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ECONOMIC COMMISSION FOR AFRICA

Round Table of African and International Experts on International Monetary Reform and the African Interest

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TOWARDS AN AFRICAN APPROACH TO INTERNATIONAL MONETARY REFORM: A NOTE

1. A major problem in reforming the international monetary system is that the reform process, of research, negotiation and of political compromise, has to cope simultaneously with lingering problems arising from several historic episodes in international economic and monetary relations, problems which are constantly changing as much in their nature severity and significance as in the reactions to them of the principal groups of countries. Although the Bretton Woods framework is commonly adjudged to have weakened materially, we are still in many respects on a Bretton Woods standard at least for the majority of countries. The problems occasioned by the inadequacies of Bretton Woods are being compounded by the seemingly unending instability of the 'interim' regime of monetary management and, together, they and perhaps the entire process of reform seem destined to be overshadowed by possibilities of inflation and world recession, the intensification of payments adjustment problems, by an imminent restructuring of world production and trade patterns, and by a fundamental shift in the balance of world monetary power which could result from the energy crisis.

2. Two features characterised the decline of the international monetary system since the late 1950's. The first is the withering away in the more or less obligatory mechanisms designed to induce adaptive adjustments, particularly by the major trading and financial nations, when their parities were manifestly out of line with underlying price/cost and trading relations with their principal rivals. Inadequacies intensified as the tradition of co-operative action in the pursuit of collective goals all but disintegrated, with some nations increasingly disinclined to submit to the essential disciplines required for the effective functioning of the system.

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In addition, the arrangements for the creation, distribution and utilisation of international liquidity seemed no longer capable of meeting the effective liquidity needs of the majority of countries. The second feature has been a process of democratisation and dispersal of world trading and financial power and influence, in the first instance among the leading trading nations, in which the United States could no longer, rather by itself, bear or agree to continue to bear, on behalf of other powers including big ones the main burden of adjustment of the system as a whole, through the crippling customary processes of domestic inflation and of benign neglect of its cumulative deficits on international account.

3. The disruption and instability, and the ad hockery which have so far characterised the interim regime compelled concern in its earliest phases with possibilities for the realignment of central parities and the fabrication of measures for the emergency provision and redistribution of liquidities in order to permit less dislocating forms of adjustment. Around regimes of fluctuating exchange rates, on which great store had been reposed, have been developed a framework of arrangements for swap deals and co-operation among central monetary authorities, recycling capital flows, for wider bands, moving parity zones, etc., and much effort expended on the examination of problems of dollar overhang, consolidation possibilities, and so on. How much of these special measures in favour of the most developed countries, mainly, would - and should - become part of a reformed system is of course one of the basic problems in reform, in which the developing countries which are no less interested in the stability of the system have more than an indirect interest. As in essense special responses to localised problems - high rates of inflation in industrial countries, bilateral payments imbalances notably between the United States and Japan, and the persistent pressures of speculatively perverse capital movements - many of these initiatives for 'world' adjustments did not address themselves to the economic problems of the majority of countries. Thus, other than for a recognition of the need for adjustments in relative trade competitiveness, there has been much reluctance to accept the near-inseperability of money, trade and development problems.

4. Perhaps one feature of the energy dimension in monetary reform would be an intensification of awareness, and a greater willingness to do something about it, of the interdependence of money, trade and development issues. However, the problems which are now widely anticipated relate to possibilities of further inflation and deterioration in the balance of payments mainly of industrialised countries, some worsening in the terms of trade of the developing countries, the growing imminence of an extraordinarily massive oil revenue overhang and all that this would imply and the very real prospects of further instability in currencies. The focus of defensive measures, conceived perhaps inevitably at this stage in essentially short/medium terms, appears to lie in the harmonisation of interest rates in major financial centres, on co-ordination of foreign exchange intervention policies and activity, and in other action in the area of domestic anti-inflation policy. For the developing countries, there may well be a danger that the mainstream of reform activity and interest, which has not been running strongly in their direction, would be further diverted away from their direct detailed concerns. It would be well to consider practical measures to prevent such an outcome. On the other hand, judging from reactions to the energy crisis there are possibilities that the more durable solutions to the monetary as well as trade problems it would raise may lie in new forms of specialisation in production and trade and of co-operation within a substantially refurbished, more equitable monetary framework. That these radical realignments in production, trade and monetary relations may take place mainly between Western Europe, the United States and Japan, on the one hand, and the oil rich Arab countries, on the other, may pose special monetary and development problems for many developing countries particularly in Africa.

5. The effective delimitation of the scope of 'international monetary reform' seems principally a consequence of political convenience and reluctant consensus rather than a product of economic calculation. Although the need has been widely acknowledged, by the official reformers and by advocates of LDC interests alike, to use the occasion of the reform to promote economic development in the Third World and the flow of real

resources to it, there is yet much fragmentation of concerns and in reactions to them, even within the monetary field. Much of the discussion and negotiation of reform structures and possibilities appear, from the outside at least, to be unrelated to the on-going or transitional problems of the activation of SDR's, re-evaluation of the quota structure of the IMF, and the link between SDR's and the flow of financial resources. Yet interconnections abound. For example, the need to specify less stringent obligations for LDC's to take corrective action in the event of major reserve losses cannot be usefully assessed without reference either to a need to modify their debt service payments structures or to the possible impact of real resource transfers on their development possibilities and programming. What in particular can monetary reform contribute to easing debt servicing problems? More generally, efforts have to be intensified to translate more forcefully into operational terms the principle that the economic development objective of a reformed system must be advanced.

6. Much has been said in theory and in the negotiations about the need to develop a system of international monetary management which would serve the interests of the world economy. Developing countries in Africa may want to consider how relevant is a world economy perspective to their specific needs. What could global definitions of liquidity or assessment of optimum reserve and adjustment needs, and global bases of additional reserve creation and distribution contribute to solving their specific problems of misaligned parities, payments adjustment and of development finance? Where the interest in a stable international money order may not be homogeneous as between the principal groups of countries, what practical procedures can be established to ensure reasonable equity in the distribution of net gains from stability?

7. The African interest in international monetary reform could best be defined in terms of the impact on development possibilities and on the availability of real resources, of both the orthodox Bretton Woods system and the accident proneness of the interim regime. On the whole Bretton Woods was biased in favour of exchange rate stability, with orderly adjustment of parities through discrete changes when fiscal and monetary

deflation could not restore equilibrium. For some countries the system set the outer limits of domestic economic and development possibilities by regulating access to conditional liquidity and through relative insistence on a liberalisation of trade and payments. Largely as a result, growth may have been sacrificed to the maintenance of budgetary and balance of payments balance.

8. This adjustment regime bore somewhat heavily on those low income countries many in Africa, having low reserves in relation to their payments and adjustment needs and development finance requirements, countries which were more critically dependent than others on access to conditional liquidity, with conspicuously limited access to capital markets, even though they were often in dependent monetary relations with foreign master currencies and monetary zon

9. On the credit side, Bretton Woods, when it worked, did make possible a significant measure of openness and multilateralism in world trade, contributing to its rapid growth until the late 1960's and constituting the principal source of the slender gains the developing countries have had from their trading relations with the rest of the world. However, through changes in the relative trading positions of the major industrial countries – a process accelerated among other things by regionalisation in Europe, by the collapse of traditional structures of priviledged trade relations notably between Europe and Africa and the resulting greater competition in world trade – this success of the system has accentuated its defects in the adjustment field. The developing countries would thus be interested again in an adjustment regime which could restore multilateralisation in world trade.

10. It is fashionable to say that the interest of developing countries in securing an effective regime of exchange rate adjustment is essentially indirect, and would indeed be of no consequence if there were not excessive fluctuations in the currencies of principal financial centres and trading countries or restrictions on access to their markets. This effective abdication of concern would be no less self-defeating than an unduly exaggerated preoccupation with the problems of real resource transfers. It would seem desirable therefore for the developing countries collectively to develop positions on all the major substantive issues in reform, both because

11. The parities of most African currencies have traditionally followed sometimes without inter-governmental consultation or deliberate agreement the parity paths of their master currencies, with countries enabled through independent monetary initiatives to exercise only marginal direct influence on their own price, production and employment levels. Monetary reform should be expected to contribute to co-operation and monetary independence in Africa. Two areas in which this contribution would be critical are in the reduction of dependence on any one reserve center and the provision of an acceptable international reserve asset with a stable valuation base.

12. The SDR seems an obvious choice as a reserve asset for international and regional use, in order to enlarge the area of freedom of African and other countries to determine the composition of their external assets. SDR's would however have to be endowed with the desirable qualities, real or perceived, of conventional reserve assets, notably those which strengthen preference for them on the part of dependent currency countries over more 'neutral' assets. In this context as in the wider interest of a stable monetary order African countries may well consider the desirability of endorsement of an SDR standard.

13. While it is necessary to agree on African positions in the form of reform principles or of substantive reforms on other issues in the reform it would be helpful perhaps as a first step to determine as precisely as possible the present status of the reform exercise. If this were possible, (a) to secure a more or less definitive statement on the record of C20 deliberation, negotiation and decision outcomes, (b) to ascertain the principal tendencies in C20 consensus and the underlying structure of support, resistance, and of relative dominance and advantage, preferably on an issue-by-issue basis, (c) to ascertain the main questions remaining unsettled, particularly those which are vital to African interests, and in which there may be real or apparent disagreement or conflicts between specific African/LDC interests and those of industrial countries, in order to develop studies on them.

14. The available information on settled questions needs some clarification.

For example, it would appear that an understanding exists that any new proposals on the transfer of resources were to be viewed as being strictly supplementary to the link, where the issue now required only a political decision rather than any further technical discussion. If the technical discussion is closed what really has been decided? Is the political decision required in respect of technical alternatives or what? What supplementary resource transfer mechanisms beneficial to African needs are feasible and politically acceptable? What can monetary reform contribute towards this end?

15. Before the energy crisis, the official reformers were believed to be moving towards a reformed system having the following characteristics:

(a) the establishment of parities specified perhaps in terms of SDR's to be maintained through multi-currency intervention;

(b) wider margins either side of parity, possibly wider even than the Smithsonian limits which were expressed against the intervention currency;

(c) partial formalization of a system of pressures on countries to adjust their parities, mainly by reference to quantifiable indicators and agreed judgemental evaluations;

(d) progressive application of pressures backed by sanctions in the form of interest rates on reserve holdings, the specification of convertibility on foreign exchange balances, together with restrictions where necessary on the allocation of SDR's;

(e) a facility to resort to floating rates as a transitional measure or in exceptional circumstances where an established or new parity encourages disruptive market speculation.

16. Could an African position be designed on these specific possibilities, since there are obvious issues to be identified in each case in relation to a realistic conception of African interests?

17. Regarding the adjustment process, if indicators are to be employed, what specific indicators would be adequately reflective of African needs in adjustment - and for the finance of development? There seem for example

to be problems peculiar to African/LDC countries in the definition and quantification of liquidity needs, since concepts of need and of the factors affecting total demand for liquidity may be different in essential respects from those applicable to developed countries. Judgements on the present stock of global liquidity, on future liquidity needs, and the estimation of prospective increases in liquidity from all sources can be discernibly invalidated if the peculiar needs of the developing countries were not explicitly acknowledged. What kinds of pressures for adjustment would be most conducive to the attainment of realistic payments and development targets, and how best could they be applied? What precisely should be the objective of a multi-currency intervention system, in relation to African interests? How are rights and obligations in respect of asset settlement to be defined? What provisions are to be made for reserve or reserve-credit elasticity?

18. Would not floating rates or wider bands in the interim regime and possibly as a part of a reformed system pose special problems for African countries? What have been the effects so far of the regimes of floating currencies to which some African countries' currencies are directly or indirectly linked? If floating rates were to be allowed what safeguards could be built into a reformed system to advance African/LDC interests?

19. What other features of a refined system might it be desirable to advocate in furtherance of African interests?

20. Finally, it could be determined the extent to which the outline of a reformed system hammered out by the C20 in technical studies and through its peculiar processes of negotiation be definitive and delimit possibilities for further review and substantial modification.

21. This note, prepared at very short notice indeed, represents a tentative evidently impressionistic first step towards the appreciation of an African perspective and consideration of a position on specific issues in monetary reform. Its purpose is purely functional, to indicate in broad terms something of the range of African interests and some possibilities requiring much more rigorous examination. It is anticipated that the Round Table will begin the process of detailed review and orientation.