Hans Apel, From Bretton Woods to Jamaica

Caption: On 9 December 1975, in the publication Sozialdemokratischen Pressedienst, Hans Apel, Finance Minister of the Federal Republic of Germany (FRG), expresses his hopes of putting an end to discussions on the reform of the European monetary system at the meeting of the interim Committee of the International Monetary Fund (IMF), due to take place in Jamaica on 7 and 8 January 1976.

Source: APEL, Hans. Reden und Interviews. Band 4. Bonn: Bundesministerium der Finanzen, 1976. p. 64-66.

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From Bretton Woods to Jamaica

At the imminent 5th Meeting of the Interim Committee of the International Monetary Fund on 7 and 8 January 1976 in Jamaica, it is generally expected that it will be possible to draw a line under the long years of negotiations to reform the international monetary system. The justification for this hope is not only the agreement that has been reached on important issues, such as the gold question and quota increases, but also, above all, the outcome of the meeting of Heads of Government of the six leading industrialised countries of the Western world that took place in Rambouillet in mid-November to discuss the problem of exchange rates. At the same time, the hope is that, in Jamaica, there will also be success in responding to the justified demands made by the developing countries on the system of reform, without making excessive claims as to what monetary policy may achieve at all for the developing countries.

Once the expected agreement has been reached in Jamaica, this will find practical expression in corresponding changes to important provisions of the IMF Agreement, and the three-year period of uncertainty about the future shape of the international monetary system will be at an end. At the beginning of this period, in March 1973, the obligation on the central banks of the IMF member states to intervene on the currency markets was abolished. Essential parts of the previous IMF agreement based on the rules of the game set out in Bretton Woods had ceased to function as long ago as 1971. These developments, which gave the Western world a multiplicity of exchange rate systems ranging from the (previous) system of fixed parities to freely fluctuating rates to partial fixed rate systems (for example in the form of the European exchange rate mechanism, the ‘snake’), were the inevitable consequence of the currency crises of the preceding years. The increasing over-burdening of production reserves in major industrial countries, the accompanying worldwide increase in inflation and the lack of monetary discipline in the economic and financial policies of many countries had led to a situation that was bound to destroy the rigid system based on the principles of Bretton Woods. A greater flexibility in the monetary system therefore raised expectations that the differing economic policies of the individual countries would, in future, remain without the negative repercussions on the monetary system that had been experienced to date.

This expectation has been fulfilled only to a certain degree. The major reason for this is that the trial phase of the new more flexible system was already thwarted at the end of 1973 by the onset at that time of the oil crisis. It was, admittedly, possible to cushion the balance of payments upheavals that occurred in many countries during the course of this crisis with more flexibility than would have been possible under the old system. At the same time, however, the low degree of international cooperation that accompanied the period after Bretton Woods meant an additional uncertainty factor on the international monetary scene. Jumps in exchange rates, upheavals in the interest structure and speculations in gold were the consequence. These, but above all the serious collapse in the world economy following the oil crisis, therefore made rapid action to stabilise the monetary system a necessity.

What are, then, the most important elements of this new system? Without doubt, the first is the formulation of the future system of exchange rates that will be characterised on the one hand by a greater degree of flexibility than under the Bretton Woods system, and, on the other, by a higher degree of international cooperation than was the case during the transitional phase. Here, too, the question of the ‘principle’ of fixed and adaptable or perhaps more flexible exchange rates has only a secondary role to play. What will be much more important is to anchor that combination of stability and flexibility in a monetary system that will give the economy a reliable basis for calculation, without giving rise to new dangers of abrupt movements in exchange rates as a result of fundamental structural changes at international level. This kind of system certainly requires a high degree of close and permanent coordination between all those involved. By the same token, this coordination cannot really be handed over to a ‘neutral’ international authority. On the contrary, those who hold political responsibility must act themselves. The fact that this agreement has been achieved is the most important result of Rambouillet.

A second important element of the new monetary order is the abolition of the gold standard. As has been proved by fluctuations in the price of gold in the past, it is more than anachronistic to imagine continuing to base the monetary order on gold in the modern world. Therefore, there will no longer be an official price of gold in the IMF agreement. All other terms, too, that envisaged the use of gold — for example, the paying-in of quotas — will be changed accordingly. Furthermore, it has already been decided that the IMF will sell one third of its gold reserves which are officially valued at 6 300 million US dollars, and more precisely this will be one sixth to the member states and another sixth for the benefit of the developing countries. Finally, in future, all countries are also to be free to buy gold on the open market. Among the major countries, however, there exist agreements that they will not use this option to increase their total reserves in gold. These decisions will make it possible successfully to remove the monetary function of gold once and for all and thus allow a more rational approach to prevail in international monetary policy.

The decision to sell one sixth of the gold reserves of the IMF for the benefit of the developing countries means that it is particularly the countries most seriously affected by the oil price crisis that will profit to a decisive extent from this international redistribution of liquidity. The fiduciary fund to be set up for this purpose at the IMF, the details of which have, in fact, still to be determined, is to take its place alongside the special financing options that already exist at the IMF for the benefit of the developing countries. One of the functions of these possible sources of loans is to stabilise the revenue from exports by the developing countries. An additional interest subsidy, what is known as the IMF oil facility, in which the Federal Republic is also a participant, will be used to facilitate access to this special loan provision for those developing countries that are hardest hit by oil price rises.

Finally, one last point that is to be formally adopted in Jamaica should be mentioned here, and that is the raising of the IMF quotas. On this question, which relates to the 'capital shares', as it were, of the IMF member states, there have been serious disagreements lasting for months between the three groups of the industrial countries, the developing countries and the oil-producing countries. Pursuant to this decision, the outcome will be an absolute increase in the quotas from 29 000 million to 39 000 million special drawing rights, that is, by around one third, and therefore a doubling of the quota share of the oil-producing countries and to a simultaneous reduction of the quota share of the industrial countries, while the developing countries will retain their joint quota share. This decision is above all a reflection of account being taken of the greater importance of the oil countries in the monetary system as compared with what happened before. The increase in responsibility of the oil-producing countries for the monetary system that accompanies this greater importance should, for its part, benefit the dialogue with them about further trends in the price of oil. Finally, it should be noted that, under the new agreement, the EC countries will still retain their rights as a blocking minority in all important decisions of the IMF.

If it is adopted in the present form, the reform package emanating from Jamaica will put the international monetary system back on to a sound footing. At the same time, it will give support from the monetary side to the upturn in the global economy that has already begun, but without creating renewed risks affecting price stability. Finally — and this is particularly of importance for the Federal Republic that is so heavily dependent on foreign trade — it will help to prevent important partner countries from pursuing a trade policy of protectionist measures in order to avoid problems with their balance of payments. That constitutes an important reason for the committed support given by the Federal Republic to the reform of the international monetary system.

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