Statement by Pierre Werner at the Annual Meeting of the IMF Governors (Washington, 30 September 1971)

Caption: On 30 September 1971, Pierre Werner, Governor of the International Monetary Fund (IMF) for Luxembourg, gives an address at the Annual Meeting of the IMF Governors in Washington.

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Statement by the Hon. PIERRE WERNER,
Prime Minister and Minister of Finance and Governor of the Bank and Fund
for LUXEMBOURG, at the Joint Annual Discussion

In the history of economics, the Conference held at Bretton Woods in 1944 was the first attempt, crowned with success, to create and maintain a universal monetary order. This order is founded on clearly conceived and defined principles, which impose on member countries a certain discipline in securing fair play in their trade relations as far as the handling of currency is concerned. The Articles of Agreement establish and confirm the unchallengeable standard of reference between currencies by expressing the par values in terms of a weight of gold. At that time the role of the precious metal was in dispute as were the possible shortcomings of a monetary system based entirely on the use of gold as means of exchange between central banks. So far as the production and the use of gold might be discordant with the fluctuations of the economy or the needs for international liquidity, the consensus was to attribute a special position to the U.S. dollar, a position which was not disputed at that time. By these means the international payments system was endowed with the necessary flexibility and elasticity.

The system of fixed parities guaranteed secure trade conditions, the convertibility of the main currencies, and the expansion of trade, after an impoverishing war.

Now this regime, so salutary for the interlocking of markets, is badly shaken. So many voices advocate its reform. A further evolution of the Bretton Woods system is due. Let us hope that beyond the purely technical approach, we enter the discussion of new monetary rules with a truly universal spirit, with an enlightened vision of the needs of the coming generation, with the will to understand and give mutual support--which were those of the fathers of Bretton Woods and the postwar governments which put these agreements into practice. At this point I should like to pay special tribute, in gratitude to the successive governments of our host country, the United States of America, which assumed particular responsibilities during the running-in period of the monetary system and the launching of postwar production and world trade.

The successful results of the Fund's activities for more than 20 years (an impressive duration of a calm period in the tumultuous history of money), should induce us to search out or to recall the reasons for this good fortune and lead us to inquire into the origins of the crevices which recently appeared in the formerly solid edifice.

One of the chief mistakes to avoid under the present circumstances would be to use foreign exchange policy as a means of economic warfare. It would be equivalent to turning the money factor away from its true international role of promoting the best use of resources in order to allow all nations--in a fair division of work--to share equitably in the riches of the world. At the present stage of political and economic development, the sovereign rights in currency matters can only be handled with success and ultimate efficiency in the frame of a close cooperation among nations. This was considered to be true at Bretton Woods and it proves all the more true today!

The international monetary order should be strengthened by action in the IMF, through an increase of its competency and interventions. Performing its functions independently in the interest of all members, the Fund should open a new era in international currency relations.

We are faced in the first instance by urgent and immediate tasks of normalization to be tackled for short term within the framework of the present Articles of Agreement. On the other hand, there is the need of reforming the structure of monetary reserves, the research and shaping of which might take some time.

With respect to both immediate and future tasks, the member countries of the EEC have defined their position, which they hope will contribute to the solution of the current crisis. This harmonization of views--so evident among nations determined to form an econcmic and monetary union--will it really facilitate the solution of the global problem with which the international community is confronted? The efforts made to set up a European monetary union--might they not lead to a regionalization of a policy which should be considered to cover a world problem?

My opinion is that the present and future agreements to be made within the Community will have the effect of rationalizing and simplifying the negotiations which are undertaken on a multilateral level. Besides, it seems that the experience gained with respect to new methods of monetary cooperation in the Common Market will prove instructive and enlightening for all members of the Fund.

As a matter of fact, the various proposals formulated by the Common Market countries tend to put European planning into the general context.

1. This applies beyond a doubt to the first proposal, asking for a general realignment of parities by adjusting them to economic realities, with no exception or privilege for any one currency. According to the Articles of Agreement of the Fund, changes of parities may occur to correct a fundamental disequilibrium of the balance of payments. This criterion seems still adequate, but the procedures leading to the acknowledgment of these imbalances should include follow-up work, with all the discretion which monetary matters require.

Of course, we cannot ignore the extreme political sensitivity of our populations with respect to changing the par value of their currency. No government would consider lightheartedly a modification of the price of gold, whether it is leading to a devaluation or to a revaluation. The move is the more difficult if it is to take place in a multilateral and simultaneous way, as seems to be required now.

As they are resolved to return to fixed parities as soon as possible and to resume the reduction of the margins of fluctuation between their currencies, the member countries of the Common Market are certainly able to settle their realignment problem correctly among themselves. This regional grouping should make the multilateral approach easier as the Six, joined eventually by the future members of the Community, can avoid a scattering of their efforts, enabling the members of the Fund to concentrate on the major realignment problem. In order to neutralize the political impact of the required changes of par values the realignment should proceed in a context of economic objectivity toward all currencies and with the view of restoring a greater stability comparable to that of the best years of IMF rule. The realignment would be the clearer and quicker as no other trade barriers would continue to create distortions.

2. The Common Market countries now show a greater willingness to accept a cautious and limited move toward a greater flexibility of the rules which now apply to exchange fluctuation. Especially eager to neutralize the influence of differences in the interest level, they seem prepared to accept an extension of the margins of daily fluctuations.

This, of course, will not deter them from proceeding to the proposed reduction of margins in their internal relations according to decisions taken at the beginning of this year. As the monetary union gradually develops, it will help to attenuate the misgivings which might arise from constant and sometimes conflicting flotation of a great number of currencies.

To avoid this, the system will evolve toward a regrouping of nations, which means that the wider fluctuation will actually occur chiefly in the relations between monetary zones. As a matter of fact, this evolution was foreseen in advance by a number of experts some years ago. I refer, for example, to the report of the Brookings Institution on the balance of payments of the United States in 1968.

3. The member countries of the Common Market have been particularly affected, in the recent past, by abnormal movements of capital in our regime of monetary convertibility. I am sure that to a large degree this problem will lessen as soon as the instability in exchange rates and doubts or second thoughts of the monetary authorities are dispelled. However, we have to count on the quick changes to which these political and economic factors are exposed. Therefore, the Common Market countries advocate a certain regulation of purely financial movements. They expect from the Fund that it will go deeper into this matter and propose a diagram of concerted action within circumstances to be determined.

Obviously this whole action has to be considered without creating undue economic impediments and in the light of the necessary liberalization of stimulating capital flows, promoting investment and development throughout the world.

As far as the Euro-currency and Euro-dollar markets are concerned, the recent increasingly erratic behavior and development of the money market should not give cause to forget the real service rendered by the spontaneous creation of the Euro-currency capital market. This has filled the gap of the lack of a properly organized, efficiently functioning international capital market, disposing of large financial means and performing its activities with the necessary freedom of movement. Of course, this market will undergo an evolution as monetary reform takes shape. Its flows of capital can be channeled to some degree but, as in the past, the Euro-currency market should serve international financial cooperation.

4. The EEC countries have also expressed their views on the main features of the future system of international payments. They are of the opinion that the role of a reserve asset should be gradually transferred from certain national currencies to a collectively created and administered reserve currency. In this respect they refer to special drawing rights, which might be adjusted and reshaped for

this extended function. This fundamental option has been offered although we are aware of the lack of precision and the nebulous outlines of the conditions of a universal use of a collective currency. It is true, as the Fund Report recognizes, that the SDRs have had a steady development and the technique has gradually been improved.

Nevertheless, we must be conscious of the fact that this reform will mean a real evolution in the history of currency relations. The new reserve asset will have to establish and to consolidate its reputation, as it will have to coexist for a long time with gold, the ultimate standard, and eventually with other strong currencies.

What will be the conditions of convertibility of these reserve assets? If this convertibility is conditional or limited, will the member countries of the Fund not be obliged to issue regulations on the composition of reserves? They might have to define the different stages of passing from the old system to the new one, which raises the problem of the consolidation of dollar balances. I am convinced the Managing Director and his staff will closely examine these problems and will submit a report on the way to handle such a fundamental reform.

The experience gained by the European Community in their process of building an economic and monetary union should be instructive and enlightening for the larger community of IMF countries. According to the monetary plan, the European countries would create at an early stage an agency centralizing the operation in connection with the narrowing of margins, i.e., a European Fund of Monetary Cooperation, which would lead to a gradual pooling of reserves. This process of pooling reserves and unification of exchange policy would entail the use of a European unit of account and also a kind of collective currency, which in my opinion would easily be inserted into a larger reform of the monetary system.

Looking at all these new developments, I daresay that the monetary order created in the EEC will be profitable to the whole community of nations. It will favor a constructive dislogue and the mutual support which should characterize the relations with the chief economic powers, and especially with the United States.

Let us hope that on both sides of the Atlantic Ocean we will remain dedicated to the essential achievements of Bretton Woods, i.e., the fostering of secure exchange relations and fairness in competition. Thus a stimulating flow of capital will continue, in the interest of development on all continents.

Although it is essential that we do not satisfy ourselves with patchwork and that new par values and new approaches to the currency system should be well conceived to endure, we must nevertheless insist on the necessity for quick action. I fully subscribe to what Mr. Schweitzer said in his opening speech, that "the new trade measures and the uncertainty about present and future currency relations are hurting international trade and investment planning and, especially in smaller countries, the domestic economies as well." Smaller countries, the national income of which is essentially dependent on exports and which have, on the other hand, proportionately high imports, as does my own country, are more directly sensitive to the inconvenience of the present situation. Their price structure is immediately influenced by the vagaries of exchange rates, their conditions of trading with other countries are becoming unsettled and unpredictable. These dangers and setbacks are also real for the developing countries, especially those exporting primary goods.

In the general confrontation of ideas and interests, let us not lose sight of the vulnerability of the economy of the many countries of medium and smaller size which have put their faith in the orderly working of international organizations.