buy and sell currencies of member countries. It is set up as a merchant in currencies. Its original "stock in trade" is supplied from the subscriptions of the member countries which place to the credit of the Fund, at their central banks or other approved depositaries, the portion of their subscriptions payable in local currency. At the beginning of this chapter it was noted that the Fund's resources now amount to over $8 billion, and that these resources are available for use by members to help carry out the purposes of the Fund.

All the Fund's exchange operations are conducted exclusively with its members and only through their treasuries, central banks, or other appointed fiscal agencies. A member receives assistance by purchasing from the Fund with its own currency any foreign currency it may need. As seen before, all transactions are usually made at par values agreed with the Fund. Each member of the Fund has guaranteed the Fund's holdings of its currency against fluctuations in its gold value.

When a member is purchasing a currency from the Fund, it must first state that the foreign currency is needed for purposes which are consistent with the Fund Agreement; to help a member meet a deficit in its balance of payments resulted from foreign trade and other current business transactions.

The capacity of each member to buy currencies is by no means unlimited, for precise provisions are included in the agreement establishing a mathematical relationship between the member's quota and the volume of foreign currencies it may buy. (30) Two basic rules apply, namely, that the purchases of foreign currencies by a member within any period of twelve months must not cause the Fund's holdings of the member's currency to increase by more than 25 per cent of the member's quota, and that the purchases must not cause the Fund's holdings to exceed 200 per cent of the quota. To illustrate: if the Fund holds $300 million of the currency of a member whose quota is $400 million, than that member may make net purchases of foreign currencies up to $100 million, which is 25% of its quota, within a period of twelve months. But if the Fund holds $750,000 million of the buying member's currency, the latter's net purchases are limited to $50 million, since such a transaction would bring the Fund's holdings to 200 per cent of the member's quota. However, these quota limitations do not preclude a member from securing additional assistance from the Fund if that is required, since the Fund may waive the quota limitations specified in the Articles of Agreement, and it has frequently done so. (31)

(30) IMF, Articles of Agreement, op.cit., Art. V, sec. 2, p.8
In 1952, the Fund adopted a procedure also to make aid available on a stand-by basis; this means that for a member country which expects temporary balance-of-payments difficulties, an account may be set up on a stand-by basis for the member to draw on in case of need. These accounts are established for a six-month period, with the possibility of renewal. (32)

The first stand-by arrangement was made with Belgium in June 1952, for $50 million, initially for six months, but it was renewable for similar periods during a total period of five years. Belgium obtained this facility on account of some difficulties in the European Payments Union, but it has never used this credit. (33) This arrangement is still in effect, as are stand-by arrangements with three other members: Iran, Chile and Peru. The arrangement with Iran is for six months, with Chile for twelve months, and with Peru for twelve months after two earlier periods of twelve months each. (34) Stand-by arrangements which have now expired were with Finland, and Mexico for six months each, with a renewal in the latter case for twelve months. Very recently, new stand-by arrangements have been made with the governments of India for twelve months (35), of France for twelve months also (36), of the United Kingdom (37) and of Bolivia (38) both for one year.

(33) Letter to me dated Jan. 16, 1957, of Mr. G. Froment, Lic.agr., of the University of Ghent, Belgium.
The Fund is authorized to impose three kinds of fees or charges in transactions with its members. In the first place, a service charge of 0.5 per cent of the parity price of a currency is assessed upon the member which buys it in exchange for its own currency. The Fund may increase the service charge but not beyond 1 per cent of the parity price. Second, the Fund has the authority to assess reasonable handling charges in buying and selling gold. Third, the Fund levies a sliding scale of charges upon each member when its average daily holdings of the member's currency exceed the quota: three months of excess holdings are allowed without any charge, after which the lowest rate, 2 per cent per annum, begins to apply. The maximum rate is 5%. The charge for a stand-by arrangement is 1/4 per cent per year. (39)

Table II gives us an idea about the size and the nature of the Fund's transactions from the beginning of its operations to April 30, 1956.

The aggregate amount of its exchange transactions, representing the assistance given to its members from March 1947, when the Fund began exchange operations, to April 1956 amounted to $1,236 billion. The purchases of currencies by its members from the Fund varied considerably from year to year. The Fund's exchange transactions are usually a reflection of the world payments situation.

(39) IMF, Articles of Agreement, op.cit., Art. V, sec.8, p. 11.
<table>
<thead>
<tr>
<th>Member</th>
<th>Currencies purchased by Fund.</th>
<th>Currencies sold by Fund.</th>
<th>Repurchases by Members.</th>
</tr>
</thead>
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<tr>
<td>Australia</td>
<td>50.0</td>
<td></td>
<td>50.0</td>
</tr>
<tr>
<td>Austria</td>
<td>7.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Belgium</td>
<td>53.0</td>
<td>11.4</td>
<td>21.6</td>
</tr>
<tr>
<td>Bolivia</td>
<td>2.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>163.5</td>
<td></td>
<td>104.0</td>
</tr>
<tr>
<td>Burma</td>
<td>15.0</td>
<td></td>
<td>5.2</td>
</tr>
<tr>
<td>Ceylon</td>
<td>1.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Chile</td>
<td>21.3</td>
<td></td>
<td>12.5</td>
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<td></td>
</tr>
<tr>
<td>Costa Rica</td>
<td>1.2</td>
<td></td>
<td>2.1</td>
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<tr>
<td>Czechoslovakia</td>
<td>6.0</td>
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<td></td>
</tr>
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<td></td>
<td>11.0</td>
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<td>8.5</td>
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<td>2.0</td>
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<td>14.9</td>
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<td>147.9</td>
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<td>45.1</td>
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<td></td>
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</tr>
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<tr>
<td>Iran</td>
<td>26.2</td>
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<td>124.0</td>
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<td>9.6</td>
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<td>Syria</td>
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<td>Yugoslavia</td>
<td>9.0</td>
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<tr>
<td>Totals</td>
<td>1,236.4</td>
<td>1,236.4</td>
<td>957.9</td>
</tr>
</tbody>
</table>

Taken from: International Monetary Fund, Annual Report 1956, p. 123.
The Fund's exchange transactions were especially large in 1947 and in the first part of 1948, the period when balance of payments deficits were enormous and before the Marshall Plan aid had begun. During these two years, when their own reserves were already seriously depleted, members had practically no source of assistance other than the Fund to meet their critical balance of payments difficulties. (40) In 1949, the Fund engaged in a substantial amount of exchange transactions, all with countries that were not eligible for aid under the Marshall Plan and other U.S. government help. Between 1947 and 1949 only, its exchange transactions amounted to $777 million. (41) After 1950 the world payments situation was stronger again and many countries started building up their gold and dollar reserves. Again, in 1952, through the temporary resumption of the gold flow to the United States and an exceptional demand for sterling in 1953, the members were forced to make use in large quantities of the Fund's resources. In these two years, the exchange transactions of the Fund amounted to $315 million. Since 1953, the steady strength in the world's international payments situation has reduced the need for assistance from the Fund; members of the European Payments Union have also had access to the credit facilities of the Union, and their need to draw upon the International Monetary Fund was consequently reduced.

Over the past ten years, the exchange operations of the Fund included, as is partly evident in Table 81, 31 separate transactions

with 28 member countries; these transactions ranged in size from a sale of $300,000 to Ethiopia to a sale of $120 million to the United Kingdom. About half of the transactions involved sales of exchange of $10 million or more.

It is also interesting to note that the Fund has engaged in exchange transactions with countries from all parts of the world: in the dollar area, sterling area, in Europe, Asia, Latin America, and many other regions. It may be considered as an indication of the international scope of the operations of the Fund.

Apart from transactions in the usual form, the Fund has up to April 1956, as far as the table indicates, also made stand-by arrangements with six members, in a total amount equivalent to $170 million. As indicated previously in this chapter, four of the arrangements are still in effect, including that of Peru which was renewed on February 15, 1957 (42), and the amount available for drawing under them is $115 million. In the last few months, stand-by arrangements have become increasingly popular: on October 18, 1956, France obtained a standby credit for $262,500,000 (43), the United Kingdom made a standby arrangement good for $758,500,000 (44), on December 10, 1956, five days later, the government of Bolivia received a standby credit from the Fund for $7,500,000 (45), and finally, on February 7, 1957 India entered into an exchange transaction and standby arrangements in a total amount of $200,-600,000. (46)

(42) IMF, Press Release No. 242, op.cit.,
Unless a country replenishes its reserves after they have been used, it will not have sufficient reserves when it needs them again. The resources held by the Fund constitute a common reserve for all members. Unless the Fund's resources are reconstituted in the form of assets for which its members may have need, particularly gold and convertible currencies, they cannot perform their function as a common reserve.

Against total Fund transactions of $1.216 million up to April 30, 1956, repayments amounted to $1.349 million. About $205 million of these repayments took the form of the sale to other members of currencies acquired by the Fund in previous transactions. Repurchases by members of their own currencies acquired by the Fund in exchange transactions with them amounted to $346 million. Of the 81 transactions with the Fund, 70 have been fully repaid, either through repurchases or through sales of the currencies to other members. (49)

Finally, it is necessary here to mention a few words about the Fund's transactions policy, which has been gradually evolving lately to giving its members greater assurances that its resources can be used to meet temporary payment difficulties while maintaining proper safeguards to avoid the dissipation of its resources in supporting an untenable payments position.

In their First Annual Report, the Executive Directors stated their views on the proper use of the Fund's resources:

The essential test of the propriety of use of the Fund's resources is whether the prospective balance of payments

position of the country concerned will be such that its use of the Fund's resources will be of relatively short duration. (50)

Usually however, the Fund does not withhold use of its resources solely because of risk considerations. This policy of taking risks whenever they are justified by broader considerations affecting the world economy was stated by the Executive Directors in their First Annual Report:

It is clear that in starting operations at a time when much remains to be done in reconstructing the war-devastated economies, the Fund runs the risk that some of its resources may be used for other than temporary assistance. There are certain to be disappointments because of the restraints placed on use of the Fund's resources by some members. And there will, no doubt, be errors of judgment in assuming risks of one kind or another. The Executive Directors consider it their duty to bring to the attention of the Board of Governors the fact that in the early period of its operations the Fund may take risks that would not be justified under normal circumstances. (51)

During the payment crisis of 1947-48, the Executive Directors decided that members participating in the European Recovery Program should request purchases of U.S. dollars from the Fund only in exceptional circumstances, once adequate dollar aid was available for them under the Marshall Plan. (52)

The key to proper use of the Fund's resources is that such use should be of relatively short duration. (53) Under the original schedule of charges, this meant that consultation was not obligatory until after seven years of continuous use of Fund resources in the first credit bracket (0-2% above the quota). Since this made it possible for a member to delay too long the restoration of its

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(51) IMF, Ibid., pp. 24-5
position in the Fund, a new schedule of charges was adopted in November 1951, under which obligatory consultations on currency holdings acquired in new transactions takes place after three years of continuous use of Fund resources. The clarification of the basic concept of temporary use had made it possible for the Fund to give a firmer assurance to members on access to its resources. In Feb. 1952, the Fund was of the opinion that this period should fall within an outside range of three to five years in normal circumstances. (54)

In some instances, drawings within the quota limit of 25% within a twelve month period do not provide members with the amount of assistance they may need to meet their problems. The Fund has therefore applied a liberal policy on waivers to this condition. The first purchase requiring a waiver was made in August 1953. Since that date, six out of 15 exchange transactions have been of a magnitude which required the Fund to grant a waiver. The amounts of individual waiver transactions have ranged from 51.2% to 1060 per cent of the quota. The stand-by arrangements have been especially useful in this respect; three of them have been for amounts that required a waiver. (55)

The record of the last ten years shows a steady evolution in the Fund's policy on the use of its resources to meet the practical needs of its members. The best assurance that any member can have of ready access to the Fund's resources is to follow policies that indicate a determination to deal with its payments problems.

The frequent consultations between the Fund and its members, and
the continuous review of their problems and policies by the Fund
are important means of making the Fund's facilities available
to its members at all times.

CONCLUSION:

The highest authority of the Fund is exercised by the Board
of Governors consisting of one Governor and one Alternative appoint-
ed by each member country. The Board of Governors has delegated
many of its powers to the Board of Executive Directors. The Ma-
aging Director is Chairman of the Board of Executive Directors,
and handles day-to-day matters.

Each member country is assigned a quota which determines its
voting power and the amount of foreign currency it may purchase
from the Fund. The Fund total assets are approximately $8 billion.

The Fund acts as a "merchant in currencies". It sells foreign
currencies to its members who are in need of it to balance out
their deficits in their international payments balances. It has
been agreed also that members may obtain stand-by arrangements
assuring them of drawings of Fund resources up to specified
limits, and within periods not exceeding one year. Since a Fund
policy statement of February 1952, Fund purchases of a member's
currency are expected to be repurchased within 3 to 5 years.

Sales of currency through April 30, 1956 included Belgian
francs, British pounds, Deutsche Mark and United States dollars
with a total value equivalent to $1,236,400,000. Repurchases up
to that date amounted to $957,800,000 in gold and U.S. dollars.
The world economy involves an elaborate network of trade and investment among countries with independent currencies. The value of world exports of industrial countries in 1955 was approximately $32 billion. Foreign investment by the United States and the Western European countries exceeded $3 billion during the same year. Such a flow of trade and investment requires an equivalent flow of foreign payments involving innumerable transactions in various exchange markets. Obviously, this trade and investment are affected by exchange rates, exchange restrictions, and facilities for converting the proceeds of exports into other currencies. As we have seen in chapter ii when we discussed the Fund's purposes, it is exactly with these monetary problems on the international level that the Fund is concerned. In how far has the Fund succeeded? The answer to this question is given briefly in this chapter.

THE PAR VALUE SYSTEM.

The Fund Agreement provides for international collaboration

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to promote exchange stability. Art. IV, sec 4 (a) reads:

Each member undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations. (57)

Each member of the Fund is required to establish, in cooperation with the Fund, a par value for its currency expressed in terms of gold or of the U.S. dollar of the weight and fineness in effect on July 1, 1944. Subsequent changes in par values may be made only after consultation with the Fund, and they generally require the Fund's concurrence. (58) Members are expected to maintain their par values; that is, the maximum and minimum rates of exchange in spot transactions between the currencies may not differ from these parities by more than 1 per cent. (59)

As stated in the Report of the Executive Directors during the First Annual Meeting of the Board of Governors in September 1946, the first major task of the Fund was the establishment of initial par values. The Executive Directors were mindful of a number of reasons which would be advanced for postponement:

Many countries have only begun to recover from the devastation of war; and the reconstruction of their economic and monetary systems will take several years. (60)

Nevertheless, it was their opinion that it was desirable to proceed with the establishment of initial par values, in order to ensure the maximum of monetary cooperation in the transition period from war to peace. Provisional par values were proposed, of which the Executive Directors had no illusions regarding their permanence; once the countries would be recovered from war reconstruction, the Fund was quick to recognize the necessity which later became appe-

(57) IMF, Articles of Agreement, op. cit., Art. IV, sec. 4(a), p. 5.
(58) IMF, Ibid., Art. IV, sec. 4(b), p. 5.
rent for changes in initial par values in some countries because the existing parities were not performing their functions of restraining imports and encouraging exports. (61) The Fund has never taken the view that, once a parity is established, it must be maintained regardless of its suitability to a country's payments position. In an address at Harvard University in February 1948, Mr. Gutt of Belgium, the Managing Director of the Fund said:

Until the autumn of 1947 the initial parities do not seem to have been a handicap to members of the Fund in expanding their total exports... In the last few months, however it has become clear that in some countries the initial parities has begun to burden export trade, more particularly exports toward the dollar area. Whether these developing difficulties are proof that an error in judgment was made in accepting the initial par values is a matter of opinion. My view is that if the necessary changes are made promptly it will support the wisdom of our original action. If changes are unnecessarily delayed, it appears to me that they will indicate that the members of the Fund are making a serious mistake in continuing the overvaluation of their currencies. Under such conditions the Fund will not hesitate to urge on a member consideration of the desirability of a revision of the parity of its currency. (62)

Despite the need for exchange adjustments, only three countries proposed devaluation of their currencies prior to September 1949. (63)

Article IV, sec. 5 (b) and (c) of the Fund's Agreement do not allow the Fund to propose par value changes to its members. It is up to the members to propose any change to the Fund, before any such

(59) IMF, Ibid., Art. IV, sec. 3(1), p. 5.
(61) IMF, Ibid., pp. 22-23.
(62) IMF, Ten Years of International Monetary Fund, op.cit., p. 11.
action is possible. Nevertheless, this did not prevent the Fund from privately discussing frankly with its members the importance of exchange adjustment as an essential part of any program for restoring their payments positions. (64)

The Fund has concurred with the par values proposed by 49 of its members. (65) The long expected devaluations of September 1949 were the most extensive in any comparable period in recent times. Thirteen members made changes in their par values; their devaluation accounted for approximately 85 per cent of world imports. (66) Since September 1949, similar adjustments of par value have been made by several other members. (67) But the fact that this general adjustment of exchange rates in 1949 took place under the auspices of the Fund gave the new rates an international status.

It should be noted immediately, that the Fund has never regarded devaluation by itself as a solution to the economic disorders that manifest themselves as a payments problem. The improvements in world payments during the past seven years is eloquent testimony of the extent to which national governments have strengthened their financial policies, though the persistence of payment difficulties in some countries indicated that much remains to be done before financial policies are adequate to cope with payment problems. (68)

(64) IMF, Annual Report 1949, op.cit., p. 15
(65) See: IMF, Annual Report 1956, as of June 30, 1956 par value has not yet been established with Afghanistan, China, France, Indonesia, Korea, Israel, Italy, Thailand, Uruguay.
(66) See: Annual Report 1956, includes following countries: Belgium, Canada, Denmark, Egypt, Finland, France, Greece, India, Iraq, Luxembourg, Netherlands, Norway, Thailand, Union of South Africa, United Kingdom, and several non-member countries.
There are now eight Fund members which have not yet established par values for their currencies in agreement with the Fund. (69) In 1948, France changed the agreed par value of its currency which had been established in 1946, and it has not yet agreed with the Fund on a new par value. (70) To other members, Canada and Peru have decided that temporarily their exchange rates cannot be maintained within the specified margins of the par value agreed with the Fund. (71) In some other member countries, varying proportions of their total international transactions are carried on at exchange rates that are not based on the agreed par value. (72) The exchange arrangements in all the countries referred to in this paragraph are regarded as interim arrangements.

A few countries have maintained fluctuating rates of exchange. (73). For some other members, the Fund has approved the maintenance or adoption of multiple rates as a strictly temporary means of dealing with payments difficulties. (74) The Fund has consistently used its influence to encourage the development of situations in which multiple exchange rates will be used only as an exceptional means of meeting specific difficulties. (75)

Concluding then, it is the Fund's view that the greatest benefits are derived from world trade when each country applies a unitary exchange rate to all its exports and all its imports and maintains this rate at a parity suitable to its economy.

(67) See: IMF, Annual Report 1950, op. cit., includes the following countries: Bolivia, Iceland, etc.
(69) See footnote # 65.
(71) IMF, Annual Report 1956, op. cit., pp. 85-86
ORDERLY EXCHANGE ARRANGEMENTS.

As we have just seen, the maintenance of orderly exchange arrangements was difficult in the early postwar period. This was due partly to the lack of balance in the world payments situation, as well as to the undermining of confidence in the official value of currencies by continued inflation. Unofficial exchange markets with disorderly cross rates came into existence, and many countries used unofficial exchange rates in order to increase their dollar earnings or have maintained separate fluctuating markets for individual currencies in attempts to bring about bilateral balance in payments in each currency.

To illustrate, in 1948, France maintained a rate of 362 francs to the pound sterling and a rate of 260 francs to the U.S. dollar. The official rate at that time was $4.05 for a pound sterling, but viewed from New York, France's action made the roundabout cross rate on the pound $3.32. So American who were buying goods directly from Britain had to pay $4.05, but if they bought pounds by first buying francs and then converting the francs into pounds, they paid only $3.32. This way, France intended to build up their dollar reserves, but this had several undesirable effects in Britain, such as this discount on sterling producing an adverse psychological effect in the minds of businessmen.

(73) In Mexico for a trial period (1948-49) and in Canada since Sept. 1950, the fluctuating rate is a unitary rate.
(74) Multiple rates were used in Costa Rica, Chile, Peru, Thailand.
In its operations and consultations with its members, as was observed in the previous chapter, the Fund has stressed the disadvantages of such disorderly arrangements and has urged their abandonment. During the last few years they have in fact declined in importance as the use in international transactions of currencies other than the dollar has been more widely extended. The world payments position developed favorably and even those countries which faced balance of payments difficulties avoided, with a few exceptions, the reintroduction of disorderly exchange arrangements. There was a steady continuation of the tendency to prefer fiscal and monetary measures rather than exchange restrictions as instruments for dealing with balance of payments difficulties. (76)

Through the activities of the Fund, in many countries it has been possible to relax restrictions on rates of exchange. But the Fund is not unaware of the many difficulties which have to be faced in the future, as we can see in its Seventh Annual Report on Exchange Restrictions for 1956:

In fact, some countries which have almost eliminated restrictions still maintain a complex exchange control mechanism. Other countries have proceeded, in varying degree, with the dismantling or simplification of their administrative systems. This has been done in various ways, such as permitting commercial banks acting as authorized agents of the control authority to approve more transactions, or raising ceilings for certain payments and waiving all control procedures for sums

below those ceilings. Some countries have dispensed altogether with individual control of many minor invisible items and have given instead a global authorization for such transactions. Measures such as these have helped to reduce the interval between application for a payment authorization and actual remittance and generally made it easier for both residents and foreigners to undertake personal and business transactions. They indicate the readiness of certain countries to discard exchange controls and to rely more on fiscal and monetary measures to maintain a healthy balance of payments and reserve position. The abandonment of the machinery of exchange control makes it more difficult for countries to reintroduce restrictive practices requiring detailed exchange controls. (77)

When discussing orderly exchange arrangements we should pay some attention to the influence of premium gold transactions on the subject involved here. The serious inflation and the lack of confidence in official exchange rates during the early postwar years resulted in a considerable flow into private hoards of gold supplied at premium prices. The Fund's concern with external transactions in gold at premium was twofold: (a) directly or indirectly these transactions in many instances involved exchange transactions at depreciated rates and thus threatened to disturb the orderly exchange arrangements of members of the Fund; and (b) they diverted foreign exchange earnings away from official reserves; a diversion which was particularly serious for members with weak payments positions and depleted reserves. (78)

On June 13, 1947, the Fund addressed to all its members a letter in which it deprecated international transactions in gold at premium prices and recommended that they take steps to prevent such transactions. (79) It cannot be said that the Fund's appeal was real effective, but it certainly had some

influence in ceasing the flow of gold into private hoards. Than in
1950, with the outbreak of the war in Korea, the flow of gold into
hoards increased again. (80) On several occasions, the Fund reaf-
affirmed its belief in the economic principles on which the statement
of June 1947 was based, and urged members to support the policies
which required that, to the maximum extent possible, gold should
be held in official reserves rather than go into private hoards. (81)
For this reason, the Fund in September 1951 issued a new statement
reaffirming its belief in the desirability of minimizing the flow
of gold into premium markets, but leaving to each member the prac-
tical operating decisions involved in the implementation of this
policy:
Despite the improvement in the payments position of many
members, sound gold and exchange policy of members contin-
ues to require that to the maximum extent practicable, gold should be held in official reserves rather than go
into private hoards. It is only as gold is held in official reserves that it can be used by the monetary autho-
rities to maintain exchange rates and meet balance of
payments needs... The Fund will continue to collect full
information about gold transactions, will watch carefully
developments in this field and will be prepared in con-
sultation with members to consider problems relating to
exchange stability and any other problems which may arise.
(82).

TOWARD FREER INTERNATIONAL TRADE AND PAYMENTS:

As seen above, the Fund began its operations in a period of
widespread payment difficulties. It lead many members to impose
severe restrictions on their foreign payments. As the world pay-
ment situation gradually improved, restrictions on current trans-
actions were gradually eased, and considerable progress toward

(80) IMF, Annual Report 1951, op.cit., p. 74
(82) IMF, Ibid., See Appendix III, "Statement on Premium Gold Trans-
actions Sept. 1951", p. 95.
achieving the objective of eliminating foreign exchange restrictions that hamper world trade, has been noted. In most West European countries, the practice of the exchange authorities has been modified in this way in recent years. For example, in Belgium and Luxembourg, and in the Federal Republic of Germany, the elaborate framework of exchange control now has little restrictive effect, even transactions with the dollar area are authorized. (83) A considerable progress toward convertibility has also been achieved in the United Kingdom and many other European nations. (84) This progress made by the Fund members in diminishing their restrictions is clearly indicated by the growth of world trade and the considerable increase in the exports of dollar countries since 1948. This general trend was generally indicated at the beginning of this chapter with a few figures.

The reductions in the significance of exchange restrictions has been accompanied by a marked reduction in the use of the bilateral practices, i.e. two countries making trade agreements that usually hamper world trade as a whole. (85) These actions are also contrary to the principles of the Fund, and it has fought it on several occasions:

It is satisfying to report that... there has been an appreciable reduction in bilateralism in international payments relation. Several bilateral payments agreements were allowed to lapse; in other cases, more flexible provisions were introduced into bilateral agreements... Wherever practicable, the Fund has suggested to members that the scope of bilateralism should be still further reduced. The

(84) IMF, Ibid, pp. 293 ff.
Fund is continuing its efforts in this field. (36)

Summarizing then, we may say that all these factors had a favorable effect on the balance of payments developments of the Fund's members. (37) Mr. Ivar Rooth, Managing Director of the Fund, made the following statement to the Economic and Social Council of the United Nations in April 1955:

Demands for the Fund's resources have in recent months been very light—an indication of the widespread easing of balance of payment pressures. Improvements in their reserve positions have made it possible for a considerable number of our members to repurchase their currencies from the Fund. The Fund is therefore in a more liquid position today than it has been for some time... It is important however, that all our members should realize that the Fund's procedures have now been developed to the point where they can be confident that reasonable support will be forthcoming from the Fund. (38)

CURRENCY CONVERTIBILITY.

The Fund provides that no member shall "engage in any discriminatory currency arrangements or multiple currency practices except as authorized under this Agreement or approved by the Fund" to implement the objective of assisting "in the establishment of a multilateral system of payments in respect of current transactions". (39) The Articles of Agreement require also, as seen already, that each member shall, under specified conditions, buy balances of its currency held by another member, paying for its currency either in the currency of the member making the request or in gold. But all these provisions require that the members make their currencies fully convertible. (40)

(39) IMF, Articles of Agreement, op. cit., Art. VIII, sec. 3, p. 16
(40) IMF, Ibid, Art. VIII, sec. 4, pp. 16-17.
Each country faces the problem of making its own currency fully convertible. But the establishment of general convertibility is centered upon the currencies of the great trading countries, in the first place upon the U.S. dollar and the sterling, and secondarily upon the currencies of the other leading trading countries, such as the German mark and the Belgian franc. If all currencies were fully convertible, there would be no trade and payments discriminations for balance of payments purposes, since all currencies would be fully and equally convertible in any currency needed.

When the Fund was set up in 1944, provisions were made in its Articles of Agreement for the continuance during a postwar transitional period of invertibility and exchange restrictions: many countries at that time were unable to accept the obligations of full convertibility, which is a major Fund's goal. (91)

As indicated at the very beginning of this chapter, the restoration and the resumption of world trade have now practically been completed; in the large trading countries of Western and Northern Europe industrial production early in 1956 was about 70% higher than immediately before the war. The expansion of production and the growth of world trade together with a large volume of U.S. aid have resulted in a surplus in the over-all dollar accounts of the rest of the world with the United States. (92) Although notable progress toward convertibility has been made especially in 1955 and 1954, many member countries have been slow in accepting the convertibility obligation of the Fund. (93)

"Convertibility" says Mr. Rooth, the managing Director of the Fund, "will be attained only when a number of countries abandon the protection given them

for the postwar transitional period". Why, he asked, did 47 members of the Fund’s 57 members still avail themselves of the transitional (94) arrangements? He considered selfish reasons and "a proper concern for the risks involved" as the primary factors of their hesitation to abandon restrictions and make their currencies convertible. (95)

Only the members in the dollar area have made their currencies formally convertible in accordance with the Fund Agreement. (96). But it is important to note that most of the Western European countries have gradually given their currencies transferability rights over a wide area. The sterling has been transferable for some time into currencies of all non-dollar countries, and the German Mark is also partly convertible. The Dutch guilder is somewhat less transferable. Also, progress has been made toward reducing discrimination against dollar imports in almost all countries whose currencies are still inconvertible. Some countries e.g. Belgium and Luxembourg, France, and the Federal Republic of Germany have extended their lists of countries described as being in the dollar area and with which settlements are made on a dollar basis. (97)

Indeed, in 1955 and the early part of 1956, progress toward an international system of freer trade and payments and convertibility was probably greater than in 1954. Through the Fund’s assured and effective support, a greater degree of convertibility of its members’ currencies may be expected. (98)

(93) See Footnote # 96
(94) In 1954.
(95) United Nations Review, November 1954, op.cit., p. 90
CONCLUSION:

The International Monetary Fund is able to record progress in freeing trade and payments from restrictions. The pace and character of the liberalization have changed from time to time, and there is great diversity among the measures taken by different countries. This progress reflects in part the widening conviction that in the present and foreseeable circumstances the interests of countries are better served by coping with such external payments difficulties as persist by using monetary and fiscal weapons rather than restrictive practices. The authors of the "Seventh Annual Report on Exchange Restrictions" summarize the Fund's activity in regard to the field of removing fiscal, monetary and other exchange rates restrictions as follows: (a) there is a general determination to press forward with the removal of restrictions as member countries find their payments situation improving; (b) countries are increasingly anxious to avoid the reintroduction of restrictions; (c) some countries have simplified and others have begun to dismantle their exchange control systems; (d) during the past years, the range of transferability of certain currencies has been extended and the use of these and existing transfer facilities has increased. At present, the exchange rates in free markets are very near to official parities; (e) the need for discriminatory restrictive practices has been reduced. A number of bilateral agreements have been modified to make them less discriminatory and more flexible; (f) there still exists however, a large body of restrictive practices, and (g) there has been a decline in the use of multiple currency practices. (99)

The International Monetary Fund, especially active on the international monetary level as is evident in the preceding pages, in order to maximize the productive possibilities of our world economy, was originally intended to prevent the economic disorders of the 1950's. (100) Its provisions were formulated mainly to avoid a repetition of the economic warfare of that period. How has the Fund dealt with the problems with which it was designed to cope? Did the monetary experts think the Bretton Woods provisions are effective enough to harmonize monetary exchange? What new or previously unsuspected problems does the Fund have to face, and how well equipped is it to face them?

We should always remember that the authors of the Fund worked under the stress of a severe war reconstruction problem, and that the International Monetary Fund is the first institution with a truly international character. Let us look into the matter now.

(100) See chapter 1.
Both groups were represented at Bretton Woods, and wanted to retain their own sovereignty as much as possible. The first group prefers the traditional gold standard with its automatic compensatory mechanism when the "rules of the game" are obeyed; the latter just opposes this theory of the "gold movements" which they call the "strait jacket of the gold standard", they want to get rid of these rules, especially for what the deflationary policies are concerned of a gold paying country.

The Articles of Agreement of the Fund envisaged the restoration of gold to its traditional position as the pre-eminent international medium of exchange and standard of value. (101) But the conferees were not willing to go the whole way in advocating the blind observance of the "rules of the game" of the gold standard. They generally agreed that each member of the Fund should have a great amount of freedom in determining its international monetary policies. In effect, they agreed that a member need only establish a gold value for its monetary unit and provide for the redeemability of its money in gold solely for international purposes. It need not maintain a free domestic gold market nor provide for the internal redeemability of credit money. Thus the members of the Fund hope to get a wholly adequate international gold standard mechanism in operation even though internal monetary systems may be subject to little in the way of gold standard rules. Prof. Dr. Raymond Kent of the IMF, Articles of Agreement, op.cit.,Art. IV,sec.1, pp. 4-5
University of Notre Dame is of the opinion that:

They (i.e. the IMF) hope for this outcome, but they have not yet succeeded in bringing it about. Their lack of success up to date, however, has not been the result of any apparent deficiencies in their theory as to how a modified international gold standard should work; rather, it has been the result of the vast difficulties encountered in trying to solve postwar economic problems. (102)

Thus the Bretton Woods proposals do not mean a return to the gold standard. The possibility of a change in the value of gold by all the member countries' agreement, and the possibility to have the gold content changed of the member countries' currencies is definitely opposed to such a standard. But gold still performs important functions, it serves as an international means of payment and standard of value, and it is the Fund's reserve "par excellence".

Concluding, the proponents of the traditional gold standard forget that the gold standard actually has to be a "managed" standard (103) and the proponents of a "national" standard forget that any international monetary system required the acceptance of certain rules which in one way or the other limit economic sovereignty. (104)

But it is interesting enough to note though, that even Mr. Aldrich, the President of the Chase National Bank opposed the Bretton Woods proposals, and with the American Bankers Association favored a return to the old gold standard. (105) Mr. White, the author of the White Plan (106) was rightly of the opinion that a return to the gold

(102) R. Kent, Money and Banking, Rinehart & Co, New York, 1956, p. 58
(104) George N. Halm, International Monetary Cooperation, Chapel Hill, 1945, p. 5
(106) See chapter ii.
standard would not work any more, and he concludes:

The difference between stability and rigidity in exchange rates is the difference between strength and brittleness. It is the difference between orderly adjustment, if conditions warrant it, and eventual breakdown and painful adjustment... The Fund gives the assurance the world is asking for; it provides a method of obtaining orderly exchange adjustments if they are needed to correct a fundamental disequilibrium. (107)

THE PROPOSALS ARE INTENDED FOR "THE LONG RUN", A "KEY CURRENCY APPROACH" WOULD BE BETTER.

Especially Jon H. Williams, a prominent British critic on monetary problems, is of the opinion that the Fund, through the war reconstruction problem in 1944, will be used to finance long-term deficits. He argues that the Fund's resources would be exhausted too rapidly, so that a "Key Currency" approach would have been better. By this "Key Currency" system he means that all what is necessary to solve the international monetary problem is to adjust all other national currencies to two or three basic currencies such as the U.S. dollar and the British pound, which would have to be stable. (108)

A basic objection to the "Key Currency" approach is naturally that by doing so, a multilateral payments exchange would never be obtained. Moreover, the International Bank for Reconstruction and Development was set up at the same time at Bretton Woods to make long-term credits possible to underdeveloped and war damaged countries, as has been noted in chapter iii. The Fund is specifically limited to the monetary field, to providing financial assistance to cover temporary deficits in balances of payments. (109)

(109) IMF, Articles of Agreement, op. cit., Art. XIV, sec. 1, p. 29
The Fund is not intended to provide funds "for relief or reconstruction or to deal with international indebtedness arising out of the war." (110)

A ticklish problem had to be faced though by the Fund when it began operations in 1947, as already discussed extensively in previous chapters. As the Fund stated in its Annual Report for 1948, it was running the risk that some of its resources might be used for other than temporary assistance... It was thought desirable to assume this risk in order that the Fund might make a contribution to the maintenance of national economies and of exchange stability during the transitional period. (111)

As noted previously, the Fund encouraged its members which were receiving financial help from the Marshall Plan to discontinue making excessive use of the Fund's resources. From the discussions of the Fund's assets and operations in previous chapters, we may conclude that presently at least, there is no fear that its resources will be exhausted or misused for long-term purposes.

NEGATIVE INFLUENCES OF NATIONALISM.

Governments may solemnly swear that they will cooperate internationally, such declarations do not always guarantee that they will do so in crucial cases. As was the case in 1948, France openly defied the Fund: it proposed a discriminatory multiple currency system, arguing that it was basing its action on the Fund's transition period provisions. The Fund objected for a number of reasons, but France went ahead and used its scheme for a year. (112) In this case particularly the Fund has successfully fought the battle of nationalistic actions; but the future has to show us in how far the Fund is well enough equipped to fight similar such actions.

CONFLICTING NATIONAL POLICIES AND STABLE EXCHANGE RATES.

F. D. Graham, an International Finance professor, has suggested that the Fund ought to be either liquidated or radically changed because of its stress upon relative exchange rate stability in a world of conflicting national policies. Since practically speaking national policies are not in fact coordinated, it is suggested by these critics that exchange rates should be allowed to fluctuate freely also. They argue that the Fund suffers from excessive attention to problems of exchange depreciation, and that it is impotent to deal with problems of currency overvaluation. (115)

There is some merit to this problem: one searches in vain for provisions under which the Fund may require members to undertake steps to correct balance of payments difficulties, its Articles of Agreement only state repeatedly that "the member shall propose change in its par value to the Fund." Officially, the Fund cannot make such encouragements on its own initiative. (114) About all the Fund can do in such cases is to deny the use of its resources to members persisting in clearly objectionable domestic policies. (115)

In this respect, we have seen formerly that the standard Fund reply seems to be that exchange stability does not mean rate rigidity, but that both actions can be taken within certain limits, which in most cases guarantee a smooth functioning monetary mechanism. But there is undoubtedly a clear-cut distinction between (a) a system

(112) See chapter iv.
(114) IMF, Articles of Agreement, op.cit.,Art.IV, pp. 4-5.
(115) IMF, Ibid., Art. IV, sec. 6, p. 6.
of relative stable exchange rates including a really effective agreement under which members pursue common or harmonious domestic policies or objectives and (b) a system of inconsistent domestic policies coupled with variable exchange rates. The former would involved changing the Fund's Agreement in order to reduce national sovereignty in this domain; the latter would seem to involve a complete abandonment of the Fund or at least a rewriting of its Articles of Agreement. (116)

THE PROBLEM OF MULTIPLE EXCHANGE RATES.

I have brought out in chapter iv that over one-third of the member nations have multiple rate systems, that is, systems of two or more exchange rates among categories of transactions as well as among different currencies. The question is whether or not the Fund has vigorously enough opposed multiple rates; because of the Fund's limited powers to interfere with the sovereignty of its member nations in determining their domestic monetary policy, it certainly has had a difficult job. As discussed before, the strongest reason for the use of such a system is that it enables a nation to discourage unessential imports, which are paid for at exchange rates higher than the official rate. On the other hand, a stricter licensing of foreign exchange could accomplish the same purpose, without multiple rates; as to the choice between multiple rates and alternatives such as import quotas, it would be best to have the Fund stamp out a practice such as that of temporary multiple rates as it is the Fund's occasional policy now, which altogether is contrary to the terms of the Articles of Agreement. Let non-monetary restrictions be eliminated by trade agreements.

ATTACKING DISORDERLY CROSS RATES.

I have discussed this topic in chapter iv on the Fund's accomplishments, and indicated that for several reasons, such as dollar shortage, many countries have found it expedient to adopt one home-currency price for the dollar and a lower home-currency price for soft currencies. I quoted France in 1948 as an example.

The Fund has successfully fought cases of disorderly cross rates. Its executive directors have argued that such rates tend to multiply the number of restrictions and trade controls imposed by nations to counteract currency discount. (117) The Fund has, on several occasions, showed that the multiplication of restrictions tends to delay the restoration of trade on a multilateral basis; it has further encouraged currency depreciation in countries whose currency could be purchased at a discount in other markets. (118) The Fund should be praised also for its emphasis on non-discriminatory, multilateral trade, and its short term financial assistance to its members which have temporary deficits in their balance of payments. Never before have the nations been able to count on such short-term assistance in advance, with full knowledge of the terms on which it will be available. This has certainly helped a great deal toward a closer and more stable international financial and monetary system as we know it today.

A DUAL SYSTEM?

Williams has also argued that a "dual" system might develop from the Bretton Woods provisions. This means that a part of the

(117) See chapter iv.
(118) Ibid.
international payments exchange would take place via the Fund, another part could possibly just as well function outside the Fund. In other words, the Fund would eventually be used only to obtain scarce currencies. (119)

The Fund Agreement contains several provisions formulating its policy concerning scarce currencies. If in the course of its operation, the Fund discovers that the demand of members for a particular currency is draining its supply to a dangerous degree, it may take several steps to remedy the situation: the Fund may borrow or buy currency from the member whose currency is becoming scarce, it may notify its members formally that the particular currency has become scarce and proceed to ration its dwindling supply "with due regard to the relative need of members, the general international economic situation and any other pertinent considerations." Stephen Enke and Virgil Salera in their recently published International Economics, compare the scarce currency clause of the Fund to the provisions in the International Trade Organization charter regarding the same problem; they recognize the superiority of the Fund's approach to this problem in these words:

The Fund permits and regularizes exchange control discrimination against a country whose currency is generally scarce; the ITO, in contrast, permits discrimination (via import quotas) whenever a particular nation's balance of payment is in a weak condition. Under the Fund, faulty domestic policies in one nation, when they lead to excessive imports, at worst predispose the nation to favor currency overvaluation; and a single nation cannot create conditions that will enable it to introduce discriminatory and restrictive measures destructive of world trade, as it can under the ITO charter. (120)

(119) J.H. Williams, Postwar Monetary Plans, op.cit., p. 10
Of course, the practice in the future will have to prove in how far the Fund has succeeded in working as a "general" international monetary exchange institution. From its 15 years activities so far, we are safe to conclude that it has succeeded to a great extent to attract its member states enough to prevent a dual system.

CONCLUSION:

Our evaluation of the Fund indicated that this institution probably overestresses relative exchange stability in a world of uncoordinated national economic policies. Such a policy probably puts a premium on the overvaluation of exchange rates. On the other hand, freely fluctuating rates are not a way out of the problem.

The Fund's resources are also supposed to be used to cover temporary deficits in balance of payments, but the operations to date suggest that we may need a new definition of "temporary".

Relative exchange rate stability and the quasi-long term use of Fund resources further suggest that the Fund's focus is inappropriate in a world of rigorous exchange exchange controls. That is, there is not likely to be a serious threat of competitive exchange depreciation when everybody has strong exchange controls. There have also been criticisms of the seemingly indefinite length of the transition period as well as of the widespread use of multiple exchange rates. Finally, there are the undemocratic plural voting arrangements. (121)

A definite monetary standard is not followed in the Bretton

(121) Two major nations (the United States and the United Kingdom) actually take the lead in the Fund.
Woods proposals. The Fund cannot determine a specific monetary policy for its members; it is actually standardless, it has often been considered as one of the major inefficiencies of the Fund.

The Fund has to:

promote international monetary cooperation (122);

and each member has to:

 collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members and to avoid competitive exchange alterations. (125)

And that is the extent of its authority. All its members are sovereign in determining their own monetary policies. Although gold is used for several purposes in the Fund, the Bretton Wood proposals by no means mean a return to the traditional gold standard. Gold is still used as an international means of payment, but in practice the U.S. dollar may be considered as the Fund's "standard" (124)

In one word: Bretton Woods lacks a specific standard. Halm, author of International Monetary Cooperation writes:

But it does not solve the question concerning general policies of world credit control, the measures to implement such policies and the applications of these measures decided upon by the Fund, to the domestic policies of member countries. (125)

Graham, another monetary expert says that the proposals would set up a whobbly system of fixed rates maintained until collapse is imminent without any provision for the adoption of the internationally unified price level policy under which alone, fixed exchange rates can make sense.(126)

(122) IMF, Articles of Agreement, op. cit., Art. 1, sec. 1
(123) IMF, Ibid., Art. IV, sec. 1(a)
(124) IMF, Ibid., Art. IV, sec. 2 (a)
(125) G.N. Halm, International Monetary Cooperation, op. cit., pp. 108-9
(126) F.D. Graham, Fundamentals of International Monetary Policy, Princeton 1943, p. 10.
I have also indicated that the dangers of a "dual" system are not likely to appear in the near future, if at all.

Concluding, with the International Monetary Fund, a real and significant start has been made in the difficult task of working toward an internationally cooperative approach to monetary problems. The bare fact that the machinery of the Fund is in operation is in itself a great achievement. Never before in history have so many nations possessed the assurance of monetary aid and cooperation as today with the Fund.
The representatives of forty-four nations at the Bretton Woods International Conference in 1944 agreed upon the International Monetary Fund as a device that they thought would enable the world to cope with the complicated technical problems involved in international financial and monetary relationships.

The purposes of the Fund are: (1) to promote international monetary cooperation and consultation; (2) to facilitate the balanced growth of international trade; (3) to avoid competitive currency depreciation; (4) to assist in the re-establishment of a multilateral system of payments on current account transactions and (5) to provide resources that members can use to tide them over brief periods of maladjustments in their balances of payments. An elaborate machinery, consisting of monetary quotas, controls over capital, rules governing the adjustment of exchange rates and the treatment of scarce currencies, and voting procedures, is established to help the members as a group realize the purposes of the Fund.

It is a kind of international financial pool, with a membership of 60 nations by now. Each nation contributes a certain quota to this pool, part of it in gold, part of it in the nation’s own currency. The quotas vary in size from 2.75 billion for the
United States to $500,000 for Panama.

Present resources of the Fund come to slightly more than $8 billion. Of this total, about 6.6 billion is in local currencies, about 1.7 billion in gold and 175 million is invested in U.S. treasury bills. The Fund achieves its chief purpose of helping member nations maintain stable currencies and assisting them when they have financial difficulties in dealing with other nations, by giving each member nation the opportunity to purchase from the Fund, foreign currencies of which it is short. It also acts as a center for the collection and exchange of information among member nations on monetary and financial problems. In general, the Fund's purpose is to promote unhampered exchange of goods and currencies among nations.

The highest authority in the Fund is a Board of Governors, which consists of one Governor and one alternate appointed by each member nation. An executive board of 16 directors, chosen by the member nations, handles all matters except the most important ones, which come before the Board of Governors.

The Fund is authorized to use its resources to help members to meet temporary payment difficulties. Without help from the Fund some members would probably have felt obliged to resort to more stringent restrictions and discriminations. The availability of Fund resources should encourage members to rely more on financial and monetary policy and less on direct controls as instruments for maintaining domestic and international equilibrium, and also as their payments position improves, members should relax further their restrictions and discriminations.

Total Fund transactions now exceed $1.2 billion. Because the
Fund is, in effect, a reserve institution, the volume of transactions must be expected to vary considerably from year to year. In 1947 and 1948, the Fund sold $675 million of currencies to its members. During the critical period before the Marshall aid program, the Fund adopted a bold policy for helping its members. From 1949 to 1951 however, many of the larger members were receiving generous aid from the United States and were therefore advised to avoid drawing on the Fund. In 1952 and 1953, the number of drawings increased. More recently, the payments position of many members has strengthened and repayments to the Fund have exceeded new drawings.

In all, close to 30 members have purchased foreign exchange from the Fund, some on two or more occasions. The list includes Turkey and 9 other countries in Europe, 6 in Latin America, 5 in Asia, 3 in Africa, and Australia. Of the total credit extended by the Fund, more than two-thirds has already been repaid, either directly or through drawings by other countries of the currency of a borrowing country. Most of the Fund's transactions, about 85% of them, have been in U.S. dollars, but members have also drawn on sterling, Belgian francs and German marks. Members using the Fund resources know that they are expected to repay the Fund within three years with, as a general rule, an outside limit of five years. A system of stand-by arrangements has also been instituted under which members can agree in advance with the Fund for drawings of a specified amount during a limited period.

During its past 15 years of activity, the Fund has helped
restoring international balance, helped its members establishing the convertibility of their currencies and liberalized in many countries currency discriminations in their import policies. It has greatly helped in restoring order in exchange relations and assisting in the establishment of a multilateral system of payments. Nevertheless, the Fund has often been called inadequate by many critics, since by its Articles of Agreement it is limited as a strictly "advisory" international institution, it has no power to impose its decisions on its member countries, which retain all sovereignty in determining their individual domestic monetary policies.

All aspects considered, the Fund's advantages seem to outweig its disadvantages. It is a going organization; its Articles of Agreement can be amended. Moreover, many of its apparent weaknesses can be overcome by a true spirit of cooperation among its member nations.
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