

Zeitschrift:	The Swiss observer : the journal of the Federation of Swiss Societies in the UK
Herausgeber:	Federation of Swiss Societies in the United Kingdom
Band:	- (1970)
Heft:	1584
Artikel:	The international monetary fund and it's role
Autor:	Buchler, Geoffrey H.
DOI:	https://doi.org/10.5169/seals-686033

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The Swiss Observer

P 9258

FOUNDED IN 1919 BY PAUL F. BOEHRINGER.

The Official Organ of the Swiss Colony in Great Britain

Vol. 56 No. 1584

SCHWEIZERISCHE LANDES BIBLIOTHEK

BIBLIOTHEQUE NATIONALE SUISSE

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FRIDAY, 9th JANUARY 1970

THE INTERNATIONAL MONETARY FUND AND ITS ROLE

In the beginning of December, Monsieur Pierre-Paul Schweitzer was invited to deliver a lecture to the University of London, in the distinguished series sponsored by the Trust of the late Lord Stamp. In fact, M. Schweitzer, as Managing Director of the International Monetary Fund, was more than qualified to speak on an institution which he had directed almost since its creation in 1944.

The chair was taken by the Rt. Hon. John Diamond, P.C., M.P. who has held the post of Chief Secretary to the Treasury ever since Labour's return to power in October 1964. He paid a very warm tribute to M. Schweitzer, reminding us that, apart from his academic qualifications, which included the Secretaryship of the Treasury in France and the deputy-governorship of the "Banque de France", he had been awarded many military distinctions, among which the "Légion d'Honneur".

Before getting to the gist of his speech, M. Schweitzer introduced his subject by delving a little into the background of the I.M.F. and its present-day rôle.

"The Fund exercises its most direct influence on the adjustment mechanism when it makes available to the member countries what in substance, although not in form, we can justifiably regard as credit", he commented, adding that the use of the Fund's resources was to be temporary; to be provided in order to give an opportunity for correcting a maladjustment in the balance of payments. Moreover, the question of who could dip into the Fund's resources and when, problems of adjusting international payments — surplus as well as deficit positions — were the key subjects of the periodic consultations that take place regularly and independently of financial transactions between the Fund and its members.

To outline the inception of the Fund, it was necessary for the speaker

to view the position that arose between the World Wars. The world's monetary system was considered to be inefficient. In fact, it was a system almost devoid of any concerted international control, each country being responsible virtually only to itself for the value it set on its currency in terms of gold, which was the generally accepted international standard. The depression of the 1930's emphasised the inherent dangers, because a declining economic activity in the major industrial countries led to a sharp drop in their imports, through which a chain reaction produced a slump in international trade. To protect their reserves, some countries restricted their citizens' freedom to buy abroad; some reduced the value of their currencies unilaterally; some introduced complicated systems of exchange rates according to which imports of different kinds but of a given value in foreign currency required different amounts of domestic currency for their purchase. However, these expedients were practically self-defeating, and brought no improvement to the world economic situation. As a comparative example, the value of world trade in 1929 was £18.6 billion, but by 1932 had reached an absolute minimum of £7.3 billion only rising to £8.1 billion by 1938.

Notwithstanding the turmoil of the war years, there was time for serious thought. Eventually, at the international conference at Bretton Woods in New Hampshire in 1944, the International Monetary Fund emerged as an amalgam of the various plans that had been formulated. Countries which joined the Fund undertook to adhere to a code of fair practice and to a code of liberal international payments. At the same time, they became members of an active and co-operative institution holding large reserves of gold and foreign currency with which it could assist any member that waded into monetary difficulties. One of the Fund's primary

obligations was to facilitate the expansion and balanced growth of international trade, with a view to the economic prosperity of the whole world. The Fund, of course, placed high on its list of aims the task of helping its members to keep their economies growing and strong. It tried to do this in all possible ways — by giving advice, technical assistance, and by providing foreign currencies when required. The fund's mechanism to this end was in part the highly publicized "stand-by" credit arrangement from which the United Kingdom has benefitted strongly in recent years. More basically, a staff representation from the Fund confers with the demandant countries on the technicalities of their problems, if only because it must be convinced that their programmes are compatible with an achievement of the balance of payments to be able to present the members' cases convincingly to the Executive Board. M. Schweitzer was right to stress that these consultations had often been politically misunderstood as an interference in national sovereignty. He was equally right in stressing that this missed the point that prosperity can only be based on such a kind of international co-operation. Defending the use of overall credit expansion targets, he said that the Fund did not pretend to possess a simple formula for relating the domestic credit expansion to the health of the balance of payments.

The economy of the United Kingdom was naturally governed by the complexity of its financial system. However, it should be noted, a restrictive monetary policy strengthens the balance of payments by discouraging outflows and encouraging inflows of capital. This was so because the immediate focus of interest lay in the restoration of the balance of payments, and also because, as far as the U.K. was concerned, the pressure on this balance of payments had been exacerbated by unbalancing outflows of capital.

Today the practice was accepted that monetary policy should be used along with fiscal policy to ensure that the rise in domestic demand was consistent with the desired current account position; all the evidence from the Chancellor's budget speech last year was that he held a similar view. To this end, M. Schweitzer suggested that evidence was emerging that the credit policy of the U.K. authorities had been an essential

The Swiss Observer

PUBLISHED TWICE MONTHLY AT
63/67 TABERNACLE STREET
LONDON E.C.2
Tel.: 01-253 2321
Telegrams: Paperwyse Stock London

EDITOR: Pierre-Michel Béguin

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factor in its success in weathering several international exchange crises this year and in bringing about a marked improvement in the balance of payments.

It seemed quite clear to point out that a constructive programme must be consistent not only with a satisfactory performance in the domain of the balance of payments, but also with a reasonable rate of economic growth and employment. A deficit country had to avoid a degree of utilization of capacity that could create serious shortages, hampering exports and raising the tendency to import unduly, even if in the short run this could appear as a path to a higher rate of growth. If an external balance could not be reconciled with the full use of a country's productive potential through appropriate policies, then this represented a situation of fundamental disequilibrium to be rectified by an adjustment in the exchange rate, and this in accordance with the I.M.F. itself.

The consultation procedure had become one of the most important media for exercising the Fund's influence on monetary adjustment. A staff mission generally visited each member country for discussions with its authorities at regular intervals. Following these discussions, a tentative appraisal of the country's economic position and problems was submitted to the examination of the Fund's executive board. It was thus of the utmost importance that consultations took place accordingly with all member countries, whether they were in surplus, in deficit or nearly balanced. The consultations procedure could also help to deal with incipient deficit problems. An obvious effort that was being made was to persuade countries with a substantial surplus to bring their balances of payments nearer to equilibrium. The

Fund could moreover exercise an important influence in adjusting policies of surplus and deficit countries through the informal contacts it was maintaining with the members of the government and key officials of member countries.

Looking ahead, M. Schweitzer examined the problems that will undoubtedly arise when inflationary patterns again push exchange rates out of balance. He made clear his view that greater flexibility should be introduced into the monetary system by a greater willingness of the governments of the major industrial countries to change their exchange rates more frequently and by smaller amounts. Evidently, without a change in their par values, deficit countries may find it difficult to reconcile balance of payments imperative with an adequate rate of growth whilst surplus countries may find themselves subjected to inflationary pressures that they consider intolerable. For the past lack of flexibility the blame was laid squarely where it belonged: with the politicians and governments concerned. "There is and has been nothing in the Fund's attitude towards the present system that makes its application unduly rigid", was his conclusion. Indeed, the Fund welcomed exchange-rate changes that were constructive from a domestic standpoint, provided they were not harmful from an international standpoint, having often in the past informally encouraged such moves.

In quite practical terms, with the full balance of payments figures now out for the first nine months of 1969, the Chancellor has clearly enough elbow-room for allowing some faster economic growth in 1970. A basic balance of payments surplus of £856 million in a full year, which is what the figures for the third quarter of 1969 imply, is a surplus position that need not, and should not, be fully held at the price of losing real economic advantages from faster growth. The looming

spectre of international debts need no longer force the Government to aim for surpluses at this level, especially now that a comparative calm has been restored to the foreign exchange markets.

Probably the most important topic brought up by M. Schweitzer in his lecture, was the establishment of the Special Drawing Rights scheme. The S.D.R.'s are international reserves allocated annually by the collective decision of the Fund's participating members. The rights are not used directly in the settlement of international transactions, but are transferable from country to country against currencies convertible according to a set of rules. An annual basic allocation-period of three years has been decided. By 1971, in fact, this will have added \$9,500 million to international liquidity (i.e. money in circulation). Current monetary-gold reserves now stand at about \$39,000 million, total international reserves at about \$75,000 million. It was stressed that while total world reserves, comprising gold holdings, foreign exchange, and reserve-accounts in the Fund have grown substantially, the total in relation to world trade has declined by over 50% since the early 1950's. The drying-up of the usual sources of reserve-creation was largely due to private gold-hoarding, to the recent swing from a deficit to a surplus in the overall balance of payments of the United States, this being brought about by a massive inflow of capital into that country.

In 1963-4, international discussions on the problem of international liquidity started off again. They culminated in the decision to allocate special drawing rights dependent on the consensus that, among other points, there were indications of an actual and prospective improvement in the international adjustment process. The improvement in the balance of payments of the United Kingdom, which has become more noticeable in the course of this year,

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greatly helped the reaching of an agreement to activate the S.D.R. scheme. There can be no doubt that special drawing rights will have a fundamental influence on the adjustment process. Like an increase in world monetary gold holding, the allocation of S.D.R.'s allows countries to add to their reserves without putting pressures on other countries' balance of payments; permitting, as it were, an excess of surpluses over the deficits in the world, helping thereby to smooth the adjustment process raising the reserve-backing to a satisfactory level.

"If", to quote Professor Day, "the I.M.F. system is to work successfully, all countries must hold substantial reserves of foreign currency", adding that, "one of the most important provisions of the I.M.F. arrangements called for an increase in the total reserves on which countries could draw, when they were in balance of payments difficulties". Today, the Fund expects to play an increasing rôle in this policy and to exercise in this way a useful influence in safeguarding the effective operation of the S.D.R. scheme, thus to foster the future growth of the world economy and international transactions in accordance with the purpose for which the International Monetary Fund was established.

Acknowledging the intensive work that Switzerland had undertaken as the only really "positively constructive" non-member adviser of the I.M.F., M. Schweitzer remarked that it would only be a matter of time before they would contribute in a more direct manner. He euphorically anticipated that the polemics over the Swiss national financial structure and all its trappings should be waged on a deeper-sighted level.

M. Schweitzer was particularly conscious of orientating us all in his address to the achievements and most certain future success that the Fund has now assured for itself. "I think it fair to say that the efforts which countries have put into international monetary matters over recent years have at least given us a greater chance of achieving a more stable monetary system than we have had at any time in the postwar period. In the end, of course, our success depends on our ability to continue the fruitful co-operation that we have gradually developed during the postwar period. I am convinced, myself, that countries will in fact continue, and strengthen this co-operation. If my view is correct, then I believe that, whatever temporary difficulties may arise, we shall have an international monetary system that can properly serve the needs of all countries and help promote their economic well-being".

Geoffrey H. Buchler

called for in the first place". The "Neue Zürcher Zeitung" believed that Loeffler's dismissal was motivated by politics more than by anything else. "The time at which the theatre management decided to intervene" it said "was surely not due to chance, considering that the Municipal Council will shortly have to fix the 1970 budget. A theatre living on public money must take some political realities into account."

Many of Loeffler's collaborators, actors, playwrights and stage-managers, all considered as "progressists", may follow his path and take leave of the "Schauspielhaus".

But they have some defenders who have been protesting loudly against the dismissal. A number of reputed leftish writers, painters, architects and judges have called for a public support to Peter Loeffler who, they said, had given a new artistic impetus to the life of the theatre. The public would have to decide whether the "Schauspielhaus" was there for the benefit of the "group of privileged bourgeois who frequented the theatre" or for everybody. Loeffler and his team of 29 have also protested against the dismissal and said that the management's communiqué had contained a number of lies. Moreover, they had been described as "dilettantes with a confused political intelligence" in the local press and threatened with extradition for their political opinions.

This episode reflects the presence of two ways of life strongly represented in Zurich. On the one hand the staunch, hard-working and right-thinking middle-class, and on the other, an increasing population of artist-types and beatniks determined to enjoy life and shake the stilted society of their parents. Zurich has really more to offer in the way of cultural entertainment than any other Swiss town. It has an opera house presenting four or five programmes on an average season, the "Congresshaus" with its three concert and recital halls, and besides the "Schauspielhaus", a string of smaller theatres, such as the "Winkelwiese", the "Theatre am Hechtplatz" and the "Neumarkt". The "Schauspielhaus" usually has classical and high-brow productions. The Old Vic and the Comédie Française stop there almost every year. The plays never outreach Brecht or Dürrenmatt in their modernity, and Schiller comes back practically every year. Although the "Schauspielhaus" may not risk getting too modern because it has to please the backbone of the theatre-going public (and at the same time, the people who count in the town) the smaller theatres have in the past produced ultra-modern things. It is therefore unjust to tax Zurich as a whole of narrow-mindedness in the cultural field. Only, the big theatres are run and paid for by the middle-class, that same middle-class which runs the town, and it is understandable (though perhaps not excusable) that they must offer bourgeois-accepted art.