Editorial

THERE RESOUND from all sides cries for a new "Bretton Woods", one of the first and more articulate coming from Mr. Robert Muldoon, the Prime Minister of New Zealand, with strong support from President Mitterand. As an initial step the Commonwealth ministers commissioned a study on the global financial and trading system as a whole and the role of the international economic institutions. A distinguished group has now produced its unanimous report,[1] which is reviewed elsewhere in this issue. This group endorses the need for a conference to negotiate new rules embracing both finance and trade, a need brought about by the breakdown of the old Bretton Woods agreement, the oil price rise, inflation, unemployment and protectionism. It advocates a cautious approach, built up by a group of some twenty ministers with the assistance of the heads of the international bodies concerned who would be in a position to secure a large measure of inter-governmental agreement before the conference was convened.

This report has already been considered by the Commonwealth finance ministers in Trinidad, where Mr. Nigel Lawson, the British Chancellor of the Exchequer, is reported as having described the proposals as "unnecessary". These might indeed have been unnecessary had the heads of government at Williamsburg chosen to have taken appropriate decisions. In the view of M. Giscard d'Estaing[2] (with perhaps ex-presidential wisdom) they should have included three firm commitments. First, for the United States and Canada to reduce their interest rates, secondly, for Japan to open its economy to the world, and thirdly for the European countries to introduce a greater convergence into their respective economic and financial policies.

Many of the remedies proposed are not new, and have indeed been under discussion for a number of years. The difficulty however is not in determining what ought to be done, for on this there appears to be a fairly wide consensus, but in persuading governments to take action. Experience seems to show that governments by themselves are unable or unwilling to take decisions in the general interest, and will only do so when they have the assistance of at the worst a traumatic crisis and at the best suitable international legal machinery. Maynard Keynes and Harry Dexter White were great persuaders, and they devised appropriate rules which were accepted by governments at Bretton Woods. So too, Jean Monnet succeeded in inducing the governments of the Six to convert the old coal and steel cartels into a European Community.

Mr. Muldoon himself has also been putting forward his own views.[3] He too stresses the need for a slow and considered approach before a conference is finally convened, and seems to find a solution in the establishment of an influential advisory body within the IMF, filling the place occupied now by the Interim Committee.

He writes:[4]

> I do not consider that we have anywhere near reached the point where governments will cede sovereignty in the area of economic policy by entering into contractual engagements along the classic lines of the GATT. We need, therefore, a body with sufficient *political* weight, whose findings might influence, but not bind, the sovereign economic decisions of governments and help to achieve more effective coordination among the major international economic institutions.

[1] *Towards a New Bretton Woods: Challenges for the World Financial and Trading System.* Commonwealth Secretariat, London 1983.

[2] "New Opportunities and New Challenges", *Foreign Affairs*, Fall 1983, at p.177.

[3] "Ground Rules for an Open World Economy", *Foreign Affairs*, Summer 1983, p.1078.

[4] At p.1095.

It is doubtful whether this goes far enough. Mr. Muldoon, as a prime minister, is anxious to keep all his options open, but it is precisely this attitude that has led to the present chaotic situation.

A technical contribution to the debate has been made in a considered article by Sir Joseph Gold[5], the former general counsel to the International Monetary Fund. He notes that the present feebleness of the Fund is due to the essential "softness" of the Second Amendment to the articles of the Fund, introduced in 1976 to repair the damage done by the United States. The Interim Committee established under the Second Amendment is only empowered to make recommendations. The intention was that this Committee would eventually be supplanted by a Council, which would be given a mandate from the Board of Governors to take decisions. "But," writes Sir Joseph, "the conclusion is inescapable that numerous members prefer the Committee to the Council because the Committee cannot take decisions." He then makes a number of suggestions of a procedural nature for strengthening the machinery of the Fund, in particular by the creation of the Council with a mandate to take decisions on matters of general policy.

Many countries, particularly in the third world, would be willing to accept proposals for strengthening exchange rate discipline, but this is not a North-South issue. It is one which primarily involves relations between the Group of Five, namely the United States, Britain, Germany, France and Japan, and it is those countries that must be persuaded into acceptance. What would seem desirable is that there should be a high-powered group able to commit governments that might eventually produce a document that would have the authority of the Spaak Report at the time of the formation of the European Economic Community.

To return to what was tantamount to a single supranational reserve currency is not practical politics—such a role is not conceivable for the SDR. In practice there are and will continue to be baskets of reserves but a less anarchic relationship between them is clearly required. Hence floating rates in some form or another are going to stay. But a cool and expert assessment of more than a decade's experience of them would be the first task of the high-powered group.

The Fund will remain the forum for the negotiation of monetary and credit arrangements. Its policies and means have evolved considerably in recent years, yet two major demands of developing countries remain controversial and require more detached study: conditionality, which is in the interests of all but could be better adapted to the needs of poor countries who suffer from events wholly beyond their control; and the management of the Fund which is a delicate issue, since if the countries which provide most of the resources believe it is losing its essential character they will simply take their decisions elsewhere. Moreover a further increase in resources will not be facilitated in this way. One problem is the failure of many developing countries—and their friends—to realize that the IMF is not and should not become another aid agency. More aid in the form of untied grants is sorely needed by the poorest countries but the tendency of the Group of 77 to seek what has been described as "aid with everything" is not helpful to the cause of world monetary reform. Monetary disorder is a symptom of a more serious disease and although the terms of reference of the high-powered group are bound to be wide they should also be precise.

[5] "Strengthening the Soft International Law of Exchange Arrangements", 77 *American Journal of International Law* (July 1983), p.443.