COORDINATION OF POLICIES ON TRADE, FINANCE AND EXCHANGE RATES WITHIN THE INTERNATIONAL INSTITUTIONS

Shiela Page

Overseas Development Institute
London

Background and Outline of the Problem

The growth of international interdependence has increased the number of ways in which the activities of economic decision-makers in one national economy impinge on those in another as well as the size of the effects. In short-term economic management, the most powerful remain trade, monetary flows and exchange rates, but in recent years the freeing of capital flows and the growing role of international banks have greatly increased the relative importance of the second two; greater emphasis on monetary economics and the role of expectations, combined with increasing empirical evidence of the slow response of trade to relative prices have affected perceptions of their relative effects. Partly for these reasons, but also because of growing domestic emphasis on monetary policy and sectoral programmes, the extent and forms of government intervention affecting the three variables have altered. At the same time, the continuing depression has reduced the tolerance of national governments for the effects of behaviour by other countries or of international conventions that may damage their short-term interests. One response has been to take a purely national stand adapting or even unilaterally abrogating existing international restraints and rejecting new ones. The principal alternative to this has been to suggest new international agreements or institutions taking a more unified approach to the various international issues than is possible within existing bodies. A final one which should be considered is a return to the old system of separate organisations or sets of rules, but with some adaptations.

The problem that this paper discusses is increasingly significant for developing countries as well as for the developed. They have participated particularly strongly in the increased openness and international dependence of economies in particular through the growth of their trade in manufactures and of private capital flows. They also find themselves obliged to place more emphasis than in the past on the short-term management of their economies because the pressures of the depression have reduced their access to financial resources that would permit them the more traditional long-term view. Their lack of some of the financial institutions and mechanisms of a developed economy may make handling the effects of external influences more difficult, and their generally weaker bargaining power has handicapped them in the *ad hoc* arrangements that other countries have made.

The analysis in this paper will begin with a brief recapitulation of the ways in which the different types of international effect operate, and how these may be related to each other, indicating some of the differences in present views on the importance of these effects. This will, however, focus less on the theoretical possibilities than on recent changes in economic conditions and institutions that alter the actual effects. The following section will describe present international arrangements and discuss how far these are still adequate for present conditions. Consideration of what changes may be required will need to take into account the different interests of the developed and developing countries and the relationship between coordination of actions or policies at national and international level.

The policy recommendations that can be drawn from this analysis must also take account of the requirements of different solutions in terms of substituting international for national control and the acceptability of this. Another closely related question is the location of the chosen policy along the spectrum from complete planning to complete independence. This depends not only on the conventional divisions of opinion about intervention in the economy, but also on judgements about how permanent any solution can be, and therefore how far continuing rules can substitute for *ad hoc* intervention. Perhaps most important, recommendations must recognise that any solution in economic (or political) analysis is inevitably a partial one. The scope of this paper is one way of combining certain questions, but it excludes for example both the longer-term effects on production structures of the international relations it does discuss and many other types of international effect whose influence is exclusively long-term, as well as domestic issues of production and distribution that may be closely related to the international questions. It also, of course, places particular emphasis on the joint effects and interactions of these relations, which necessarily reduces the attention to the direct effects of each of them. A basic question to be considered, although there can be no general answer, is whether the relationships considered here are so much more important or closer than the others that finding a general solution for them is worth the practical costs including sacrificing other possible combinations. That these particular issues are related to each other is not a sufficient proof either that they must be treated in a common institutional arrangement or that such an arrangement would be broad enough.

How these Issues are Related

Trade, exchange rates and finance are related both directly through economic mechanisms and through government responses. Some of the latter may be sufficiently automatic (intervention to hold a formally fixed exchange rate is an obvious example) that they can be treated as effectively economic ones. The relationships include the effects of the level, and possibly composition, of trade on the demand for trade credit and other financing and of the supply and cost of such finance on trade; the effects of exchange rates, operating as an influence on relative prices, on trade and of trade balances on exchange rates, or if these are 'fixed', on interest rates and financial flows; the effects of interest rates and financial flows generally on exchange rates if these alter exogenously; the effects of trade and trade policy on balances of payments; more broadly, the effects of trade on total demand (or its composition), of financial flows on domestic monetary variables, and of exchange rates on absolute and relative costs. All also influence the whole economy, and therefore at subsequent stages the other international effects, and similarly any 'purely domestic' event or policy will eventually affect all the international ones.

The potential importance of some of these effects clearly depends directly on the size of the external sector relative to the rest of the economy: trade relative to other sources of demand or elements of cost; international monetary flows relative to others. For some, it may depend on the relative importance of different types of international transaction: whether trade or capital flows are more important to the exchange rate. From a national point of view, some effects will vary with the size of the country: its ability to affect international prices or the total demand for funds. All these determinants, except the last, suggest that the potential importance of these relationships has risen as trade has grown more rapidly than other components of demand and liberalisation of controls on international capital has increased its mobility.

The actual importance of the effects depends also on both the elasticities in the economic relationships suggested and on how these actually operate, including their speed of response. For example, the size of exchange rate change needed to correct a trade imbalance or the interest rate response necessary to meet pressure on the exchange rate will depend on the elasticities. The amount of short-term finance that is needed will depend on how quickly trade and capital respond and for trade on the size of the J-curve effect, which occurs because the effects of an exchange rate change on the prices of traded goods are significantly more rapid than these prices' effects on trade. The expected size of effects also depends on whether the response is simply to the particular event or takes account of the whole sequence of responses by others, i.e. the role of expectations. It is difficult to identify any general trends here, but it appears that a wider range of possible effects and possible scales of response to them is now perceived; this must influence the views of decision-makers both on their own appropriate response and on the need for an international system that can allow for these wider reactions.

The switch from fixed to floating exchange rates among the major economies, as already indicated, affects some of the interrelations directly. It has also been argued that floating removes pressures for controls on trade by allowing the exchange rate to be used instead to bring trade into equilibrium or alternatively that it increases them because it makes it impossible to use the exchange rate to improve the trade balance. The weakness of both arguments is that they treat the change of policy on how the exchange rate should be managed as equivalent to a change in policy on the objectives for which it is managed. At any time a country may have a policy for promoting demand which may rely on trade as an element of it, or it may be satisfied with a market-determined equilibrium. If it does intervene, the instruments it uses will be determined by its judgement on the size and predictability of the economic relationships discussed above. Such claims about floating also look at protection only as a form of macroeconomic intervention although in practice it is more important in sectoral policy.

There are two effects of floating on other international relations which may be relevant to this paper. First, if it does not respond as efficiently as a fixed rate system to pressures on it, it may require larger changes in the other international flows as a substitute. This would increase the importance of interrelations. Secondly, it may operate differently on other variables. Rate changes are not instantly identifiable. Responses may therefore be slower. This may increase financing needs for traders, but reduce them for governments by removing the obligation to respond to temporary strains with financial support. More generally, it may slow or reduce the response to relative price changes by making these less obvious and by emphasising the effect of exchange rates in offsetting them.

Conflicts can arise between different countries either because of a direct incompatibility of policy, over the exchange rate between them or their relative interest rates, for example, or because of inconsistent combinations of policies for different variables, a high interest rate policy in one and a high exchange rate, low interest rate policy in the other. Thus an international difference creates a conflict of domestic interests.

Insofar as this is perceived to be the result of normal economic events or forces in the other country, or the 'rest of the world' it is not a new problem: domestic economic policies may well prove inconsistent given international constraints, and domestic adjustment is an acceptable solution. If, however, the domestic conflict is seen as the result of the other country's choice of policies or instruments rather than of inevitable economic forces, it may give rise to demands for restraints on countries' behaviour. In the absence of these, it may lead to greater intervention in response. Examples that are frequently cited are the monetary and exchange rate policies of Japan and the United States. Japan in the late 1960s and again more recently pursued policies of low exchange rates which contributed to (although clearly not explaining completely) its exceptional competitiveness. Other countries, unwilling to adjust their exchange rates, responded in part by trade restrictions. The high interest rate policy of the United States in 1981-82 conflicted with the high exchange rate policies being pursued in order to damp inflation by the major European countries and brought these countries' exchange rate policies into conflict with their (less tight) monetary policies. More generally the high interest rates brought about by the monetary policies being following in the developed countries generally have increased the cost of all credit which includes loans to developing countries and brought unexpectedly tight limits on their financing.

The Present International Institutions

Some of the details of conflicting economic policies may be new but the existence of conflicts, and the particular acrimony arising from government intervention and depression are not, and indeed they were behind the establishment of the IMF and the GATT after the War.

The experience of institutional policies and depression in the 1930s, accompanied by a rapid decline in world trade, was the major force, but the more indirect effects of government intervention in domestic economies were also recognised: The Economist noted that 'We are moving into an era of purposive direction of economic forces and those who think that international trade can remain an exception to this worldwide trend are cherishing an illusion' (19 February 1944,cited Rossen 1981, p.2). The post-war solution to the problem had two elements. Formally it was intended to set limits of national intervention, and thereby reduce the scope and number of international conflicts. It established mechanisms for resolving conflicts or renegotiating the rules when necessary, but the understanding was that as far as possible international economic relations would be governed by rules not *ad hoc* decisions and negotiations. The second characteristic was that both the IMF and the GATT had a presumption built into their rules (for example on progress toward convertibility or extension of most-favoured-nation treatment) that any changes in the rules would be in the direction of less rather than more direct restriction on international flows. This reinforced the risk-reducing advantages from certainty and stability given by the rule-based system by indicating to a private decision-maker in which way any change would be made. Both of these characteristics were particularly beneficial to those who could not expect to have a direct or significant voice in negotiations, that is to private traders or investors and also to the weaker countries in the institutions.

The General Agreement on Tariffs and Trade was explicitly set up to administer an Agreement on what types of trade barrier were acceptable (the only element of the more ambitious International Trade Organisation to gain approval). It took on as a natural extension the role of arranging, and encouraging, multilateral negotiations to lower these. It does not have any (formal) function beyond administering and enforcing the agreements made by member governments. It does not establish any special position for developing countries: these were, it should be remembered, a majority of the original signatories (Gold, 1978 p.2), and have remained so although some of the largest have never joined. The protection of fixed rules and the principle of non-discrimination were themselves a gain for them. The possibility of positive discrimination for them was first raised in the acceptance by the GATT of the Generalised System of Preferences in the 1970s, but this remained in form a unilateral concession by the developed countries, not an amendment to GATT rules. One type of derogation from non-discrimination was accepted from an early date: the formation of regional trading organisations, in both developed areas (the EEC and EFTA) and developing (especially Latin America). (Existing arrangements, such as those within the Commonwealth were accepted because they existed, reflecting the overriding principle of stability.) This suggests that non-discrimination has never been regarded as so basic a principle that it cannot be violated if it conflicts with other benefits.

The rules and enforcement provisions of GATT have not altered in recent years, but their scope has been greatly reduced by the practice of governments making informal agreements to break the rules and not appeal to GATT. GATT cannot deal with agreements which frequently have no legal force behind them, and which will by intention not be brought to its notice by either side; and even its informal statements of disapproval can have little force coming from an organisation that is no more than the representative of its members' interests. These agreements have taken the form of 'voluntary export restraints' (on steel, cars, machine tools and other engineering trade, electronics, textiles and shoes), industry-wide 'Arrangements' (as in textiles), and a variety of other informal non-tariff barriers. In the last two years, there has been a partial return to mechanisms within GATT, with the growing use of anti-dumping investigations. GATT rules do permit countries to control goods being exported to them at below a reasonable cost price if they are causing 'material damage'. In these as well there has been a considerable element of agreement between the governments directly concerned: not to contest the dumping allegations or to restrain exports following advance threats of an anti-dumping action (the steel trigger prices in the United States). Two central elements of these new barriers break the most important aspects of the GATT system: they are discretionary, not based on fixed rules; they are discriminatory among GATT members. Other characteristics also conflict with the basis of the post-war international system: they are based on government-to-government agreement, effectively on the use of greater economic power by one negotiator to compel the other not to rely on an appeal to the rules; they are not set out in legal form, and are therefore not certain in their effect (they have frequently been subject to disagreement) and are sometimes semi-secret; they are changes in the direction of increasing, rather than reducing, controls. All of these effects act against the advantages for non-governmental traders and relatively weak governments of the GATT system.

The International Monetary Fund was established with a slightly stronger independent and discretionary role than the GATT, an extension into international institutions of the greater powers and discretion considered normal in most 'market' economies in their national management of financial and monetary affairs. Except for financing directly related to trade, the presumption built into it was that capital flows would be subject to controls, and that governments would certainly intervene in exchange-rate setting. The parallel to the GATT rules was that the exchange rates should be fixed and non-discriminatory, but an important difference was that when a change was necessary it was the IMF organisation itself, not multilateral negotiation as in the GATT trade rounds, that took on the international supervisory role; and while GATT permitted (even welcomed) unilateral or restricted area tariff reductions this degree of national freedom does not exist under the IMF rules. Effectively, however, the constraint of IMF acceptance of exchange rate changes was not important, except when the IMF was involved in a financing role, even during the period of fixed exchange rates; under floating rates its responsibility for supervisory rates is even more tenuous. The switch to floating rates was thus a breakdown in the accepted rules of national behaviour, but not a major change in international authority.

The more important element in the IMF's independent power was its role as a provider of finance for temporary difficulties. Again there was an effort particularly in the years before 1973 to make the provision of funds as far as possible subject to rules rather than discretion. Some finance was available without question (the 'first credit tranche'). In the earliest extensions of the availability of finance, the commodity-based compensatory financing arrangements were an attempt to tie both the availability and the amounts to fixed criteria. The 'oil facility', after the first oil price rise, however, permitted greater judgement, not merely in the amount (given that the total available was so much less than any possible measure of the 'oil effect') but in the IMF's conditions of lending. One informal link between the GATT and the IMF rules had been that the IMF required avoidance of new trade restrictions as a condition for credit (although there were exceptions). The conditions for the oil facility were less tightly drawn.

In the late 1970s and particularly since 1979, it has become increasingly difficult to separate balance of payments difficulties which can be attributed specifically to commodity exports or oil prices from those caused by the depression generally. The latter include both direct effects and the cost of any mistaken initial responses to it. Identifying some causes as particularly deserving, which in any case has no theoratical support, is therefore increasingly impractical. It has also become less relevant to lending decisions because of the reduction in the share of funds based on such considerations. Combined with the changes in the IMF's more general funding arrangements, particularly the failure to increase the first credit tranche as much as all borrowing rights, this has strengthened the role of discretionary lending.

Outside the GATT and the IMF, a variety of other organisations provide elements of international coordination of national policies. The World Bank has moved (since 1979) to supplement its concern for long-term development and particular projects with 'Structural Adjustment Loans'. These in turn are now subject to coordination with IMF finance to a particular country for more immediate adjustment problems. The intention is to ensure that the specific and general adjustments and long- and short-term problems are not looked at separately. The organisations consider coordination superior to placing both types of credit under one of them because they have different types of objective (and expertise) and can remain individually responsible.

The shortage of IMF funds relative to the needs of the largest members prompted the establishment in 1961 of the General Arrangements to Borrow, administered by a club within, but outside the control of, the IMF: its ten largest members. Its discussions of international monetary reforms and its effective control of access to IMF funds by the group's members weakened the universal role of the IMF (Tew, 1977, p.141) and its non-discriminatory character. The considerable overlap between this Group of Ten and the OECD, which was extending its role in organising discussion of international issues among the developed countries, encouraged this tendency. In contrast to the GATT, the OECD has always included more general areas of economic policy with trade in its discussions (Rossen, 1982, p.11), but although it therefore can take account of a more comprehensive set of influences on trade (Commonwealth Secretariat, 1982, p.118) it does not have (unlike either the GATT or the Group of Ten) any powers, on its own or as representative of its members.

The growing use of international summits among the developed countries is another forum for discussion, again without power. The EEC, for its members, does link trade and exchange rates within the Group.

The present system has thus departed from the post-war system's principal characteristic of attempting to reduce the possibility of conflicts by providing permanent rules and criteria to guide international arrangements and by discouraging direct government intervention. The existing rules are broken by agreement and changed informally either by single governments or in international fora restricted to some of the developed countries, in ways which leave them uncertain and unenforceable, and in unpredictable directions.

The growing importance of the IMF relative to the GATT reflects the greater role of capital flows and the increased importance of money and finance in national policies. The parallel increase in sectoral rather than macro-economic intervention in national policies also militated against a stronger role for the GATT, and the reduced importance given to macro-economic management in the developed economies reduces the gains expected from the dynamic, demand, effects of trade. The existing organisations did not offer obvious ways of dealing with the new economic conditions and objectives. These include in addition to the different types of government intervention cited above the new aspects of private participation, for example the growing role of multi-national corporations, with implications simultaneously for trade, domestic development, and finance, and of international banks (Stewart, Sengupta,1982) whose deficit financing shifts the borders between official and private activities. The greater variations in economic performance, across all countries (Commonwealth Secretariat, 1982), and between countries (Llewellyn and Potter in Boltho, 1982, p.140) made a system of permanently fixed rules and relationships seem increasingly inappropriate. The depression probably helps to explain why most of the modifications to it substitute national controls and discretion for international.

Differences between the Interests of Developed and Developing Countries

One of the advantages suggested for the rule-based, multilateral post-war system was its protection of relatively weak governments from those with stronger bargaining power. The loss of this and such modifications of the present system as the growing importance of country-to-country trading relationships and holding exchange rate and financing discussions in developed country groups suggest that developing countries may have lost more and gained less from the institutional changes of recent years. At the same time, the relatively rapid expansion of their trade, the greater external 'openness' of some of them, and their growing dependence on international funds for general finance have all increased their interests in a satisfactory international system.

The move from fixed to floating exchange rates was expected to be difficult or damaging to them because their capital markets are smaller, and therefore more vulnerable to any flow of speculative funds, and because they lack the institutions such as forward markets that normally blunt the effect of financial markets on traders and investors. Because of their weak bargaining position, their traders normally are required to bear the entire exchange risk of any transaction, so that their need for risk-reducing mechanisms is likely to be greater than in developed countries. There are technical solutions to these problems, including tying the exchange rate to one developed country currency and using its markets or attempting to match payments and receipts in a variety of currencies, probably requiring a net increase in reserve holding (Bird, 1978, p.28). The growing number of developing countries using floating rates and the increasing diversification of both their trade patterns and their holdings of reserves indicate that these have been used. They must, however, have some transactions costs that do not arise for countries with their own forward markets, and in dealing with other developing countries, the absence of intra-regional or other developing country institutions means that two sets of these costs may be incurred (Anjaria et al 1982).

Fixed rates may not be a practical solution in present economic conditions, so the alternative to incurring the costs of operating in a largely floating system may be not reforming the system but either finding an international solution to compensating the developing countries for their increased share of the running costs of international payments or for them to reduce their international exposure. The first possibility raises the question of the principle of non-discrimination. This has not been considered as central as other GATT rules in the past, and has its theoretical justification in theories of justice or legal systems rather than in economics (Johnson, 1976, p.18). It was intended to protect the weaker governments in the system, but the easy substitution of smaller clubs on the IMF side and government-to-government negotiations in trade suggest that it has failed to do so during the depression. On the other hand, it may have been the maximum, not the minimum, developing countries could get in a fixed rule system, and the other advantages of that may well have compensated for lack of a special position during the period of growth of the 1950s and 1960s. The present system, in which there is both direct discrimination, in trade, exchange rate and payments mechanisms, and indirect, through the lack of full developing country participation in consultations about finance and reforms of the system, within and outside the IMF, is clearly less satisfactory.

The increase in domestic costs in managing international exposure under present economic conditions and arrangements is one element in determining the desirable level of exposure to external risks and benefits for developing countries, but it is necessary to distinguish this more general question from the effects of a particular international system. Problems such as different movements of different exchange rates with damaging consequences for terms of trade or the depression and consequent lack of external demand cannot be solved by new forms of international organisation.

The difficulties faced internationally by the developing countries clearly put pressure on their national coordination of different policies. This may already differ from that in developed countries. The trading and financial sectors, although undeveloped relative to the role placed on them by floating or dealing with developed countries, may be wealthy and extensively planned relative to the rest of their own economy. This may make potential conflicts between international constraints and domestic objectives particularly acute: taxes on trade or trade-related activities may be a significant part of government revenue (IMF, 1982, p.52), although this is not a problem unknown in developed countries. The practical difficulties of coordinating different international questions may be less because of the normally greater degree of centralisation of planning, with the central bank likely to be regarded as an agent (Ghatak, 1981, p.38) and not an independent operator, but the willingness to accept externally imposed changes in a programme may be reduced (or more realistically, the resentment at being forced to accept may be greater) by the government's greater direct involvement. This may also be true of accepting imposed structural changes, including the shift to floating itself, or alternative trading or financing arrangements. In addition to the transactions costs mentioned above, the use of floating is particularly likely to mean a change in methods of control of international relations because of the relatively high use of exchange controls by the developing countries.

Proposals for New International Systems

The first proposal after the War was for the International Trade Organisation, which was to have had a role in trade and all related issues parallel with that of the IMF in finance. It would have had explicit responsibilities in employment and development (Rossen 1981, p.5). It was never formed mainly because the United States was not prepared to accept this degree of international intervention, and the interim arrangements made for trade only, the GATT, remain in force.

There have been various proposals linking some of the international issues. The suggestion of a link between the general provision of world liquidity and the particular need for additional finance for the developing countries, in particular the SDR-aid link, has taken several forms. It would, unlike a proposal such as the ITO, be an extension of automatic arrangements to a new field, not a substitution of international planning. It was suggested in the earliest plans for the IMF, as the Stamp plan in 1959 (Bird, 1978, p.257), when the plans for the Fund issue of Special Drawing Rights were first discussed, and at each subsequent SDR issue. It was implemented on a very limited scale when the IMF sold some of the gold reserves which had been allocated to it by its members as part of its capital, and distributed the difference between the selling and the official price. The proposals to distribute SDRs either directly to the developing countries, on the basis of aid needs (rather than to all members on the basis of quotas, effectively, in proportion to their wealth) or to make them available to aid agencies were rejected by the developed countries, and by most economists commenting on them, as illogical because of the lack of any relationship between the world's need for greater liquidity and developing countries' need for aid (Srinivasan, 1982, p.89). This type of argument is in some ways as wrong as the opposite extreme of treating all international issues as inextricably linked. If both needs exist simultaneously there is no reason not to link them, and as someone must receive the benefit of the 'social saving' from more adequate reserves (Bird 1978, p.253) it is arguable that the bias should be to the poorest, not the richest. More directly, as certain elements of the international payments system were exacting an increased share of their costs from the developing countries, they had a claim to a greater than proportional share of any available benefits from international monetary reforms. On the other hand, such a scheme might have further reduced the interest of the developed countries in the general benefit of increasing international liquidity (it was already lower because of the advent of floating), and therefore have reduced developing countries' actual receipts of SDRs below what they received as their share in general allocations. As the amounts involved were never large, the advantages or disadvantages of this partial solution are of little significance.

The financial difficulties that developing countries have experienced in the last year have led to various proposals that some organisation, perhaps the IMF, should have a general supervision over not merely the short-term adjustment policies of those borrowing from it, with the usual conditions which may, as has been mentioned, include observance of rules about trade or exchange rates, but their medium- and long-term financing as well, and possibly their development programme regarded more broadly. This would not be a general international programme for two reasons: the lack of developing country participation in the setting of the IMF programmes and the apparent concentration on national and financial objectives only. To have reestablishing the financial position of each country as the objective fails to take into account either aggregate world objectives or the interrelationships between the objectives for different borrowers. (It may not even form the basis of a good national programme as with the increase in the number of countries under IMF programmes the implicit assumption that each can be treated independently, with the rest of the world assumed constant, becomes increasingly unrealistic.) The extent of international 'interference' involved is likely, however, to make such plans as unacceptable as the ITO.

There have been efforts to establish organisations or systems based only on the developing countries to deal with the linkages in their relations among each other or to strengthen their demands for a more general solution. The first is the same reason that has led the developed countries to use the Group of Ten or the OECD. The latter reflects the view that their interests in the international system are different from those of the developed countries, and cannot be met in the existing organisations. UNCTAD like GATT is a temporary arrangement that has lasted, but unlike GATT began and has remained basically a consultative organisation, with no rules or powers. It is noteworthy that it included only Trade and Development, not Finance in its original definition of responsibilities (although this has been extended), reflecting the international concerns of 20 years ago: like the decline of GATT and the modification of the IMF this suggests one of the difficulties for any 'comprehensive' international organisation: it will only cover the issues considered important at the time of its formation, unless it is given unlimited powers of expanding its role. The proposals for a New International Economic Order were more an agenda for the international community than a proposal for a particular type of system, but they embody both in their formulation together and in some of the proposals themselves a general approach: if the proposals are rewritten in such terms, they include linking income redistribution to export of commodities and aid to national development in the developed countries and to liquidity, in addition to the more single issue proposals of industrialisation, technology transfer, and debt relief. The difficulties its supporters have faced have arisen mainly from the unacceptability of such general international obligations and in particular the costs of some to developed countries, but also from conflicts of interests among the developing countries, over the priorities and over the desirability of some of the components, and from declining general interest in some of the issues. These are the difficulties of basing reform proposals on specific issues rather than an organisational approach.

Conclusions

The international system must reconcile not only different targets or programmes within the same or related international relationships, but differences in countries' views of the priorities among these, and between these and their own domestic plans, and differences in their desired structure for the economy, in general and on a very specific level for the particular elements of it that impinge directly on international trade, finance, or pricing. It is impossible that any system will satisfy every participant completely because both goals and structures may be simply irreconcilable, and the system must impose one or modify all of them. The greater the number of countries, and the more disparate their economies and their national systems, the greater the likelihood of inconsistencies. The tighter the constraints imposed by the economic situation and the greater the importance of international transactions to the national economies the less willing will countries be to accept compromises. It is probably not practical, therefore, particularly at present, to think in terms of finding a generally acceptable proposal for a complete reform of the present system. It is possible to identify some areas in which it appears to be particularly unsatisfactory and some groups which have particular needs which are not being met.

As was suggested in the introduction, it is necessary to consider how important the inability to resolve these issues is. It is argued (for example Bergsten, Williamson 1982) that the present economic difficulties, particularly the problems for trade policy arising from floating exchange rates, make some progress on solutions 'essential'. It is clearly true that the growth of national intervention and restrictions can become a spiral of controls, which becomes increasingly difficult to reverse, or even stop, the longer this is delayed. Even if this is true of trade controls, a general solution and policy coordination are not the obvious answer, first because there would be no agreement on the interrelations involved (the depression or sectoral domestic policies or the rejection of macro-economic goals are at least as likely candidates as floating exchange rates in this example); second because this would probably be the most difficult and slowest solution, because it would involve more types of interest and institution than a single issue one.

A second general issue to consider is whose interests the system (and any modifications) is designed to serve and specification of the alternative. Compared with the model GATT/IMF system of rules, inter-government coordination may increase certainty for governments, but reduce it for private participants; increase it on outcomes (if it is efficient) but decrease it on mechanisms and types of intervention. Compared to the present regime of some rules and some government-to-government negotiation, it may reduce it on outcomes (if the strongest no longer always prevails) and increase or decrease it for private participants, depending on which elements of the present system it replaces.

The present system does appear to offer more scope for the developed countries to coordinate their interests among themselves and to some extent control interrelations, than it gives to the developing. This suggests that there is a place for a more formal UNCTAD or perhaps several smaller groupings for different areas or economic interests. One of the clear trends among the developed country organisations is for the largest to spawn more effective subgroups. There are issues in relationships among developing countries, and the impact of these on their own economies, which cannot fit into the general organisations.

The effective participation of the developing countries in international management of the system has declined since the original establishment of the IMF and

GATT because of the growing role of the purely developed country groups and because of the growing removal of some issues from international organisations to bilateral negotiations. Reversal of these trends could involve some conflict of interests with the more powerful groups, but the structure and the principles (including non-discrimination) are still in existence, and might provide a starting point for such a move. In a wider sense, it is clearly desirable for all because of the potential for distortion and economic inefficiency if the interests of the majority of nations are not actively represented.

There has been a decline in the role of rules and automatic mechanisms. A revival of GATT rules, or the use of its mechanisms for setting disputes, a return to the level of automatic financing given by the initial levels of the IMF first credit tranche, or by increases, even general ones in liquidity through SDRs (especially now that bank financing has withdrawn from its temporary assumption of this role) would not be seriously against the interests of any country. The GATT rules may run into national sectoral interests, but even a modest recovery from depression or change in the nature of domestic policies would reduce these pressures.

Greater recognition of where potential conflicts of interest may exist, and of the dangers of cumulative reactions may be one of the most useful reforms. The experience of the EEC has shown on a regional scale how far consultations can be an effective substitute for formal policy coordination in ensuring that inconsistencies are if not avoided, at least foreseen and their effects mitigated. Although they retain complete independence, the staffs of the World Bank and the IMF have always worked closely together, both in individual countries and on general questions. On a more specific level, the possible conflicts on structural adjustment lending were made subject to a Memorandum of understanding between the two organisations.

There is, however, a surprisingly total lack of formal coordination between the IMF and the GATT. Even the limited potential for joint action in their terms of reference has not been used. The IMF conditions limiting further restraints on trade follow a standard form with no provision for involving GATT in suggesting reforms in line with current trade negotiations. Although some of the balance of payments difficulties faced by borrowing countries may be at least agrravated by restraints by other countries on trade, the IMF does not attempt to secure changes in these through the GATT machinery (or any other means). The one part of the original concept of the GATT which did provide for both the use of trade restrictions for balance of payments purposes and a direct role for the GATT organisation, the 'scarce-currency clause', has not been used. It was designed to deal with a special problem, dollar scarcity after the War, but it was never adapted to provide a semi-automatic discriminatory weapon against other countries in special trading positions, thus leaving all balance-of-payments problems to the IMF.

As with the IMF and the World Bank, the GATT and the IMF should be required to consult each other on particular issues in their relations with individual countries where both trade policy and balance of payments questions arise and also to discuss on a regular basis the general economic situation and the broad orientation of their organisations' policies. These discussions could also include the OECD and UNCTAD (or the suggested little UNCTADs)as recognised pressure groups for their respective members on the issues facing the two world organisations.

These changes could ensure that consultation was regular, not crisis-related, and that it involved representatives of all the members. The present reliance on overlapping memberships of the most important committees gives too much weight to the developed countries.

In general, a problem-by-problem approach, using the existing organisations, but more effectively and consistently, is likely to be more acceptable to all countries at a time when they are particularly concerned to protect their own interests than setting up new more powerful international organisations. Maintaining the present responsibilities, of both the international organisations and national governments also offers some assurance that the new arrangements will not embody new gaps in coordination, within a particular subject or country.

Renewed use of the existing organisations will in itself shift the balance back from national to international approaches, and from arbitrary and unforeseeable policy changes to a more stable environment. A more radical reform would at once be harder to achieve and in itself create uncertainty, perhaps only temporarily, but at a particularly dangerous time.

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