

On the other hand, in addition to the possibility of quota adjustments mentioned above, there is also provision for flexibility in the rule governing the extent to which a member may draw upon the resources of the Fund either in any one year, or in sum total over a period.

After taking account of the circumstances affecting New Zealand's external trading conditions, and of the terms governing drawings on the Fund's resources, the conclusion to be drawn is that membership in the Fund is not intended to be treated as a substitute for maintaining adequate resources of foreign exchange.

Nevertheless, the right to draw on the resources of the Fund constitutes a valuable line of defence for use in case of need.

One of the main purposes of the provisions relating to drawing rights is to discourage members from over-importing, while at the same time safeguarding them from having to curtail their imports unduly.

There are other provisions, in the clauses relating to scarce currencies, which are designed to discourage a member from voluntarily neglecting to maintain an adequate flow of imports, while at the same time pursuing a vigorous export policy.

FIXATION AND VARIATION OF EXCHANGE RATES

It is provided in Article (IV), Section I, of the Monetary Fund Agreement that the par value of the currency of each member shall be expressed in terms of gold as a common denominator, or in terms of the United States dollar of the weight and fineness in effect on the 1st July, 1944.

The purpose of this requirement is to provide a definite and recognizable basis in relation to which members will state the exchange values of their respective currencies.

For example, on the basis of the exchange rates now existing, the par value of New Zealand currency could for the purposes of this requirement be expressed on the following lines:—

1 oz. of fine gold = £(N.Z.)10 10s.

or, to express the same exchange value in the alternative method provided—

35 dollars of the weight and fineness in effect on the 1st July, 1944 =
£(N.Z.)10 10s.

Likewise, the par value of sterling may be quoted as—

1 oz. of fine gold = £(sterling)8 8s.; or

35 dollars of the weight and fineness in effect on 1st July, 1944 = £(sterling)8 8s.

The above methods of defining par values in no way interfere with the existing methods of quoting exchange rates as between one currency and another. In fact, to say that £(N.Z.)10 10s. and £(sterling)8 8s. are both equivalent to the same amount of gold (or the same amount of dollars) is only another way of saying that £(N.Z.)125 is equivalent to £(sterling)100.

Subject to the procedure outlined in Article XX (4), each member is free to choose what the initial par value of its currency will be. Thereafter each member may, in its own right, make subsequent variations until such time as the cumulative amount of such variations reaches 10 per cent. of the initial par value; and though, once that facility has been used, the rules of the Fund would require the member concerned to show adequate justification for further changes, there are provisions covering such further changes as may prove to be necessary to correct a fundamental disequilibrium.

Without such safeguards, it would be open to any member so minded to initiate an era of competitive exchange depreciation; and international exchange prospects, instead of being reasonably secure, would be marred by perplexity and distrust.

However, in order to ensure that the provisions of the Fund could not be interpreted as giving the Fund a right to intervene in the domestic social or political policies of member countries, it is laid down that a member's proposal to alter its exchange rate shall not be objected to on the grounds of the above-mentioned policies of the member.

EXCHANGE RESTRICTIONS

(a) *Current Transactions.* Trade and commerce could not flourish among member countries if some or all of them placed hindrances in the way of meeting current commitments; as, for example, if a member, though willing that a given volume of imports should be maintained, yet placed blockages in the way of paying for its current purchases from other countries.

The rules of the Fund are therefore designed to obviate new hindrances to such payments, and in the course of time to remove hindrances already existing.

These provisions do not mean that a member would be acting in a manner contrary to the principles of the Fund by maintaining supervision and control of its exchange transactions to ensure that funds will be available to meet, promptly and fully, those commitments which actually do accrue in respect of trade and other transactions. This matter is dealt with more fully under the heading of "Transitional Arrangements."

(b) *Capital Movements.* It would not be permissible for a member to use the resources of the Fund to finance a large or sustained outflow of capital. Furthermore, the Fund would be empowered to require a member to institute such controls as may be necessary to prevent a flight of capital.