Introduction

Looking at the history of the international monetary system in the 19th and 20th century, it is not difficult to distinguish the various stages of its development, assess its performance, and explain why subsequent reforms of the system came about. With the benefit of hindsight, it seems logical that the original 'gold standard' (based on the British pound and its convertibility into gold) was replaced by the 'gold exchange standard' (based on the US dollar and its convertibility into gold) after the Second World War, and that this system, in its turn, was abandoned in 1971 when the United States, because of its growing indebtedness to the rest of the world, could no longer guarantee the dollar's value in gold. The more recent history of the world monetary system shows, however, that it is hard to reach consensus on its successes and failures, agree on the reforms required, and, eventually, get sound ideas put into practice.

The past three decades supply testimony to this lack of consensus. Efforts to reform the system, inspired by Robert Triffin's early warnings about the instability of a global monetary system based on the US dollar (or any other national currency) [1] finally failed early 1970s. Instead of putting into practice the reforms agreed in the famous Committee of Twenty report [2], the main policymakers decided to abandon the idea of multilateral control of the system. From that time onwards, the world monetary system rested on two rather fragile pillars: a 'dollar-paper standard', rather than the previous dollar- gold standard, and floating exchange rates, instead of the previous fixed rates.

In the preface to this book, former Managing Director of the IMF, H. Johannes Witteveen, points to some of the weaknesses of the current system: serious volatility of exchange rates, dramatic swings in capital markets,

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1. See Triffin's "Europe and the Money Muddle" (1957) and his classic "Gold and the Dollar Crisis" (1960).

2. The Committee of Twenty (C-20), comprising representatives from the twenty member countries of IMF's Executive Board and chaired by Jeremy Morse, was established in 1972 by the IMF. In 1974, it presented the report "International Monetary Reform", outlining fundamental reforms of the world monetary system. The report was the culmination of more than ten years of discussions and negotiations between experts and officials of the ten major financial powers (G-10), the IMF and, after the establishment of C-20, the developing countries. The recommendations were not implemented; they were officially dismissed at an IMF meeting in Jamaica in 1976.

harmful uncertainty and misleading signals to private investors and policymakers, as well as a lack of global macroeconomic policy coordination.

These weaknesses, which affect the well-being of citizens all over the world, incited the Forum on Debt and Development to attempt a series of activities aimed at reviving policy debate on the functioning of the world monetary system and the financing of development. The first activity considered was a Workshop on the Functioning of the International Monetary System. The task sounded ambitious, but support came soon. Our invitations to experts in monetary, finance and development issues got very positive reactions. Even many of those who were not able to participate expressed great interest in becoming involved in creative discussions about the functioning of the world monetary system.

So, in early June 1992, a group of eminent officials, private bankers, researchers and politicians met in The Hague to discuss three papers prepared by the well-known experts, Stephany Griffith-Jones, Arjun Sengupta and John Williamson. Griffith-Jones investigated the causes of Latin America's renewed access to world capital markets and suggested how policymakers could best address or prevent future problems. Sengupta put forward some challenging ideas about supporting developing countries' efforts to become true partners in a market-driven world economy through new aid and development policies. Williamson reviewed past proposals for reform of the international monetary system and came up with four proposals which, according to him, would be viable today.

The papers stimulated lively and in-depth debate, as the comments and discussions in this book show. While editing the book, I realised, once more, how difficult it is to summarise such comprehensive and profound arguments, since it is almost impossible to fit in every interesting statement and idea that circulated around the table. Some important issues raised by the participants had to be left out.

One of these issues was the whole matter of international commodity prices. Drag Avramovic, in particular, strongly advocated an investigation of what can be done with regard to commodity risk management, running from initial incentives to investment, diversification of markets and products, to stabilisation of prices. "Unless this is done," he argued, "it will be difficult to resolve economic shocks to which in particular the poorer countries are exposed".

Another issue was the long-standing proposal of establishing a world central bank some time in the future. In his paper, John Williamson related that once he was a strong supporter of this idea, but now, in a world of free capital mobility, he no longer regards it as realistic. Other participants, however, felt that precisely because of the reality of capital flowing freely around the world, with not only beneficial, but also disruptive effects on

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economies, the need for an international institution like a world central bank is even greater.

These two examples illustrate a fundamental problem which academics and policymakers have to address: what order can be brought to trade and finance, both at the national and international level? Or, put in different words: how should the official and private parts of the international monetary system ideally interact? In a world of growing economic interdependence and integration of financial markets, policymakers and private agents are increasingly confronted with the need to strike a proper balance between the market mechanism and official regulation. That basic question was also central in the debates at our Workshop. Some favoured more control by national, as well as international, authorities, others less. There was no consensus.

One of the points, however, on which all participants did agree is that a sensible world monetary system should take into account the interests of all members of the global community. This ideal has inspired experts and laymen from various parts of the world, and is reflected in Witteveen's support for a more stable and equitable international monetary and financial system. The papers, comments and discussions which follow show that such an endeavour is still alive. I hope that these contributions will re-start a debate on these important but somewhat neglected issues.

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