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MANAGEMENT OF MODERN INTERNATIONAL MONETARY ORDER: AN HISTORICAL EXPOSITION.

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Abstract

This paper analyses attempts made to lay the foundation fo the conduct of modern international trade, and indeed internation economic relations, since the 1930s when the world experienced grav economic recession. The discussion shows that the foundation an conduct of modern international trade were facilitated by manageme of international monetary order through aid, ideas, information an the setting up of international finance houses. Indeed, understandin the prevailing dynamics and management of international econom system would help people to appreciate the role that internation finance houses have played in the conduct of international econom relations and that the dynamics is being propelled by the ne economic world order termed globalization.

Introduction

Transactions through loan aids, commodities and ideas remai one of the most important indices in the conduct of international trad Sometimes, loan aids are facilitated through multinational c transnational companies, individuals and non-government organizations who invest in countries other than theirs. Deductivel therefore, in the real world of economic transactions, economi situations in set of countries are often influenced by the performance of economies of other countries. However, through some idea advanced by international finance organizations such as th International Monetary Fund (IMF), developed economies such as th United States and Britain are to allow countries with poor economi structures to get out of the woods and contribute to the world econom in whatever capacity they could. Every nation depends on one anothe for survival, hence any nation that has some economic problems woul be helped by others who are at the time on an advantage through ideas, loans, etc. For instance, when the Nigerian economy and, indeed, some African economies showed signs of sickness in the early 1980s, the World Bank backed by the developed economies advised them to embark on *structural adjustment.* Economic programs such as *Structural Adjustment* through various forms depending on the country were launched.[1]

History

The economic depression of the 1930s had, to a great extent, contributed to economic nationalism, competitive exchange rate of international currencies, formation of competing monetary blocs, and the absence of international co-operation. The absence of international co-operation aided the breakdown of national economies, domestic political instability and international war. For the sake of clarity, it was the era of governmental non-intervention; and, before the rise of the welfare state, primary attention was not given to monetary stability as the gold standard was a unit. This was the period of British hegemony, and the ascendancy of the ideology of *laissez faire.* With the coming of the First World War, coupled with the structures of the modern welfare state, the gold standard was no longer able to function. The First World War destroyed the political and economic foundations of the time and plunged the world into monetary and economic chaos.[2] A major consequence of the First World War was a nationalization of the World Monetary System.[3] From the First World War (1914 – 1918) to 1944 (the midst of Second World War) there was total collapse of the international monetary system because of suspicion and political instability among nations. This was the condition until July 1944. In that month, forty four nations which had struggled to maintain world peace met in Bretton Woods, New Hampshire, United States of America to create a new international monetary order.[4] The forty-four leading nations present at Hampshire were mainly European nations such as Britain, France, Italy and the Netherlands. Soviet Russia, a leading nation, by her choice was not there.

The aim of the countries that gathered at Bretton Woods was to establish an international economic system which would prevent another economic and political collapse and military face – off. It was agreed that the former arrangement that encouraged the money system to rely primarily on market forces should be abandoned. It was also agreed that those governments at Bretton Woods should assume the responsibility of managing the international monetary system. It is worthy of note, that the period saw the formation of the Anglo-French-US Tripartite Agreement which sought co-operation among the three nations to stabilize their currencies. Thus, it was during this Second World War that monetary co-operation was expanded through various agreements and through a vast amount of monetary planning for future peace. It was also at Bretton Woods that countries established a universal managed international monetary order.[5]

The arrangement for, and the agreement at, Bretton Woods had been an American initiative. The main reason was that during the inter-war period the American economy was stronger and showed a positive growth than other developed economies. It was an economic boost for America to assume responsibility for establishing a post war economic order. The new order was aimed at preventing economic nationalism and the fostering of free trade and a high level of international interaction. The arrangement was also to ensure a long lasting peace through international co-operation. In 1947, the United States and the United Kingdom, who then were the leading economic and political powers, drew up a plan for a new system of international monetary management. The Anglo-American plan, approved at Bretton Woods, became the first universally managed international economic order. For a long time beginning from 1947, international monetary relations were stable, a factor that encouraged growing international trade, economic growth, and healthy political associations among the developed and developing market economies.[6]

Expectations of the Conference and the Birth of International Finance Regulatory Houses

The new order as was drawn at Bretton Woods did not meet the American and some nations' expectations, viz: that they would gain economic primacy over other nations because of the vast amounts that they contributed to the organization. However, Britain and some countries would not allow such supremacy. The new order was intended to be a system of limited management by international organization. In this connection, two universal international organizations were constituted —the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, also known as the World Bank). They were, for the first time to perform central bank functions for the international system. The International Monetary Fund is concerned with short-term credit and the cooperative management of foreign exchange rates. The World Bank was formed to provide sound, long term loans for reconstruction and development of Europe that was ravaged by the World Wars.[8] Put differently, the two public institutions were established by the Western capitalist countries to help them recover from the shocks of the economic depression of the 1930s and the effects of the two world wars.

The Bretton Woods rules prescribed that for the effective conduct of international trade provision must exist for a fixed exchange rate, because according to the proponents, the floating rates of the 1930s were disastrous. The league contended that a fixed exchange rate was the most stable and the most conducive to trade. In this connection, all countries agreed to establish the parity of their currencies in terms of gold, and to maintain exchange rates within one per cent, plus or minus, of parity. The rules also encouraged an open system by committing members to the convertibility of their respective currencies into other currencies and to free trade.[9]

Expected Roles of IMF and World Bank

The IMF was empowered to keep and maintain the main instrument of universal monetary management. IMF approval was necessary for any change in exchange rates. It was also its position to advise countries on policies affecting the monetary system.[9] It was within its function to advance credits to countries with balance – of – payment deficits. The IMF capital base was provided by the contributions of member countries in gold and in their currencies. When a member country suffers from the deficit in the current account, such a country could borrow up to eighteen months, and, in some cases, up to five years from this fund. The initial capital for the fund was $8.8 billion: when it came to the system of weight voting, it was America who exerted a greater influence in that body because of its basic financial contribution to the fund.[10]

As earlier stated, the World Bank was created with the aim of reconstructing the war-torn Europe. It was hoped that the international economy within five years would recover as nations were rehabilitated from the war to contribute to the world economy. The World Bank had an authorized capital of $10 billion. It was expected to make loans of its own funds and to underwrite private loans and to issue securities in order to raise new funds to make possible a speedy postwar recovery. The United States contributed the largest amount to both the IMF and the World Bank and thus dominated the voting power within it. The contributions of other nations were too meager to give them a voting power as America. United States contributed $570 million to

IBRD.[11] Other nations were encouraged to contribute their shares to the IMF and World Bank.

The Beginning of Loans to Needy Nations by IMF

Indeed, to quicken the postwar recovery and to allow for the implementation of the Bretton Woods agreement, the United States gave financial assistance totaling $3 billion in relief funds and $3 ½ billion as loan to Great Britain to enable her complete reconstruction and return the devaluated pound to convertibility currency.

By 1947, the United States recognised that the Bretton Woods system was not working as expected and that the western economic system was on the verge of total collapse, and that the destruction of the European economic system, which had been based largely on international trade, would further increase their economic decline: a condition that would have discriminated against them in the economic comity of nations. In the words of Spero.

> *The sources of Europe's foreign earnings had been wiped out. Its productive capacity had been destroyed or disrupted; its shipping was decimated. Western Europe was faced with vast import needs, not only for reconstruction but for mere survival.*[12]

The problem was reflected in large balance-of-payments deficits. To show the poor state of dwindling European economy, in 1946 the total European balance-of-payments deficit with the rest of the world amounted to $5.8 billion; by 1947 it had risen to $7.6 billion. Europe's reserves were depleted. By 1948 western Europe had only $6.7 billion of reserves to pay for the huge deficits, whereas the United States was running huge balance of trade surpluses. For instance, in 1946 they were $6.7 billion, and in 1947 they were $10.1 billion. American reserves were growing tremendously fast: by 1948 they were $25.8 billion, and in 1949 they were over $26 billion.[13]

From 1947 onwards, the economy of Europe was still in convulsion. The Bretton Woods institutions were unable to tackle the problems of Europe. The problem became complex owing to insufficient fund to deal with Europe's huge deficits. Secondly, the IMF by its articles of agreement could make loans only for current account deficits and not for capital and reconstruction purposes. As at the time, only United States' contribution of $570 million was actually available for its lending. The World Bank equally was conservative in lending policy; it granted loans only when repayment was guarranteed.[14]

However, the European economic crisis of 1947 was seriously linked with political problems. The Italian and French Governments saw, and knew, no peace because of the pressure from internal powerful labour unions. Britain, the colonial master to India and Pakistan, because of her economic difficulty was withdrawing from these territories, and at the same period too, she was also abandoning political and security commitments made to Greece and Turkey.

Now, the economic dislocation and political crisis among European nations gave the Soviet Union an advantage not only to establish her hegemony, but for expansionist policy in Europe. The Soviet Union forcibly subjugated and established communist governments in countries she occupied at the end of the Second World War; the countries included Romania, Poland, Hungary and Bulgaria. The Soviet Union was equally busied with territorial concessional agreements with Iran, Turkey; and her communist guerrillas were making quite significant headway to Greece.[15]

The lack of cooperation and association exhibited by the Soviet Union showed that Soviet leaders were interested in the economic collapse of Western Europe which they expected would offer them political advantage to emerge as one of the political leaders after the United States.

In 1947, because of these peculiar circumstances in Europe, a new system of international monetary system came into being. The United States stepped in and took over the reins and economic vacuum left by the Bretton Woods. That was the beginning and development of a new international monetary system – the dollar standard based on unilateral American management which lasted till 1971.

However, on August 15, 1971, President Richard M. Nixon, without consulting with other parties that drew the Bretton woods agreements, declared that the United States would no longer abide by the rules and procedures that lay at the heart of the international monetary order. Since then, it became difficult for monetary officials and heads of state to successfully maintain order and stability in international monetary affairs.

Conclusion

The world economy works well through cooperation of states. Cooperation exists in the form of loan, aids, ideas, commodities and today, technically. It is believed that the economic/ socio political problem in one state has a linkage effect on others. The European and American efforts at establishing the modern international monetary order have assisted many nations in the conduct of international political economy, though in most cases with pains. Thus, economic nationalism is not the best option for national and international development. Every nation is important, no matter how small, developed or developing. The conduct of modern international trade, and the management of international monetary order today owe their foundations to the European and American initiatives which are to the best interest of all nations. Understanding the history of IMF and World Bank though complete one appreciates the beginning of assistance to needy states for international cum national development.

End Notes

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[3]*Ibid.* p. 127

[4]Campbell R. McConnell, *Economics, Principles, Problems and Policies* (New York: McGraw-Hill Book Company, 1987) p. 869; Joan Edelman Spero, *The Politics of International Economic Relations* (New York: St. Martin's Press, 1981), p. 33.

[5]Spero, The Politics p.33.

[6]*Ibid.*

[7]*Ibid,* p.34.

[8]Paul A Samuelson, *Economics* (New York McGraw-Hill Book Company, 1995), p. 666.

[9]Spero, *The Politics* . p.35.

[10]*Ibid,* p.35.

[11]Edward S. Mason and Robert E. Asher, *The World Bank Since Bretton Woods* (Washington DC: The Brookings Institution, 1973), p. 11 – 36.

[12]Spero, *The Politics,* p. 36.

[13]Aja Akpuru-Aja, *Fundamentals of Modern Political Economy and International Economic Relations: Changing with the Times,* (Owerri, Data Globe Nigeria), p. 193; John T. Rourke, *International Politics on the World Stage* (Connecticut: The Dushkin Group), p. 361.

[14]Spero, *The Politics..,* p. 36.

[15]*Ibid.*