
International Monetary Issues

The international financial and monetary system has shown considerable flexibility in coping with the many strains of recent years. Nevertheless, there has been growing concern over the sharp fluctuations in exchange rates. As a result, there have been calls from developing countries and France, but also from some quarters in the USA, for an international conference to improve the international monetary system.

President Mitterrand has been a leading proponent of the idea of an international monetary conference. At the Versailles Summit there was agreement that Finance Ministers would study the international financial system. The follow-up report, completed in 1985, encompassing the views of the G-10, concludes that while the current floating rate system has absorbed the shocks of the recent past, exchange rate volatility could be reduced by greater IMF surveillance of the external consequences of domestic policies. A parallel report prepared by the "G-24" grouping of developing countries stresses issues related to resource transfers, upon which their ideas for an international monetary conference are also focussed. Finance Ministers and Central Bank Governors reviewed both reports at the IMF Interim Committee meeting in April.

Because of concerns about fluctuations of exchange rates and the impact on U.S. trade, President Reagan in his State of the Union message of last February asked Treasury Secretary Baker to examine the advisability of a multilateral conference on money and finance. All Summit countries support the need to strengthen international surveillance of domestic economic policies, and endorse the Fund's efforts to make surveillance more effective by encouraging better coordination of domestic policies including exchange rate policies.

Canada has supported the need for an examination of international monetary issues and, as a participant in the G-10 study, endorsed its recommendations to strengthen the international monetary system. In our

view the current process at the IMF's Interim Committee to review the G-10 and G-24 reports is the most appropriate means of handling international monetary issues. We share the concerns of others that target zones for major currencies would have many of the same operational difficulties as the fixed exchange rate régime. Nor would they represent an improvement on the current floating system, which has served Canada well.