Chapter I
THE EVOLUTION OF INTERNATIONAL MONETARY SYSTEM: A HISTORICAL PERSPECTIVE

Introduction:

International Monetary Fund (IMF) is the most powerful supranational government in the world today. The resources it controls and its power to interfere in the internal affairs of the borrowing nations give it the authority of which United Nations advocates can only dream. The tremendous power does not inhere in the corps of economists who staff the IMF, nor in the Board of Governors appointed by its member nations. The IMF must be seen as a keystone of a total system. Its power is made possible not only by the enormous resources which it controls in national quota subscriptions plus its recently acquired power to create international money in the form of Special Drawing Rights (SDRs) but more significantly as a result of its functions as an international credit agency. All of the major sources of credit in the developed capitalist world, whether private lenders, governments, or multilateral institutions such as World Bank Group will refuse to lend to a country which persists in defying IMF advice. This indicates how coercive IMF can be in giving loans to the poor countries.

1 The term supranational government has been used by Cheryl Payer. Cheryl Payer, The Debt Trap & The IMF and the Third World, MRP, (New York, 1974), p.9.
The real importance of the IMF lies in the authority delegated to it by governments and the capital markets of the entire capitalist world.²

Whether there is military coup in Indonesia, Brazil, Combodia, Argentina or it is a Presidential elections campaign in Sri Lanka, Columbia, Philippines or it is the introduction of major economic reforms in Yugoslavia or it is the socialist transformations of Indian economy, the IMF is linked with all these activities very keenly. The IMF may advise military governments to reorganise their economies, while the Presidents of small countries like Sri Lanka may find it impossible to live without IMF, still in countries like India it might give the biggest ever loan to overcome inflation. What is this powerful but publicity - shy institution? How can it exercise such a profound influence³ on the politics and policies of so many countries?

The answer to this question lies in the fact that all nations need to trade with other nations. They may need to import food, either to cover a harvest shortfall and avert a famine or to make up a deficit caused by the fact that their

² I[bid.], p.10.

³ The profound influence of IMF on various countries seems to stem from the large resources controlled by it and the major contributions in these resources is from the capitalist countries.
resources are devoted to producing commodities other than food. They may want agricultural products that cannot be grown within their country or minerals which are not found there. Third World countries want to import capital goods and sophisticated technologies in order to raise their own level of productions and feel a part of the modern world. Their rich citizens want to import luxuries which other nations produce. Whatever a nation imports, however, whether luxury or necessity (unless obtained through a barter or bilateral agreement with other nations), must be paid for with internationally accepted currency called foreign exchange. The capitalist economies buy this foreign exchange at the exchange rate determined by an equilibrium between the demand and supply of foreign exchange. However, serious difficulties are likely to arise if the demand and supply of foreign exchange at the official exchange rate are out of balance of payments. The Governments own holdings of foreign exchange reserves would be exhausted by the perennial need to bridge the gap between supply and demand of foreign exchange. This results into a balance of payment crisis.

The chronic foreign exchange deficits and balance of payments crisis are characteristics of these countries in the third world that are trying to develop under capitalist auspices. The factors contributing to foreign exchange crisis/weaknesses are complex but can probably be summed up by the political and
economic weaknesses of these countries considered individually vis-à-vis the developed capitalist nations and their multinational corporations. Even developed countries can also have balance of payments deficits, however, the poor countries are characterized by foreign exchange shortages. 4

The situation has evolved historically since the end of the Second World War. During the war, the main combatants consumed more than they produced. They had few exports to sell to their traditional markets in Asia, Africa and Latin America; but their need for imports from them was high. At the end of the war, therefore, many of these countries (most of them still colonies at that time) held huge reserves - claims on the future productions of the industrial states which had fought the war. These reserves were soon dissipated. In many cases, the former colonial power imposed restrictions on the use of these reserves, usually as a price of political independence. Despite this external constraint most of the newly independent ex-colonies and the Latin American nations were eager to spend on a flood of imports. Most of them, although paying lip service to the desire for economic development showed a criminal ignorance or indifference to the importance of foreign exchange for development. Their reserves were dissipated within two or three years.

4 The balance of payment crisis in developing countries is one of structural in nature.
But countries like India paid much more serious attentions to economic development from the start and were not guilty of the consumer spending spree indulged in by Brazil and Phillipines. India was convinced that heavy imports surpluses - more imports than could be paid for by export earnings - were essential to their development efforts so that very much like the spendthrift nations, they first ran down their foreign exchange reserves and then ran up foreign debts. For most of these countries by the late 1950, their foreign exchange reserves had been used up and repayment of interest and principal began to fall due from the borrowing which had begun earlier in the decade. The proposed work intends to highlight this issue and raise a fundamental problem of debt repayment burden for developing countries, paying particular attention to the experience of Indian economy.

India is one of the developing countries of the world and it became politically independent only thirty years back. In order to develop fast economically India needs huge resources and being a developing country, its domestic resources are

5 But the experience of India was not much different from that of other countries, India was also an exporter of primary products and importer of manufactured goods, therefore, the foreign exchange crisis was likely to arise, sooner or later.
inadequate to meet its total financial needs for economic development and hence the need for foreign resources. The inflow of finance has come to India in a variety of manners e.g., foreign assistance, grants, loans etc. One of the important components of external resources to India in the recent times is loans flowing in from international financial institutions, particularly, the International Monetary Fund (IMF). The creation of IMF is a landmark in the history of world economic co-operation. Although by no means the first in the field, it is the most detailed attempt to organise the conduct of international monetary affairs.

IMF recently sanctioned for India the 5-billion Special Drawing Rights (SDRs) loan which is the biggest nominal loan from the Fund to any member country and also the biggest single loan negotiated by the Government of India. Such heavy loans in the past and in the present cannot be without its political and economic implications for the country concerned. The critics are of the view that the IMF has worked to the disadvantage of the poor countries and by giving such heavy loans on harsh terms, it is creating a debt-trap for these poor countries and thus, imposing a financial imperialism on them. We intend to examine the validity of such a hypothesis in the case of Indian economy in the perspective of IMF loan to India. In order to understand the implications of IMF lending to poor countries, it would be necessary to see the evolution of IMF.
The starting point will be the concept of an International Monetary System itself.

The International Monetary System:

To speak of an 'International Monetary System' is illusory. It implies a mechanism of interrelated parts, functioning for some clearly defined end, according to known laws. It implies knowledge, certainty and predictability. All these attributes the International Monetary System possesses but in a varying degree. To describe it as a system is an oversimplification, permissible only in the interests of economic analysis. When moving from the precise formulations and general prescriptions of economic theory to the real world of policy it is necessary to remember that we have the realm of system and precision for a world of approximation which operates not by law but by tendency.

The concept of an International Monetary System arises mainly from two sources: 7

(1) It has for long been customary to speak of the 'international economy' which implies total economic relations between the participant countries of the world — commercial flows of


7 Ibid., p.17.
goods and services between countries, movements of factors between them, and the institutions, both national and international, which exist to service these flows and interrelationships. Within the structure of wider relationships, the international monetary system is concerned with flows of current and capital funds, with the relationships between national currencies, monetary systems and central banks. One can speak of 'International Monetary Community' and treat it as a part of the framework through which the international monetary mechanism works.

(2) Secondly, it is the apparent parallelism between money's role in a domestic closed economy and its role in a world of many countries. There is a parallelism both in the institutions and their relations in both national and international systems. This parallelism is, however, limited and it obscures as often as it illuminates.

An international monetary system has four elements. These are: first, a form of international money usable for clearing residual payments, balances with other countries and for holding reserves with which to meet external deficits; second, institutional arrangements in the form of international banking systems, money markets, foreign-exchange markets and the media through which flows of international money may

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8 Scammell, n.6, p.185
circulate throughout the system, third, a mechanism whereby the distribution of international money can be adjusted by actions upon the balances of payments, and finally, some central power to control the working of international monetary arrangements.

Looking at the international monetary system in historically perspective, it appears that there are four periods that correspond roughly to four different international monetary systems. The first period whose beginning can be disputed but which ended suddenly and unexpectedly with the beginning of the First World War, demarcates the life of the international gold standard. The second period covers the twenty-odd years between the two wars and can be thought of in connection with the gold exchange standard, though that system actually operated only from roughly 1925 to 1931. The third period, following World War II spans the quarter century in which the Bretton Woods system was in operation. Thereafter, the years beginning not later than 1973 are usually characterized as a floating exchange rate.

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**International Gold Standard**

By international gold standard is meant an international monetary standard where all participating countries have:

1. Legally defined unit of account (rupee, dollar, etc.) in terms of gold so that the purchasing power of a unit of its currency is kept equal to the purchasing power of a given unit of gold.

2. Established a mechanism whereby local currencies are kept equal in value to gold and to each other.

3. External value of their currencies are fixed through the medium of gold.

4. Monetary authorities of the countries on gold standard are committed to a policy of buying and selling gold at a fixed price in unlimited amounts.

This type of international monetary standard was prevalent prior to 1930s.

10 Some of the classic works on the gold standard are:


Rules of the Gold Standard: 11

The essential rules of the gold standard which must be observed by all the central monetary authorities which wish to operate successfully on international gold standard are as follows: 12

(1) The monetary authority of each country must take steps to fix the gold value of its national currency.

(2) There must be free import and export of gold into and out of each country which is operating the gold standard system.

(3) Each monetary authority must make arrangements for the domestic supply of its own currency in such a manner that the supplies of the money go up in a more or less automatic manner there is a persistent inflow of gold into its territory.

11 It is hard to escape the conclusion that the gold standard rules of the game were a post-World War I construct, not observed and probably not even widely recognized as relevant norms before the wars. The rules that counted most were domestic rules. As Bloomfield summarizes his evidence, "... in the case of every central bank the year-to-year changes in international and domestic assets were more in the opposite directions." See for reference, Bloomfield, n.10, pp.48-50.

and they go down in a more or less automatic\textsuperscript{13} manner when there is a persistent export of gold out of its territory.

**Mechanism of Gold Standard:**

The mechanism of gold standard can be explained in terms of maintenance of 'Exchange Stability', automatic restoration of Balance of Payments, Equilibrium via movement of capital, and adjustment via Parity of price level.

(A) Maintenance of Exchange Stability:

Under gold standard, the basic concern is with the maintenance of the external value of the currency and thereby the exchange rate stability under the gold standard. The external value of the currency is fixed through the medium of gold. The exchange rates are also fixed automatically by gold parity. If, in the foreign exchange market, the exchange rate tends to rise much above the gold parity, the excess demand for foreign exchange will be met by export of gold and if it tends to fall below the gold parity rate, the excess supply of foreign exchange is taken off from the market by the import of gold.\textsuperscript{14} In this way, the demand for any currency

\textsuperscript{13} The great virtue of the gold standard in this view was that its effects were automatic. The expression of this virtue of automatism is found in 'First Interim Report of the Committee on Currency and Foreign Exchange After the War' (CONLIFFE COMMITTEE) (ed. 9182), (UK), 1918, p.4.

\textsuperscript{14} Ibid., pp.3-4.
in foreign exchange is kept equal to its supply and thereby stability in the exchange rate is maintained.

(B) Automatic Restoration of Balance of Payments: 15

The beauty of the gold standard is that it provides a self-regulating automatic mechanism for economic adjustments among trading nations. It has the virtue of automatic balancing. This is so because, under gold standard, the domestic monetary arrangements are such that when gold flows into a currency, there is more or less automatic increase in the domestic supply of money and vice-versa when gold flows out.

(C) Equilibrium Via Movement of Capital:

There is one more factor which helps to restore the equilibrium in the balance of payments of gold losing and gold receiving countries. In the country which loses gold, interest rates rise due to the contraction of currency and credit. A rise in interest rate will attract short-term capital from foreign countries and will correct the adverse balance of the gold losing country. 16 On the other hand, the gold receiving

15 Soderstein, n.12, pp.270-72. Some economists have argued that the automatic self-adjusting concept of the gold standard is a myth. Even if it is a myth, it is a myth that was widely believed or at least hastily created after the demise of the gold standard at the onset of World War I. The myth has its best statement in the 1918 report of Conliffe Committee in England. See Conliffe Committee Report, n.13, p.3.

16 Dam, n.9, p.15.
country will experience a decline in interest rates which stimulate the outward movement of short-term capital.\footnote{17}

(D) Adjustment Via Parity of Price Level:

Under gold standard there is a close relationship between price levels in the various countries.\footnote{18} Price level in terms of gold tends to be more or less the same in countries under gold standard since each monetary unit is fixed in terms of gold; prices in terms of monetary unit tend to fluctuate in a parallel manner in all gold standard countries.

\textit{The Working And the Collapse of the Gold Standard:}

(1) Prior to 1914:

The gold standard was put into operation in Britain in 1821\footnote{19} but until 1870, silver standard and bimetallism (when standard monetary unit is defined in terms of both gold and silver) prevailed. In this system the country's currency is redeemable in gold, or silver, or both. In 1870s\footnote{20} America,

\begin{itemize}
\item \footnote{17} Ibid., p.16.
\item \footnote{18} Bloomfield, n.10, pp.48-50.
\item \footnote{19} Dam, n.9, pp.24–27.
\item \footnote{20} Friedman and Schwartz, n.10, pp.21–22. The decisive event in the formation of the gold standard was the resumption by the United States of gold payments in 1879. Prior to the Civil War the US had been on a bimetallic standard when, because gold was over valued at the mint, was \textit{de facto}, a gold standard. See for example, Nussbaum, Arthur, \textit{A History of the Dollar} (New York), 1957, pp.77-84.
\end{itemize}
Germany and France and many others came on the gold standard. In 1900, India which was a stronghold of the silver standard joined the gold system. By 1914, the gold standard was the pre-dominant system all over the world with the exception of China, Mexico and some minor countries.21

The pre-war (1914) gold standard worked with an astonishing smoothness on account of healthy circumstances for the observance of the rules of the gold standard; specialization of national production based on widely varying factor endowments was intense. Although tariffs to some extent obstructed trade and retarded specialization, their effect was not serious for they were changed infrequently and few were high. Since all the principal and many of the less important countries were on the gold standard, there existed the universal convertibility of currencies so necessary for the operation of a multi-lateral trading system.

Till 1914, the gold standard had centred in London.22

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21 Some of these countries attempted to model themselves on England, but either because they did not have as well developed a capital market as England or because they were debtor, rather than creditor countries they could not rely on their Central Bank discount rate to attract gold or to stem its outflow to the extent that England could. France was a creditor country while Germany, Austria-Hungary, and Russia were debtor countries. Dam, n.9, p.29. Also Keynes, J.M., Indian Currency and Finance (London), 1913, p.27.

22 The profound influence of London can be attributed to many reinforcing reasons, namely, Britain was a large trading nation and the world's organized commodity markets were predominantly located there. London was the centre of world's gold market, with South Africa's output arriving each Monday. Besides, Britain was the world's principal creditor nation; For more details see Sayers, R.S., Bank of England Operations 1890-1914, 'London) 1936, p.74.
By the simple process of adding to and subtracting from the sterling balance owned by the banks of practically every nation, the great bulk of international transactions were cleared. The London market also played the role of a World Central Bank. When the other countries suffered an adverse balance of payments, the London market advanced short-term loans that supplemented their dwindling gold pressures.

(2) Between 1914-191823 and After

With the outbreak of war in 1914, the gold standard was suspended everywhere for two reasons: to avoid a continuous adverse balance of payments and to prevent gold exports from falling into the hands of the enemies.

Although the sharpness and extent of the break varied from one country to another, free movement of gold ceased during the war and for some years after it. Thus the close link between national price system was broken and prices in

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23 The monetary history of the interwar period is complex and one simple measure of this complexity is that the most complete analytical treatment of the period, Brown's "The International Gold Standard Reinterpreted", runs over 1300 pages, yet carries the chronology only as far as 1934. For details see, Brown Jr. W.A., n.10, 2 vol. Chronologies shorter than Brown, can be found in YEAGER, L.B., International Monetary Relations : Theory, History and Policy, 2nd ed., (New York) 1976. Yeager divides interwar periods into four periods, namely, the end of World War I to 1925, 1925-31, 1931-36, 1936-42.
different countries were free to move independently. Inflation went to varying lengths depending upon the balance of payments situation confronting each nation. It was most intense in Germany, Russia, Austria, Hungary where currencies became, within a few years after the war, virtually worthless and had to be replaced. Even the United Kingdom and United States witnessed a post-war peak of prices.

To bring some order into this chaotic situation the earlier long attachment to the gold standard bred a strong desire for its restoration - Great Britain, the Centre of the pre-war gold standard approached the problem of restoration gradually. The British decision rested on a report (in 1918) of the famous CONLIFFEE Committee, 24 which assumed that the gold standard still existed in Great Britain, that its continuance was imperative and advocated its restoration without delay. The Committee's recommendations were followed, however, only slowly and tentatively. Exchange restrictions were removed gradually. The Bank of England followed a continuous deflationary policy and British prices became more closely aligned with prices in the United States. 25

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24 Conliffe Committee Report, n.13, pp.18-40.

25 This happened because in 1925 Britain removed its embargo on the export of gold. The buying and selling price for gold was such, in comparison with the US gold-price, that the mint par between US and UK became same as before 1914. See for example Macmillan Committee on Finance and Industry Report, 193 C 3920 (London, UK), June 1931 para 113, Yeager, n.23, p.332 and also Moggridge, D.E., British Monetary Policy 1924-31 (Cambridge) 1972, pp.98-112.
(3) Restoration of Gold Standard in 1925:

More than 40 countries returned to gold standard some at their pre-war parity, others at a devalued level. By the end of 1928 an extensive international currency system based on gold was recreated and it was widely assumed that the world would look forward once more to the attainment of a stable international equilibrium. But the gold standard established in 1925-28 differed from that of 1914. To alleviate an impending shortage of gold, its coinage was generally discontinued, except in the United States and assets in the form of balances in gold standard countries were permitted to count as a reserve of country’s Central Bank. The pre-war efficiency of the gold standard had depended upon the centralization of international transactions in London and upon adherence to well-established rules of international conduct. These essential foundations were eroded after the war. 26

Because of the events transpiring during and after the war, the substantive aspects of the gold standard underwent radical changes and the painfully reconstructed international economy laboured under great difficulties. The new gold

26 The World’s monetary completion in 1928 was short lived as it had been fueled with large scale US capital exports, which helped to provide the stabilizing countries with the requisite liquidity, but the capital export flow virtually stopped in 1928 as funds were diverted into short-term financing of the New York Stock Exchange boom. Macmillan Report, Ibid. Paras 158-61, and Yeager, Ibid., pp.336-37.
standard was less efficient than the old one, and the various nations started placing greater importance to employment and price level stability. Added to the structural changes in industry were serious maladjustments in important sectors of organisation. All this weakened the international structure and it ultimately collapsed with the onset of great depression in 1930s. The boom was over in U.S.A., industrial activity virtually ceased, excess capacity emerged in all major industries. Decline in US income, outlay, imports and exports and in addition, sustained increase in the American tariff adversely affected the volume of world trade. This trend followed in a number of other countries which led to the abandoning of the gold standard by them. It was first initiated by Britain and it carried with it a large number of other countries who could not see sterlings to depreciate against their currencies. With the depreciation of sterling and the formation of the sterling area, the gold block was affected and this created serious balance of payment difficulties for U.S.A. and other countries. This led to the devaluation of gold, which intensified deflation in the remaining gold standard countries. In

27 On Sept. 21, 1931, the British government suspended payments of gold against legal tender currency, and Britain therefore left the gold standard.

28 These countries were basically those which held reserves in sterlings. The British decision to quit gold standard divided the world into two blocs - the gold bloc countries and the sterling area.
1936\textsuperscript{29} France abandoned the gold standard altogether and was followed by the rest of the countries.

(4) Background to the setting up of the Fund\textsuperscript{30}

With the abandonment of the gold standard in 1930s by the major countries of the world a vacuum was created in the field of 'international trade'. The 1930s were characterized by trade-and-exchange war among countries, with competitive depreciation of currencies and severe restrictions on imports of goods and exports of capital and a general tendency for economic antarky and isolationism. It was, in short, a policy of beggar-thy-neighbour, as a result of which the world trade and growth suffered a great deal, leading to stresses and conflicts among nations.

It was then recognised that the monetary disorder of the world could be corrected only by mutual agreement between nations having international economic relations. As it was not possible to revive the gold standard, a new monetary system had to be devised which could provide sufficient flexibility through international assistance without affecting the internal economic order of the country, as also an efficient payments mechanism, which would permit and foster high and stable levels

\textsuperscript{29} With the abandonment of gold standard in France in 1936 the other gold bloc countries had no alternatives but to follow the French example.

\textsuperscript{30} Fund here refers to International Monetary Fund.
of world trade. Sharing such convictions experts in the United States 31 and the United Kingdom prepared comprehensive plans for international monetary cooperation. The American proposal is known as 'White Plan' 32 and the British proposal is 'Keynes Plan' 33 after their principal authors, Mr. White and Lord Keynes respectively. In 1944, a joint plan 34 in the

31 The US economic strength had been growing relative to the strength of other countries including Britain and the US realized that it would be the most powerful country after the war. This all had substantial impact on the postwar international monetary system. "A strong motive for the creation of the Fund was an idealism, favouring international organisation, that has characterized US executive branch policies for much of the twentieth century". Gardner, R.N. "The Political Setting" in A.L.K. Acheson J.P. Chent and M.F.J. Prachowny (ed.), Bretton Woods Revisited, (Toronto) 1972, p. 24. Also Congress House Committee on Banking and Currency. Bretton Woods Agreement Act, Hearing on H.R. 2211, 79th congress, 1st session, vol. 2, (Washington D.C.), 1945, pp. 558-60. Harrod Roy, Reforming the World's Money (London) 1965, pp. 141-42.


shape of a joint statement by Experts on the Establishment of International Monetary Fund of the United States and Associated Nations emerged which became the basis for the 'United Nations Monetary and Financial Conference' at Bretton Woods, New Hampshire, from 1st July to 22nd July, 1944.35

The purpose of the Bretton Woods Conference, attended by representatives of 44 nations, was to work out the statutes for the two institutions (also called the twins of the Bretton Woods) for promoting international financial co-operation in the matter of exchange rates, balance of payments, reconstruction of war-devasted nations and promotion of economic development. These twins of the Bretton Woods36 were, the International Monetary Fund (IMF) and the World Bank.

The IMF which became operational in March 1947, was to operate by 1952 in the fully multi-lateral control-free world which Keynes and White had envisaged as its working environment. But that condition was delayed until January 195937 when payments

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35 In this connection US Treasury released a key document entitled "Questions and Answers on the International Monetary Fund", which was reprinted in Horsefield, n.32, vol.3, pp.136-182.


37 For a brief but a lucid discussion of "How IMF has Remained in Abeyance, in Action and Declined in Different Periods", see Scarmel, n.6, pp.122-190.
restrictions were abolished between the countries of Western Europe. Thus for twelve years the Fund and the system within which it had been intended to operate were virtually in abeyance. On the leading monetary issues of the time the Fund was unable to take decisions whereas at the same time it is feared to stand aloof from post-war problems lest it showed power and influence to new ad hoc organisations called into being to deal with these problems. The significance of this 'Waiting Period' for the future success of the Bretton Woods system was considerable.

When in 1959 IMF came into its full operation, the international monetary scene had some unfamiliar aspects. New structural changes had manifested themselves, the nature, direction and strength of which was still obscure. The dollar problem whose early virulence threatened the stability of the world economy in the late 40s and early 50s, had waned, become quiescent and was replaced in 1960s by a surfeit of dollars and a dollar confidence problem which threatened the dollar's role as a key currency. The great industrial power of the United States came to be challenged by a resurgence of industrial growth in Western Europe and by its reorganisation through

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39 This was one of the great problems of the post-war period between 1945-50 the American balance of payments problem was, one of acute and continuous surplus; in the next five years this surplus assumed manageable proportions and the United States and her partners were able to pursue policies for its containment with moderate success and from 1955, the dollar problem progressively reversed itself, the American balance of payment passing into deficit. The period 1945, to 1959 was, however, the problem of dollar scarcity. Scammell, n.6, p.125.
the European Common Market. In the trade field, customs union and free trade areas threatened to compartmentalise the world economy. In this new and at times hostile environment the Bretton Woods system had completed fourteen years of full operation. Since the mid 60s it has operated with great strain and the recurrent monetary crisis since 1968 have been met by modifications in the system.

In August 1971 the Bretton Woods system of international monetary relations ended; not with a bang but a whimper. The so-called Nixon measures signalled a change of assessments and attitudes which put the world notice that the United States was no longer prepared to fill the key role in the system. From the moment forward, the Committee of Twenty distilled from the experience of the past and the wisdom of the present the essence of a new system. The American decision to opt out was based on; a continuing structural imbalance in payments which invoked a continual confidence problem; the existence within this disequilibrium of a trading deficit which indicated a probable overvaluation of the dollar; a refusal of surplus countries to allow American adjustment of this disequilibrium by revaluing their exchange rates; an unsustainable drain on American gold reserves from the encaissement of surplus dollars balances abroad; and a widening gap between the real and monetary prices of gold, which made the continuance of a gold-exchange standard impracticable. These measures of August 1971 were embodied in a slightly
modified form, in the Smithsonian Agreement in December 1971. The US balance of payments improved dramatically in 1973 to achieve a small surplus probably under the influence of the devaluation of the dollar embodied in the Nixon measures. However, the confidence problem of dollar continued. Elsewhere countries pursued their own policies. The Canadian float of May 1970 continues. The British floated the pound in June 1972 and appear well satisfied with their new freedom. So as 1973 ended with the Bretton Woods system almost dead, we had nothing to formally replace it. An ambiguity must be cleared at this stage there was no monetary crisis in the literal sense of the term i.e., it was not a situation in which failure to establish a new 'system' will quickly lead to financial disintegration and collapse. Continuance of the present makeshift was a viable, though not a desirable alternative, and may be it is the only practical one.

To summarize the above discussion, it is clear that the life of the Bretton Wood system in its original form was destined to be short. It failed to provide an adjustment system; provided a choice of international liquidity media, insufficient in total amount but by their nature subject to instability; it isolated the key currencies and placed the

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41 Scammell, n.6, p.237.
42 Scammell, n.6, p.238.
countries controlling them in positions which they could not sustain; and it provided in the IMF, a central organization which, while it had considerable functional utility and some success, was politically impotent as a centre for the system. This obviously involves a detailed structural study of IMF.