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TOWARD GREATER FLEXIBILITY IN THE EXCHANGE RATE REGIME OF THE INTERNATIONAL MONETARY FUND: THE WIDENING OF THE BAND

*Swadesh S. Kalsi**

I. INTRODUCTION

It is a commendable achievement that, in the atmosphere of a war shattered world, it was at all possible to fashion an international currency system at the Bretton Woods Conference in 1944. Indeed, the International Monetary Fund represents a historic milestone in international cooperation. Since its inception at Bretton Woods, however, the international monetary system has been plagued by two major problems. First, the expanded use of trade constraints by countries following policies of full employment and internal price stability tends to foster a balance of payments disequilibrium; consequently, the present mechanism for adjustment is not satisfactory. Events after May of 1971, when the fixed exchange rates broke down, have made it clear that a return to the system fashioned at Bretton Woods is not feasible. The United States suspended the convertibility of the dollar in August of 1971 and ushered in a period that saw a floating of the currencies of major trading nations until the Smithsonian Agreement on realignment of currencies in December of that year. Six months later, in June of 1972, the British sterling—the other major reserve currency—went off the peg and has been floating since that time. The problem of the undervalued and overcompetitive German mark and Japanese yen is still very much alive. Increasingly the international monetary system is threatening disorder and detrimental effects on world trade. President Nixon, in his opening address at this year's IMF Annual Meeting, aptly described it as a "system that almost every year presents a new invitation to a monetary crisis."[1] Secondly, no orderly arrangement exists for generating international liquidity to meet the demands of

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1. International Monetary Fund-International Bank for Reconstruction and Development Press Release No. 3, *Address by the President of the United States, Richard M. Nixon, 1972 Annual Meetings of the Board of Governors of the Fund, Bank, IFC and IDA* 3 (September 25, 1972).

expanding world trade. This article will focus on only the first of these problems.[2]

Under the present institutional constraints, adjustment can be achieved through several methods.[3] The first is a complete revolution that would adopt, for instance, a scheme such as the Triffin Plan.[4] Although an ambitious solution, its implementation is not politically feasible in our present world. Secondly, adjustment could be encouraged by resorting more frequently either to such direct controls as tariffs, quantitative restrictions and exchange controls or other interferences with international trade—such as casting a wider net via anti-dumping and countervailing duty laws. This solution tends to impede international trade, however, and for that reason is unacceptable. Thirdly, the present excessively rigid adjustable peg system could be modified to achieve greater flexibility. Because of the present trend toward economic nationalism and protectionism aimed at reducing unemployment levels, the more sensible path lies in engineering greater flexibility into the present adjustment mechanism. This alternative would allow nations greater autonomy to pursue their domestic economic policies of full employment and thereby reduce pressures toward protectionism. Considering the alternatives, the widening of the band to permit greater flexibility is a step in the right direction.

This article sets forth the adjustment problem, with an initial discussion of the present adjustment system, its shortcomings and the merit of the wider band. The discussion then proceeds to a detailed exposition of the present legal regime of the exchange rates against which the legality of the widening of the band is analyzed.

II. Bretton Woods System

A. *The Problem of Balance of Payments Adjustment*

Since the Keynesian Revolution the professed economic objective of countries has been to achieve maximum growth through policies of

2. This article is not concerned with the problem of liquidity. For practical purposes, however, the two problems cannot be completely divorced from each other. For instance, different levels of reserves are needed under different systems of balance of payments adjustment. A maximum of reserves is required under a system of completely fixed exchange rates, while no reserves are necessary under a freely fluctuating exchange rate system.

3. For some problems and their solution through various proposals see The International Monetary System (L. Officer & T. Willett eds. 1969).

4. *See* R. Triffin, Gold and the Dollar Crisis 102-20 (1960). Under the original Triffin Plan, the IMF would have become, in essence, an international central bank.

5. *See* P. Samuelson, Economics 810-12 (8th ed. 1970).

full employment. Because the level of unemployment in the economy is related to the degree of inflation,[5] this economic objective must be achieved with price stability. Internal price stability is of even greater importance to major trading countries, since they must achieve internal full employment at stable prices while simultaneously maintaining external equilibrium in their balance of payments.[6]

Ideal external equilibrium exists at a neutral balance of payments position.[7] The problems arise when internal equilibria do not harmonize with external equilibria, and there are trade-offs between the two to produce the necessary stability. Temporary deficits and surpluses may be eliminated through short-term transfers of gold, convertible currencies or international borrowing facilities. Alterations in the value of currencies in terms of other currencies over the long run require deliberate adjustments to correct the disequilibria. Such long-term adjustments may be effected by changing exchange rates, direct controls, gold flows or borrowings.

Although a country with access to borrowing facilities may surely prolong its deficit,[8] the adjustment must ultimately be made through alterations in exchange rates. There are two clearly designed regimes of exchange rates, with numerous combinations in between. At one extreme is the fixed rate system that is adjustable through domestic price level and income changes, as under the gold standard. In periods of inflation this model requires that domestic incomes be held back, while increases in productivity theoretically strengthen the country's competitive position. Thus equilibrium is reestablished without overt alteration of the exchange rates in the foreign exchange markets. In the actual operation of this model, the deficit country would pursue

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6. *See* Day, *Institutional Constraints and the International Monetary System*, in MONETARY PROBLEMS OF THE INTERNATIONAL ECONOMY 333 (R. Mundell & A. Swoboda eds. 1969). *See also* Krause, *The International Monetary Game: Objectives and Rules*, in APPROACHES TO GREATER FLEXIBILITY OF EXCHANGE RATES 223 (G. Halm ed. 1970) [hereinafter cited as Halm].

7. A country is in external equilibrium when its rate of exchange is in equilibrium. "An equilibrium rate is that rate which, over a standard period, during which full employment is maintained and there is no change in the amount of restriction on trade or on currency transfer, causes no net change in the holdings of gold and currency reserves of the country concerned." W. SCAMMELL, INTERNATIONAL MONETARY POLICY 56 (2d ed. 1961).

8. "United States balance of payments policy since 1959 may be characterized largely as a combination of short sighted expedients with little emphasis on longer term solutions. Most of these policies were designed to buy time. Unfortunately little productive use has been made of this time as far as fundamental corrections are concerned." G. HABERLER & T. WILLETT, PRESIDENTIAL MEASURES ON BALANCE OF PAYMENTS CONTROLS 13 (1968).

restrictive monetary and fiscal policies to reduce domestic expenditures, while the surplus country would adopt opposite expansionary policies. Deflation in the deficit country would increase unemployment and create an excess capacity in capital. At the same time, an expansionary policy in the surplus country would cause a rise in the level of prices and costs. In this way the exchange rates eventually are brought into equilibrium. If the deficit country is fully employed and prices are rising, deflation will control domestic demand and at the same time produce an equilibrium in the external balance. If the deficit country has an underemployment equilibrium domestically, however, deflation will not reduce prices and costs so quickly. In fact, such a country needs domestic expansion to achieve full employment. The use of deflation to achieve external balance, however, requires increasing restrictions on demand and rising unemployment in order to reduce the price level. Consequently, fixed exchange rates demand a subjugation of domestic economic objectives to the dictates of external balance.

At the other extreme is the adjustment mechanism of freely fluctuating exchange rates. Under this model, equilibrium is established by equating the currency's supply and demand in the foreign exchange markets without intervention by either national monetary authorities or any international institution such as the International Monetary Fund. Because the exchange rate is automatically adjusted in the market,[9] the external equilibrium constraint is largely removed. Consequently, this system allows countries greater freedom in pursuing their own domestic policies of full employment, economic growth and price stability.

B. *The Adjustable Peg System*

The Bretton Woods system represents a compromise between the fixed and freely fluctuating systems, albeit a compromise that leans strongly toward fixed exchange rates. The bias of the system in its present form must be understood in light of the competitive devaluations of the 1930's, which were still fresh in the minds of the drafters

9. *See* L. ROBBINS, THE ECONOMIST IN THE TWENTIETH CENTURY 98-101 (1954). Leland B. Yeager provides the counterargument in INTERNATIONAL MONETARY RELATIONS 107 (1966): "Monetary independence means freedom for recklessness and prudence alike.... And as for 'discipline,' a free exchange rate may itself be a useful alarm signal, indicating domestic inflationary tendencies more conspicuously than an external deficit would and rallying public protest more promptly." *See also* E. SOHMEN, FLEXIBLE EXCHANGE RATES 236-37 (1969).

of the Fund Agreement.[10] Stabilization or fixing of the exchange rates was "the most important consideration in the drafting of the Fund Agreement."[11]

Under the present system, often referred to as the "adjustable peg system," countries fix the value of their national currency in terms of gold and undertake to maintain that value at the pegged level, with fluctuations allowed only within the permitted band of one per cent. The exchange rates are not unalterably fixed, however, and disaligned rates resulting in a "fundamental disequilibrium" may be seasonably adjusted by altering the exchange rate in relation to the pegged price of gold. Such alterations require the concurrence or approval of the Fund.

C. *Dissatisfaction With the Adjustable Peg System*

Although the Fund Agreement assures international control over national currency and the safeguard of the fundamental disequilibrium concept prevents unnecessary or excessive devaluations among members, the adjustable peg system has been only mildly successful. The problem faced by the system is that countries are reluctant to devalue to a realistic level of exchange rates. Consequently, the concept of fundamental disequilibrium is devoid of practical value because countries devalue only by means of major realignments in periods of crisis. Moreover, since the realignment is from one peg to another, the official calculation invariably makes a larger change than is needed to stay on the "safe side." The devaluing country is left with a maladjustment of the opposite kind to that with which it started. Moreover, the excessive change incidentally creates a deficit for another country. Even in the face of fundamental disequilibrium, prompt and effective exchange rate alignment is often delayed as long as possible. Only when the short-term borrowings from financing the deficit are exhausted is the exchange rate forced into a crisis situation requiring action.[12]

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10. *See, e.g.*, E. SOHMEN, INTERNATIONAL MONETARY PROBLEMS AND THE FOREIGN EXCHANGES (1963).

11. S. HORIE, THE INTERNATIONAL MONETARY FUND 102 (1964).

12. This rigidity also accentuates the liquidity problem since large borrowing facilities must exist to take care of prolonged adjustments of internal price levels. If available, such long-term borrowing facilities enable the deficit country to live on the real resources of other countries! Sir Roy Harrod believes, however, that even larger reserves are necessary to bring the present system into more effective use: "I would submit that, as an absolutely necessary precondition of bringing the adjustable peg into more active use, there should be set up a very large permanent fund, analogous to the credits recently granted to the United Kingdom, for offsetting precautionary capital flights due to the belief that a particular currency

These adjustment difficulties are derived primarily from political rather than economic reasons;[13] since devaluation is considered a blow to national prestige, the act of altering the exchange rate may involve heavy political costs.[14]

The implications of this rigidity in the adjustable peg system are extremely serious should self-discipline fail to achieve equilibrium for a disaligned exchange rate. For if adjustment through exchange rate variation is precluded by this rigidity, it must be achieved through internal price level variation, which extracts a high price domestically and is politically unrealistic in the vast majority of cases.[15] Faced with this dilemma, countries will be more inclined to attain external equilibrium through the least desirable methods of direct control, such

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may shortly be devalued. Without this, I do not believe that countries will be willing to adopt a frequent use of the adjustable peg as part of their normal policy." Harrod, *The Speed of Adjustment,* in MAINTAINING AND RESTORING BALANCE IN INTERNATIONAL PAYMENTS 142 (1966).

13. *See, e.g.,* S. MARRIS, THE BÜRGENSTOCK COMMUNIQUE: A CRITICAL EXAMINATION OF THE CASE FOR LIMITED FLEXIBILITY OF EXCHANGE RATES (1970). Marris notes: "Many outside observers are inclined to attribute refusal to devalue, even when this involves evident masochism, to human weaknesses—misplaced chauvinism, ultra-conservative central-bank attitudes, failure of those responsible for managing the system to do their job properly, and so on. But it may well be that excessive reluctance to make parity changes under the present system is entirely explicable in terms of the economic and political facts of life." *Id.* at 18.

14. Even developing countries retain hostile attitudes toward devaluations. J. Bhagwati, in his THE THEORY AND PRACTICE OF COMMERCIAL POLICY: DEPARTURES FROM UNIFIED EXCHANGE RATES (1968), observes the following attitude of India toward devaluation: "In India, for example, as also in countries that have inherited the British traditions in the civil service, there seems to have been a carryover of the distrust and dislike of devaluations, which are viewed practically as affronts to national dignity. Such attitudes, of course, seem very funny in countries which have rarely had the remotest claims to having a prestigious currency (in *any* sense of the term), but they are quite real, as we discovered when pressing for devaluation in India in June 1966." *Id.* at 60.

15. Fritz Machlup adds the following remarks on curing the overevaluation of the U.S. dollar: "This overevaluation could be 'cured' by means of a devastating deflation in the United States and/or poisonous inflations in the surplus countries; but only fools or brutes would prescribe such a cure. All responsible officials now understand that a major realignment of exchange rates is needed to bring about the required adjustment without subjecting several economies to damaging deflationary and inflationary treatments." F. MACHLUP, BOOK VALUE OF MONETARY GOLD 4 (1971). For the contrary and traditional view of adjustment under the present system see P. EINZIG, THE CASE AGAINST FLOATING EXCHANGES 178 (1970).

as quantitative restrictions, exchange controls, tariffs and restrictions on capital movements.[16] As previously discussed, the unavoidable conclusion is that changes in the present system must take one of two approaches. The first would retain the present system intact and permit increasing resort to direct controls and other interferences with international trade.[17] The alternative is the free trade approach that would liberalize international trade and concurrently permit greater flexibility of exchange rates. The widening of the band is one of the proposals to engraft this much needed flexibility into the present system.

D. *Reform Through the Wider Band*

At present the Fund permits fluctuations in the value of a member's currency to the extent of one per cent above or below the peg. The proposal to widen the band, which is advocated by many economists and an increasing number of government spokesmen,[18] envisages an expansion of this one per cent margin to five per cent.[19] The wider the band, the nearer the proposal approaches the freely fluctuating exchange rate model.[20]

The present de facto wider band regime of the Fund allows fluctuations of up to two and one-quarter per cent from the peg at par value or central rate. The flexibility of the regime is restricted, however, at the upper and lower limits. At these limits the exchange rate

16. *See* W. SCAMMELL, *supra* note 7, at 106-14.

17. The same conclusion is drawn by Richard N. Cooper in his testimony before the House Committee on Foreign Affairs. *Hearings on The International Implications of the New Economic Policy Before the Subcomm. on Foreign Economic Policy of the House Comm. on Foreign Affairs,* 92d Cong., 1st Sess. 150 (1971).

18. *See generally* AM. SOC'Y INT'L L., LONG-TERM INTERNATIONAL MONETARY REFORM 7-11 (1972); G. HALM, THE BAND PROPOSAL: THE LIMITS OF PERMISSIBLE EXCHANGE RATE VARIATIONS (1965); R. ROOSA & F. HIRSCH, RESERVES, RESERVE CURRENCIES AND VEHICLE CURRENCIES: AN ARGUMENT 24-28 (1966); ECONOMIC REPORT OF THE PRESIDENT 146-50 (1969); ECONOMIC REPORT OF THE PRESIDENT 136-40 (1970); F. HIRSCH, THE EXCHANGE RATE REGIME: AN ANALYSIS AND A POSSIBLE SCHEME 273-78 (IMF Staff Papers); Meier, *The Bretton Woods Agreement–Twenty-Five Years After,* 23 STAN. L. REV. 235, 265-67 (1971).

19. For a criticism of the band proposal see P. EINZIG, *supra* note 15, at 164, 167.

20. The freely fluctuating exchange model is obviously more nearly approximated as the width of the band is increased. This is not to say, however, that a wider band is therefore always desirable.

will be just as rigid as under the official one per cent system. Given continuing upward pressure at the upper limit, the rate can increase only through revaluation. Similarly, devaluation is necessary to correct the rate because of continuing downward pressure at the lower limit of the band.[21] The proposed wider band coupled with a sliding parity approach may provide an answer to this rigidity at the limits of the narrow band.[22] Under this proposed scheme, very small and frequent peg alterations would be permitted in addition to the wider band. Instead of the abrupt and substantial adjustments in exchange rates, sliding parity changes would be extremely small, *e.g.*, two per cent per annum or one-sixth of one per cent monthly.[23] Such a scheme of sliding parities could successfully deal with the normally divergent balance of payments disequilibrium caused by national inflation, superior technological innovation and differential growth. Sliding parities, however, could not cope with the infrequent case of rapid change in a country's competitive position. In these situations, greater flexibility in the form of wider bands or freely fluctuating exchange rates would be needed in order to achieve equilibrium.[24]

Adoption of the wider band model offers three distinct advantages. First, it would give greater national autonomy in the pursuit of monetary policy without affecting short-term capital movements through interest rate differentials.[25] Secondly, it would permit balance of payments adjustment through gradual and continuous variations in the exchange rate. Finally, it would discourage speculative movements as frequent changes within the band, and the sliding parity, if tied to the band proposal, would reduce profit possibilities by increasing the risk of losses. The first advantage provides the most powerful reason for changing the present system.

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21. *See, e.g.*, Marsh, *The Fixed-Reserve Standard: A Proposal to "Reverse" Bretton Woods*, in Halm, *supra* note 6, at 261; Hunt, *Recurrent Crises Plague World Monetary System*, FED. RESERVE BANK OF DALLAS BUS. REV. 6 (Sept. 1971).

22. *See generally* J. WILLIAMSON, THE CRAWLING PEG (1965); Halm, *Toward Limited Flexibility of Exchange Rates*, in Halm, *supra* note 6, at 3, 16-21.

23. *See, e.g.*, F. MODIGLIANI & H. ASKARI, THE REFORM OF THE INTERNATIONAL PAYMENTS SYSTEM 19-20 (1971). The rate of slide/crawl should be large enough to accommodate the maximum expected rate at which currencies may become misaligned. The maximum rate of crawl of currencies since World War II has been about two per cent per annum.

24. *See, e.g.*, W. BRANSON & T. WILLETT, POLICIES REGARDING SHORT-TERM CAPITAL MOVEMENTS 26 (1970).

25. *See* F. MODIGLIANI & H. ASKARI, *supra* note 23, at 6.

The political trade-off between acceptable domestic unemployment and external equilibrium often poses a dilemma. For example, as early as 1968 persistent United States balance of payments deficits of increasing magnitude, combined with the Government's distate for adjusting through deflation and higher unemployment, prompted the Subcommittee on International Exchange and Payments of the Joint Economic Committee of the United States Congress to recommend that Congress take the initiative and propose a regime of the wider band.[26] It was within this context that the wider band proposal was accepted by the Fund in December of 1971. The four and one-half per cent band adopted, however, is a pure band regime and does not contain a scheme of sliding parities.

III. CURRENT LEGAL EXCHANGE RATE REGIME

A. *Par Value System*

When member nations join the International Monetary Fund they are obligated to fix the par value of their currencies. Par values are "expressed in terms of gold as a common denominator or in terms of the United States dollar of the weight and fineness in effect on July 1, 1944."[27] Once the par values are fixed, member nations must maintain these parities and insure their effectiveness. More specifically, this means honoring the obligations of article IV, sections 2, 3 and 4(b).[28]

Under article IV, section 2, members are obligated to refrain from buying gold at a price above par value plus the prescribed margin and to avoid selling gold at a price below par value minus the prescribed margin.[29] The wording of the section clearly prevents members from buying gold at a premium or selling it at a discount to any party, whether or not that party is a Fund member. The necessity of such a provision was recognized as early as June 18, 1947. At that time the Fund took the position that transactions in gold outside the prescribed margins tend to undermine world exchange stability and purchases and sales at premium involve losses to monetary reserves, since much of this gold finds its way into private hoards rather than to the monetary authorities.[30]

26. *See also* ECONOMIC REPORT OF THE PRESIDENT (1969); ECONOMIC REPORT OF THE PRESIDENT (1970).

27. Art. IV, § 1(a) of the Fund Agreement.

28. All article references are to the Fund Agreement.

29. The prescribed margins above and below par value are set forth in rule F-4 of the Fund's Rules and Regulations. The upper limit of the variation must not exceed one per cent of par value.

The other basic obligation of members in maintaining the value of fixed parities arises under article IV, sections 3 and 4(b). Members undertake to observe the prescribed maximum and minimum rates for exchange transactions between their currencies within their territories. Article IV, section 3, states:

> The maximum and the minimum rates for exchange transactions between the currencies of members taking place within their territories shall not differ from parity (i) in the case of spot exchange transactions, by more than one percent; and (ii) in the case of other exchange transactions, by a margin which exceeds the margin for spot exchange transactions by more than the Fund considers reasonable.

The first sentence of article IV, section 4(b) adds:

> Each member undertakes, through appropriate measures consistent with this Agreement, to permit within its territories exchange transactions between its currency and the currencies of other members only within the limits prescribed under Section 3 of this Article.

The foregoing provision is subject to the stipulation that margins in excess of the one prescribed may be approved by the Fund or authorized under the Fund Agreement. In addition, the arithmetic of arbitrage between member currencies involving other than intervention currency widens the one per cent margin to two per cent. For instance, assuming the dollar as the intervention currency, it follows that if one member's exchange rate moves to one per cent premium against the dollar and the other's to a one per cent discount, their cross rate at this extreme would be the sum of the two permitted margins, which is two per cent.[31] In 1959 the Fund ruled that the one per cent margin was restricted to spot transactions involving a member's intervention currency. Wider margins of up to two per cent are permitted for spot transactions involving other member currencies.[32]

30. SELECTED DECISIONS OF THE EXECUTIVE DIRECTORS AND SELECTED DOCUMENTS OF THE INTERNATIONAL MONETARY FUND 13-14 (1971) [hereinafter cited as SELECTED DECISIONS].

31. *See* Fawcett, *The International Monetary Fund and International Law,* 12 BRIT. Y.B. INT'L L. 37 (1964).

32. IMF Executive Board Decision No. 904 (59/32) of July 24, 1959, in SELECTED DECISIONS, *supra* note 30, at 15, states: "The Fund does not object to exchange rates which are within 2 percent of parity for spot exchange transactions between a member's currency and the currencies of other members taking place within the member's territories, whenever such rates result from the maintenance of margins of no more than 1 percent from parity for a convertible,

B. *Changes in Par Value*

While the founders of the Bretton Woods system adopted the fixed exchange rate regime to encourage stabilization by fixing par values, they clearly envisaged changes under certain conditions. The Fund Agreement sets forth two basic conditions that must be met before a member may revalue or devalue its currency:

> (1) a member can propose a change in its par value only when it is necessary to correct a fundamental disequilibrium;[33] and,
> (2) a change in the par value may be made only on the proposal of the member concerned and only after consultation with the Fund.[34]

The first provision permits a change in the par value in the event of a fundamental disequilibrium, but provides no definition for the concept of fundamental disequilibrium. Consequently, a determination of whether a fundamental disequilibrium exists is within the discretion of the Fund. An early interpretation of the term by the Fund sheds some light, however, on the flexibility of the concept. In September of 1946, the British Government asked the Fund whether a member country, wishing to maintain full employment but suffering from chronic or persistent unemployment, could take measures to

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including externally convertible, currency." The legal authority for the decision is derived from art. VIII, § 3, under which the Fund can approve multiple currency practices. On this point see H. AUFRICHT, THE FUND AGREEMENT: LIVING LAW AND EMERGING PRACTICE 44 & n.143 (1969). An interesting bypass relieves a member from its obligation to maintain the value of its currency within prescribed margins, provided it undertakes a separate substitute obligation. For example, if a member buys and sells gold for the settlement of international transactions subject to the prescribed margin limitations of article IV, section 2, that member is deemed to be maintaining the value of its own currency in terms of gold. Art. IV, § 4(b). Consequently, the member is in compliance with its obligation to insure that exchange transactions within its territory involving its own and other member currencies are within the permitted margins, even though in fact that may not be the case. A member is maintaining the value of its currency under the provision if: (a) the member freely buys or sells gold for its own currency whenever the monetary authority of any other member so requests, and (b) the member has no exchange restrictions on either current or capital transactions. *See* Gold, *The Code of Conduct,* in 2 M. DE VRIES & J. HORSEFIELD, THE INTERNATIONAL MONETARY FUND: 1945-65, at 560 (1969) [hereinafter cited as DE VRIES & HORSEFIELD]. The United States was the only member who sold and bought gold under this provision. Since the recent dollar inconvertibility, this provision is now mainly of historical interest.

33. Art. IV, § 5(a).
34. Art. IV, § 5(b).

protect its economy in the face of pressure from a balance of payments problem. The question presented was whether a country in such circumstances was faced with a fundamental disequilibrium within the meaning of the Fund Agreement. The Fund recognized the existence of a fundamental disequilibrium under these circumstances.[35] This case provides only a general guide, however, and since no limits have been specified each case must be treated separately on its merits. It is noteworthy that the Fund can object to a change in par value proposed by a member when, in its judgment, the change is insufficient to correct the fundamental disequilibrium.[36] At the same time the Fund recognizes that the necessary extent of the proposed correctional change cannot be precisely determined. Consequently, the member is given the benefit of any doubt in this determination.

A member faced with a fundamental disequilibrium and desiring a change in its par value must consult the Fund on the proposed change. The member is not required to seek the Fund's approval should the change—together with all previous changes of revaluations and devaluations—be ten per cent or less of the initial par value.[37] For a change in par value exceeding ten per cent but within twenty per cent of the initial par value, the member must seek the Fund's approval, and the Fund is obliged to declare its attitude within 72 hours if the member so requests.[38] For a change in excess of twenty per cent of the initial par value, the Fund's approval must likewise be sought, but in this case the Fund is not bound to take action within 72 hours.[39] If a member changes its par value in spite of objection from the Fund, the member concerned is barred from using the Fund's resources, subject to the Fund's discretion in the matter.[40] If, after a reasonable period, the dispute between the member and the Fund continues, that member may be required to withdraw from the Fund under article XV, section 2(b).[41] In only one case to date, however, has a member been compelled to withdraw by the application of this ultimate sanction.[42]

35. IMF Executive Board Decision No. 71-2 of Sept. 26, 1946, in 3 DE VRIES & HORSEFIELD, *supra* note 32, at 227.

36. IMF Executive Board Decision No. 278-3 of March 1, 1948, in SELECTED DECISIONS, *supra* note 30, at 17.

37. Art. IV, § 5(c)(i). Almost all major trading nations have exhausted this ten per cent par value change.

38. Art. IV, § 5(c)(ii).

39. Art. IV, § 5(c)(iii).

40. Art. IV, § 6.

41. Art. IV, § 6.

42. In June, 1953, Czechoslovakia, then a Fund member, carried out currency reforms and devalued its currency in excess of 40% without consulting the Fund.

C. *Multiple Exchange Rates*

Under a system of multiple exchange rates, different buying or selling rates are applied according to the nature of the transactions or to the class of goods and services involved. Consequently, not all exchange rates under the multiple exchange regime are related to par value as defined by article IV, sections 3 and 4(b).[43] Introduction or adaptation of multiple exchange rates by members, therefore, is prohibited unless approved by the Fund.[44] Moreover, the Fund's approval is transitional or temporary and requires an early cessation of the practice by the member securing the approval. This prohibition, however, does not affect the Fund's approval of other multiple exchange practices.[45] Although it has no authority to approve a unitary fluctuation exchange rate, the Fund can approve a fluctuating exchange rate if it is a multiple currency practice.[46]

Under multiple currency practice, a country may make foreign currency scarce by reducing its selling rate, by imposing a tax on its sale or by selling it at one rate for essential imports and auctioning all other imports to the highest bidder. These measures restrict imports and have the same effect on international trade as quotas or tariffs. Similarly, certain preferred exports may be encouraged by a more favorable buying rate. Thus multiple currency practices may be used to restrict and distort international trade[47] —an end quite contrary to the Fund's basic purpose, which is "to facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all

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When Czechoslovakia failed to give satisfactory reasons for the change, the Executive Directors declared on November 4, 1953, that it was ineligible to use the Fund's resources. After a further elapse of time without reply from Czechoslovakia, it was struck from the roll of members on December 31, 1954. *See* 2 DE VRIES & HORSEFIELD, *supra* note 32, at 63-65, 389; S. HORIE, THE INTERNATIONAL MONETARY FUND 102 (1964).

43. Different buying and selling rates within the margin allowed by article IV, section 3(i) do not constitute a multiple exchange practice.

44. Art. VIII, § 3.

45. *See* Gold, *Unauthorized Changes of Par Value and Fluctuating Exchange Rates in the Bretton Woods System,* 65 AM. J. INT'L L. 126 (1971).

46. IMF Executive Board Decision No. 237-2 of Dec. 18, 1947, in SELECTED DECISIONS, *supra* note 30, at 108-09. For an explanation of this anomaly see Gold, *supra* note 45, at 127.

47. *See, e.g.,* M. DE VRIES, MULTIPLE EXCHANGE RATES: EXPECTATIONS AND EXPERIENCE 282-313 (1965) (IMF Staff Papers).

members . . . ."[48] Accordingly, to insure that multiple currency practices are not detrimental to international trade, the Fund formulated a basic policy as early as December 19, 1947, in a letter and memorandum to the members.[49] The guideline principles are as follows:

> (1) Members should consult the Fund before introducing a multiple currency practice, a change in any existing multiple rates, a reclassifying of transactions to which multiple rates are applicable, or making any other significant change in their exchange systems.[50]
>
> (2) Members should take steps to remove multiple currency practices that are not necessary for balance of payments reasons. The Fund, however, will encourage members employing multiple currency practices for balance of payments reasons to establish, as soon as possible, conditions permitting their removal to establish a fixed single exchange rate under the Fund Agreement.[51]
>
> (3) In view of the desirability of simplifying complex multiple rate systems, the Fund will not approve such systems unless reasonable progress is being made towards their simplification and final removal, or at least steps that are likely to result in such progress are being taken.[52]
>
> (4) In order to simplify and eliminate complex multiple currency systems, the Fund will offer technical assistance as well as the use of its resources.[53]

D. *Fluctuating Exchange Rates*

Under its Articles of Agreement, the Fund cannot approve a unitary fluctuating exchange rate regime, *i.e.* a regime in which the exchange

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48. Art. I, § (ii).

49. *See* ANNUAL REPORT OF THE INTERNATIONAL MONETARY FUND 65-72 (1948). In 1948, France carried out currency reforms in which, *inter alia,* it made an unauthorized change of par value and introduced discriminatory multiple currency practices. The Fund disapproved of these measures and imposed the most powerful sanction short of requiring withdrawal, barring France from using the Fund's resources. *Id.* at 36-38, 76-78. *See also* 1 DE VRIES & HORSEFIELD, *supra* note 32, at 200-04.

50. ANNUAL REPORT OF THE INTERNATIONAL MONETARY FUND 66 (1948).

51. *Id.* at 67.

52. IMF Executive Board Decision No. 649 (57/33) of June 26, 1957, in SELECTED DECISIONS, *supra* note 30, at 113.

53. *Id.*

rate is determined by the market and is allowed to move beyond the prescribed margins of one per cent above and below par value.[54] It has been suggested that the Fund should at least approve a fluctuating rate as a transitional device to facilitate change from one par value to another by testing the market to determine the appropriate level for the new par value in correcting the fundamental disequilibrium.[55] Unfortunately, the Fund Agreement authorizes only the immediate substitution of a new par value for the previous one,[56] leaving the Fund without legal authority to approve a fluctuating rate even in this temporary situation. If a member were to adopt a fluctuating rate in order to test the market for its new par value, the adoption would constitute a failure to maintain the exchange rates within prescribed margins in violation of article IV, sections 3 and 4(b). Violation of these provisions subjects the member to the serious consequences of article XV, although the Fund has discretion to decide whether to apply these sanctions.

The Fund's official view has been that, although it cannot approve fluctuating exchange rates, they may be tolerated temporarily in emergencies, *e.g.*, when they are needed to enable a member to prevent a breakdown in its trade.[57] In these circumstances the Fund will exercise discretion in favor of the member and refrain from declaring it ineligible to use the Fund's resources. Ultimately,

54. *See also* materials cited note 32, *supra.*

55. *See, e.g.*, Muhammad, *Some Aspects of the Exchange Rate Policy of the IMF*, PAKISTAN ECON. J. (Sept., 1951); Hunt, *supra* note 21, at 7-8.

56. Art. IV, § 5. "A member of the Fund cannot, within the terms of the Articles of Agreement, abandon a par value that has been agreed with the Fund except by concurrently proposing to the Fund the establishment of a new par value. What a country can do under the circumstances described above is to inform the Fund that it finds itself unable to maintain rates of exchange within the margins of its par value prescribed by the Fund Agreement, and, accordingly, that it is temporarily unable to carry out its obligations under Sections 3 and 4(b) of Article IV." ANNUAL REPORT OF THE INTERNATIONAL MONETARY FUND 40 (1951).

57. ANNUAL REPORT OF THE INTERNATIONAL MONETARY FUND 26 (1948); EXECUTIVE DIRECTORS OF THE INTERNATIONAL MONETARY FUND, THE ROLE OF EXCHANGE RATES IN THE ADJUSTMENT OF INTERNATIONAL PAYMENTS 27 (1970). "A system of fluctuating exchange is not a satisfactory alternative to the par value system. But there may be occasional and exceptional cases where a country concludes that it cannot maintain *any* par value for a limited period of time, or where it is exceedingly reluctant to take the risks of a decision respecting a par value, particularly when uncertainties are considered to exist." ANNUAL REPORT OF THE INTERNATIONAL MONETARY FUND 39 (1951).

however, the member may be required to withdraw[58] if it persists in maintaining flexible exchange rates in violation of the Fund Agreement.[59]

E. *Members' Duty to Collaborate*

The Fund has developed customary international monetary law in implementing its basic strategy of promoting exchange stability, maintaining orderly exchange arrangements and avoiding competitive exchange depreciation among members.[60] This strategy is imposed upon the members of the Fund as an individual obligation under article IV, section 4(a):

> 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.[61]

The Fund has relied on this broad provision in requiring or recommending desirable conduct or prohibiting behavior on the part of the members.[62] This provision becomes even more important in

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58. That is the sanction of art. XV, § 2.

59. Interestingly, Fund practice has been more tolerant of fluctuating rates in the less developed countries. EXECUTIVE DIRECTORS OF THE INTERNATIONAL MONETARY FUND, *supra* note 57, at 26-28. The only developed country adopting flexible exchange rates is Canada, which adopted the practice from 1950 to 1962 and again since 1970. There have been instances in which members temporarily instituted fluctuating rates. For example, Germany let its rate fluctuate with the market from September 30, 1969, to October 26, 1969, to determine the mark's true market value. It is a misnomer, however, to call the Canadian regime "temporary." It is nevertheless tolerated as a valid exception to the par value system. For a history of fluctuating exchange rates and the Fund members see 2 DE VRIES & HORSEFIELD, *supra* note 32, at 152-73.

60. Art. 1, § (iii).

61. Art. IV, § 4(a). Note that a similar provision is incorporated in members' obligations on Special Drawing Rights. Article XXVIII states: "In addition to the obligations assumed with respect to special drawing rights under other Article of this Agreement, each participant undertakes to collaborate with the Fund and with other participants in order to facilitate the effective functioning of the Special Drawing Account and the proper use of special drawing rights in accordance with this Agreement."

62. See Joseph Gold's excellent essay, *The Duty to Collaborate with the International Fund and the Development of Monetary Law*, in LAW, JUSTICE AND EQUITY: ESSAYS IN TRIBUTE TO G. W. KEETON 137-51 (R. Holland & G. Schwarzenberger eds. 1967).

formulating exchange rate policies in situations in which the Fund Agreement is silent or does not provide the clarity and detail required to deal with a threat to the Bretton Woods system. For example, in 1948 France made an unauthorized change of its par value and instituted discriminatory multiple currency practices that were not approved by the Fund.[63] The Fund issued the following obligations on members by the authority of article IV, section 4(a):[64]

(1) Fund approval was necessary for the introduction or adoption of discriminatory currency arrangements involving rates of exchange such as those instituted by France at the time.

(2) Neither the former par value nor the new exchange rates for the franc were binding on members, and they were not bound to take appropriate steps to insure that these new rates were observed in exchange transactions in their territories.

(3) France was obliged to cooperate with the Fund to keep the ill effects of its unauthorized changes to a minimum, and as soon as possible, to collaborate with the Fund to achieve the objects and purposes of the Fund Agreement.

(4) Other members were not released from exchange rate obligations under the Fund or allowed to resort to retaliation against the franc. They were equally obliged to limit the undesirable effects of the French action to a minimum and hence avoid exchange disorder.

IV. Temporary Illegal Regime of the Wider Band

A. *The Smithsonian Agreement*

More than seven months after the decision to float the dollar on the foreign exchanges, a series of meetings of the Group of Ten,[65] from December 16 to December 18, 1971, produced the Smithsonian Agreement.[66] This agreement provided for the realignment of the world's major currencies, wider margins of exchange rate fluctuations and trade liberalization. Faced with this *fait accompli*, the Fund accepted the wider band proposal and issued a press release dated

63. *See* note 49 *supra.*

64. *See* Gold, *supra* note 62, at 143-46.

65. The Group of Ten consists of the countries that participate in the IMF's General Agreements to Borrow—Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States.

66. XXIII *International Fund News Service* 417-18 (1971). For an interesting comment see The Economist, December 25, 1971, at 10-12.

December 19, 1971,[67] that put a temporary wider band regime into effect. Although a resumption of the par value system with the narrow one per cent margin is contemplated, this event is not likely to occur if the wider band proves as successful as some economists predict. In all probability, the wider band will eventually be adopted as one of the general reforms of the present international monetary system.

B. *Dual Exchange Rate Regimes*

The conduct of the members under the wider band regime is outlined by the Executive Board Decision of December 18, 1971.[68] This decision creates two exchange rate regimes. First, the old exchange rate regime proscribes rate variations of more than one per cent from par.[69] The decision also creates a second and newer regime applicable to those members who notify the Fund of their intention to use the wider band. Under the wider band regime a member may permit spot exchange rate variations of up to two and one-quarter per cent from par value or central rate,[70] giving a total band spread of four and one-half per cent. The size of this spread presents the opportunity for members to indulge in multiple currency practices.

As already mentioned, the Fund's position on multiple currency practices was presented in a letter and memorandum of December 19, 1947.[71] The last section of the memorandum reads as follows: "[a]n effective buying or selling rate which, as the result of official action, *e.g.*, the imposition of an exchange tax, differs from parity by more than one percent, constitutes a multiple currency practice." According to this section, if the multiple exchange rate is within the prescribed margins of article IV, sections 3 and 4(b), there is no breach of the Fund obligation under article VIII, section 3.[72] An unconditional widening of the band, therefore, presents the possibility of

67. Press Release No. 862 (December 19, 1971), XXIII *International Fund News Service* 418 (1971).

68. IMF Executive Board Decision No. 3463 (71/126), in *Central Rates and Wider Margins—A Temporary Regime in IFNS,* XXIII *International Fund News Service* 419 (1971).

69. *See* note 54 *supra.*

70. A central rate is a stable exchange rate used for exchange transactions by a member who temporarily does not maintain par value in accordance with article IV, §§ 3, 4(b). A central rate is the equivalent of par value in pegging the movement of exchange rates within the wider band. *See* materials cited note 68 *supra.*

71. *See* note 49 *supra. See also* IMF Executive Board Decision No. 649 (57/33) of June 26, 1957, in SELECTED DECISIONS, *supra* note 30, at 112-13.

72. *See* note 54 *supra.*

maintaining differential buying and selling spot rates within the four and one-half per cent band, as such rates would be within the new prescribed margins. While a multiple currency practice at two per cent of parity may not disturb world trade greatly, a four and one-half per cent differential between buying and selling rates may produce a contraction of international trade. To guard against this possibility, the Executive Board Decision of December 18, 1971, makes the new regime available to members subject to the condition that, within the four and one-half per cent band spread, spot rates for buying and selling are impermissible in excess of two per cent unless approved or authorized under article VIII, section 3 or article XIV, section 2.[73]

C. *Illegality of the Wider Band*

The Executive Board Decision of December 18, 1971, implies authority to establish a wider band under article IV, section 4(a) and the Board of Governor's Resolution adopted on October 1, 1971.[74] As previously discussed, the broad provisions of article IV, section 4 (a) are applicable only where the Fund Agreement is silent or ambiguous on details of practice or where retaliations may threaten the stability of the international monetary system. In these situations, the Fund may take the necessary steps to promote the purposes of exchange stability or maintain orderly exchange arrangements. Article IV, section 4(a) gives the Fund no authority either to suspend or to amend the Bretton Woods system, and under no circumstances can the

73. *See* materials cited note 68 *supra.*

74. The preamble to the IMF Executive Board Decision of December 18, 1971, states: "This decision is adopted by the Executive Directors in order to indicate practices that members may wish to follow in present circumstances consistently with Article IV, Section 4(a) and Board of Governors Resolution No. 26-9, which called on all members to collaborate with the Fund and with each other in order to maintain a satisfactory structure of exchange rates within appropriate margins." The IMF press release of December 19, 1971, is similarly worded: "This decision was adopted by the Executive Directors to indicate the practices that members may follow in the present circumstances consistently with (i) their obligation under Article IV, Section 4(a) of the Fund's Articles of Agreement under which a 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, as well as with (ii) the Board of Governors Resolution adopted at the 1971 Annual Meeting of the Board of Governors which calls on all members to collaborate with the Fund and with each other in order to maintain a satisfactory structure of exchange rates within appropriate margins."

Agreement be construed to provide the legal underpinning for the present regime of the wider band. A resolution of the Board of Governors is equally ineffective to alter the basic legal obligations of members under the Fund Agreement,[75] unless it takes the form of an amendment to the Fund Agreement Articles.

As a result, members adopting the wider band are in breach of one of their basic obligations—to prevent the fluctuation of spot rates outside the margins authorized by article IV, sections 3 and 4(b). Of course, the use of differential buying and selling exchange rates outside one per cent of par value constitutes the additional violation of indulging in multiple currency practices without prior approval. Since the Fund can approve or authorize fluctuations under article VIII, section 3 or article XIV, section 2, however, the provisions of the Executive Board Decision of December 18, 1971, may be interpreted as a generalized approval for all the members.[76]

Article XVI,[77] which provides for a temporary suspension of certain obligations, may be interpreted as a legal basis for the regime of the wider band. It requires, however, a unanimous vote of the Executive Directors and, in addition, limits the suspension to 120 days with a maximum extension of the suspension to another 240 days, provided the Board of Governors so decides by a four-fifths majority.[78] There is no further power under article XVI to extend the suspension except by way of amendment.[79] An amendment to establish the wider band requires approval by the Board of Governors prior to its required acceptance by three-fifths of all members having four-fifths of the voting power.[80]

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75. IMF Board of Governors Resolution No. 26-9 on the International Monetary System of Oct. 1, 1971, in IMF SUMMARY PROCEEDINGS OF THE 26th ANNUAL MEETING OF THE BOARD OF GOVERNORS 331-32 (1971). The Resolution itself is couched in very general terms and in fact does not set up a regime of the wider band. The relevant directive states: "Members of the Fund are called upon to collaborate with the Fund and with each other in order, as promptly as possible, to (a) establish a satisfactory structure of exchange rates, maintained within appropriate margins, for the currencies of members . . . ."

76. *See* materials cited note 68 *supra.*

77. Art. XVI, § 1(a)(i) states: "In the event of an emergency or the development of unforeseen circumstances threatening the operations of the Fund, the Executive Directors by unanimous vote may suspend for a period of not more than one hundred-twenty days after the operation of any of the following provisions: Article IV, Sections 3 and 4(b)."

78. Art. XVI, § 1(c).

79. Art. XVI, § 1(c).

80. Art. XVII, § (a).

V. CONCLUSION

The establishment of a legal regime via the suspension of obligations under the Fund Agreement obviously demands the extremely difficult and protracted task of achieving unanimity among the Fund members. In addition, the suspension is limited to a maximum of 360 days. This method also courts the possibility of adverse publicity indicating the near collapse of the adjustable peg system. The creation of a legal regime through an amendment of the Fund Agreement, on the other hand, is elaborate and only slightly less stringent in terms of the voting requirements. Moreover, attaining the requisite majorities within a short period of time is extremely difficult. These problems have led to the establishment of an illegal regime, but one which almost all members of the Fund have adopted.[81]

For an international economic institution like the Fund, unanimity or the requisite weighted voting majority is all the more difficult to negotiate, since many diverse interests must be accommodated. While most members may agree on the need for reforming the present exchange rate regime, they often do not agree on the particular reform proposed and the details of its implementation. The United States Treasury has been expressing clear support for the widening of the band since July of 1970. At that time, its proposal to widen the band to two or three per cent was coolly received by members of the European Economic Community, who limit their margins to as little as three-quarters of one per cent as signatories to the European Monetary Agreement.

In any new lasting international monetary arrangement the special role of the United States must be recognized. Because of its very size and virility the United States economy has a disproportionate effect on international trade and capital movements. Moreover, the economic issues are closely tied to United States foreign policy interests.[82] Whether the NATO allies should be more tolerant of the United States deficit in light of the presence of troops in Europe at the request of host governments is typical of the questions that would have to be answered. Consequently, the forging of a new monetary arrangement will require considerable time to accommodate the economic and political interests of powerful trading nations.

The adjustable peg system is too demanding in its self-discipline and requires an unrealistic relinquishment of the freedom to pursue

81. For countries that have notified the Fund on adoption of the wider band see XXIII *International Fund News Service* 421 (1971).

82. Bergsten, *Taking the Monetary Initiative,* 46 FOREIGN AFFAIRS 717 (1968). *See also* S. MARRIS, *supra* note 13, at 42-50.

domestic employment policies. It is more unrealistic for a country as powerful as the United States, in which exports represent only six per cent of its gross national product, to pursue sharply deflationary policies for exchange rate realignment. This would clearly be a case of permitting the tail to wag the dog. In a world of growing protectionism and increasing economic nationalism, an international exchange rate policy dictating alignment through deflation or inflation only intensifies forces that strangle international trade.

The widening of the band is certainly a welcome move in the right direction. It is not enough by itself, however, to effectuate the broader purposes of reform—such as providing members with a "greater independence in monetary policy and the management of the price level, and . . . the advantage of a stable, livable system that minimizes the scope for political conflicts."[83] At the upper and lower limits of the band the same undesirable features of the adjustable peg system take over. The present band of four and one-half per cent probably needs to be widened further and should be combined with sliding or crawling parities. The parities must be subject to small adjustments more than once a year. Furthermore, the Smithsonian principle that surplus countries must share the initiation of exchange rate adjustment previously limited to deficit countries should be incorporated into the present reforms.[84] When the flexibility within the system is inadequate to accommodate the necessary change within the band, countries should be allowed to float their currencies temporarily[85] to enable them to gauge the size of the change more accurately and to stifle quick profits to speculators.

These reforms raise a further and more basic question of the extent of power granted to the Fund to enforce compliance with the new code. To what extent should countries be prepared to surrender sovereignty over exchange rate policies in the interests of the international community represented by the Fund? Some argue that the Fund needs no more than the ability to set the code of

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83. F. MODIGLIANI & H. ASKARI, *supra* note 23, at 28.

84. AM. SOC'Y INT'L L., *supra* note 18, at 27. *See also* Volcker, *Remarks at the Annual Meeting of the Minnesota Economic Association,* DEP'T OF THE TREASURY NEWS, Oct. 27, 1972; EXECUTIVE DIRECTORS OF THE INTERNATIONAL MONETARY FUND, REFORM OF THE INTERNATIONAL MONETARY SYSTEM—A REPORT BY THE EXECUTIVE DIRECTORS TO THE BOARD OF GOVERNORS 16-17 (1972) [hereinafter cited as IMF EXECUTIVE DIRECTORS].

85. This thought has now been expressed in IMF EXECUTIVE DIRECTORS, *supra* note 84, at 21.

behavior.[86] It probably should not have greater power to initiate the required behavior and impose stronger sanctions for noncompliance than those existing under the Bretton Woods system. Others recommend a strong disciplinary approach and would prefer a transfer of more power to the Fund, which would allow it to initiate changes in exchange rates with severe sanctions for noncompliance.[87] The final solution, however, will be derived from a resolution of conflicts that are basically political. Member countries must decide on the degree of acceptable international discipline compatible with the pursuit of their individual economic and political aims.

The United States view represents the broader thinking on the present reform proposals. The Shultz proposal goes beyond the reform of the monetary system to embrace the whole range of related questions on trade, investment and development.[88] While monetary reform is essential to the continued growth of international trade, greater progress can be achieved by the removal of the impediments to freedom of trade and payments that have resulted from direct controls utilized in the past. This comprehensive approach can stem and turn the protectionist tide by combining the challenge of formulating a lasting exchange rate regime with the concurrent pursuit of the appropriate economic policies that will liberalize international trade and investment.

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86. *See, e.g.,* Bernstein, *Why the IMF Needs Strengthening,* 4 INT'L CURRENCY REV. 14 (1972).

87. Triffin, *International Reserves, National Currencies and Exchange Rates,* 4 INT'L CURRENCY REV. 12 (1972). *See also* Volcker, *Remarks at the International Finance and Monetary Reform Session of the 59th National Foreign Trade Convention,* DEP'T OF TREASURY NEWS, Nov. 13, 1972, at 13-17; Volcker, *Monetary Reform: Problems and Progress,* 4 INT'L CURRENCY REV. 16 (1972); IMF EXECUTIVE DIRECTORS, *supra* note 84, at 17-18.

88. Statement by the Hon. George P. Schultz, Secretary of the Treasury and Governor of the Fund and the Bank for the United States, at the Joint Annual Discussion, IMF—IBRD Press Release No. 21, at 2-4 (Sept. 26, 1972); Volcker, *supra* note 84, at 14-15; Eberle, *Reforming the World Trading System,* 4 INT'L CURRENCY REV. 8 (1972). The Committee of Twenty is specifically directed not only to look at the monetary aspects of reform but also to consider its interrelationship with trade, investment and development.