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*by J.R. Artus** and *A.D. Crockett***

I. Introduction

A RECENT STUDY of issues concerning the international monetary system concluded:

> So long as there are politically sovereign states and formally independent national currencies, there will be international monetary problems. All we can really hope to do is to minimize the probability that such problems will occur and to restrict the extent of their damage when they do. We can never hope to eliminate them completely.[1]

The purpose of this paper is to consider the basis for this judgment, and to critically examine recent efforts to devise institutional arrangements that promote the effective functioning of the international monetary system.

II. Background of the Exchange Rate System

A. *The Gold Standard.*

It may be asked why the kinds of exchange rate crises to which we have now become accustomed were almost absent from the workings of the economic system of the nineteenth century. The reason lies, essentially in the fact that under the then-prevailing gold standard, the degree of formal independence of national currencies was much less than it is today.[2] Under the gold standard, any country that chose to define the value of its currency in terms of gold had, in effect, the same currency as any other country pursuing the same policy. It is true, of course, that the gold standard never operated in quite the rigid manner described in economic textbooks, but nevertheless general acceptance of the desirability of a gold base circumscribed the freedom of countries to pursue independent monetary policies.

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[1] B.J. Cohen, Organizing the World's Money: The Political Economy of International Monetary Relations 273 (1977).

[2] For a comprehensive analysis of the gold standard, *see* R.G. Hawtrey, The Gold Standard in Theory and Practice (5th ed. 1947).

In the United States, there was no effective scope for independent monetary policy until the establishment of the Federal Reserve System in 1913. Even after this, however, policy was largely defined by adherence to a fixed peg for gold, and even the possibility of changing the gold peg was not seriously considered until several years after the onset of the great depression.[3]

The 1930's clearly demonstrated the harm which uncoordinated national and international monetary policy could cause to world economic order. With no implicit "rules of the game," such as the ones the old gold standard provided, competitive devaluations occurred, protectionism grew and international trade was increasingly organized along bilateral lines, with countries pursuing autarkic economic policies. In their attempts to protect their people from the rigors of depression and unemployment, individual countries followed policies that, in the aggregate, intensified the problems they were intended to correct.

B. Bretton Woods.

It was the experience of the 1930's that conditioned the planned reconstruction of the international monetary system at the end of the Second World War. The Bretton Woods Conference of 1944, which led to the establishment of the International Monetary Fund and the World Bank, marked the first formal recognition that exchange rate policies, in particular, and external trading and payments arrangements, in general, were matters of international concern and therefore should be subject to international scrutiny and regulation. Of course, it was also recognized that, for an individual economy, the exchange rate is an important price domestically, with implications both for employment and resource allocation as well as for the balance of payments. The problem, therefore, was to reconcile the interest of sovereign governments in retaining control over an instrument of economic policy which was important for domestic policy goals, with the international community's interest in a smoothly functioning and "fair" international monetary system.

The solution to this dilemma—adopted at Bretton Woods, and retained with, on the whole, remarkable success for a quarter of a century—was to base international monetary arrangements on fixed par values, with provision for internationally supervised par value changes. Changes in par values were to take place on the initiative of the issuer of a currency when its balance of payments was in "fundamental dise-

[3] *See generally,* M. FRIEDMAN & A.J. SCHWARTZ, A MONETARY HISTORY OF THE UNITED STATES.

[4] A review of the Bretton Woods System can be found in R.F. HARROD, THE INTERNATIONAL MONETARY FUND, YESTERDAY, TODAY AND TOMORROW (1966).

quilibrium."[4] From an operational standpoint, the system was deficient in that first, "fundamental disequilibrium" was not capable of precise definition, and second, the provision for international consultation on par value changes was difficult to implement, except in a partial and *ex post facto* way. The consultation provision was difficult to implement because such changes in par values had important implications for foreign exchange markets that precluded prior public discussion of them. Nevertheless, the system worked quite well, so long as inflation rates remained moderate in most countries, balance of payments positions were in reasonable balance, international capital flows were limited and the international financial system was dominated by the U.S. dollar. Such exchange rate changes as did occur, although for the reason just given not really the subject of substantive international consultation, were generally in the right direction and of approximately the right magnitude. The stability that existed under the Bretton Woods system along with the liberalization of trading arrangements contributed to a large and sustained expansion of world trade, and indirectly to a more rapid growth in living standards throughout the world than during any comparable period in history.

C. The Bretton Woods System Breaks Down.

Much has been written about why these exchange arrangements came unstuck. It is clearly not possible in a few sentences to do justice to the complex of changes in the world economy that resulted in the breakdown of the Bretton Woods fixed par value system. Most economists would agree, however, that the following factors contributed, in greater or lesser degree, to the rift that occurred.[5] First, the reluctance of countries to change the par values of their currencies, except as a matter of last resort, meant that the structure of exchange rates became more rigid than had been foreseen at Bretton Woods. Second, the increase in the general level of inflation from the late 1960's onward, and the increased disparity in inflation rates among countries, meant that the relative competitive position of countries moved out of alignment more rapidly than when inflation had been lower. A third factor exacerbating this phenomenon was the greater mobility of international short-term capital which resulted in part from relaxation of exchange controls and in part from institutional developments, such as the growth of international money and bond markets. This freedom enhanced the ability of private speculators to increase pressures against currencies whose par values seemed inappropriate. Although the I.M.F. Articles of Agreement permitted controls over capital transfers, many countries understandably felt that such controls were against the spirit of a liberal international economic order and were, in any case, often ineffective. Finally, the weakening of the U.S. balance of payments position in the late 1960's, and the difficulties faced by the U.S. authorities in seeking to correct it, meant that the position of the U.S. dollar at the center of the international monetary system became increasingly vulnerable.

The difficulties presented by these developments led to increasing demands to convert dollar holdings into gold. As a result, official gold sales to private holders, which had been taking place in the London market through a cooperative gold pool operated by major central banks, were suspended in March 1968. Three years later, on August 15, 1971 the United States ceased conversion of official dollar holdings into gold.[6] At the same time, most major countries allowed their currencies to float against one another. The fixed par value system established at Bretton Woods had come to an end.[7]

During the next few years various attempts were made to reconstruct a par value system on a more flexible and symmetric basis.[8] At first, the Smithsonian Agreement of December 1971 re-established agreed exchange rates among the major industrialized countries, though with wider margins around the established rates than under the Bretton Woods system and without provision for official convertibility of the dollar. In 1972 the I.M.F. established the Committee on Reform of the International Monetary System and Related Issues (Committee of Twenty). This Committee devoted most of its efforts to defining a revised international monetary system that would be based on par values. Market pressures, however, led to a new phase of generalized floating starting in March 1973 and by early 1974 it had become clear that a system based on par values could no longer be envisaged for the foreseeable future.

III. Development of the Main Principles of the New System

A system without rules would clearly be vulnerable to stress created by individual countries adopting policies which took insufficient account of the international interest. There was, therefore, an urgent need after the breakup of the Bretton Woods system to devise an institutional

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[6] *See* J.H. Williamson, Failure of World Monetary Reform, 1971-1974 ch. 53 (1977) [hereinafter cited as Williamson].

[7] For a comprehensive review of international monetary events during the end of the Bretton Woods period, *see*, M.G. de Vires, The International Monetary Fund 1966-1971, The System Under Stress 404 (1976).

[8] *See* International Monetary Fund (IMF), International Monetary Reform: Documents of the Committee of Twenty (1974).

framework which would take into account the new economic conditions, in particular, the greater mobility of capital and the existence of large differences in the underlying domestic economic conditions of the various countries. Like previous systems, the new framework also had to recognize both the interest of countries in pursuing their own domestic social and economic objectives, and the need to protect the international community against the transmission of harmful influences across international frontiers. The translation of this general philosophy into an effective institutional framework for the operation of the international monetary system, however, raised serious difficulties. The first problem was choosing the broad principles that would define the nature of the system. The second involved deciding which specific rules should be adopted, and determining how the international community could ensure respect of these rules. It is important to consider how these two issues have been resolved in the new exchange rate system introduced by the revised charter of the I.M.F. adopted in April 1978.

The task of agreeing on a new system was made more difficult by the existence of divergent views concerning economic processes, and conflicting interests among countries. The United States, for example, favored a system relatively close to free floating, while a number of countries were never convinced of the case for floating rates.[9] A brief examination of the free float along the lines of the U.S. proposal is helpful in understanding some of the divergent views the I.M.F. faced.

Under a free float system fiscal, monetary, and other domestic policies would be the prerogative of individual governments, to be used as they thought fit in order to achieve domestic economic goals. The exchange rate, however, would be allowed to move freely to equilibrate demand and supply in the foreign exchange market (*i.e.*, to keep the overall balance of payments in balance). This would, in principle at least, eliminate sources of conflict between the national interests and the interests of the international community. The only important rule would be that countries should not intervene in the foreign exchange markets on a large scale or for any sustained period of time. To use a distinction introduced by Dr. Schiller, the German Finance Minister, at the first I.M.F. meeting following the suspension of gold-dollar convertibility, the system should be based on "clean" floating, rather than "dirty" floating.[10] A "clean" float was understood to be one in which a country neither accumulated nor lost reserves. With the exchange rate of a currency being determined

[9] *See* WILLIAMSON, *supra* note 6 at ch. 3-4.

[10] IMF, SUMMARY PROCEEDINGS, ANNUAL MEETING 1971, 194-197 (1971).

by market forces, a country's balance of payments would be in balance. Thus, its external policies could be considered neutral in terms of their effect on other countries. There would be no intervention, such as would occur under a "dirty" float to maintain an exchange rate different from that which would otherwise prevail. In other words, no country would be "manipulating" the international value of its currency for parochial ends.

The attractive simplicity of a free float could not, however, be sustained under more rigorous analysis, partially because direct central bank intervention, in a manner that affects the level of reserve holdings, is only one of a number of ways in which national authorities can influence the exchange value of their currency. Another method is the use of official medium term borrowing as a means of financing an underlying balance of payments deficit or, less easily, to use official lending for offsetting an underlying surplus. In many countries, for example, France, state-owned enterprises and even governmental entities have a tradition of financing a substantial part of their capital expenditure in international financial markets. By encouraging these entities to alter the proportion of foreign borrowing in their overall financing needs, the financial authorities of a country can exert considerable influence over the overall availability of foreign exchange, and thus over the exchange rate for their currency in a floating rate regime.

An even more serious difficulty with the free float results from the fact that practically any domestic policy has an effect on the exchange rate. Thus the choice of a domestic policy has important implications for other countries. For example, a decision to increase the money supply to encourage economic expansion may lead to a depreciation of the exchange rate which stimulates exports and employment in the short run, but to the detriment of employment in the rest of the world. The increase in the money supply may also lead to a higher rate of inflation in the expanding country that may be detrimental to the stability of the whole exchange rate system. When domestic economic conditions are disturbed, perceptions about appropriate exchange rates may be affected. Private speculators, whose actions impact upon the exchange rate, are in turn influenced by these perceptions. These perceptions depend not only on actual policies followed, but also on expected changes in government policy and conjectures as to how such changes might affect fundamental trends in inflation rates and international competitiveness. Since these expectations can shift quite rapidly, exchange rates may become extremely erratic and thereby interfere with a nation's trade and financial positions. Thus there is no reason to assume that countries would find it in their interest to aim their financial policies exclusively towards domestic targets, or that, even if they were to do so, the resulting exchange rates determined by market forces would be optimal from the point of view of all countries involved. By itself, therefore, floating is not a solution to the old problem of allowing national independence of domestic policies while safeguarding the international interest.

Furthermore, a number of countries, particularly some in Europe whose economies are closely linked with those of their neighbors, were never convinced of the case, either theoretically or in practice, for floating rates. These countries took the view that free floating would lead to undue fluctuations in rates, and that these fluctuations would be detrimental to international economic relations and to the ability of individual countries to foster stable domestic economic conditions. Speculation was seen as a potentially destabilizing force. Even more importantly, the exchange rate was viewed as the proximate determinant of the domestic price level and, therefore, as an important policy variable that the authorities should keep under close control. An exchange rate depreciation, in particular, may be seen as a first step in a "vicious circle" of domestic price increases and further exchange rate depreciation from which the country would find difficulty in escaping. Most small industrial countries with open economies shared this view, as did practically all developing countries.

The agreement that was negotiated at the Rambouillet summit,[11] by the Fund's Executive Board, and at the meeting of the Interim Committee[12] in Jamaica, formed the basis for the amended Articles of the I.M.F. which became effective in April 1978. This agreement offered a compromise between the views of those who feared excessive rigidity and those who feared volatility in an exchange rate system.[13] The amended Charter recognized the need for countries to follow policies that foster "orderly underlying economic and financial conditions" with the objective of promoting steady growth and reasonable price stability at home. This was viewed as necessary not only for domestic reasons but also because no exchange rate system could work well with large and rapidly changing differentials in inflation rates among countries. With respect to exchange rates, countries were to choose their exchange rate arrangements freely. They undertook, however, to respect the obligation that no matter what exchange rate *arrangements* they chose, they would avoid "manipulating" exchange *rates* to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members. Since the meaning of the word "manipulating" was not defined in the Charter, the nature of the compromise remained to some extent unclear. However, the

[11] *See* J.H. WILLIAMSON, *supra* note 6 at 73.

[12] The Interim Committee succeeded the Committee of Twenty in July 1974 with the same membership, but with the mandate that dealt with the ongoing management of the international monetary system, rather than the design of a new system.

[13] A copy of the amended charter can be found in IMF, ARTICLES OF AGREEMENT (1978). For a discussion of the amendment, *see* J. GOLD, THE SECOND AMENDMENT OF THE FUND'S ARTICLES OF AGREEMENT, (IMF Pamphlet Series, No. 25 Washington 1978).

Articles provided that members' obligations concerning exchange rate policies would be made more precise through the adoption of "specific principles" to guide such policies, under subsequent decisions of the Fund. Furthermore, the I.M.F. was empowered to exercise "firm surveillance" with respect to such policies.

IV. THE IMPLEMENTATION OF THE NEW SYSTEM

In implementing the new system, the Articles recognized two important considerations regarding countries' domestic policies. First, it was recognized that, although sound domestic policies within national economies are needed for a smoothly functioning international monetary system, there are limits on the extent to which the international community can expect domestic policies to be framed with external obligations in mind. No country chooses to have "disorderly" conditions. If disorderly conditions arise, it is because economic policies have failed—and perhaps *could not* succeed, in reconciling conflicting domestic social and economic objectives. Second, the Articles recognized that while the choice of the domestic policy instruments could have an impact on the exchange rate and was thus a matter of concern to other countries, it would be difficult in practice to restrain a country's freedom in this domain. Thus no attempt was made to impose specific obligations on countries' domestic policies. Instead the Articles merely *exhort* countries to follow appropriate domestic policies.

As far as external policies are concerned, the language of the amended Articles is stronger, requiring countries to "avoid manipulating exchange rates." As indicated above, the new Charter also promised that "specific principles" would be adopted to give a precise operational content to this injunction. In any event, these "specific principles" have so far turned out to be a good deal less specific than the drafters of the revised charter probably intended.

The first relevant decision of the I.M.F. in April 1977 did not give countries direct guidance on how they should conduct exchange policies. It defined the meaning of "manipulation" in an indirect way by listing a number of indicators that might be *prima facie* (though not conclusive) evidence of inappropriate policies.[14] These indicators included the obvious ones of heavy intervention in exchange markets, and abnormal borrowing or lending for balance of payments purposes. They also included: (1) the use of restrictions on, or incentives for, capital flows: (2) the pursuit of any domestic policies affecting the exchange rate that appeared to

[14] *See* IMF, ANNUAL REPORT OF THE EXECUTIVE DIRECTORS FOR THE FISCAL YEAR ENDED APRIL 30, 1977, (Appendix II) 107-109 (1977).

be unrelated to underlying domestic economic and financial conditions; and (3) in a slightly different vein, any behavior (including immobility) of the exchange rate that appeared to be unrelated to underlying economic conditions. Thus, it was made clear that countries should not allow their exchange *rates* to deviate substantially from those which appeared justifiable on the basis of underlying economic factors.

In light of the April 1977 decision, a country could allow its exchange rate to float freely, although its policies could be the subject of international review when it seemed that market forces did not lead to a satisfactory exchange rate from the point of view of the international community. Similarly, a country could control its exchange rate, but if such control resulted in unduly heavy intervention in the exchange market for its currency, or if other developments suggested the authorities had taken specific measures to unduly influence their exchange rate, its policies would become subject to review. In other words, whatever the particular exchange arrangements they were pursuing, countries should neither allow the value of their currency to get out of line with underlying economic factors as a result of excessive exchange rate rigidity—as occurred in the late 1960's—nor deliberately drive their exchange rate down to export their unemployment—as occurred in the 1930's.

Rather than giving specific guidance, the purpose of the April 1977 decision was to support the I.M.F.'s jurisdictional authority to select countries for special consultation and in-depth surveillance. Ultimately, it is for the I.M.F. to determine whether an exchange rate is appropriate, in the sense of being consistent with balance of payments equilibrium in an environment of liberal trade and payments arrangements.

Thus it is the concept of balance of payments equilibrium which lies at the heart of countries' international obligations. It might seem relatively easy to give operational content to this concept, but in practice this is not so. The balance of payments is simply an accounting framework to describe the totality of international payments and receipts when all transactions, including financing transactions, are taken into account. One can only talk about a deficit or surplus, therefore, in relation to a particular component of the balance of payments. There are a number of places in the balance of payments at which a line can be drawn, and a balance struck to define the deficit or surplus. However, economists have increasingly come to realize that there is no unique definition of *the* balance of payments which is appropriate for all analytical purposes. The trade account (*i.e.*, exports minus imports) is obviously inappropriate, since it ignores payments and receipts for "invisible" (*i.e.*, service) transactions, which now account for about one third of all current account transactions, on the average. The current account (*i.e.*, the balance of trade in goods and services) is, on the surface, a more appropriate measure of a country's external economic position, since it in some sense measures whether a country is absorbing more real resources from the rest of the world than it is providing. However, a current account balance does not necessarily represent a desirable equilibrium, since in a dynamic world economy, it is to be expected that capital-rich mature economies will generate excess savings that can be utilized to promote capital formation in economies where investment opportunities are relatively more abundant. This is analogous to what happens within national economies, as in the United States, for example, where the excess savings of the northeastern states are channeled through capital markets to finance expansion in the south and west.

A slightly more refined approach to assessing balance of payments equilibrium lies in the distinction, proposed by Meade,[15] between "autonomous" and "accommodating" transactions. Meade's terminology involves defining "autonomous" transactions as any payments that are undertaken for their own sake, and "accommodating" transactions as financial movements that take place to finance the deficit or surplus arising from autonomous transactions. This concept has been of considerable value in theoretical analysis of balance of payments developments, but has proved difficult to sustain empirically. The closest approach to Meade's distinction has been the "basic balance" concept, which essentially treats current and long-term capital transactions as "autonomous" and short-term capital movements, whether private or official, as "accommodating." Although this may be the best available statistical analogue to Meade's distinction, it still has numerous shortcomings. For example, longer-term capital movements can be induced for essentially balance of payments financing reasons, and short-term capital movements can take place to meet normal and recurring financial needs.

Rather than focus on a particular definition of the balance of payments, by which a country can be said unambiguously to be in surplus or deficit of a given size, analysis of a country's external positions has tended to be in terms of the *sustainability* of the existing payments structure. For example, if a country has a deficit on current account financed by capital movements, inquiries may be made into whether the capital movements are likely to continue over the medium term in the absence of extraordinary policy action, or whether developments in the current account are likely to reduce the need for special external financing.

Put in these terms, it is clear that an analysis of the appropriateness of a country's external policies involves a comprehensive projection of its

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[15] J.E. MEADE, THE BALANCE OF PAYMENTS (1951).

balance of payments prospects, given reasonable assumptions about the likely thrust of domestic economic policies. If it seems likely that the maintenance of the existing exchange rate will involve heavy official borrowing, or the imposition of trade or payments restrictions, or measures to depress economic activity below desirable levels, and that such a situation will persist into the medium-term future, then such an exchange rate is sub-optimal, even though it may be sustainable in the short term.

The adoption of a judgmental case-by-case approach to surveillance gives particular importance to the procedures established to identify the conditions under which the IMF is to exercise "firm and continuous surveillance" over the exchange rate policies of its member countries. It was noted earlier that the April 1977 I.M.F. decision on exchange rate surveillance contained a number of indicators that would suggest the need for investigation of a country's exchange rate policies. This decision provides for a process of graduated consultation, the aim being to avoid unnecessary disturbance of exchange markets in the case of countries whose policies, on closer examination, are found to be consistent with effective and timely balance of payments adjustment.[16] Initially, consultation between the I.M.F. and the member whose policies appear to have "triggered" one of the established indicators, is on an informal basis. The aim is to promote a common understanding of the problem, and to reach agreement, where necessary, on corrective policies. If, following these informal contacts, the Managing Director believes that an underlying disequilibrium exists, and is likely to persist, more detailed consultations will take place, in an attempt to assess prospective balance of payments developments against the background of existing and planned domestic policies. Only when a basic disagreement persists between the Managing Director and the authorities of a member country concerning the suitability of a member's policy will the matter be brought to the I.M.F. Executive Board for a formal confidential review and decision.

This surveillance is still in its early stages, having only become effective with the adoption of the revised I.M.F. charter in April 1978. Public statements by Ministers of Finance of major countries indicate that there is considerable support for developing and strengthening this machinery,[17] but it is worth noting some of the difficulties that are likely to arise. First, it is much easier to practice surveillance over countries with pegged exchange rates than over countries which allow the external value of their

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[16] *Supra* note 14.

[17] IMF, SUMMARY PROCEEDINGS, ANNUAL MEETING 1979 (1979).

currencies to be broadly determined by market forces. When a country with a pegged rate has a persistent disequilibrium, as manifested in the need to intervene in exchange markets on a sustained basis to preserve its currency peg, or in the imposition of special restrictions on trade or payments, there is a fairly clear indication that the existing rate is not conducive to sustainable equilibrium. In the case of currencies which float, however, it is much more difficult to reach a conclusion that a rate prevailing at any point in time is inappropriate in a medium term context. This is so despite the fact that when rates move by as much as they have in recent years, without commensurate changes in underlying economic and financial factors, it is difficult to believe that they could have been appropriate *all of that time*. It is clear that these exchange rate fluctuations among major currencies have been more unsettling to the international monetary system than have been the payments difficulties of small countries operating with fixed pegs. However, these fluctuations have generally occurred as a result of market participants' re-evaluation of the nature and adequacy of domestic economic policies, and may be beyond the realm of control through foreign exchange market intervention. The only workable means to reduce exchange rate volatility seems to be to introduce a greater measure of domestic price stability in major countries, so that expectations of changing inflation differentials are less likely to lead to precipitate market re-evaluation of the appropriate medium-term exchange rate. Attempts to avoid excessive divergence in the financial policies of the major countries are also important in that context.

A second difficulty in surveillance is that the pressures which the international community can exercise are in practice easier to apply to countries in deficit than to those in surplus—although from the point of view of the smooth functioning of the balance of payments adjustment process, surpluses and deficits can be equally disruptive. Deficit countries tend to be more constrained in the policies they can adopt, and more dependent on the international community for formal approval of their adjustment policies. This is not simply because such approval is prerequisite to obtaining balance of payments financing from the I.M.F., but also because it is becoming increasingly important in securing a continued inflow of finance from other official sources and from commercial banks. Surplus countries, in contrast, have much less financial incentive to secure international approval for their policies, and to the extent that their external strength results from more effective anti-inflationary policies, can plausibly argue that the adjustment burden should be borne by those countries whose inflation rates are higher.

A final difficulty in developing surveillance procedures is in finding means of applying pressure that are likely to be effective in inducing countries to modify their policies, without being so severe as to make their use unlikely. This difficulty was encountered in the Bretton Woods system, where the "Scarce Currency" clause,[18] which was intended to be used in the case of countries in excessive surplus, was felt to be an extreme remedy, and in consequence has never been used.

Despite these problems, developments over the last two years or so have been reasonably encouraging. Admittedly, no country has had its exchange rate policies brought formally to the I.M.F. for review and decision. Nevertheless, the process of consultation with the Managing Director, and the exposure of exchange rate developments to discussion and review in various international forums, both within and outside the I.M.F. have undoubtedly contributed to policy modifications which have aided the working of the adjustment process. A modification of surveillance procedures, adopted in January 1979, has permitted the Fund to review exchange rate developments in particular currencies, without any implicit presumption that inappropriate policies might be involved.

V. Conclusion

The new and institutionally looser framework of international cooperation that is reflected in the second amendment of the I.M.F. Articles of Agreement presents an opportunity but also carries risks. The opportunity is that international surveillance can respond flexibly to the needs of specific cases. The risks are, that in the absence of codified rules of behavior, traditional restraints on internationally undesirable policies will be weakened. To succeed in achieving a more stable international economic order the new monetary arrangements will require continuing collaborative effort, and a common commitment to the principles of a liberal trade and payments system.

[18] *See* IMF, Articles of Agreement (Article VII), 26-28 (1978).