International Monetary Fund Planning Progressive Step—Bank of Nova Scotia

The draft plan for an International Monetary Fund, recently agreed upon by experts from 34 nations, is evidence that considerable progress has been made toward a plan capable of commanding general international acceptance, says the current issue of the Bank of Nova Scotia's monthly review. Of course, a monetary plan cannot solve all economic ills nor could it escape breakdown in an atmosphere of economic warfare like that of the decade before 1939. Thus, the attitude of governments toward the plan must be conditioned, as Premier King pointed out, by "the progress which it is possible to make in achieving agreement on other aspects of international economic policy," it is stated.

The review is not intended as a case for this or any other plan, but devotes itself to an explanation from the Canadian standpoint of the purposes and principles of the proposed fund and of the reasons why the experts agreed upon it. It states that the ultimate purposes of the plan—to aid in expanding and restoring trade, to re-establish multilateral payments and eliminate exchange restrictions, and to promote exchange stability—are not open to much question. "Canadians realize," it is commented, "that their standard of living is highly dependent on the ability to sell abroad, and to spend the money earned from sales to one country in purchasing from other countries—that is, a system of multilateral payments. We normally sell much more to Britain than we buy from her and buy more from the United States than we sell there, and must thus use our surplus sterling to buy U. S. dollars. Stable exchange rates, too, have always been of importance to Canada, and the disadvantages of unstable rates became peculiarly evident in the 30s when fluctuations between the pound and the dollar set conflicting currents in motion within the country—the interests of some sections lying in a close relationship with the pound, and of others with the dollar. Canada's stake in the objectives is thus unusually large, but all countries are greatly affected by the kind of international trading order —or disorder—existing internationally."

"Multilateral trading is only possible if each country has adequate reserves of some internationally liquid resources, and the primary purpose of an international monetary plan is to provide them," it is added. "The need for new reserves with which to restart international trading after the war is evident when it is remembered that many countries' gold reserves and holdings of foreign securities have been dissipated, and normal export trade disrupted. Time will be needed for the reorganization of export industries and for the resumption of long-term lending, and in the meantime these countries must not be cut off from importing. Of course, many of the initial post-war trade problems will have to be met by other means—notably by international relief, and by some scheme for gradually working off the 'blocked balances' which have accumulated through shipments of war supplies between some allies. Nevertheless, substantial international monetary reserves will, it is believed, be necessary to prevent a resort to large export subsidies, competitive exchange depreciation, increased quantitative restrictions on trade, and bilateral agreements of all sorts, by which nations without reserves would endeavor to find ways of paying for necessary imports."

"Under the proposed plan," it is pointed out, "each country would deposit part of its gold reserves with the fund, and put a specified amount of its own currency at the disposal of the fund. Transactions would take the form of purchases by one country, through its central bank, treasury or other fiscal agent with its own currency, of one or more of the foreign currencies held in the fund. The fund, therefore, would not initiate transactions, but merely hold the mixed bag of foreign exchange which would be available for member countries to use in making payments abroad, and which would thus constitute for them, collectively, their new liquid reserves. Normal operations of foreign exchange markets would not be eliminated but rather supplemented; when there was a greater demand for a foreign currency than could be met at the established rate of exchange on the regular market, the central bank would take steps to meet it by drawing on the supply available in the fund."

The review goes on to explain in considerable detail the other provisions of the plan, especially those which limit the amount of surpluses and deficits which a country could finance through the fund, and those which refer to the use of gold. In regard to the latter it concludes that, while the plan would not be the old gold standard, "the experts of the several nations have agreed on a system under which gold can be used for all its traditional purposes, and which assures that it should continue to serve as a means of international payments. At the same time, since parities are to be expressed in gold, gold would still be the international standard of value, and its price would be at a stable and internationally guaranteed level. These provisions are obviously of great importance to a gold-producing country like Canada."