

THE WORLD FINANCIAL SYSTEM



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Compiled and written by

ROBERT FRASER

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INTRODUCTION

In the period since World War II the theoretical study of the basis of international financial and economic relationships has become increasingly sophisticated. There has also been a growing awareness of the effects of such relationships on the economic livelihood of each country of the world and of individuals themselves.

The aim of the present volume is firstly to outline the way in which the world financial system has evolved, and secondly to deal in more detail with the aims, structures, methods and operations of the major international and regional organizations having particular responsibilities in this field.

The first part of the book begins by describing the wartime background to post-war international economic co-operation, and assistance by the USA and Canada to their European allies. Succeeding chapters deal with the launching of the Marshall Plan, the OEEC, the European Payments Union and the European Monetary Agreement, and with the formation and early growth of the IMF. After giving an account of the French franc and sterling devaluations in the late 1940s and of the spread of currency convertibility and the growing problems of the US dollar in the late 1950s, the book follows international measures to reduce instability in the world's economic and financial system—notably the agreement on the General Arrangements to Borrow, the establishment of the special drawing right, IMF agreement on a regime of floating exchange rates, the phasing out of the monetary role of gold, the establishment of new IMF facilities, and co-operation among certain major Western industrialized countries to stabilize interest and currency rates. It also covers the further disturbances to the system—the 1967 sterling devaluation, gold speculation, the 1971 and 1973 dollar devaluations and the associated realignments of currencies, the demise of the system of fixed parity relationships, the successive “oil shocks” as the world price of petroleum leapt up in 1973–74 and again in 1979–81, and the increasing indebtedness of a number of developing countries. This first part of the book concludes with the texts of the communiqués of the various committees and groups convened in Washington on the occasion of the 1986 annual meetings of the Boards of Governors of the IMF and of the World Bank, and also the declarations issued by the heads of state or government of the major market-economy industrialized countries between 1975 and 1986.

The second part of the book gives particulars of over 50 separate major international or regional bodies under the headings of general, monetary, developmental and trade organizations. Within these groupings, the sequence of subsections dealing with individual organizations is (i) international or multi-continental; (ii) European; (iii) Arab; (iv) Asian; (v) African; and (vi) American (although there is inevitably in some cases a degree of overlap). For each organization, as applicable or relevant, there is given a general background to its formation; a summary of its purposes, aims and objectives; criteria for membership and a list of current members; the organizational structure; the methods used to pursue its aims and to fulfil its objectives; its capital structure; and details of its operations. A more extensive coverage of international, multilateral and bilateral agreements and organizations in not only the economic and financial but also the political and security fields is given in *Treaties and*

Alliances of the World (Fourth edition), compiled and written by Henry W. Degenhardt (Longman, 1986).

In view of the influence exercised particularly since 1973 by developments in the world oil market, a brief description is also given of the growth of OPEC as well as of the Organization of Arab Petroleum Exporting Countries. A wide-ranging and more detailed account of the history of OPEC and of the world oil industry is given in *OPEC, Its Member States and the World Energy Market* compiled and written by John Evans (Longman, 1986).

Especially since the upheavals of the Smithsonian currency realignment, the subsequent US dollar devaluation and the first major increases in oil prices—all of which occurred during the early 1970s—the separation of the world's countries into the “haves” and the “have-nots” (the “North–South divide”) has increasingly dominated discussion of international economic relationships, and in the third part of the book a summary is given of the International Development Strategy for the Third UN Development Decade (1981–90), together with the text of the Declaration and Programme of Action on the Establishment of a New International Economic Order adopted at a special session of the UN General Assembly in 1974.

The first Appendix chronicles the growth of the number of independent countries in the world and of membership of the UN and the IMF, in order to set the evolution of the world financial system in its international political context.

Throughout the text the names used for countries are those generally current in the English language at the time of the events or developments being described. As a result, some countries are referred to by more than one name as these have changed over the course of 40 years. For convenience, the principal such changes are listed in Appendix II, together with an explanation of the nomenclature adopted for “divided countries”.

The final Appendix shows the index rates for the currencies of 18 major IMF member countries from 1970 (i.e. before the 1971 Smithsonian realignment) to 1986, indicating fluctuations in the relative strengths of such currencies.

Particularly for the first part of the book, extensive use has been made of *Keesing's Contemporary Archives* (now retitled *Keesing's Record of World Events*), and every effort has been made to achieve the objectivity and balance of that periodical publication in the present book's coverage and presentation. For the second part of the book the author is indebted especially to the information departments of the organizations treated and of government departments and diplomatic missions which have co-operated in supplying texts of agreements and treaties and reports of activities. (The author himself, however, is responsible for selection and presentation of such material.)

April 1987

R.F.

ABOUT THE AUTHOR. Robert Fraser was from 1974 to 1983 editor of *Keesing's Contemporary Archives* (now retitled *Keesing's Record of World Events*), and is currently consulting editor of *Keesing's*.

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I. INTERNATIONAL MONETARY RELATIONS, 1944–86

CHAPTER 1

POLITICAL BACKGROUND

1.1 Pre-war situation and changes in international relationships

The framework of the current world financial system began to take shape towards the end of World War II.

The 20 years of the inter-war period had been characterized by severe economic instability, which in turn contributed in large part to the emergence of totalitarian regimes in Europe and elsewhere. The worst of the depression was past by the end of the 1930s and some steps had been taken to overcome and reverse the economic and financial isolationism which had developed earlier in the decade. However, the threat and eventual outbreak of war in Europe in 1939, the occupation by Germany of most of central and western Europe by mid-1940, and the extension of hostilities in 1941 to involve the USSR, Japan and the USA meant that a large proportion of the world (including overseas territories of European nations) was by 1942 on a war footing. As part of this global situation, trade, economic relations and financial transactions became almost totally officially controlled and subordinated to the war effort.

After the war, the development of international economic relationships was in large part organically linked to the structure of the United Nations and through various of its specialized agencies such as the International Monetary Fund (IMF) and World Bank (International Bank for Reconstruction and Development). As time went on, however, particularly in the face of a more than doubling of the number of independent countries in the world, and of a growing awareness of the needs of the less developed nations and of the impact of their position on the whole world economic system, other relationships came to have an increasingly important role, especially those which were geographically based or ideologically oriented.

1.2 The Atlantic Charter

Already before its entry into the war in December 1941 the USA had in March 1941 enacted the lend-lease legislation under which US supplies were provided to countries fighting against Germany and its allies (see 2.1 below). Moreover, President Roosevelt of the USA and Winston Churchill, the UK Prime Minister, in August 1941 reached agreement on a declaration of principles—generally referred to as the Atlantic Charter—which set out initial aspirations for the post-war period. These principles dealt primarily with political objectives, including that of the right of all peoples to choose the form of government under which they would live, but included also the following paragraphs concerned with more specifically economic aims:

“They [i.e. the USA and the UK] will endeavour, with due respect for their existing obligations, to further enjoyment by all states, great or small, victor or vanquished, of access, on equal terms, to the trade and to the raw materials of the world which are needed for their economic prosperity. They desire to bring about the fullest collaboration between all nations in the economic field, with the object of securing for all improved labour standards, economic advancement and social security.”

1.3 Inter-allied conference

The principles of policy set out in the Atlantic Charter were further approved at an inter-allied conference in London on Sept. 24, 1941, by representatives of Belgium, Czechoslovakia, Greece, Luxembourg, the Netherlands, Norway, Poland, the USSR, Yugoslavia, and the Free French authorities led by General Charles de Gaulle.

Delegates at this conference moreover agreed *inter alia* on the “common aim to secure that supplies of food, raw materials and articles of prime necessity should be made available for the post-war needs of the countries liberated from Nazi oppression”, and declared in this connexion:

“That while each of the allied governments will be primarily responsible for making provision for the economic needs of its own peoples, their respective plans should be co-ordinated, in a spirit of inter-allied collaboration, for the successful achievement of the common aim.

“That they welcome the preparatory measures already undertaken for this purpose and express their readiness to collaborate to the fullest extent in pursuing the action required.

“That accordingly each of the allied governments should prepare estimates of the kinds and amounts of foodstuffs, raw materials and articles of prime necessity required and indicate the order of priority in which it would desire supplies to be delivered.

“That the reprovisioning of Europe will require the most efficient employment after the war of the shipping resources controlled by each government and of allied resources as a whole, as well as those belonging to other European countries, and that plans to this end should be worked out as soon as possible between the allied governments in consultation, as and when appropriate, with other governments concerned.”

1.4 Common programme of purposes and principles

Within weeks of the entry of the USA into the war, a joint declaration was signed in Washington on Jan. 1, 1942, by representatives of all the then 26 allied nations (USA, UK, USSR, China, Netherlands, Australia, Belgium, Canada, Costa Rica, Cuba, Czechoslovakia, Dominican Republic, El Salvador, Greece, Guatemala, Haiti, Honduras, India, Luxembourg, New Zealand, Nicaragua, Norway, Panama, Poland, South Africa and Yugoslavia) subscribing to the common programme of purposes and principles embodied in the Atlantic Charter.

1.5 Creation of United Nations

Dumbarton Oaks and San Francisco conferences. President Roosevelt and Winston Churchill had also, in the Atlantic Charter, envisaged the eventual “establishment of a wider and permanent system of general security”. With the prospect of an end to the war in Europe, conferences were held (i) at Dumbarton Oaks from Aug. 21 to Oct. 7, 1944 (attended by China, the UK, the USA and the USSR) and (ii) in San Francisco from April 25 to June 25, 1945, at the end of which the Charter of the United Nations was formally approved.

The San Francisco conference was attended by delegations from 51 countries, being (i) those which had signed or adhered to the Atlantic Charter, either initially or subsequently; (ii) Lebanon and Syria (which had in February 1945 declared war on the Axis powers); (iii) Argentina (which had declared war on Germany and Japan on March 27, 1945); (iv) Denmark (following its liberation at the beginning of May 1945); and (v) Byelorussia and the Ukraine which were constituent republics of the USSR but not externally independent. (India, an

original signatory of the 1942 joint declaration, and the Philippines, which adhered on June 14, 1942, were also at that time not externally independent.)

Initial membership of United Nations. The full initial membership of the United Nations was as follows:

Argentina	Denmark	Iraq	Poland
Australia	Dominican Republic	Lebanon	Saudi Arabia
Belgium	Ecuador	Liberia	South Africa
Bolivia	Egypt	Luxembourg	Syria
Brazil	El Salvador	Mexico	Turkey
Byelorussia	Ethiopia	Netherlands	Ukraine
Canada	France	New Zealand	USSR
Chile	Greece	Nicaragua	UK
China	Guatemala	Norway	USA
Colombia	Haiti	Panama	Uruguay
Costa Rica	Honduras	Paraguay	Venezuela
Cuba	India	Peru	Yugoslavia
Czechoslovakia	Iran	Philippines	

Countries which were fully independent in 1945 but which were not invited to the San Francisco conference were (i) those forming part of or associated with the Axis grouping (Austria—still in April 1945 incorporated into Germany—Bulgaria, Finland, Germany, Hungary, Italy, Japan, Romania and Thailand); (ii) neutral countries (Afghanistan, Ireland, Portugal, Spain, Sweden and Switzerland); (iii) five small European countries (Andorra, Liechtenstein, Monaco, San Marino and the Vatican City State, none of which subsequently joined the United Nations); (iv) Albania; and (v) Bhutan, Iceland, Mongolia, Nepal and Yemen.

Moreover, in addition to the countries listed above as not forming part of the United Nations on its establishment in 1945 a major part of the rest of the world was likewise not represented, in that large areas of overseas territories came (or had until recently come) to a greater or less degree under the colonial sovereignty of metropolitan authorities (Belgium, France, the Netherlands and the UK among the United Nations, Italy and Japan among the Axis powers and Portugal and Spain among the neutral countries) or were under League of Nation mandates.

As explained above, India and the Philippines (apart from Byelorussia and the Ukraine) were the only non-independent UN signatories; of these two the Philippines was, under its 1935 self-government Constitution, to achieve full independence in 1945 (although the intervention of the war delayed this process by a year), while India did not become independent until August 1947.

Thus the only parts of Africa with direct representation in the United Nations were Egypt, Ethiopia, Liberia and South Africa; the only parts of Asia were China, India and the Philippines; the only Middle Eastern countries were Iran, Iraq, Lebanon, Saudi Arabia and Syria; and the only island countries in the Caribbean were Cuba, the Dominican Republic and Haiti. Otherwise the initial UN membership comprised nations of Europe and of mainland North, Central and South America, together with Australia and New Zealand.

Expansion of UN membership. The four decades following the end of World War II were to see a progressive change in this situation so that by the mid-1980s the only principal territories still not fully independent were Hong Kong, Macao and Namibia while of major sovereign states only North Korea, South Korea and Switzerland were not members of the United Nations. (Taiwan,