Ireland and International Monetary Institutions

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(*Read before the Society on March 7th,* 1958)

I.—Introduction

Ireland's recent accession to the International Monetary Fund and the International Bank for Reconstruction and Development, commonly known as the "World Bank," has stimulated interest in this country in the various international monetary agencies now in existence. The purpose of this paper is to explain the functions of these institutions and to describe Ireland's relationship with them.

II.—International Monetary Co-Operation in Inter-War Period

The breakdown of world trade and the simultaneous development and extension of central banking between the two world wars led to considerable discussion on economic and monetary problems but it was not until after World War II that international monetary co-operation really grew in importance. Even before 1914, however, there had been occasions when the few central banks then in existence found it useful to co-operate with one another to facilitate international settlements. Such occasions, however, were rare. In general, little was heard about international monetary co-operation; there was little need for conscious co-operation because of the automatic working of the full gold standard.

After the first World War, and especially during the early 1920s when most countries were trying desperately to restore stability to their currencies, central banks and national monetary authorities came together more often to discuss specific problems of mutual interest. An example was the Genoa Conference in 1922 which recommended the gold exchange standard as an alternative to the full gold standard. Such association was, however, only temporary in character and designed to deal with specific limited objectives. It was not until the negotiations on the problem of the reparations owed by Germany after the first World War that the idea of establishing some permanent system of co-operation took practical form. The Hague Conference of January 1930, set up the Bank for Inter-International Settlements to act as agent of the various Governments concerned in the execution of the Young Reparations Plan. The Conference entrusted the Bank with the additional tasks of promoting co-operation between central banks and facilitating international financial settlements in general.

(i) *The Bank for International Settlements*

The Bank for International Settlements was the first permanent system of international monetary co-operation. Members now consist of all the central banks of Western Europe with the exception of the Bank of Spain. Its headquarters are in Basle in Switzerland.

The Bretton Woods Conference of 1944, which set up the International Monetary Fund and the World Bank, recommended liquidation of the Bank for International Settlements. This recommendation appears to have been based, at least to some extent, on political grounds: the Bank had fallen under suspicion of having been pro-Hitler prior to and during the war. The recommendation was not, however, acted upon. It was realised that the Bank for International Settlements, which had established itself as an essentially European institution, could be of use in a number of ways in the post-war era. It now undertakes, for example, the technical operation of the European Payments Union on behalf of the Organisation for European Economic Co-operation and acts as banker for the Union as well as for the European Coal and Steel Community. It has also become highly specialised, from the technical point of view, in the carrying out of gold operations both for account of the member central banks and for its own account.

(ii) *Regional Monetary Areas*

After the collapse of the gold standard in 1931, the exchange rates of the leading currencies were allowed to find their own level subject to the intervention of exchange equalisation funds. Efforts were made immediately to create the widest possible areas within which exchange stability could be maintained. By 1935, four main currency groups had emerged, viz.:—

(*a*) the sterling area, comprising mainly the countries of the British Commonwealth and the Scandinavian countries;

(*b*) the gold bloc of Western Europe, held together by common resistance to devaluation;

(*c*) the exchange control area of Central and South-Eastern Europe, dominated by Germany, and

(*d*) the dollar area, comprised mainly of the U.S.A. and countries of Central and South America, with the important exception of Argentina.

Within these areas, however, there were no permanent institutions for the solution of mutual problems such as has been a feature of post-war international monetary co-operation, both multilateral and regional.

(iii) *Tripartite Monetary Agreement of* 1936

The first real attempt to devise a system of multilateral settlements following the break-down of the gold standard was the Tripartite Monetary Agreement of 1936. In that year, Britain, France and the U.S.A. agreed on certain principles for the regulation of exchange rates and for the working of stabilisation funds. A number of other countries participated in these arrangements. This managed international monetary standard was a considerable step towards general exchange stability, although it was not sufficient to prevent devaluations of the French franc. The principles then evolved influenced greatly the post-war plans for international monetary co-operation.

III.—Post-War International Monetary Co-Operation

Many factors contributed to the growth of international monetary co-operation in the post-war period. The more important may be briefly summarised as follows :—

(*a*) the need to arrange a system of international financial relationships so that the trade and payments dislocations which followed the first World War would not be repeated after the second. It was recognised that the world had paid a big price for its failure to co-operate successfully for the solution of the economic and monetary problems of the inter-war period. Obviously some new structure of world trade was needed. It was clear that a way would have to be found of eliminating discriminatory practices and exchange restrictions and substituting multilateral for bilateral trade ;

(*b*) the fundamental change in the economic policy of nations. In contrast to the deflationary pressures of the twenties and early thirties, with which depressions and mass unemployment were inevitably associated, a high and stable level of employment was now to be the main determinant of policy. The problem of how to achieve this without creating disturbing fluctuations in external payments or rates of exchange called for world-wide discussion and planning ;

(*c*) the unity born of the common war effort of the United Nations ;

(*d*) the change in attitude of the United States, away from isolationism, towards international association.

Since the war there has been much closer economic understanding between the Western nations through the United Nations, the Council of Europe, the Organisation for European Economic Co-operation (O.E.E.C.) and the Economic Commission for Europe (E.C.E.). These closer associations spring to a certain extent from fear of communist aggression. The recent moves towards integration in Europe for the establishment of a Common Market and a Free Trade Area are also no doubt intended to some extent to form part of the economic defence against communism as well as against American competition.

The establishment in November, 1943, of the United Nations Relief and Rehabilitation Administration (U.N.R.R.A.) heralded a new approach to international economic and monetary problems. It was recognised, particularly by Britain and the United States, that the task of restoring monetary stability to the post-war world was closely bound up with the problem of reconstruction and plans for international monetary co-operation were, therefore, under discussion long before the end of the war.

Two main figures emerged in the discussions during the war years on monetary planning for the post-war period. One was Harry Dexter White, a Harvard economist, who had become Director of Monetary Research in the United States Treasury in 1940. The second was the eminent British economist, Lord Keynes, who had been attached to the British Treasury since 1940. Almost simultaneously in 1942, Keynes produced " Proposals for an International Clearing Union " and White prepared a plan for a Stabilisation Fund. These two plans, known as the " Keynes and White Plans," formed the basis of the negotiations which culminated in the establishment of the International Monetary Fund and the World Bank. The Keynes plan provided for flexible machinery within an agreed framework while the White scheme favoured rigid systematic arrangements. In general, the American view prevailed.

(i) *The International Monetary Fund*

In July, 1944, about a year before the end of the war representatives from 44 countries met at Bretton Woods, New Hampshire, U.S.A., and drew up the Articles of Agreement of the International Monetary Fund and the World Bank. The institutions were set up in December, 1945, and the inaugural meetings were held in the following year.

The main purpose of the Fund is to maintain reasonable stability of exchange rates and encourage the removal of restrictions on current international transactions by providing resources to enable member countries to meet temporary deficits in their balance of payments without resorting to restrictive measures. It was hoped through stabilisation of currencies and by the growth of multilateral payments to promote international trade, maintain high levels of employment and improve living conditions. In other words, the Fund seeks to preserve as much as possible of the exchange stability provided under the gold standard while allowing a greater degree of internal independence and, in particular, avoiding the threat to employment through the maintenance of too high a parity. It was intended that the World Bank would assist by financing post-war reconstruction and productive investments, mainly in underdeveloped countries.

At the end of 1957 there were 64 countries in membership of the Fund, including Ireland. None of the Iron Curtain countries is a member. Russia took part in the Bretton Woods Conference but did not join either organisation. Poland and Czechoslovakia were original members but were not under communist domination then; they have since left the organisations. Yugoslavia is a member of both the Fund and Bank.

The resources of the Fund are contributed by the member countries in the form of subscriptions or quotas which are payable partly in gold or dollars but mainly in their own domestic currencies. The subscriptions or quotas of original members were calculated for the most part in proportions roughly reflecting their share in pre-war international trade and the size of their national income. Subscriptions payable by new members are fixed by the Fund in accordance with the circumstances of each applicant. The sum of the quotas is now about $9,000 million.

Apart from the payment of a subscription, the main obligations assumed by membership of the Fund are:—

(i) the obligation not to impose restrictions without the approval of the Fund on the making of payments and transfers for current international transactions;

(ii) the obligation not to engage in any discriminatory currency arrangements, including multiple exchange rates;

(iii) the obligation not to change the rate of exchange agreed with the Fund except to correct a fundamental disequilibrium in the balance of payments. A change in the agreed par value can be made only after consultation with the Fund. If the proposed change does not exceed 10% of the initial par value the Fund will raise no objection. The Fund must approve of any variation in excess of 10%.

Member States are required to maintain stable exchange rates. Their spot rates should not fluctuate more than 1% above or below par but there are no regulations for transactions in banknotes or for forward rates. The Fund's consent is also necessary to introduce *new* exchange restrictions on current payments, unless during World War II the member country was occupied. (This proviso has been availed of by the Philippines). Members may, however, decide on restrictions for capital payments without seeking the Fund's approval. A final aim of the Fund is convertibility of all member currencies for current payments.

Membership of the Fund entitles a country to borrow within certain limits to meet a temporary deficit in its balance of payments. A member can also get short-term assistance to maintain or reintroduce convertibility. The subscription or quota influences how much a member may obtain. A country may normally borrow up to 25% of its quota in any period of twelve months and up to a total amount equal to twice its quota. These limits may be waived in certain circumstances and, in practice, this occasionally happens. A country may draw the first 25% of its quota almost automatically and drawings against the next 25% are also treated liberally. For the use of its funds in excess of 50% of a country's quota, however, the Fund requires substantial justification in the form of convincing evidence that steps are being taken to correct the causes of imbalance. Most loans have been made in U.S. dollars; advances have also been made in sterling, Canadian dollars, German marks and in one or two other currencies.

In addition to the provision of immediate cash the Fund has since February, 1952, provided lines of credit or overdraft facilities under what are termed stand-by arrangements. Under these arrangements members are guaranteed in advance the right to draw automatically on the Fund's resources up to a specified amount within a period of six months to a year. "Stand-by" credits act as a second line of reserve and thus help to maintain confidence in the exchange rate.

Member's drawings from the Fund are expected, as a general rule, to be repaid within a maximum period of three to five years. A service charge of ½ of 1% is payable on borrowings within quotas. The interest rate increases the longer the period for which the loan is outstanding and the greater the proportion of the quota that has been borrowed. The maximum charge is 5%. In the case of stand-by arrangements a charge of ¼ of 1% is payable when the agreement is made and, if the arrangement is renewed, a new charge at the rate of ¼ of 1% is payable.

The powers of the Fund are vested in a Board of Governors and every member is entitled to appoint a Governor, who is normally the Minister for Finance of the country concerned. The Governor has power to appoint an alternate. The effective exercise of the Fund's powers rests, however, with a Board of Executive Directors, which at present has 17 members, 5 of whom are appointed by the five state members having the largest quotas (the United States, United Kingdom, France, China and India), three by the Latin

American Republics and the remaining nine by the other members. The voting strength of members of the Fund is for most purposes proportionate to the size of their quotas. The day-to-day management is in the hands of a Managing Director selected by the Executive Directors. The headquarters of the Fund are in Washington.

During the first 10 years of its life the Fund did so little business that suggestions were made from time to time that it should be wound up and the contributions repaid. Alternatively, it was contended that the convertible currency portion of subscriptions to the Fund's capital should be returned on the grounds that the money would be better employed in strengthening national foreign exchange reserves.

The reason for the Fund's inactivity lay in the very magnitude of the world's problems. It has been estimated that the total stock of foreign currencies at the Fund's disposal was never more than sufficient to finance world trade for one month. Shortly after the war it became clear that the countries needed not only short-term credits from the Fund but also loans for a longer period and of a magnitude that was beyond the resources of the World Bank. This need was supplied, first, by the large American and Canadian loans to Great Britain. Later, in 1948, Marshall Aid was extended to most European countries. This was followed by American aid in various forms to countries in different parts of the world. All this considerably diminished the demand for assistance from the Fund and the World Bank. Another reason why the European members did not make much use of the Fund until recently is that they have preferred to use their automatic credits in the European Payments Union which, in a way, is a regional International Monetary Fund.

The situation, however, was completely transformed at the end of 1956. At that time military operations at Suez, the run on sterling, the pressure on the French franc, the decline in India's foreign reserves and the effect of earlier relaxations in the lending policy of the Fund resulted in a sudden big demand for funds. The Fund has also made considerable use in the last year or so of its system of stand-by arrangements. In December, 1956, Britain was given drawing rights to the extent of its whole quota of $1,300 million. It was arranged that $561½ million would be drawn upon immediately and the balance of $738½ million would be available under a stand-by arrangement during a period of twelve months. Britain made no purchases under the stand-by arrangement but on its expiry in December last it was renewed for a further twelve months. Britain is thus assured of a substantial line of credit to enable it to counter any further strain on sterling which may lie immediately ahead. France and India borrowed heavily in 1956/57. More recently France has benefited from a large stand-by arrangement. Particulars of advances made by the Fund from the beginning of operations to 30th April, 1957, and in the financial year ended 30th April, 1957, are given in Tables 1 and 2 in the Appendix. In the twelve months ended 30th April, 1957, all advances were in U.S. dollars apart from one advance to Egypt of $15 million equivalent in Canadian dollars.

Over the twelve months to September 1957 the Fund made available to member countries dollar advances totalling $1,500 million. This ran down its holdings of gold and of U.S. and Canadian dollars from

$3,700 million to $2,400 million. Against this must be set outstanding stand-by credits amounting to $900 million since these are a contingent liability. The free amount in September last was thus only $1,500 million or two-fifths of the free amount available a year previously. The strange situation has developed that in the first year that full use has been made of the Fund's resources they have already begun to approach exhaustion. Another year of lending on last year's scale and the Fund would have to shut up shop unless demand switches from U.S. and Canadian dollars to other currencies held by the Fund.

One way of enlarging the International Monetary Fund would be to increase the quotas uniformly to take account of the fall in the value of money and the increase in the volume and value of world trade during the post-war period. Since the quotas were originally fixed, the volume of world trade has increased by 70% and prices have risen by 40% giving an increase in the value of world trade of 140%. This, however, would not help to solve the immediate international liquidity problem which centres much more on the distribution of reserves rather than on their absolute size. Gold and dollar reserves held by non-communist countries outside the United States increased from $17½ billion to $25 billion between the beginning of 1953 and the beginning of 1957 and there was little or no decline in 1957. The reserves are, however, very unevenly distributed and a number of important trading countries are suffering from a severe shortage. Britain, for example, is attempting to finance nearly one half of world trade while holding only 4% of the world's exchange reserves.

A more suitable remedy for the present situation would be a reform of the quota system. The original quotas have not yet been adjusted for the shifts in the pattern of world trade which have taken place since pre-war although there is provision in the Articles of Agreement for such a revision every five years. Germany's foreign trade is now some 75% as large as that of Britain and considerably larger than that of France, yet her quota in the Fund is only one-quarter of the British quota and only little over half as large as that fixed for France.

Another suggestion that has been made for increasing the credit-creating powers of the Fund is to transform it into a central bank for central banks. It is contended that if countries were prepared to deposit their exchange reserves with the Fund and use its certificates of indebtedness to settle international transactions there would be a considerable expansion in the volume of international liquidity and additional credit would be chanelled in directions where it was most needed.

It has been argued that the potential usefulness of the International Monetary Fund would be much increased if the drawing rights of a country in proportion to its quota were made automatic to the full amount. It would then be feasible to add this proportion permanently to the published figures of gold and dollar reserves. On the basis of the present system, speculators are encouraged to subtract the value of any credits received from the International Monetary Fund in calculating a country's reserves.

The official attitude of the Fund is that it was never meant to deal with deficits caused by fundamental disequilibria in world balances of payments ; it is in the nature of a revolving fund whose resources are expected to do service again and again over the years. Its main object is to clear the way for stable and non-discriminatory trade and to act as lender of last resort for short-term advances to countries that have temporary deficits as a consequence of sticking to the rules of non-discriminatory trade. The post-war world, however, is not the world that was hoped for at Bretton Woods. There have been wars in Korea, Indo-China and the Middle East in addition to the cold war between East and West with all its undesirable political and economic effects. It appears that unless the dollar price of gold is substantially increased or an outflow of dollars from the United States is resumed on a significant scale or more severe corrective action is taken by deficit countries to bring about a reduction in their prices and costs, some reform of the International Monetary Fund is necessary if the world liquidity problem is to be solved within the framework of the existing Bretton Woods machinery.

At the last annual meeting of the Fund in September, 1957, the Managing Director, Per Jacobsson, referred to the inadequacy of its liquid resources. His plea for an enlargement of the Fund, however, failed to command American support on the ground that no new dollar gap was emerging. Since September, the fear that a shortage of exchange reserves would bring about a serious decline in world trade has been intensified by the recession in the United States which, if prolonged, would eventually curtail dollar spending and investment abroad.

No review of the International Monetary Fund, however brief, would be complete without some reference to the famous scarce currency clause in Article VII of the Articles of Agreement. This Article makes provision for the replenishment and rationing of the Fund's holdings of a scarce currency and for the authorisation to any member, after consultation with the Fund, temporarily to impose limitations on the freedom of exchange operations in the scarce currency. The Article has never been invoked. This is explained by the fact that in practice most member countries discriminate between dollar and non-dollar trade. It is worth observing, however, that in all probability the scarce currency clause would not act quickly enough and be sufficiently effective to correct a deflationary situation arising from over-restrictive policies on the part of creditor countries. The position of countries which are short of exchange reserves would be eased if the Fund were able to impose sanctions against the unduly restrictive policies of creditor countries of equal strength to those available for dealing with over-expansionist policies by deficit countries.

(ii) *The World Bank*

The purpose of the World Bank is to provide and facilitate international investment for increasing production, raising living standards and helping to bring about a better balance in world trade. The nominal subscription to the Bank is normally the same as that settled for the Fund though the manner and extent of the payments differ. Its resources and facilities are available only to members of the Fund. The organisation and voting powers closely resemble those of the Fund and the two institutions have their headquarters in adjoining buildings.

The International Bank may guarantee or make loans to Governments or other borrowers for purposes of reconstruction and development. Loans to non-Government borrowers require the guarantee of the Government, Central Bank or some comparable agency of the member country concerned. Before making or guaranteeing a loan, the Bank must be satisfied that in the prevailing market conditions the borrower would be unable otherwise to obtain the loan on reasonable terms. The terms and conditions of interest and amortisation payments, and maturity and dates of payment of each loan are determined by the Bank.

Loans are provided by the Bank for specific and approved projects of a productive nature—they are not normally given for general purposes. Except in very special circumstances, the Bank limits its assistance to the foreign exchange cost of a development project. The Bank seldom finances the entire cost of a project; the borrower is expected to hold some of the financial risk involved. It draws no distinction between members in determining the charges on loans.

In contrast to the lending operations of the Fund there is no necessary relationship in the case of the Bank between the amount of a member's subscription and the extent of the accommodation afforded. In the more recent activities of the Bank, emphasis has shifted to development loans, made to assist in financing projects for developing the industry, agriculture, transport systems and natural resources of the Bank's economically less developed member countries. Most of the loans made in recent times are to public utilities, designed to provide basic aids to production, railway, port and highway improvement and agricultural development. Few, if any, loans have been given to private firms. The main purposes for which loans have been made are set out in table 3 in the Appendix.

In the early years of its life the Bank could draw almost all the resources it required for financing new business from the funds placed at its disposal by member countries through their subscriptions to its capital. These resources, however, were soon used up and the Bank has since relied mainly on the world's capital markets to obtain resources for lending. Most of the Bank's borrowing is in the United States. By separating the risk element from the provision of funds, the Bank is assisting the flow of international capital.

The lending rates of the Bank are determined by the rate at which it itself can borrow. The cost of accommodation has risen recently in line with the general trend of interest rates and this has been reflected in increased charges for loans by the Bank. In the five years 1946–1950 the Bank charged as little as 3% and $3\frac{1}{2}$% for five year loans and 4% and $4\frac{1}{4}$% for long-term loans. The rates charged in 1957 on almost all lending operations, whether for short or long periods, ranged from $5\frac{5}{8}$% in the early months to 6% later in the year. The current lending rate is $5\frac{5}{8}$%. A relevant consideration in connection with the Bank's lending rates is that if accommodation were granted on terms cheaper than those available elsewhere this would encourage countries looking for development finance to tap its resources when they could possibly satisfy their requirements from alternative sources.

In addition to providing financial assistance, the Bank gives advice on request on particular economic and financial problems and on general development plans even where these are not related to Bank investments. For this purpose, it organises survey missions to member countries which make specific recommendations. Another activity of the Bank is the provision of facilities for the training of officials in planning, administration and management.

Particulars of the geographical distribution of Bank lending up to the end of 1957 are given in Table 4 of the Appendix. Up to 1950 the great bulk of the Bank's money for development, as distinct from rehabilitation, found its way to Latin American countries. Since 1950, the flow of loan money to Latin America has fallen substantially, despite the overall increase in Bank lending. This is true particularly of the last three years when loans to Latin American countries amounted to only $87 million, $72 million and $47 million respectively. On the other hand, Asian countries which had received only $350 million up to the end of 1955 received $500 million in the two years 1956 and 1957. European countries have received the greatest assistance but a sizable proportion of the total was for financing post-war rehabilitation ($441 million was provided for France and the Netherlands in the early post-war years) and the amount made available for development is less than in the case of either Asia or Latin America.

The Bank's contribution to a stable world has been a very real one. Up to December, 31st, 1957, it had advanced $3,400 million to forty-six countries. The scale of its operations has been increasing rapidly in recent years. In the year ended June 30th, 1957, loans amounted to $388 million as compared with an annual average to that date of $259 million. Despite the prevailing stringency in capital markets the rate of lending was further stepped up in the third quarter of 1957 when eleven loans amounting to $214 million were made. This is the largest sum lent in any quarter for development purposes. During this period, the Bank was able to add to its lending funds by borrowing $175 million in U.S. dollars from the Central Bank of Western Germany.

The Bank is now playing an important part in channelling gold and foreign exchange from the surplus countries to those that badly need funds for capital development. There is no doubt scope for it to tap the resources of the creditor countries on a much greater scale. In providing a large and sustained flow of capital funds from creditor countries the Bank can do a great deal to ensure long-term international monetary stability.

(iii) *International Finance Corporation*

Another international organisation—the International Finance Corporation—came into being in 1956. The Corporation was formed under the aegis of the World Bank but it is a separate legal entity and its funds are quite distinct. Its aims are complementary to those of the Bank ; its basic object being the encouragement of productive private enterprise in association with investors in member countries, particularly in less developed countries. The Articles of Agreement of the Bank, in particular those which provide that loans must be made to Governments or be backed by a Government guarantee, in effect restrict assistance to private enterprise and it was with a view to filling this gap that the Corporation was instituted. Membership of the Corporation is confined to members of the World Bank. By September, 1957, 53 of the 64 member countries of the Bank had joined.

The Corporation will conduct its business solely with private enterprise. Private interests, which may or may not be resident in the country of investment, are expected to supply the management and at least half of the capital required for each project. While it is encouraged to provide risk capital, it is not allowed to take up participations in capital stock. The Corporation lends in dollars and requires its loans to be serviced in that currency. Its first loan in June, 1957, carried a rate of interest of 6%; by September the rate had risen to 7% plus an additional contingent interest payment dependent on the borrowing firm's earnings.

In the early stages of its operations the Corporation will not normally invest in projects where the total amount is less than the equivalent of $500,000 while its maximum for any one project is expected to be limited to about $2 million. The Corporation intends to concentrate its operations for the time being in the fields of manufacturing, processing and mining which exert the greatest impact on employment and stimulation of associated activities. All the business of the Corporation has so far been outside Europe—in Mexico, Brazil, Chile and Australia—but the less developed countries of Europe are eligible for investment. Particulars of the investments approved up to November, 30th, 1957, are given in the Appendix (Table 5).

(iv) *Regional Clearings*

The ambitious plans drawn up at Bretton Woods for a single coordinated payments system proved to be wholly unsuited to the immediate post-war monetary problems. New *ad hoc* institutions, matched by regional political defensive groupings, had to be called into being to deal with each set of problems as it arose. In particular, it was found that mechanisms for regional clearing were a highly successful form of cooperation in a world where structural imbalance persists.

In the early post-war years, European trade was hampered by the reluctance of countries to hold each other's currencies. Each tended to restrict its trade with a view to a rough balance with each one of the others instead of buying and selling in the best markets. Steady progress, however, was gradually achieved from bilateralism in the direction of freer payments by the establishment of clearing areas. In 1948 an Intra-European Payments Agreement was signed between the countries in membership of O.E.E.C. This Agreement which had a currency of one year was continued for a further year. It was an attempt to clear the way for freer trade but its effectiveness was limited because it was essentially bilateral in principle. It was based on the settlement of surpluses and deficits arising between each pair of countries by grants from the creditors who were in turn compensated by equal gifts of Marshall Aid dollars.

In 1950 the European Payments Union was established. This was based on the settlement of surpluses and deficits arising between each member and all the others together, that is to say, it was multilateral in principle. Like the International Monetary Fund charter, the scheme was designed to deal with seasonal and temporary rather than chronic surpluses and deficits. Under the European Payments Union any given country finds itself at each monthly settlement in credit or debit with the Union—thus the offsetting mechanism of the Union allows surpluses earned in one country to cancel deficits incurred in others. Each month the net cumulative position of each country relative to the Union is computed by the Bank for International Settlements. In its automatic working, the Union contrasts with the International Monetary Fund whose working depends upon the discretionary powers of the governing body and in the last resort upon difficult analyses of particular economic situations.

The Union is largely self-balancing. Since, however, the Union in its early years might in certain circumstances have had to pay out more gold than it was receiving, the United States Government provided liquid resources up to $350 million. This was done partly to meet the establishment of initial positions and partly to ensure the gold and dollar solvency of the Union.

The Union operates within the framework of O.E.E.C. and under the authority of the Council of that body. It is governed by a Managing Board of not more than seven members who are appointed by the Council from persons nominated by the Contracting Parties. Unlike the governing authority of the International Monetary Fund, the Managing Board of the Union is non-political in character. It is in fact a small and expert group such as Keynes had hoped would have managed the International Monetary Fund.

The inclusion of the sterling area in the European Payments Union through the common membership of Britain greatly widened the multilateral clearing function of the Union. The participation of the sterling area in the scheme provided for the establishment of an area of multilateral settlements accounting for almost one half of the world's commodity trade. If we include also countries within the Sterling Transferable Account area which are not members of E.P.U., there is a clearing area within which there is substantially multilateral trade accounting for some 60% of international trade.

The Managing Board of the Union are at present examining what alterations in mechanism will be required in the event of the establishment of a European Free Trade Area. There appears to be wide agreement that for the present the existing E.P.U. mechanism will suffice as the gradual introduction of the Free Trade Area will mean that the payments effects of creating a large single market will be felt slowly. The goal of a regime of convertible currencies remains and when that is reached no special institution for effecting settlements will be required.

In the course of time other regional payments schemes grew up in addition to the European Payments Union. In 1955 the "Hague Club" was established to put trade and payments relations between Brazil and a number of European countries on a multilateral basis and in 1956 the "Paris Club" was formed to provide similar facilities for trade between Argentina and eleven European countries. A "Paris Club" Treaty signed at the end of November by Britain covered the repayment of £19 million advanced to Argentina under the Anglo-Argentine Trade and Payments Agreement of 1955. The

Treaty provides for these advances to be repaid in nine instalments ending in June, 1965.

In spite of the progress achieved since the end of the war, the world economy is still divided into a number of regional groups in each of which there is multilateral trade but between which trade and payments are restricted. Payments problems, of course, still persist in many countries. Britain, France, Finland and India were among those in difficulties in 1957.

IV.—Ireland's Connections with International Monetary Institutions

(i) *Bank for International Settlements*

The 1938 Banking Commission recommended that the Central Bank should hold shares in the Bank for International Settlements on the ground that the monetary authority should avail itself of all opportunities for direct and confidential contact with the monetary authorities of other countries (paragraph 367). The Central Bank Act, 1942, empowered the Central Bank to do so. In 1950 the Central Bank became a member of the Bank for International Settlements. By then almost all Western European countries had joined. The decision to join was, no doubt, influenced by the fact that membership of the institution gave a desirable international contact if only for the valuable information which it furnishes periodically on economic trends and world monetary problems. The capital subscription is small and in any event is a sound investment.

(ii) *Twin organisations of International Monetary Fund and World Bank.*

It has taken Ireland over eleven years to join these institutions. The following factors, among others, may account for the delay in joining. First, during the period of Marshall Aid, no country benefiting under the programme was permitted access to the Fund's resources. Secondly, the rather strict interpretation of the provisions governing drawing rights which the Fund adopted in its early years was not encouraging. Thirdly, so far as the Bank is concerned, Ireland was in the position after the war of being able to finance capital development at home not only from current national savings but also from surplus external reserves built up during the war years and from the counterpart of the Marshall Aid Loan. These conditions, of course, no longer obtain.

When the Bill seeking statutory authority to join the International Monetary Fund and the World Bank was before the Dáil the Minister for Finance stated that this country's main interest in joining these institutions was to avail of the facilities of the Bank. A country must join the Fund to become a member of the Bank, and conversely. Ireland's quota or subscription is \$30 million to each institution. This compares with quotas of \$1,300 million for Britain, \$275 million for the Netherlands, \$68 million for Denmark and \$40 million for Greece. The voting strength of members is proportionate to the size of their quotas. On the basis of her quota of \$30 million Ireland has 550 votes out of a total of approximately 100,000 in each institution.

Ireland's actual cash subscription to the Fund, payable in gold, was \$4·5 million (£1·6 million) representing 10% of her official gold and dollar holdings at a date in May last, or 15% of her quota. For the remaining 85% of the quota payable in Irish currency the Fund has accepted non-negotiable non-interest-bearing demand notes. The Fund is not likely to seek the encashment of these notes. Other countries are unlikely to need our currency since all the members of the Fund without exception enjoy large favourable trading balances with us.

In the case of the Fund the facilities available are closely related to the amount of the quota. Ireland is entitled on the basis of her quota to borrow up to $7·5 million, i.e. 25% of her quota, in any period of twelve months and a total of $60 million or twice her quota in all. As mentioned earlier, these limits may be waived. For the lodgment of a small amount of gold, therefore, we have access on very favourable terms to an overdraft facility of at least $60 million dollars which could conceivably be of value in the future. It must be stressed, however, that any credit obtained from the Fund has to be repaid within a relatively short period, viz., three to five years as a general rule, and that the conditions which would give rise to the need for such assistance would require to be remedied very promptly. The correction of balance of payments deficits often necessitates painful and unwelcome adjustments and, as in the past, Governments will presumably prefer to preserve balance in our external payments and avoid as far as possible recourse to the Fund.

In accordance with the Articles of Agreement Ireland will in due course have to express the par value of its currency in terms of gold and U.S. dollars. There is little doubt but that the par value of the Irish pound will be fixed at the same figure as that of the pound sterling, namely, 2·48828 grammes of fine gold, in view of the statutory inter-convertibility of the two currencies under sections 47 (2) and 49 (1) of the Currency Act, 1927. As already mentioned, the par value agreed with the Fund may not be altered except to correct a fundamental disequilibrium in the balance of payments.

Membership of the World Bank involved for this country a payment in gold or U.S. dollars of $0·6 million (£0·2 million) or 2% of the quota. The total amount payable in gold or U.S. dollars on our accession to membership of the Fund and Bank was, therefore $5·1 million (£1·8 million). In addition 18% or $5·4 million was payable to the Bank in Irish currency. As in the case of the Fund, the Bank accepted non-negotiable non-interest bearing demand notes in respect of that part of the subscription payable in Irish currency not required for the Bank's operations. This 18% subscription is available for lending only with the member's consent but the Bank expects members to release these balances in convertible form as far as they can to meet its capital requirements for lending purposes. Most members have agreed to do so and this country has already released a portion of its 18% subscription in sterling. The remaining 80% of the subscription may not be called up except to meet defaults on loans made by the Bank.

One of the principal reasons for the decision to join the World Bank was to obtain expert advice and assistance on the development of our economy. The advisory services of the Bank should prove extremely valuable. When the Minister for Finance was in Washington in September last for the annual meetings of the Fund and Bank he arranged that the Bank would send a survey mission here this year to examine our position at first hand and give expert advice on the development of our agriculture and industry and the direction of the public capital programme, which in recent years has been of the order of £40 million.

Access to the Bank for financial assistance could also be of benefit as a supplement to the domestic funds available for productive capital development. It must be emphasised that any loan from the Bank would be merely a supplement to such funds; we would still have to rely mainly on our own savings to finance national development. Another point to be borne in mind in connection with borrowing from the Bank is that on the basis of its current lending rates the Bank is not by any means a source of cheap money. Finally, the Bank normally lends only the foreign exchange requirements of investment projects and the risk of an adverse movement in the rate of exchange is always present in borrowing transactions of this nature.

(iii) *International Finance Corporation*

During the discussion on the Bretton Woods Agreements Bill in the Dáil the Minister for Finance stated that the question of Ireland's membership of this institution was under consideration. Membership of the Corporation would assist the efforts at present being made to attract foreign investment to Ireland. In the first place, the possibility of obtaining financial assistance from the Corporation would encourage foreign firms to explore opportunities of profitable investment here and, secondly, the Corporation itself would help to bring these opportunities to the attention of American and other foreign industrialists seeking an outlet for their funds.

By reference to the subscriptions fixed for other countries it appears that Ireland's subscription would be of the order of 1% of her subscription of $30 million to the World Bank.

(iv) *European Payments Union*

Ireland is not an independent participant in the European Payments Union. The Agreement setting up the Union was signed originally and at each subsequent renewal by this country subject to the following reservation:

> "In the existing circumstances, as Ireland is a member of the sterling area, the provisions of the present Agreement require no specific action by her and signature of the present Agreement on her behalf is subject to the understanding that its operation will not modify the existing arrangements governing payments between her and other Contracting Parties."

Our position vis-a-vis the Union is merged with that of the Sterling Area. Our balances with E.P.U. countries are not settled separately through the Union but through Britain's settlements on behalf of all the members of the sterling area. This has not worked to our disadvantage. We would not have been in a net creditor position in the Union in any year since we joined. On the contrary, we incur regularly large balance of payments deficits with every non-sterling country in membership of the Union and although in the last year or two we have succeeded in expanding our exports, particularly cattle and meat, to continental countries, mainly Western Germany and France, we could not hope to build up a net creditor position. Estimates of our current external payments position with the non-sterling E.P.U. Area in recent years are given in table 6 in the Appendix.

I have not attempted to treat of the sterling area and Ireland's connections with it, first, because I feel that this would be outside the scope of the present paper which was concerned with the institutional aspects of international monetary cooperation and, secondly, because it would require a separate paper to deal with it adequately.

TABLE I.—ADVANCES BY INTERNATIONAL MONETARY FUND FROM BEGINNING OF OPERATIONS TO 30TH APRIL, 1957.

	Equivalent in U.S. $ million
United Kingdom	861½
France	285
India	227½
Brazil	168½
Japan	124
Belgium	83
Argentina	75
Netherlands	75
Indonesia	70
Australia	50
Other countries (22)	331
Total	2,350½

Note.—90 per cent. of total sales of currency were in U.S. dollars; sales of sterling accounted for the greater part of the balance.

TABLE 2.—ADVANCES BY INTERNATIONAL MONETARY FUND IN FINANCIAL YEAR ENDED 30TH APRIL, 1957.

	Equivalent in U.S. $ million
United Kingdom	561½
France	160
India	127½
Argentina	75
Indonesia	55
Belgium	50
Egypt	30
Cuba	22½
Iran	19½
Other countries (5)	13
Total	1,114

Advances amounting to $245 million were made under stand-by arrangements previously approved by the Fund. Particulars of stand-by arrangements entered into or extended in the financial year ended 30th April, 1957, are as follows:—

	Equivalent in U.S. $ million
United Kingdom	738½
France	262½
India	72½
Belgium	50
Other countries (6)	88½
Total	1,212

TABLE 3.—WORLD BANK LOANS CLASSIFIED BY PURPOSE 31ST DECEMBER, 1957

	$ million	% of Total
Reconstruction	497	15
Transportation and Communications ..	957	28
Electric Power	955	28
Industry	498	15
Agriculture and Forestry	282	8
General Development	205	6
Total	3,394	100

TABLE 4.—GEOGRAPHICAL DISTRIBUTION OF WORLD BANK LOANS, DECEMBER 31ST, 1957

	No. of Loans	Amount $ million
AFRICA		
Union of South Africa	6	160
Rhodesia and Nyasaland	3	122
Belgian Congo	2	80
Other countries (5)	8	70
	19	432
ASIA		
India	16	356
Pakistan	8	112
Thailand	6	107
Japan	8	82
Other countries (6)	7	167
	45	824
AUSTRALIA	6	318
EUROPE		
France	1	250
Netherlands	10	236
Italy	4	163
Belgium	4	76
Norway	3	75
Other countries (7)	27	301
	49	1,101
CENTRAL AND SOUTH AMERICA		
Brazil	10	169
Mexico	6	141
Colombia	11	111
Chile	7	74
Uruguay	3	64
Other countries (10)	33	160
	70	719
Grand Total	189	3,394

TABLE 5.—SUMMARY OF INVESTMENTS APPROVED BY INTERNATIONAL FINANCE CORPORATION UP TO 30TH NOVEMBER, 1957

Domicile of Borrower	Date of Approval	Nature of Project	Amount of Approved I.F.C. Investment	Finance Contributed Otherwise
Brazil	June, 1957	Expansion of plant for manufacture of heavy electrical equipment	$2 million	$8 million
Mexico	August, 1957	Expansion of plant for manufacture of industrial products	$600,000	N.A.
Chile	August, 1957	Development of copper mines	$2·2 million	$10·6 million
Mexico	September, 1957	Establishment of an aeroplane overhaul and repair shop	$520,000	$912,000
Australia	September, 1957	Modernisation of mills and expansion of timber business	$660,000	N.A.

TABLE 6.—IRELAND'S BALANCE OF PAYMENTS WITH NON-STERLING E.P.U. COUNTRIES, 1952–1956

	1952	1953	1954 £ million	1955	1956
Merchandise Imports f.o.b., plus insurance and freight	27·0	31·5	26·9	30·2	26·7
Merchandise Exports f.o.b.	6·8	4·3	5·7	5·5	11·2
Visible Trade Deficit ..	20·2	27·2	21·2	24·7	15·5
Net Invisible Outgoings ..	0·7	0·4	1·1	1·0	1·2
Overall Deficit	20·9	27·6	22·3	25·7	16·7

DISCUSSION

Mr. Oliver Moylan (visitor) said: If we must look on the problems of Ireland to-day in a realistic fashion, as Mr. Bourke the seconder has suggested, we must then look on the link with sterling in a realistic fashion too. As we can see from the paper the Sterling area finances 40% of world trade to-day. The reserves to support this trade are becoming inadequate. The reserves have been increased recently, due to the high bank rate, and the flow back of hot money to London. The other way the reserves may be increased is by Britain's export surplus but this is absorbed in her overseas investment. This leaves only the high bank rate and England cannot continue with this 7% rate for very much longer. This leads me to the conclusion that the Sterling monetary area is heading for collapse. If this collapse does come about, it will have very serious repercussions for this country as we are so closely tied to the Sterling area. Can we afford to continue being tied to such a shaky currency area?

One of our great safeguards if such a situation does come about is the World Bank and the I.M.F. The I.M.F. will, we hope, support the Sterling area if it does get into difficulties in the near future. If it does, then the I.M.F. is a blessing in disguise for this country. If the Sterling area does collapse it may alleviate some of the burden that may be placed on Ireland.

It seems, that the Mark is the coming world currency. If this is so, a realignment of our trade is definitely necessary. If 30% of our imports come from Germany we should, as far as possible, try to send at least 30% of our exports to that country. If we cannot do this, it only means a further dependence on the Sterling area as 80% of exports still go there.

I am grateful to the Statistical Society for granting me the honour of being allowed to speak at this meeting.