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A Framework for International Monetary Reform?

by G. Zis, Salford*

The European Monetary System (EMS) has, so far, proved to be a success. The regional approach to the promotion of monetary stability, in terms of both more predictable exchange rates and a reduction in inflation, is the only option available to Europe as attempts to create a new international monetary system without an inflation bias and national initiatives to reduce inflation have failed. Can the EMS, building on its success, so evolve as to facilitate the reform of the international monetary system and the permanent reduction of inflation?

The European Monetary System in the three years of its existence has shown a resilience that has surprised the sceptics and encouraged the supporters of a united Europe. In contrast, the reform of the international monetary system remains as elusive as at any time since March 1973 when the "system" of managed exchange rate flexibility was instituted. The success of the European Community in taking the first steps towards monetary stability and the failure of the world economy to agree on a new set of durable international monetary arrangements reflect the relative decline of the US. America's failure to retain the position of dominance which it enjoyed until the early 1960s resulted in the gradual impotence of the old institutional structures and in the search for new institutions more representative of the emerging relations of economic power, both among the major industrial countries and between the advanced and the less developed economies.

With the world economy going through a transitional phase it was, perhaps, inevitable that no progress would be made during the 1970s in controlling the rate of inflation at the world level. In other words,it is hardly surprising that the IMF has not succeeded in providing the framework for the decision-making necessary for the reduction of inflation at the global level, given that the institutional arrangements of the Bretton Woods system stimulated and accommodated the acceleration of inflation in the late 1960s and early 1970s by allowing the US to pursue monetary policies incompatible with world price stability. Similarly, it would be naive to expect rapid progress towards the radical reform of the international monetary system in the presence of high and variable inflation rates which, furthermore, differ substantially among countries.

The 1981 IMF Annual Report describes the "need for the industrial countries to control inflation" as "imperative". This diagnosis is indisputable. However, if this objective cannot be achieved at the international level because the necessary institutional arrangements do not exist, and given that world inflation cannot be controlled by individual countries acting in isolation, the regional approach towards the goal of monetary stability is the only alternative. The European Monetary System (EMS) can, therefore, provide the basis for a sustained reduction in world inflation. Indeed, to the extent that it succeeds in promoting monetary stability in the European Community, it may well become the avenue leading to the new international monetary system which has so far eluded policy-makers.

The course of inflation since the early 1960s has demonstrated the validity of Friedman's proposition that "*inflation is always and everywhere a monetary phenomenon* in the sense that it is and can be produced only by a more rapid increase in the quantity of money than in output"[1]. Recognition of the monetary nature of inflation has not, however, resulted in a consensus as to how inflation can best be reduced. The continuing debate on anti-inflation policy reflects a shift of emphasis regarding the ultimate determinants of inflation. More specifically, studies of the inflation problem have increasingly focused on a discussion of what determines the rate of growth of the money supply. Governments are subjected to a variety of pressures. Their response, in the pursuit of particular monetary policies, is not determined by capricious behaviour but is the outcome of rational judgements on what are the policies which are likely to enhance the likelihood of their re-election[2]. In analysing the policy decisions of vote-maximising governments, it is possible to allow for trade union militancy, income distribution conflicts, oil price shocks and other similar developments which affect the

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[1] M. Friedman: The Counter-Revolution in Monetary Theory, First Wincott Memorial Lecture, The Institute of Economic Affairs, London 1970, p. 24; italics in the original.

[2] Cf., for example, R. J. Gordon: The Demand for and Supply of Inflation, in: Journal of Law and Economics, 1975.

rate of growth of the money supply and, therefore, the rate of inflation.

Secondly, agreement has now emerged that inflation is an international monetary problem rather than "a series or collection of individual national problems"[3]. This diagnosis of the nature of inflation rests on an analysis of the determinants of the rate of change of price which builds on the implications for price interdependence among countries of alternative exchange rate regimes. Thus under fixed exchange rates countries' rates of inflation will tend to converge towards the world rate, while under flexible exchange rates national rates of inflation need not necessarily exhibit any tendency towards convergence.

Theory, therefore, would predict that under the Bretton Woods system "the rate of inflation in the world economy (would) be determined by the rate of world monetary expansion relative to the world rate of real economic growth"[4].

Monetary Expansion in the 1960s

Table 1 presents data on money supply growth rates for the industrial countries and the US. It is evident that throughout the 1960s the industrial countries' money supply growth rate exhibited an upward trend. Even more pronounced, however, is the acceleration of the US money supply growth rate. Given the size of America relative to the industrial countries' economy, the data would suggest that US monetary policies after 1962 were principally responsible for inducing a rising trend in the industrial countries' money supply growth rate. Note, however, that while the US monetary policies became more expansionary, the industrial countries' money supply growth rate declined during 1964-67. This of course implies increasing divergence between the US and the other industrial countries' monetary policies. This divergence persisted during 1969-70 when the US money supply growth rate was sharply reduced. The industrial countries' rate did decline but not as steeply, which would imply that the other industrial countries adopted more expansionary monetary policies. Finally, it appears that there was a general monetary acceleration during the years 1971-72. These monetary developments, therefore, are consistent with the diagnosis of inflation as an international monetary problem. The average rate of inflation of the industrial countries increased from 2.2 % for the period 1958-64 to 4.1 % for the years 1965-72.

The demonstration of a relationship between the world inflation and world money supply growth rates, interesting though it may be, merely pushes the problem one stage further back. To this extent, then, its usefulness is limited. What is required is an understanding of the factors which engendered and permitted the observed money supply growth rates in the US as well as in the other countries. This, in turn, necessarily involves an analysis of the role of the Bretton Woods system in stimulating the acceleration of the world money supply growth rate.

Whatever may have been the intentions of the creators of the Bretton Woods system, by the early 1960s the world had in effect moved to a dollar standard. This implied that the US was not subject to the same balance of payments constraints as, say, Italy or France. Indeed, no country has ever been able to effect a monetary policy as expansionary and for as long as the US did during the period 1963-1968.

The international monetary system, having evolved into a dollar standard, combined with the size of the US to provide an incentive to America to pursue inflationary policies. Through the use of expansionary monetary policies the US could impose the inflation tax on the rest of the world. In exchange for real resources the rest of the world accumulated depreciating dollar balances. For US governments the use of the inflation tax had obvious attractions relative to conventional taxes. Thus the decision to finance domestic social programmes and the Vietnam war by expanding the money supply rather than by raising domestic taxes can be viewed as the rational response of vote-maximising governments.

The increase in the US money supply growth rate resulted in a continually rising balance of payments surplus for the rest of the world. But countries became increasingly unwilling to accumulate ever larger amounts of dollar balances. Consequently, by the end of

[3] H. G. Johnson: Inflation and the Monetarist Controversy, North-Holland 1972, p. 9.

[4] H. G. Johnson, op. cit., p. 85.

Table 1
Money Supply Growth Rates

	1958-60	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Industrial Countries	4.2	5.8	5.4	7.4	7.2	6.8	6.3	5.8	7.9	7.0	6.0	11.3	11.5
USA	1.6	1.7	1.6	3.1	3.6	4.1	4.7	4.2	7.5	5.3	3.5	6.8	7.3

Source: International Financial Statistics, May 1977.

Table 2
Dispersion of Inflation and Money Supply Growth Rates

	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Money	3.5	3.8	2.1	2.9	5.0	3.8	4.4	4.5	5.9	4.2	6.9	4.6	4.6	7.1	5.8	4.2	4.5
Inflation	1.4	1.1	1.2	1.6	1.8	1.5	1.6	1.8	2.3	4.9	5.4	4.6	4.1	3.0	4.1	5.3	4.1

Source: European Economy, various issues.

the 1960s major industrial countries, other than the US, were faced with the dilemma of either accepting the monetary consequences of America's balance of payments deficits or themselves adopting expansionary policies and, therefore, stimulating further inflationary pressures. Countries in the late 1960s, having accumulated excess dollar reserves, became more inclined to introduce expansionary measures, thus reinforcing the inflationary consequences of US monetary policies.

In brief, then, the Bretton Woods system, by generating rising and diverging money supply growth rates, inflicted on the world not only the acceleration of inflation but also the international monetary non-system which followed the second devaluation of the dollar in February 1973.

Developments since 1973

The abandonment of the Bretton Woods exchange rate arrangements did not lead to the containment of the inflationary pressures which had emerged by 1973. On the contrary, during 1973-1975 the inflation rate in every EC country, except Germany, and in the US, Canada and Japan exceeded 10 %, with the UK's rate of change of prices rising as high as 23.6 % in 1975. Reductions from these peak rates proved small and temporary in most countries. For example in the US the rate of inflation increased to a new peak of 13.5 % in 1980, while in the UK the rate of change of prices was only once below 10 %, when it declined to 8.3 % in 1978. By 1980 it had climbed back to 18 %. Japan, on the other hand, succeeded in reducing its inflation rate for five consecutive years from the peak 1974 rate of 22.7 % to 3.6 % in 1979, though in 1980 it temporarily increased to 8 % before falling back to 4 % in 1981. The most successful record is that of Germany, whose rate of inflation during the 1970s fluctuated between 7 % in 1973-74 and 2.7 % in 1978.

Table 3
Level and Variability of Inflation

	1960-1969		1970-1981	
	Average	Standard Deviation	Average	Standard Deviation
Germany	2.6	0.9	5.3	1.5
France	4.2	1.4	9.5	3.1
Japan	5.4	1.3	8.6	5.5
UK	3.5	1.3	12.6	5.1
US	2.3	1.4	7.9	3.0

Source: Data from European Economy, various issues.

Not unexpectedly this increase in inflation rates throughout the industrialised world has been associated with a rise in money supply growth rates. For example, the average rate of growth of M_2 for the EC countries rose from 11.3 % for the period 1960-72 to 13.7 % for the years 1973-78. During the latter period, the same monetary aggregate in the US increased at an average rate of 10 % in contrast to an average rate of 8.1 % for the years 1960-72. The sharp falls in real growth rates imply, of course, that these rises in money supply growth rates were highly inflationary.

Table 2 presents data on the dispersion of inflation and money supply growth rates in the EC countries, US and Japan. Dispersion is measured by the standard deviation. It is evident that since 1973 countries' monetary policies have become more divergent than in the previous period. However, the dispersion of inflation rates has increased even more sharply. This phenomenon can easily be explained. Monetary theory predicts that under fixed exchange rates the dispersion of money supply growth rates will not give rise to a similar dispersion in national inflation rates, but will be reflected in balance of payments disequilibria. Under flexible exchange rates the divergence of national monetary policies will determine exchange rate changes and the differences among countries' rates of inflation.

Developments during the 1970s have confirmed the existence of a relationship between the level and the variability of inflation. The data in Table 3 not only demonstrate this relationship but also indicate the increased volatility of inflation during the 1970s.

If the variability of inflation was predictable then a higher average rate of inflation would not result in real changes relative to a period associated with a lower average rate of inflation. Taylor[5], however, presents empirical evidence in support of the proposition that changes in the variability of inflation are correlated with

[5] J. B. Taylor: On the Relation between the Variability of Inflation and the Average Inflation Rate, in: K. Brunner, A. H. Meltzer (eds.): The Costs and Consequences of Inflation, Carnegie-Rochester Conference Series on Public Policy, Vol. 15, 1981.

changes in its predictability. Therefore, the increased variability of inflation can be expected to have real effects by increasing uncertainty in the economy. Friedman, for example, has argued that an increase in the variability of inflation will result in a rise in the natural rate of unemployment[6]. This proposition rests on the argument that the more volatile inflation is the more difficult it becomes to distinguish between relative and absolute price changes, so that prices become less efficient transmitters of information. As a result resources are misallocated with inevitable consequences for the labour market. It would be difficult to deny that the increased unpredictability of inflation has been a major contributory factor in the sharp rise of unemployment in all the industrialised countries during the post-1973 period.

Exchange Rate Volatility

As has already been noted countries' monetary policies continued to diverge after 1973 as well as exhibiting a high degree of volatility. This has resulted, predictably, in large exchange rate fluctuations. Frenkel in his study of the dollar/pound, dollar/French franc and dollar/Deutsche Mark exchange rates estimated the average absolute monthly percentage change in the three exchange rates to exceed 2 % per month during the period June 1973-February 1979[7]. This figure is twice as large as that for the corresponding change in the cost of living index in the four countries.

As in the case of inflation rates the post-1973 volatility of exchange rates has been accompanied by an increase in the unpredictability of exchange rates. Frenkel's study suggests that though forward exchange rates are the best predictors of future spot rates they are highly inaccurate. He estimated the standard error of future spot rate forecasts based on the forward rate to be approximately 3 % per month for the three exchange rates.

The greater volatility of exchange rates than of inflation implied that the three exchange rates sharply diverged from the values that would be required for purchasing power parity. Short-run exchange rate changes were not significantly influenced by inflation rate differentials. Instead, short-run exchange rates were dominated by changes in expectations. Expectations were highly volatile during the 1970s as a result of the foreign exchange market being subjected to a series of shocks associated with important politico-economic developments in the world. Frenkel's evidence, however, is consistent with the proposition that the deviations from purchasing power parity tend to disappear in the long run.

Exchange rate uncertainty is likely to have detrimental effects on the rate of growth of world trade. In this respect it is worth noting that while the average rate of growth in the volume of world trade was 8.5 % during the period 1962-72, it declined to 5.3 % for the years 1973-1980.

Further, the uncertainty of real exchange rates would act as an incentive towards a reallocation of resources to the production of goods and services which do not enter international trade. However, since productivity in the non-traded goods sector is lower and increases more slowly than in the traded goods sector, the expectation then is that exchange rate flexibility will tend to increase the natural rate of unemployment.

In summary, then, the principal feature of the post-1973 period was highly volatile exchange rates and inflation, leading to increased uncertainty in the world economy with real economic consequences in terms of resource misallocation.

The Response to Monetary Instability

The increasing monetary instability of the late 1960s, reflected in the acceleration of inflation, ever larger balance of payments disequilibria and highly volatile capital flows, prompted countries to seek solutions at both the national and international level. The search for a viable reform of the international monetary system received a further impetus when the US decided to suspend the gold convertibility of the dollar in August 1971.

The Committee of Twenty was established in July 1972 with the task of reporting on all aspects of international monetary reform. In June 1974 it presented an *Outline of Reform*[8]. The absence of consensus is reflected in the ten Annexes, all dealing with issues on which agreement could not be reached[9].

It was possible, however, to reach unanimous decisions on a number of issues. Thus the Committee recommends that one of the main features of international monetary reform should include "the SDR becoming the principal reserve asset and the role of

[6] M. Friedman: Inflation and Unemployment: The New Dimension of Politics, The 1976 Alfred Nobel Memorial Lecture, The Institute of Economic Affairs, London 1977.

[7] J. A. Frenkel: Flexible Exchange Rates, Prices and the Role of "News": Lessons from the 1970s, in: Journal of Political Economy, 1981.

[8] IMF: International Monetary Reform: Documents of the Committee of Twenty, 1974.

[9] For an excellent discussion of the negotiations see J. Williamson: The Failure of World Monetary Reform, 1971-74, London 1977.

gold and of reserve currencies being reduced"[10]. Such a development would potentially have reduced the inflationary and destabilising effects of US monetary policies and allowed the volume of international liquidity to increase at an internationally agreed and non-inflationary rate.

The Committee of Twenty, though it recommended that the world should move to an SDR standard, could not agree on how such an evolution could be achieved. Crucial to the emergence of the SDR as the "principal reserve asset" would be the establishment of a substitution account which would gradually lead to the diminution of the role of the dollar in international monetary affairs. This subject has been under discussion since it was raised in the *Outline* but agreement has not been possible, principally because of US opposition[11].

The *Outline*, further, recorded agreement on the desirability of an "exchange rate regime based on stable but adjustable par values and with floating rates recognised as providing a useful technique in particular situations"[12]. This agreement, however, could not serve as a basis for reform along the indicated path. The Second Amendment of the Articles of Agreement of the IMF, in force since April 1978, simply legitimised the exchange rate practices that countries adopted after March 1973 by abrogating all par values established under the original IMF rules.

The Second Amendment, though it aims at establishing the SDR as the principal reserve asset, does not provide for a substitution account. Thus, despite a number of measures seeking to enhance the role of the SDR, the world since 1973 moved more firmly on to a dollar standard. Indeed, the foreign exchange component of total reserves excluding gold has increased from 101.5 billion SDRs in 1973 to 309.8 billion SDRs in May 1981 while the volume of SDRs as a proportion of total reserves excluding gold has declined during this period from approximately 9 % to 5.5 %.

The major countries were equally unsuccessful in their attempts to promote monetary stability through domestic measures. Increasing reliance was placed on controlling money supply growth rates and on announcing the target rates of monetary expansion. In the absence of systematic policy coordination and a stable international monetary environment, these efforts were not fruitful in reducing inflation rates. Indeed, divergent monetary policies induced such capital flows and exchange rate fluctuations that countries were forced on occasion to abandon their policies[13]. Instead, rates of unemployment began to rise while protectionism gained new supporters.

The European Monetary System

The EC member countries' decision to establish the European Monetary System in March 1979 was, therefore, reached against a background of failure to effect international monetary reform or potent domestic measures in the attempt to reduce inflationary pressures[14]. Agreement to launch the new system was facilitated by the absence throughout the 1970s of any coherent US policies towards international politico-economic developments, and by the willingness of Germany to formulate, with France, policy initiatives without the prior consent of America.

The EMS seeks to promote "a zone of monetary stability in Europe" through increased monetary co-operation among the member states. This objective has been interpreted, by a number of commentators, solely in terms of exchange rates. Such an interpretation, however, is entirely inconsistent with the lessons of the 1970s, when changes in the assessment of governments' intended policies generated changes in expectations which dominated short-run exchange rate changes. For greater exchange rate stability to become possible, domestic policies must be so adjusted as to reduce the volatility of expectations, and such an adjustment of policies must entail money supply growth rates that could not sustain the inflation rates experienced after 1973. Therefore, the only interpretation of "monetary stability" that is logical and consistent with the facts is one that recognises the incompatibility of exchange rate stability with high inflation rates[15]. That is, the objective of monetary stability implies not only less volatility in exchange rates but also a reduction in inflation rates.

In terms of exchange rate stability the EMS so far has been a success. During the last three years the fluctuations in the exchange rates of the participating countries against the ECU have been the smallest since 1972. The only exception is the Danish crown. This is a

[10] IMF, op. cit., p. 8.

[11] For a discussion of this issue cf. Polak, in: IMF Survey, pp. 337-339, 1980.

[12] IMF, op. cit., p. 8.

[13] See M. Sumner: The Operation of Monetary Targets, in: K. Brunner, A. H. Meltzer (eds.): Monetary Institutions and the Policy Process, Carnegie-Rochester Conference Series on Public Policy, Vol. 13, 1980.

[14] For a general discussion of the issues involved cf. T. De Vries: On the Meaning and Future of the European Monetary System, Essays in International Finance, No. 138, Princeton University.

[15] The price dimension of monetary stability is emphasised by T. Padoa-Schioppa: The EMF: Topics for Discussion, in: Banca Nazionale del Lavoro Quarterly Review, 1980.

Table 4
Dispersion of National Money Supply Growth Rates

	1976	1977	1978	1979	1980	1981
Mean % growth rate	13.5	13.8	15.2	12.6	9.3	11.8
Standard Deviation	3.8	4.3	7.8	5.8	4.8	4.6

Source: European Economy, various issues.

remarkable success given that for the first two years of the EMS participating countries had to adjust to the second oil price rise. Further, changes in the central rates were effected in an orderly fashion and without a "crisis" background.

Since March 1979 the average rate of growth of participating countries' money supply has declined relative to the preceding three year period. Table 4 also presents data on the dispersion of national money supply growth rates as measured by the standard deviation. The evidence is that there is a growing convergence of monetary policies. Tighter and more convergent monetary policies would suggest that the EMS, in the absence of a policy reversal, will continue to provide a framework conducive to greater exchange rate stability.

Monetary developments, further, should ensure that participating countries' inflation rates will be on a downward trend, thus maintaining the 1981 progress after the rise of inflation during 1979-80.

The Next Steps

The success of EMS so far must serve as a stimulus to further progress towards consolidating the gains of the last three years and improving the prospects for a permanent reduction in inflation. The most urgent task must be to reach a decision on a set of unambiguous guidelines which will provide the basis for a common response of the participating countries to external shocks. Inevitably the most important aspect of such an agreement would relate to provisions for a common policy towards the dollar. The existing passive policy whereby the gyrations of the dollar exert pressure on the German mark, with the other member countries ensuring the stability of their currencies vis-à-vis the Mark, is a potential source of serious strain for the system because a permanent acceptance of this set of arrangements would imply the institutionalisation of the dominant position of the Mark. This would, in turn, imply that Germany would be responsible for the determination of the exchange rate relationships between member and non-member countries. The experience of both sterling and the dollar suggests that such a development would eventually undermine the stability of the system by offering incentives to the dominant country to exploit its power at the expense of others.

To facilitate the implementation of a European policy towards external disturbances, it is necessary that progress towards the creation of the European Monetary Fund be resumed[16]. The EMF could be entrusted with the execution of policies vis-à-vis non-member currencies. It is arguable that the EMF should be an independent EC institution, which in the future, if it were so desired, could evolve into the central bank for the EC. Such a future development would be all the more difficult if an independent status were not accorded to the EMF from its inception.

The creation of an independent EMF raises, of course, a number of serious political issues. However, the entrustment to the EMF of the management of the credit facilities and the execution of the common policy towards non-member countries do not necessarily involve sovereignty problems which could not be resolved in the short run. A gradualist approach would allow the EMF to evolve as and when participating countries become politically prepared to move on to the next stage of European integration.

Further, a European external policy implemented by the EMF would necessarily require a change in the current status of the ECU. It would involve its elevation to a genuine reserve asset. Reluctance to proceed towards an enhanced role for the ECU stems from fears that such a development may generate additional inflationary pressures. This argument, however, is less than convincing. Whether or not a fully fledged ECU results in inflationary pressures will depend on the participating countries' commitment to reduce inflation. If this commitment were to be weakened, then the system would collapse whatever the status of the ECU. There is no reason why a reformed ECU would necessarily have inflationary implications.

The formulation of a European dollar policy does not mean that the EC would not continue to be exposed to the consequences of changes in US policy. It could, however, facilitate negotiations with the US. In its absence, Europe cannot speak with one voice and, therefore, it is more difficult to influence American policies.

The Longer Run

Monetary instability, in both its price and exchange rate dimensions, can largely be attributed to the US policies since the early 1960s. The passage of time has

[16] Cf. T. Padoa-Schioppa, op. cit., and J. J. Polak: The EMF: External Relations, in: Banca Nazionale del Lavoro Quarterly Review, 1980.

not imparted a greater degree of cohesion to US foreign economic policies. During the 1970s the US has shown increasing signs of a preoccupation with solely domestic objectives. This may be an inevitable feature of the transition to a new set of international economic relations created by the relative decline of the US.

As the duration of the transition cannot be predicted, it is necessary for Europe to seek a regional approach to its problems. But ephemeral policies ought not to be a characteristic of this approach. Europe can serve the interests of the world economy, as well as its own, by adopting policies and erecting institutional structures which aim at a new and durable monetary order. The evolution of the EMS along the lines suggested above would open the way for the eventual monetary unification of Europe. The economic advantages of such a development are generally accepted[17]. What is in dispute is the political feasibility of such an objective and the relative merits of alternative strategies towards monetary union[18]. The parallel currency approach, with its emphasis on price stability and predictability to ensure the success of the new money through the market, is certainly the most appealing. However, Europe may not be yet ready to effect such a radical change. But this is not an argument for neither preparing nor working towards such an objective. If this argument were acceptable, then it would logically support the enhancement of the role of ECU and the creation of an independent EMF as desirable short-run objectives.

While the US searches to find its new role in the world economy, the prospects for a durable reform of the international monetary system are poor. Crucial to such a reform is the creation of a substitution account. The formulation of a common European policy could potentially facilitate negotiations with the US with the EMF playing a complementary role to the IMF part. An enhanced ECU, which eventually becomes available to non-member countries and with a value more predictable than that of the dollar, could erode the world position of the dollar and thus make a substitution account more acceptable to the US. Further, such a development would be welcomed by Third World countries who could hold this more stable asset. Of course, an element of competition with the SDR would be involved if such a course were to be pursued. However, this cannot be judged as undesirable given that the SDR will continue to be the poor relative in the system for as long as dollar balances remain the principal component of the stock of world foreign exchange reserves.

[17] Cf., for example, the studies in: M. Fratianni, T. Peeters (eds.): One Money for Europe, 1978.

[18] For a comprehensive discussion cf. R. Vaubel: Strategies for Currency Unification, Kieler Studien, No. 156, Tübingen 1978.

INTERNATIONAL MONETARY FUND

Should the IMF Resort to Private Credit Markets for Refinancing?

by Anton Konrad, Munich*

The International Monetary Fund is at present examining the possibility of borrowing on private capital markets in order to meet its growing refinancing needs. Reservations concerning such a step have been voiced in particular by the oil-importing developing countries. Professor Konrad analyses the pros and cons.

The second wave of oil price increases has dashed the hopes of an international balance of payments equilibrium between oil-exporting and oil-importing countries for some time to come. The OPEC countries' surplus in the payments balances on current account in 1980 (including private but not official transfers) amounted to $ 112.2 billion and the figure not yet available for 1981 was estimated by the IMF to be $ 96 billion[1]. The corresponding figures for 1980 for the industrialised countries and the oil-importing developing countries record deficits to the tune of $ 44.1 billion and $ 82.1 billion respectively. The developing countries, however, did not partake of the international improvement emerging in 1981; their deficit in fact continued increasing. The balance of payments problem experienced by developing countries and

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[1] IMF, Annual Report, 1981, p. 18.