Legalization of International Monetary Affairs

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ABSTRACT:

After World War II, international monetary connections were formalized as a set of legal duties for the first time in history. The International Monetary Fund was established by its Articles of Agreement, which include international legal requirements and standards of behaviour for IMF members. Up until 1977, members were expected to retain their currency at par, employ a single, unified exchange rate mechanism, and maintain an open current account. In this paper, we examine the reasons why governments agreed to follow these regulations as well as the circumstances in which they did so. The research indicates that when other nations in an area kept their promises, governments tended to do the same. Governments also abided by their obligations under international law if their domestic legal system was highly valued. Countries that have worked hard to build a solid reputation for upholding property rights are less likely to tolerate breaches of international law. However, widespread noncompliance increases the likelihood of violation, indicating that compliance behaviour should be understood in its geographical context.

KEYWORDS:

Article, Governments, International, Legal, Nations.

I. INTRODUCTION

One of the most tightly guarded national prerogatives is control over money. In the contemporary era, the ability to create, value, and regulate the circulation of national legal currency is seen as a fundamental prerogative of a nation-state. However, during the course of the 20th century, global standards of ethical behavior in the financial sector have been "legalized" in the sense suggested by this book. In an attempt to restore the faith that had been shaken by the interwar monetary experience, this historic transition occurred after World War II. If the interwar period taught monetary policymakers anything, it was that stable exchange rates, free markets, and nondiscriminatory business practices were necessary for economic development. It was possible to encourage private players to engage in international commerce and investment by internationalizing monetary matters. There were only three international legal requirements related to monetary policy that were included in the Bretton Woods institutions [1], [2]. The most well-known of them was the duty to create and maintain a par value, which was officially repealed in 1977 by the Second Amendment to the IMF's Articles of Agreement. But there are still two more duties that must be fulfilled: maintaining an exchange-rate system that is uniform and keeping one's current account free of constraints. The first mandates that national monetary authorities must make foreign currency accessible to cover import bills or external interest payments when they are due. The second forbids exchange-rate arrangements that prioritize some trades or partners over others. IMF members have a choice as to whether they want to voluntarily accept these regulations as binding (Article VIII status) or if they want to keep the constraints that already existed when they joined the IMF (grandfathering under Article XIV). My thesis is that governments may more credibly commit to market players by legalizing international monetary connections [3], [4].

I will argue that the desire to avoid the reputational consequences of breaking a legal commitment serves as the primary mechanism promoting compliance. In this volume, Kenneth Abbott and Duncan Snidal make the argument that legalization is a strategy that boosts credibility by making breaking the law more expensive. The rigid covenants outlined at Bretton Woods were considered essential since the flexible agreements from the interwar years had been shown to be ineffective. Governments have cited their expensive commitment to stable, liberal external monetary policy as an excuse for sticking to the restrictions outlined in the Articles of Agreement. This does not imply that compliance is flawless, but it is improved when other nations comply and when governments are known for upholding the law. Prior to 1945, there were national rules and international "understandings" governing the international monetary system [5], [6].

1. The Nineteenth-Century Gold Standard

The legal framework upon which the gold standard was based was not worldwide, despite the fact that it had a clear legal foundation. It was a system of decentralized regulatory harmonization at most. Other nations were enticed to join Britain in embracing gold in order to get access to international money and commerce. As a result, the German Empire adopted gold as its currency in 1871 (even though this required that Germany maintain a significantly larger gold stockpile than did Britain). In 1878, Switzerland and Belgium were included. When the franc was weak, France embraced the gold standard but limited convertibility. The Austro-Hungarian gulden was in circulation up to the supposed adoption of the gold standard in 1891. Although silver coins were still in circulation, the United States formally adopted the gold standard in 1900 when it designated gold as the "standard unit of value" (albeit silver coins were still in use). None of these national choices were made with input from the global community. Additionally, this system was not governed by agreements made under international law. Even if one disagrees with the conventional characterisation of the balance-of-payments adjustment under the historic gold standard as totally "automatic," its cooperative components were not governed by international law. For foreign traders and investors at the system's industrialized center, this decentralized structure of harmonized national norms seemed to provide a high level of stability. There was minimal need to create a complex international legal framework to ensure the system's upkeep as long as investors were secure in that fact [7], [8].

2. The Interwar Years

Not only did World War I sabotage economic ties, but it also upended the internal political and social stability that supported the belief in the gold standard. A "largely unsuccessful groping toward some form of organizational regulation of monetary affairs" is what can be said of the interwar years as a consequence. As explained by Abbott and Snidal, the main nations increasingly resorted to negotiated accords that seemed like "soft law." The governments of the main European nations gathered in Genoa in 1922 to officially adopt the ideas of a gold exchange standard, which encouraged smaller financial centers to store some of their reserves in foreign currency rather than gold, so saving on the precious metal. Although this agreement had a significant influence on the makeup of reserves, it was at most a gentle reminder to reduce gold holdings. In the years between the wars, almost all significant exchange-rate decisions were taken unilaterally. The Gold Standard (Amendment) Act of 1931 was put into effect by the British government on September 21. As a result, payments of gold against legal cash were halted, and the gold standard was formally abandoned. The Roosevelt administration unilaterally implemented currency restrictions and an export ban while global discussions were ongoing. Governments preferred diplomatic pronouncements over legally binding agreements even when they sought to coordinate their activities. In July 1933, the governments of Belgium, France, Switzerland, and the Netherlands formed the Gold Bloc to work together to safeguard pre-existing parities. This "soft" legal arrangement, which was not a formal treaty, was established by proclamation and communique. Leaders needed international protection when France abandoned the gold standard for domestic reasons, and they found it in the shape of the 1936 "Tripartite Agreement." This arrangement was the most informal possible; rather than signing a single document, Britain, the United States, and France released individual statements. France declared the "readjustment" of its currency without stating devaluation and pledged to minimize any impact on global markets as much as possible.

The increased incentives countries faced after World War I to externalize their issues with economic adjustment played a significant role in the fact that nations attempted to coordinate their monetary decisions at all during this time. The essence of national regulations had altered, but the international monetary system remained still reliant on them.Without a doubt, governments could no longer acquiesce to internal changes in the face of growing political pressure to control the economy. In contrast to the nineteenth century, some nations declared themselves to be on the "gold standard" in the 1930s, despite the fact that gold had nothing to do with the money supply and had little effect on internal adjustment. Governments were more and more forced to rely on international norms to place restrictions on external adjustments after the national laws no longer commanded respect for internal adjustments. The necessity for reliable restrictions on external adjustment led to efforts to codify international monetary ties [2], [9].

II. DISCUSSION

The formalization of "rules of good conduct" and the International Monetary Fund

After World War II, the legality of international monetary interactions grew rapidly. Negotiators from the United States and the United Kingdom made a deliberate decision to choose an international legal framework to increase the credibility of the system by rejecting the less structured arrangements of the previous century and creating for the first time a public international law of money. Additionally, the IMF was to be a fund that provided loans to its members who were experiencing balance-of-payments issues, among other things. With the entry into force of the IMF's Articles of Agreement, money like activity on the seas and diplomatic relations between states was drawn under the system of public international law and became newly subject to its broader norms and principles. The IMF was established by a multilateral treaty arrangement, by which signatories agree to pay in subscriptions in exchange for voting and drawing rights.

1. Fixed Exchange Rates: Legalization's Rise and Fall

The Articles of Agreement outlined two main regulatory objectives that were informed by the lessons learned during the interwar period: states should be required to peg exchange rates and to end currency restrictions and unfair trade practices that harmed present-day transactions. Controls that were formerly used by national governments under their sovereign authority now need to be justified to the international community, and they are only allowed as long as they are used "to carry out a purpose contributing to general prosperity." In the postwar monetary system, public international law was to be used in the same way that it had for decades in commercial relations, namely to support the conversion of currencies in open, free, and legal markets in order to ease the international interchange of goods and services.

Thus, for the first time, the global community publicly acknowledged that exchange rates were a legitimate global issue. A nation has to convey a "par value" for its currency by making an explicit or implicit reference to gold in order to join the IMF. Although there may have been some small conversations with IMF officials, the fundamental idea was to set par values that were fairly similar to those in effect just before membership. After then, Members were obligated to keep that par value within the margins provided in the Articles.It was mandatory for all 14 Members to inform the IMF before changing their initial or subsequent par values; otherwise, they would be in violation of the law. Additionally, even though it was not permitted to do so, the IMF may use its resources to persuade a member to accept a certain par value. In other words, "the original articles conferred upon the Fund unprecedented power over exchange rates."

2. Article VIII: Remaining Monetary Obligations

Governments who are members of the IMF do nevertheless have two significant legal requirements with regard to the system of par values, despite the legal obligations being softer. Article VIII of the Articles of Agreement, which outlines the general responsibilities of members, contains both of these. These regulations prohibit limits on payments and transfers for current international transactions, as well as the use of several currencies without the IMF's consent. Governments are required to make foreign currency accessible for the purchase of products, services, and invisibles, according to Article VIII section 2(a). Governments are required by this criteria to provide their people with foreign currency to complete all lawful international transactions the government will still decide which are legal. They also agree to abstain from blocking, restricting, or charging currency transfers if doing so would make sending money more difficult or expensive.

It's interesting to note that this clause seems to be the only one in the Bretton Woods Accords that places member nations' obligations toward their own citizens. The Articles of Agreement have always forbidden the use of more than one currency or any other activity that establishes separate exchange rates. Such techniques were considered as a danger to the original parity requirement, possibly discriminatory, and always distorting, and Article VIII section 3 provides a strict legal responsibility to avoid them. Similar to the limitations in section 2, the IMF might, however, accept such actions on a temporary basis, softening the prohibition in the near term. After World War II, the use of several currencies became widespread; at the time of the Bretton Woods discussions, a third of the participating nations used multiple currencies. A significant member, France, didn't implement a multiple exchange-rate system until 1971. Even as late as 1979, the United Kingdom had a distinct investment rate.

Why were regulations prohibiting these actions thought to be necessary? due to two main factors: Based on defined state priorities, governments may choose to promote developmental goals that favor certain imports over others. However, governments more often use exchange restrictions and the usage of multiple currencies as one of several strategies to address balance-of-payments issues. They may ask exporters to turn over foreign currency they received from export sales to the government at rates set by the government for either purpose. Importers must then get foreign currency from the appropriate government agency or bank. Such systems permit import discrimination or foreign currency rationing, when foreign currency is made accessible or available at advantageous rates for certain commodities or some transactions but not for others.

Such control mechanisms have historically been seen by the IMF as risky alternatives to economic adjustment and barriers to the development of open foreign currency markets. However, Article VIII requirements are undertaken voluntarily since many of the IMF's founding members were unable to quickly achieve complete convertibility at uniform rates. Article XIV allows new members to take use of "transitional" arrangements upon joining the IMF, effectively "grandfathering" in procedures that were in place at the time of their accession to the Articles of Agreement. Nevertheless, Article XIV nations are obligated to communicate with the IMF yearly over the retention of limitations that violate Article VIII and are expected to remove restrictions when they are no longer essential for balance-of-payments reasons. During these consultations, the IMF tries to gradually convince members to switch from "transitional" practices like foreign exchange rationing, multiple exchange rates, and foreign exchange licensing systems to the IMF's traditional strategy, which includes lowering domestic inflation, undertaking extensive fiscal reform, devaluing the currency if necessary, and simplifying exchange restrictions to eliminate their tax and subsidy effects. The IMF typically advises the Article XIV nation to commit to Article VIII status once these foundations are in place.

Legal obligation: expectations and proof

But why would a government willingly take on the requirements of Article VIII? And why should it still abide by them? After all, neither a timeline nor a list of requirements for terminating the transitional phase are included in the articles. Additionally, the IMF does not directly provide any positive or negative incentives for nations to make an Article VIII commitment, despite the fact that it urges those it believes are in a position to do so. It also doesn't "enforce"' these commitments in any way. It does provide information on state rules that may be used to determine compliance. In addition to "approving" limits, the executive board may also "disapprove" them. It has done this in order to support the adjustment initiatives it is funding. However, because the board often doesn't make its choices public, the effects of rejection are debatable. If a member "fails to fulfill any of its obligations" under the articles, the executive board may declare that member unable to utilise the IMF's resources. Noncompliance sometimes prevents draws under standby and extended agreements. However, the IMF has really only seldom employed these formal remedies. Since members who vote in favor of a penalty may be afraid about drawing a retaliatory vote in the future, noncompliance seldom results in direct reprisal from the IMF. The likelihood of the IMF using persuasion over applying a sanction for ongoing noncompliance is substantially higher.

Therefore, governments are in a catch-22 situation: there are drawbacks to being the first to liberalize (such as the potential for direct pressures on the balance of payments), but there are also drawbacks to falling behind regional or global standards. Governments have felt this conundrum quite strongly as they have developed their Article VIII policies. Since "none of the six countries wanted to move in advance of the other, and all of them preferred to come under Article VIII at the same time as the United Kingdom," the main Western European nations, for example, took on Article VIII commitments simultaneously. Three and a half decades later, the nations of the African Franc Zone made a similar choice. Peru's prime minister "agreed Peru should not jump out ahead of the others, but... definitely does not want to "skip the boat,"" while discussing the date of Article VIII adoption with the IMF. If legal commitment is seen as a tool to reassure investors in a cutthroat economic climate, then these worries are legitimate. Governments must be aware of the message they may be giving by declining to commit, particularly when other nations with which they may compete for capital or trade have done so. Although there may not be many incentives to liberalize early, governments must be aware of the signal they may be sending. We should anticipate that commitment will be influenced by two factors: (1) a basic ability to comply (which is necessary for a credible commitment), and (2) the commitment decisions of other countries (which avoids the costs of being the first to move and reduces the costs of lagging). If a legal commitment to Article VIII is a way to improve access to capital and trade by effectively raising the costs of interfering in foreign exchange markets, then we should expect commitment to be influenced by these two factors.

A collection of reasonable control variables that could show an erroneous connection with these proposed associations should also be taken into account. I'm not saying that a government would only agree to Article VIII if it was made in a believable manner, but I am examining whether it can withstand a number of realistic alternatives. The first is a simple argument based on domestic needs: just like every other component of international economic policymaking, commitment is likely to be a consequence of home policy demands. Residents and nonresidents alike have the right to access foreign currency under Article VIII, and demands for this right are likely to be higher in nations where commerce plays a significant role in the national economy. The incentives that trade dependency provided were readily acknowledged by the IMF staff when they discussed who was willing to contribute. For instance, it was determined that Indonesia was unlikely to engage in criminal activity since "the restrictive system is somewhat ancillary to the broad economic issues in which the public are interested: foreign trade is only 6% of GDP." Additionally, non-nationals run the key industries. (Tea and jute). In contrast, the executive board explicitly stated when Guyana made the Article VIII commitment that "Guyana was one of those very few developing countries in the world whose imports and exports, taken separately, were larger than 50% of GNP, and this necessarily meant that the country was highly vulnerable to swings both in capital and in trading magnitudes."

Guyana's reliance on trade made it a strong candidate for Article VIII, but it also suggested a potential need for IMF support should liberalization become unstable. The idea of a backup arrangement was also examined. Furthermore, it stands to reason that a democratic government would be most likely to provide the demand for secured access to foreign cash. On one side, it is hard to see a commercial interest organizing to aggressively oppose unrestricted access to foreign currency. On the other hand, the political organization around this subject area is likely to be that of civil society vs the state. On the other side, the government, which is the provider of constrained access to hard cash, receives the concentrated rents. We should anticipate that democratic governance will be positively correlated with the adoption of Article VIII if one of the key characteristics of democracy is how much it empowers civil demands relative to the state and if it is also true that these demands are likely to favor those who want free access to foreign exchange. Controlling for institutional incentives offered by the IMF to those who commit is also crucial. Early on, the fact that multilateral monitoring only applied to Article XIV countries up until the Second Amendment (revisions to Article IV) expanded required surveillance to the whole IMF membership served as an incentive for nations to select Article VIII status. Before 1977, nations might really escape international monitoring if they were ready to publicly embrace Article VIII commitments. Due to this perverse motivation, members accepted Article VIII requirements up until 1977. By doing so, they were able to escape official board reviews and discriminating monitoring that might have been embarrassing. Accordingly, we might infer that, other else being equal, the acceptance rate was greater before 1977 than after.

Finally, this analysis is useful for time control. One significant factor is that, in the early years of the IMF, nations could have been hesitant to agree to Article VIII since it was uncertain how the executive board would interpret the requirement. It is obvious that nations did not want to make a commitment only to be shocked when the executive board found them in default of their duty. This type of ambiguity was supposed to lessen over time thanks to executive board clarifications and approval decisions. It is helpful to do a visual analysis of the data before moving on to more intricate ones. 138 nations make up the panel of data that was utilized. Their participation was only required if they joined the IMF by 1980. For 110 of these nations that have selected Article VIII status since 1966, we have time-varying and case-varying data. It is helpful to build a Kaplan Meier "survival function" that represents the time of transition prior to making an Article VIII commitment using annual data for these nations. This graphic depiction of the data makes one thing clear: the "transitional" regime may really continue a long time for a number of nations. In the first twenty-four years of IMF membership, the Kaplan-Meier function predicts a 25% likelihood of adopting Article VIII status, a 50% chance in the next 35 years, and a 75% chance in the next 50 years. It is obvious that many nations have taken their time legally committing to maintain unrestricted current accounts.

The following two variables, "universality" and "regional norm," are intended to test the idea that accepting a responsibility is probably dependent on other people acting in a similar manner. "Universality" is the percentage of all IMF members that have accepted Article VIII status, and "regional norm" is the percentage of nations within each subregion (as determined by the World Bank) who have done so. (The data appendix discusses all variable measurements and sources.) The acceptance rate is significantly and favorably influenced by each of these factors. For instance, according to model 3, the chance of acceptance rises by 38.5 percent for every 1 percent increase in the fraction of IMF members who support Article VIII. Similar to this, a country's chance of acceptance rises by 4.1 percent for every 1 percent increase in the regional share of Article VIII supporters. This equates to a 49 percent rise for each additional 10% of regional membership. There is little doubt that the likelihood that an uncommitted administration will ratify Article VIII dramatically rises when more nations do so. Note that even when time (model 4's "year") is controlled for, this influence is still substantial. Therefore, we may be quite certain that the universality and regional norm variables analyzed here do not only show a rise of followers over time. The percentage of followers, not the passage of time, is what most affects the acceptance rate. This conclusion is in line with the motivations of the competitive economic environment where governments announce their devotion to Article VIII's legislative requirements.

The political demands made domestically as a result of trade opening also have a significant influence on the acceptance rate. The proportional hazard rate considerably increases the more open a system is to foreign commerce. According to model 3, the risk of Article VIII approval rises by 1.8 percent for every point higher imports plus exports as a percentage of GDP. This could explain a 67 percent difference in acceptance probability between, for example, Malaysia, where imports and exports for the period under consideration accounted for about 80 percent of GDP, and the Philippines, where the corresponding figure is about 50 percent. The needs of exporters and importers undoubtedly influence the government's readiness to make a commitment. It's interesting that whether a nation was democratic or not had little to no influence on the choice. The likelihood that a nation would embrace Article VIII would only be affected by the unlikely occurrence that it transitioned from a wholly nondemocratic society to a highly democratic one by around 19 percent [10].

However, the degree of significance that our confidence in this impact approaches is barely significant. There is also evidence that institutional incentives have had a significant impact on the adoption of Article VIII. Here, the dummy variable "Surveillance" has a value of zero before 1977 and 1 after that year. As expected, the impact of surveillance being extended to all nations, not just those using the Article XIV transitional regime, has been to significantly lower the likelihood of accepting Article VIII. However, the exclusion of democracy as a separate explanation has made us less confident in this conclusion. The hazard ratio suggests that, all factors being equal, nations were anywhere between 40% and as much as 96 percent less likely to adopt Article VIII status after the monitoring advantage of Article VIII states was abolished. The elimination of discriminatory monitoring seems to have had a significant impact on governments' readiness to make a commitment. However, the sheer passing of time has no impact. This could be as a result of the fact that the period immediately before the IMF's founding saw the greatest concentration of the obligations-related uncertainty that led to the inclusion of this component. There is little evidence to support the idea that variations in the pace of commitment are caused by the passage of time.

According to the data, governments are more likely to agree to Article VIII status when the agreement is trustworthy and when other nations, particularly those in the same area, have also agreed to it. These findings are consistent with the use of legal commitments as a signal to markets of a genuine desire to preserve open and nondiscriminatory foreign exchange markets, even if other considerations impact the choice to commit.

Who agrees? Describing the compliance choice

Governments should refrain from breaking international law if legalization is an effort to increase the credibility of a pledge because they wish to maintain their good reputations for upholding the law. Governments strive to persuade markets that they provide a suitable environment for international commerce and investment, which is the evident motivation for such a reputation in the financial sphere. Investors and suppliers looking for international business prospects should choose to cooperate with companies in nations that provide a more definite legal framework for the nondiscriminatory execution of international contracts. Although this responsibility is not centrally enforced, avoiding reputational damage should be the driving motivation for compliance. When will reputational consequences be most noticeable, is the question. My initial hunch is that when a violation stands out among similar nations, the consequences are highest. That is, breaking the law costs the greatest when other similar nations are able to maintain compliance. On the one hand, the more the pressure for any one country to comply, especially in the face of economic pressure to preserve the national economy via limitations or multiple exchange rates, the more eager competitors are to comply. On the other hand, if Article VIII nations in the area often choose to ignore their commitments, this should raise the likelihood that any particular country in that region would choose not to comply. It is difficult for markets to pick out any one offender for "punishment" due to the widespread infringement. Therefore, we should anticipate that the actions taken by other nations will have a favorable impact on compliance.

Next, think about the polity's own internal features. According to some analysts, liberal democracies are far more likely to comply with international legal obligations than other types of governments. This is because domestic groups may have incentives or preferences for acting in compliance. Participatory politics, according to this viewpoint, could exert pressure on the government to comply, particularly if failure to comply would result in restrictions on residents' access to foreign exchange (however, it is unclear how this argument relates to the decision to implement or maintain a unified exchange-rate system). Others have claimed that liberal democracies' steadfast internal adherence to the rule of law is their most crucial quality in terms of adhering to international compliance. These are essentially affinity arguments, which imply that domestic norms about restraints on authority, adherence to legal procedures, and respect for constitutional restrictions "carry over" into the field of international politics. They are predicated on the logically enticing premise that legislators and policymakers are unable to leave their normative ideas at the water's edge. However, there are also reasons for anticipating that Article VIII compliance would include the rule of law. Property rights have a solidly favorable reputation for being protected by stable legal frameworks in nations that uphold the rule of law. Markets anticipate them to uphold their promises, and undermining this assumption would be expensive.

Low-scoring nations do not stand to lose much through noncompliance, and traders and investors are unlikely to be shocked by unexpected conduct. I use a six-point scale produced by a political risk analysis company specifically to evaluate the security of investments as an indication for the rule of law that is particularly relevant to test the market's judgment of the reputation for rule of law. The scale reflects how inclined people are to apply the law and settle problems amicably via reputable organizations. A stronger legal system, good political institutions, and arrangements for an orderly succession are just a few examples of institutional traits that are indicated by higher scores on this six-point scale. Low scores show a greater reliance on extralegal means of resolving conflicts and responding to conflict.

III. CONCLUSION

After World War II, key elements of the international monetary system were legalized, allowing us to explore the circumstances in which the law might affect how states behave when deciding on their international monetary policies. Historically, there have been no international legal regulations governing this policy area. The stability of the traditional gold standard was not based on agreements made under international law. Only during the interwar years did "soft" international legal agreements start to emerge, primarily as a result of markets losing faith in governments' capacity to uphold the unilateral agreements they had signed earlier. Some countries sought international agreements as a strategy to provide predictability and reassure markets, motivated by the desire to avoid the externalization of macroeconomic adjustment costs. The lightest form feasible of these agreements, meanwhile, did nothing to influence behavior or boost the confidence of economic actors. Legal restrictions cannot strangle market forces; notwithstanding treaty agreements to the contrary, capital mobility has rendered fixed rates all but unaffordable. Legalization cannot be seen in teleological terms, as is made abundantly obvious by the termination of the need under the law to defend fixed rates. Obligations that annoy large participants more and more when market circumstances change are unlikely to continue for very long.

Governments use legalization as one strategy to make their international financial obligations credible. Governments are reluctant to enter into international legal agreements if there is a sizable chance that they won't be able to keep them in the future, according to the evidence. According to the hazard models of the rate of acceptance of Article VIII, commitment is linked to circumstances that one may logically expect will make compliance feasible. The acceptance of commitments for openness might and did experience large delays due to balance of payments weakness and volatility. Furthermore, noncompliance among Article VIII nations was linked to economic downturns and unexpected balance-of-payments issues. However, it seems from the archival data and quantitative analysis given here that before officially committing to the open foreign currency system, governments wanted to be reasonably certain they could comply. Making a credible promise to maintain a liberal foreign exchange system included using legal commitment.

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