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International Liquidity and Development Finance: International Monetary Issues and the Development Countries

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And poets, by their very nature, must overcome.

Where difficulties are created by the poets themselves, only in four poems by as many poets are the difficulties overcome.

In the rest, the poets do not overcome their self-created difficulties: it is the poets who are overcome.

FRANCISCO ARCELLANA

INTERNATIONAL LIQUIDITY AND DEVELOPMENT FINANCE

INTERNATIONAL MONETARY ISSUES AND THE DEVELOPING COUNTRIES. New York: United Nations Conference on Trade and Development, 1965. 33 pp.

This is the report of the group of experts convened by the United Nations Conference on Trade and Development to consider problems of trade and development in the context of current studies on the future of the international monetary system. The primary conclusion reached by the report is the feasibility and desirability of establishing "a link between the creation of international liquidity and the provision of development finance, without detriment to either process."

As a logical setting to this conclusion, the report first presents the forceful need for a reform in the world's monetary system. The need is based chiefly on two factors, both adverse to developing countries— the past and future trends of world trade and the competitive struggle among developed countries to maintain equilibrium or surpluses in their balance-of-payments. The report states, for instance, that participation of developing countries in world exports fell from almost 33 percent in 1950 to 20 percent in 1964. In addition, the terms of trade also have moved in favor of developed countries.

The net effect is chronic and acute pressure on developing countries to adjust to trade imbalances, often as if the adjustments were the overriding national economic concern. Such imbalances are expected to remain in the future along with declining rates of growth. Already, the annual growth rate of developing countries has decelerated from about five percent in the early 1950's to four percent in the 1960's. In the meantime, the flow of long-term capital and aid to developing countries has not increased since 1961 from a moderate dimension of "much less than 1 percent of the gross income of the developed countries."

In these circumstances, developing countries have been forced to accumulate unsatisfactory short-term liabilities and to adopt restrictive external policies. Their need for additional international liquidity is viewed by the report as both pressing and legitimate, and doubly so in view of the shrinkage of aggregate world reserves relative to expanding trade requirements.

The report consequently argues for the creation of additional reserves, not, however, through the current method of increases in stocks of monetary gold and deficits of key-currency countries. Instead, favorable reference is made to the new techniques being studied by the International Monetary Fund and the Group of Ten. Within this broad area of studies, the report selects two basic proposals—collective reserve units confined to a limited group of industrial nations and collective reserve units open to all Fund members. The report endorses the latter proposal as one whose direct benefits would be felt more universally. Pending adoption of this proposal, a more immediate expansion of reserves is urged through changes in the Fund's policy on automatic drawing rights. These changes would not require an alteration of the articles of the Fund.

The collective creation of reserves, however, is envisaged primarily as corrective financing to perform the functions of working balances and short-term credit in the face of balance-of-payments fluctuations. Development finance, the report maintains, is a further distinct requirement and must accompany liquidity creation, if only to establish an environment conducive to the retention and proper use of the reserves created. It is in this connection that the report makes its main point: "the international monetary system can be managed by deliberate decision in such a way as to meet the growing liquidity needs of both developed and developing countries, and incidentally to provide resources for the development of the latter."

The opportunity for linking the two processes is provided by the participation of the World Bank and its affiliates. The procedure suggested involves the periodic creation of additional international liquidity by the Fund (provisionally called "Fund Units") against currencies contributed by member-countries in accordance with an agreed formula. In turn, a sizable portion of these currencies acquired by the Fund would be made available to the World Bank in exchange for World Bank bonds. The funds then would be utilized by the World Bank to finance development loans.

With this procedure, developing countries are expected to gain in a twofold manner. They retain their original share in the creation of liquidity and they obtain a transfer of real resources from developed countries to themselves. On the other hand, developed countries as a whole gain additional liquidity in proportion to their contributions.

In the final analysis, the report is a timely reminder for monetary economists to avoid the shortcomings of Bretton Woods. In the present preoccupation to reform the world's money system, the exigencies of less industrialized countries again may be neglected by assumptions of uniform mechanisms governing all countries. If so, the future world, living then according to the ideas of present economists, likely will meet the same difficulties confronting us today.

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