

Foreword

The Commonwealth Perspective

Commonwealth Finance Ministers, representing 51 countries, which include members of the G-7, some of the poorest countries and a number of small states, had a very useful exchange of views on the role of the International Monetary Fund (IMF) and World Bank, at their last annual meeting in Valletta, Malta (26-28 September 1994). This paper by Prof Bird and Mr Killick on 'the Bretton Woods Institutions (BWIs) and the Commonwealth Perspective' was prepared for the Commonwealth Secretariat as a background document on the subject and contained a number of proposals which enriched Ministers' discussions. Given the proximity in time of the two meetings, many of the ideas in the report were also carried forward to the Special Seminar, in Madrid, 29-30 September, to help celebrate the 50th Anniversary of the Bretton Woods Conference. The report is now being published as a contribution to the wider debate on the future role of the IMF and World Bank, during the lead-up to the review of these institutions by the G-7 at their next Summit, in Halifax, Canada, the Group of 24, and the World Bank's Development Committee meeting.

The object of the Bretton Woods Conference was to fashion a financial and monetary system that would avoid the disastrous depression of the type experienced in the 1930s and promote prosperity worldwide through the growth of world trade and investment,

the generation of a high level of employment and real income, and the development of the productive resources of all countries. The intellectual creativity of Keynes and White was matched at that time by a vigorous spirit of internationalism, in establishing an innovative institutional framework to help the world economy achieve sustainable progress. The setting up of the BWIs contributed to a remarkable period of growth in the 1950s and 1960s through a system of stable exchange rates and a liberal trade environment. However, the system eventually came under considerable strain resulting in the breakdown of the Bretton Woods system in 1971.

The present system of floating exchange rates has been a mixed blessing. Although it has provided flexibility, it has also brought much volatility and some misalignment with fundamentals. There has also been asymmetry in global adjustment. This has made macroeconomic management more difficult and contributed to instability of export earnings. It is, therefore, timely that the paper contributes to the continuing high-level debate by exploring ways of evolving a more orderly global exchange rate system.

There has also been a rapid growth and globalisation of capital markets. This has transformed the process of international liquidity creation, but it has tended to be pro-cyclical and has raised distributional concerns. The

Mexican crisis has vividly demonstrated the vulnerability of open economies to sudden shifts in capital flows and expectations. Recent developments in capital markets have given added significance to some of the proposals contained in the paper about ways of strengthening international policy-co-ordination as a means of achieving greater stability in the international financial system. In this regard, the paper explores the merits of an enhanced role for the IMF and an international decision-making system that better reflects the growing importance of developing countries in the world economy. It also supports the proposal for a special facility within the IMF to assist economies afflicted by sudden outflows of short-term capital.

Commonwealth Finance Ministers welcomed the significant contribution made by the BWIs to the promotion of development and the policy debate. They recognised that both institutions had undergone much change, but felt that there was need for continuing reform. The report discusses the influence of the BWIs on development, paying particular attention to the design and impact of Fund/Bank-supported adjustment programmes on Commonwealth countries. It examines ways of giving a greater focus to poverty alleviation in the design of these

programmes, and of dealing with the question of 'ownership', an important determinant of their sustainability. Conditionality without ownership can be a recipe for failure. The report also maintains that the adjustment/financing balance has shifted too far in favour of adjustment. In this connection, it contains a proposal for new allocations of SDRs to augment conventional IMF credits at a subsidised rate of charge. In addition, it examines options for dealing with the emerging problem of multilateral debt, an issue which was addressed specifically by the British Chancellor of the Exchequer in his call for multilateral debt relief for the very poorest debtors.

The economic changes that have taken place in the last decade or so are not merely quantitative in nature, though they are formidable enough in that respect. They are also qualitative individually, and even more so collectively. Production, trade and capital markets have all become more globalised. A serious review of the role of the main institutions has, therefore, become indispensable if we are to strengthen our capacity to manage the world economy and set it on a more orderly path. This paper has made a notable contribution to the ongoing debate on a number of key issues that require pressing attention.

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