

PRESS REPORTS

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Mr. J.J. Polak

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MONNAIES ET CHANGES

A LUXEMBOURG

M. Michel Debré lance un appel pour que les Six adoptent une attitude commune sur le problème des liquidités internationales

Luxembourg, 12 septembre (A.F.P.).- La réunion des ministres des finances des Six, qui s'est ouverte lundi matin, est présidée par M. Pierre Werner, président du gouvernement luxembourgeois et ministre du Trésor. Y participent MM. Michel Debré, ministre français des finances; Rolf Dahlgruen, ministre fédéral des finances; Robert Henrion, ministre belge des finances; Anne Vondeling, ministre néerlandais des finances. M. Emilio Colombo, ministre italien du Trésor, souffrant, est remplacé par le directeur général du Trésor italien, M. Gaetano Stammati. M. Robert Marjolin représente la commission de la C.E.E., dont il est le vice-président.

C'est du reste M. Marjolin qui devait ouvrir lundi matin les débats, qui sont d'abord consacrés à l'examen de la politique budgétaire des Etats membres, ainsi qu'aux problèmes de l'harmonisation de la fiscalité.

L'après-midi, les ministres des finances des Six prépareront la réunion annuelle du Fonds monétaire international à Washington et discuteront des problèmes monétaires.

Dans une déclaration remise à la presse à son arrivée dimanche soir, M. Michel Debré avait souhaité que les Six adoptent une attitude commune sur le problème des liquidités à la prochaine assemblée générale du Fonds monétaire international qui doit se tenir à Washington à la fin du mois.

Selon M. Debré ce problème des liquidités internationales sera le principal sujet des discussions des six ministres des finances à Luxembourg :

"Nous nous trouvons, a-t-il dit, entre deux étapes importantes des travaux sur la réforme du système monétaire international. A la fin de juillet dernier le groupe des Dix était parvenu à La Haye, sur ce sujet, à des conclusions nuancées, en raison des positions divergentes des membres du groupe des Dix. Les uns ont insisté sur la nécessité de parvenir d'abord à un meilleur équilibre des balances de paiement; les autres étaient partisans de donner sans plus attendre une suite aux travaux relatifs à la création de nouvelles réserves.

"Le choix entre l'une ou l'autre de ces attitudes est à vrai dire fondamental, a poursuivi M. Michel Debré. Dans le premier cas, la réforme nécessaire du système monétaire international pourra être réalisée de façon ordonnée, équilibrée et durable. Dans le second, il est à craindre qu'elle ne serve de prétexte à de nouveaux expédients destinés à permettre le financement des déficits extérieurs entraînés par des gestions internes insuffisantes. Si cette conception prévalait, le risque d'une rupture brusque des mécanismes actuels deviendrait considérable.

"Au cours de l'assemblée annuelle des gouverneurs du Fonds monétaire et de la Banque internationale à Washington à partir du 26 septembre, le débat sur l'ensemble de ce sujet sera inévitablement repris. Les thèses des uns et des autres s'affronteront à nouveau dans une enceinte élargie.

"Or il existe entre les membres du Marché commun une large identité de vues. Ayant eux-mêmes connu l'inflation et l'ayant combattue avec succès, ils savent que l'équilibre de leurs relations avec l'étranger est la condition du progrès de leur économie. Ils se défient donc, par raison ou par expérience, des solutions monétaires aux difficultés économiques et sociales et de la tentation d'échapper à ces difficultés par une fuite en avant.

C'est l'Europe qui financerait les nouvelles liquidités

"Il y a d'autre part une constatation matérielle à ne pas oublier : c'est qu'en raison de la forte situation extérieure qu'ils ont acquise grâce à leurs politiques d'équilibre financier, les pays du Marché commun devraient, dans l'hypothèse où de nouvelles réserves seraient créées, financer l'essentiel d'une telle opération. Cela reviendrait à consentir des crédits de nature à prolonger les déficits extérieurs qui sont à l'origine des difficultés du système monétaire international. En acceptant comme une solution de facilité d'aller ainsi à l'encontre de leur propre intérêt, au nom d'une coopération internationale à laquelle ils ont déjà apporté un large concours, les pays européens rendraient en définitive un très mauvais service à tous leurs partenaires.

"Ils rendraient également le plus mauvais service aux pays en voie de développement, aux besoins desquels on tente parfois de se référer pour justifier la création de l'unité monétaire additionnelle. Les pays qui emploient sérieusement ce dernier argument commettent une grave erreur. L'aide aux pays en voie de développement appelle plutôt l'organisation des marchés de matières premières et la mise au point d'un système de crédit.

"Dans une telle situation, a conclu M. Debré, il est de l'intérêt du monde comme de celui de l'Europe que les vues de nos pays soient affirmées sans ambiguïté. Unis et décidés, nous pouvons aider la collectivité internationale à parvenir à un meilleur équilibre dans l'ordre monétaire."

Source: Deutsche BundesbankAuszüge aus Presseartikeln

No. 58--Frankfurt am Main, August 19, 1966

How urgent is reform of the international monetary system?

Dr. Otmar Emminger, Member of the Directorate
of the Deutsche Bundesbank

Der Volkswirt, Frankfurt a.M., No. 33, 8/19/1966

In July, the Group of Ten Deputies completed a report on possible improvements in the international monetary system. Recently, at a conference in The Hague, this report was approved by the Ministers and Central Bank Governors of the Group of Ten. Decisions about dealing further with these thorny problems were also taken at that time.

What improvements in the international monetary system are involved?
How urgent are the proposals for improvement that have been discussed?
And to what point have the proceedings advanced thus far?

Proved the most useful

In the main, international criticism is directed against three weak points of the present system: (1) the lack of effectiveness of the adjustment process in the case of balance of payments disequilibria; (2) the ever-present threat to the present gold-exchange standard represented by shifts in the composition of monetary reserves; (3) the unreliability of the present monetary system in providing monetary reserves or "international liquidity," and the controversial methods involved.

That potential weaknesses and dangers do exist in all these spheres can hardly be gainsaid. There are divergences of opinion, however, as to the seriousness of the dangers and the urgency of reforms. Is the present international monetary system really as bad, or as seriously threatened by dangers, as the Cassandra cries and the often quite vehement criticism of the monetary theorists would make it appear? Has not this much-defamed and much-maligned monetary system, in the last fifteen years, made possible an unprecedented, almost uninterrupted boom in the world economy? Has it not--very much in contrast to the monetary anarchy between the two World Wars--helped to overcome a series of national balance of payments crises without chain reactions or other repercussions on the world economy? Thus, whatever the weaknesses of this international monetary set-up may be, compared to previous monetary systems--including the old pre-1914 gold standard--it has proved to be the most useful.

Warnings and adjurations

However, in the opinion of many critics--and not just academic critics, either--we have only just "got away with it" thus far; the dangers are lurking round the corner. For example, a number of monetary theorists have already seen the handwriting on the wall as far as the gold-exchange standard is concerned. Prominent monetary experts such as Professor Rueff, a Frenchman, and Triffin, an American, have been predicting the imminent collapse of this system for years, saying that, because of the increasing

short-term foreign indebtedness of the two reserve currency countries, the United States and the United Kingdom, the system is standing on feet of clay. Thus, what these critics and prophets of doom consider most urgent is elimination from monetary reserves of the sensitive currency element--whether by returning to a system based solely on gold, following a sharp increase in the price of gold, or by transferring currency claims to an IMF expanded into a super-central bank and by establishing IMF deposits as monetary reserves.

Some time ago, Triffin made a solemn appeal to the Group of Ten Deputies. In his view the lesson of 1931 is more timely than ever; he said in effect that the Group of Ten Deputies must be haunted nightly by the spirit of their unfortunate predecessors of the Gold Delegation of the League of Nations, who awoke on the morning of September 21, 1931 to learn that their thorough and protracted deliberations had been made meaningless by events: their problem had been solved by a catastrophic and long-lasting collapse of the international monetary system, or rather it had been pigeonholed until the Group of Ten took it up again 32 years later. The international group of professors, headed by the American professor Machlup, that drew up a report on improving the international monetary system in 1964, also strongly emphasized the need to protect outstanding currency reserves, as quickly as possible, against a sudden massive shrinkage, by means of "consolidation," transfer to the IMF, or similar measures.

Balance of payments equilibrium continues

to be of primary importance

The Group of Deputies has not let itself be influenced overmuch by

these Cassandra cries. It is indeed recognized that it might be more important to do something to guard against a sudden massive shrinkage of existing currency reserves which might have a deflationary effect, than to experiment with the creation of new and additional reserves. However, the proposed remedy, i.e. consolidation of the outstanding short-term foreign liabilities of the United States and the United Kingdom, was considered to be neither necessary nor practicable. Even the far less sweeping German-Italian proposal of a gradual harmonization of the gold-exchange ratios for the monetary reserves of the most important countries found no acceptance, for various reasons. The Group of Ten Deputies took the position that restoration of the balance of payments equilibrium of the two reserve centers, the United States and the United Kingdom, is the most important means of maintaining or reestablishing confidence in the two reserve currencies. Indeed, experience has shown that even the use as reserves of sterling claims alone, amounting to many times the United Kingdom's own monetary reserves, did not cause difficulties as long as the United Kingdom kept its balance of payments in some sort of order. Moreover, the Group of Deputies is confident that dangerous disturbances such as might arise from a sudden conversion of currency reserves to other forms of reserves can be avoided by means of regular consultations and confrontation of the reserve policies of member countries within the framework of improved "multilateral surveillance."

Thus, according to this view, which is shared by the representatives of all the leading countries, elimination of the potential instability of the gold-exchange standard is connected very closely with a solution of the first

of the three problems; namely, avoidance or more rapid correction of balance of payments disequilibria. Indeed, there is hardly a doubt anywhere that this constitutes an essential part of any improvement of the monetary system.

The "rules of prudence" of the OECD

How, then, can one ensure that the more important countries pursue economic and monetary policies that will prevent any considerable imbalances from coming into being in the first place, or that will not allow existing imbalances to linger on for years on end, as is the case at present? The patent medicine of fluctuating exchange rates (as a permanent system for all major countries) that is often quite forcefully recommended by monetary theorists, particularly in Germany, has been unanimously rejected by the countries of the Group of Ten, for reasons so well known as not to need repetition here. It was realized that with this rejection the problem of balance of payments adjustment would become more difficult in some respects. For a system of basically fixed exchange rates--fixed, that is, with the possibility of occasional changes in the event of "fundamental" imbalances to work well, the balance of payments and its equilibrium must be given an appropriate place in the order of priority of the objectives of economic policy; moreover, certain rules must be observed in the case of balance of payments difficulties, and the economic and monetary policies of the leading countries must be broadly harmonized and coordinated, in order to prevent unbearable tensions between the members of such a system arising as a result of a violent falling off in demand or the development of excessive

cost-gaps. It is true that in respect of all these requirements some general, vague international obligations as to consultation and confrontation of the national balance of payments policies of surplus and deficit countries already exist, but there are no concrete, internationally established rules.

It is extremely difficult to formulate universal, binding rules of this nature. In the first place, circumstances--and consequently the corrective measures that are required--differ in each individual case of balance of payments disequilibrium and in each country. Moreover, such balance of payments policy rules are quite likely to conflict with other objectives, and with the sovereignty of national economic policy in general. The report on possible improvements in the balance of payments adjustment process prepared by Working Party 3 of the OECD at the request of the Ministers and Central Bank Governors of the Group of Ten, which was submitted to the Ministers' Meeting in The Hague and subsequently made public, points up the difficulties involved. Nevertheless, agreement was reached on certain "rules of prudence" which give an indication concerning the policies to be pursued, a distinction being made between the main causes of payments difficulties, depending upon whether balance of payments disequilibria arise from excessive demand, from excessive cost gaps connected with lack of competitive strength, from capital movements, or from various combinations of these causes. To some extent, these "rules of prudence" provide a first indication of the measures to be taken by individual countries; deviations

from these rules will thereafter have to be justified before the competent international bodies by the countries concerned. In addition, the need to take corrective measures as early as possible is emphasised; to this end, an "early warning system" is to be set up.

Progress in coordination

These are only first steps, compared with what would be required for foolproof operation of an international monetary system based on stable exchange rates. But foolproof monetary systems exist only in the textbook examples of the theorists. As the Times recently put it, part of the difficulty is that, while the national experts may be exposed to multilateral surveillance, the politicians are not. One thing we must keep in mind, however: measured by the nationalistic anarchy of the period between the two World Wars, international coordination and confrontation of economic and monetary policies among the leading countries even on the present scale already represents an unprecedented advance. It is significant that a man like Dr. Schacht, confined in the world of ideas of the pre-war period, can scarcely conceive of all this. Thus, in his latest book he roundly calls the attempt at such international coordination unnatural, and hence impossible. In so saying he forgets, however, that in the heyday of the classical gold standard, blind subjection to the convertibility into gold of national currencies brought about an even greater degree of similarity of action by the various countries (and of crises, too!) than is now aimed at by deliberate international coordination of monetary policies.

Meanwhile, in our changed world the demand for international rules in the sphere of balance of payments policy has made headway even among politicians. A report of the Joint Economic Committee of the Congress of the United States of August 1965 on "Guidelines for Improving the International Monetary System" recommends emphatically that the United States should work internationally towards improvement of the adjustment process and towards drawing up a code of conduct for dealing with balance of payments deficits and surpluses. It is to be hoped that the members of Congress will apply the internationally agreed "rules of prudence" to their own country, too, even if this should occasionally cut across their domestic designs. Certainly, there are occasional setbacks in international cooperation. But the winds of change blow plainly in the direction of an ever-increasing awareness among the leading countries that they are in the same boat as far as economic and monetary policies are concerned; beggar-my-neighbour policies, in the style of the 'twenties and 'thirties, are no longer followed. Truly--and this cannot be repeated often enough--there is no universal prescription for improving balance of payments policy. Improvement is a continuing process which cannot be advanced by perfectionist theories, but only by constant, patient endeavor in practical work on concrete "cases."

Finally, there remains the third of the main problems, namely, adequate long-term provision for the monetary reserve needs of the world economy. The instructions given by the Ministers and Central Bank Governors of the Group of Ten in September 1965 expressly stated that the Deputies were to

discuss "arrangements for the future creation of reserve assets, as and when needed" and report on these discussions. The Deputies examined this problem and came to the conclusion that "while global reserves are sufficient at present, the existing sources of reserves are unlikely to provide an adequate basis for world trade and payments in the longer run... Accordingly, we are agreed that at some point in the future existing types of reserves may have to be supplemented by the deliberate creation of additional reserve assets."

This important conclusion was adopted as it stood by the Ministers and Central Bank Governors at the recent Hague meeting. It should be emphasized that all the participants in that meeting, including the French Finance Minister, were in agreement with this assertion.

Contingency planning

The divergence of view by the French arose from the question whether "some point in the future" would be a near or a more distant future, and whether consequently it was justifiable to begin making concrete preparations now for this--more or less distant--point in time. In their opinion such action would be premature, mainly because the continuing U.S. balance of payments deficits are still more than adequately providing the rest of the world with reserves of the conventional type. The other countries, no less than the French, were also of the opinion that creation of additional reserves was out of the question as long as large U.S. deficits are a source of reserves for the rest of the world. Since, however, preparations for and approval in principle of a new reserve system might be very difficult

and time-consuming, they were and are of the opinion that it would be well to embark on contingency planning at this time. For no one can predict whether in the course of the several years which will likely be needed for such preparations the said contingency may not arise after all. However, there should be a clear distinction between the establishment of a contingency plan and its subsequent activation, that is to say, the first actual creation of reserves; and the decision of the Ministers of the Group of Ten contains an express statement to the effect that activation should not be considered as long as continuing deficits of the reserve currency countries are an adequate or more-than-adequate source of international liquidity for the other countries.

This passage of the communique issued by the Ministers in The Hague has often been regarded as a concession on the part of the Americans, wrested from them by the Europeans. In reality it is nothing but a verbatim repetition of a principle on which the Deputies of the Ten had long since agreed, with the full and free consent of the Americans. Indeed, the notion--deliberately circulated for several months now, particularly by the French press--that the Anglo-Saxons are interested in creation of new reserves at the earliest possible moment mainly with a view to enabling them to cover their own deficits more easily, while the French have been opposing them as defenders of world monetary discipline, does not quite correspond to the facts. On the one hand, those Europeans who are in favor of continuing the work of contingency planning for the future creation of reserves also stand for world

monetary discipline; indeed, by working together they are trying to prevent the preparations from being entirely in the hands of forces which are too one-sidedly directed towards reserve expansion (which at present include, unfortunately, part of the management of the IMF.) On the other hand, the Americans are fully aware that this contingency planning can bring them no help at all in their present deficit troubles. Actually, it was the Americans who made a point of inserting a passage in the joint communiqué to the effect that a continuation of reserve creation through further U.S. deficits would not be acceptable to the United States themselves either.

Too big a demand on the U.S. dollar

Here we come to the gist of the debates about the future reserve system. The conventional sources of reserves are gold--insofar as it still gets into the official reserves at all--and the reserve currencies, the U.S. dollar in particular. In the last six years (1960-65) more than two thirds of the gold and currency reserves accumulated by countries outside the U.S. have come from the deficits of the United States. This is a downright inflationary method of providing reserves: for the U.S. deficits, or the balance of payments surpluses which they represent, have a strongly expansionary effect on the rest of the world. It is also a highly inefficient and arbitrary method of providing reserves: for who would venture to say that the U.S. deficits will always be of the size, or even approximately of the size needed to meet the requirements of the rest of the world for

additional reserves. Finally, it is also an unfair method: for in the view of many other countries, it gives the United States, as a reserve center, a privileged position in financing its balance of payments deficits. Then, too, it is a method that cannot be continued ad infinitum: for the rest of the world is not going to continue for very long to accumulate more dollar holdings as monetary reserves, nor can it be in the interest of the Americans for their short-term foreign indebtedness to grow higher and higher, with all the attendant uncertainties and stresses both for themselves and for their economic and monetary policies. In short, the present system of reserves is neither a good one nor one that can continue to function very much longer in its present form. The U.S. dollar alone cannot keep on bearing the brunt of providing the world with monetary reserves in the future. This burden should be shared by other strong currencies (as U.S. Secretary of the Treasury Fowler stated as long ago as the last Annual Meeting of the IMF).

Monetary gold will not suffice.

Gold alone would certainly not suffice to meet the world's reserve needs in the long run. During the last ten years gold has added hardly 600 million dollars to the monetary reserves, representing an annual rate of increase of less than 1 per cent. It is hardly even necessary to draw a parallel with the rate of growth of world trade, which during the last ten years has amounted to more than 7 per cent per annum, to come to the conclusion that in the longer run this would be totally inadequate. But we might recall that the Swedish economist Gustav Cassel, as early as the 'twenties, concluded from an examination of world economic development over

a period of more than 100 years that world monetary reserves should increase at a long-run average of about 3 per cent annually (and that at a time when world trade was increasing much more slowly and international payments were subject to much smaller fluctuations than they are now). Should one perhaps look for the solution in an increase in the price of gold? Even some very conservative monetary experts are eyeing such a solution without turning a hair, although this would be a corruption of the concept of gold as the absolute, unchangeable standard. The Group of Ten Deputies were of the opinion that this would be the worst of all possible solutions. For such an increase in the price of gold would, for perfectly valid reasons, have to be a very considerable one; and this would mean, in the early stages an enormous flood of international liquidity, which would continue until, by means of general inflation, the world economy grows into its over-large cloak; whereupon another increase in the price of gold would be close at hand. Should we--as is often recommended, particularly in Germany--meet the world's legitimate reserve needs by means of constant expansion of IMF credits? If the IMF credits were no longer based on individual balance of payments situations, but on the international need for reserves, this would mean a complete undermining of the disciplinary function which the IMF has exercised hitherto. In fact, even those who advocate a solution of the reserve problem within the framework of the IMF (for example, the management of the IMF) envisage a mechanism for this completely outside the existing functions of the IMF.

If both an increase in the price of gold and, fortunately, all

members of the Group of Ten did reject this--and a continuation of the unsound creation of reserves through U.S. deficits--on this both the Americans and the Europeans were agreed--are rejected, then, in the longer run, nothing remains but to envisage other sources of reserves. The argument that this means an "artificial" creation of reserves "with ink and paper" cannot be taken seriously.

Every type of reserve, with the exception of gold, has been created by means of "ink and paper," whether they have been the reserve positions created by the IMF through its credits or the former reserve-like drawing rights in the EPU. Even dollar claims come into being only through entries in books, hence with "ink and paper"; and if, say, the value of gold should be doubled by common accord in the IMF, this would also be an "artificial" creation of reserves by an arbitrary decision, not a whit different from the creation of a new type of reserve unit on the books of an agent.

The crucial question is: who is to take such decisions about the creation of reserves, and in what manner. Here the Group of Ten has arrived at an important decision. For it has agreed that future decisions about these things should reflect two principles, "namely, (i) the interest of all countries in the smooth working of the international monetary system, and (ii) the particular responsibilities of a limited group of major countries with a key role in the functioning of the international monetary system and which in fact must provide a substantial part of the financial strength behind any new asset." Accordingly, a procedure should be provided for the

future reserve system "whereby proposals for reserve creation would be considered both by the limited group and by the Fund. The requisite majorities and voting procedures would have to give due recognition to the two principles set out above..." This agreement by the ten major industrial countries, which also hold roughly a two-thirds majority of all the votes in the IMF, is significant particularly for the European countries; for long experience shows that they have a far greater possibility of carrying their point in a limited group such as the Group of Ten than in a world-wide body like the IMF.

No inflationary abuse

The Group of Ten has reached agreement on a series of other fundamental questions, designed in large part to preclude any inflationary abuse of a future reserve system. Other questions were purposely left open, so as not to prejudge overmuch the dialogue with the rest of the world which is to follow. Finally, there are some points on which, in spite of all efforts, it has not been possible to reach agreement among the Ten thus far. It is at this stage of the negotiations that the Ministers' conference in The Hague has decided on a parallel procedure for the next phase. The negotiations will continue both in the Group of Ten Deputies and in a world-wide body to be composed of the Deputies and the Executive Directors of the IMF. Even the French could not close their eyes to the intrinsic logic of this joint procedure. Despite initial resistance to extending the talks to the other countries, in the end they did not refuse to participate.

No one can predict at this time how long the coming talks will take to arrive at a concrete plan--a "contingency plan." The report of the Deputies contains the raw material for this; it sets out, among other things, the most important of the various plans that have been submitted to the Group of Ten thus far.

The need for reform of our present precarious reserve system is recognized by all. The fact that, in spite of the uncertainty about the time at which this inevitable reform will come to pass, confidence in the present monetary system is being maintained to a remarkable extent is due not least to confidence in international monetary cooperation, which has already proved its worth through so many vicissitudes.

Statement Mr. vom Hofe

June 27, 1966

Mr. Chairman,

I did not have the privilege to participate in your foregoing discussions about the need for reserves. So I ^{found} find myself - regarding Chapter 2 - to some extent in the position of the unsophisticated reader. And from this point of view my feeling is very strong that the report gives ~~is~~ a warm support for the creation of additional liquidity.

The report does not say - and that is my first question - whether the authors still share the opinion that at the moment there is sufficient international liquidity. The report sometimes gives the impression we ought to start with the creation of international liquidity tomorrow.

But the unsophisticated reader will remember that Professor Roepke, Prof. Hahn, Dr. Vocke and others told him that they are firmly convinced that international liquidity is abundant today and that he has to pay for this with rising prices everywhere. The answer given to this question in Chapter 2 is not sufficient in my mind. The explanation given on page 9 that international prices remained stable will raise ^{the} a vivid opposition of every unsophisticated reader. He will point to the upward trend of the cost of living all over the world even now in the United States, to the rising rents everywhere, rising costs for all services and so on. Here lies one of the major questions that have to be answered satisfactorily.

We all are familiar with the problem of inflation arising from the creation of too much money. If anybody came today and told us that poverty in the world could be overcome by handing out 10 000 \$ to every poor man all of us including the unsophisticated readers ~~as well~~ elsewhere, would tell this man that this is no remedy and because it would destroy the value of the dollar it would become a disaster to everybody, the poor man included.

Maybe the poor man would not believe it thinking that the dollars would do him a lot of good and he would not believe or not care about the predicted consequences. Sometimes I have the feeling that some of the strictest supporters of everykind of additional liquidity feel themselves more or less in the position of the poor man. So I think there is an urgent need for all of us to become more acquainted with the problems involved. The report does not contain ~~many~~ of such considerations.

It is a common saying in my country: Preventing is better than curing. In the discussion of the Need for Reserves some directors had pointed out that a need for reserves in many cases is the consequence of past policy and could have been avoided if one had timely given room to an adjustment process. Everybody will expect it to be one of the major duties of the International Monetary Fund to underline this in such a chapter and not to put it aside as more or less neglectible.

And this is the second question I have: Is that a token of resignation or why is there so little interest in the question ^{of} how to prevent the need for reserves by measures other than an increase of liquidity?

Another important question regards the volume of the additional liquidity to be created. The staff's proposal of 2 to 3 billions over the next 3 to 5 years does not appear in the report. But there are still all the considerations that have led to this proposal. There is a lot to say on this. I remember that one of our colleagues mentioned already that our central banks have to take care of the liquidity in our national markets. They have long experience in that business but none of them would dare to forecast how the need for ~~XXXXXX~~ ^{domestic} liquidity will be over a period of 3 or 5 years. The look back into history does not convince me, at

A fund that shows itself so generous and that confines itself to the merits without giving equal attention to the dangers of more liquidity will find it difficult - I fear - to gain confidence.

There is a last question I should like to mention in my general remarks. Should the proposal of the Managing Director be published in the Annual Report in wording? Without question the impression would be that this proposal "guided" by the discussions with the directors, as it says in the report, is the result of intensive detailed and formal discussions in the Executive Board which already have resulted in a consensus. That is not the case. I have the feeling we should, therefore, abstain from publishing the wording ^{of this proposal} in this year's Annual Report.

To make my position clear: I fully share your view, Mr. Chairman, that it belongs to the tasks of the Monetary Fund to deliver its contribution to all questions concerning the creation of supplementary reserves. But to come back to Chapter 2 I have not the feeling that the approach to the problem expressed in Chapter 2 represents the views of the German Executive Director.

PRESS REPORTS

FOR INTERNAL CIRCULATION ONLY

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Dans son rapport au Conseil économique et social

M. ALBIN CHALANDON CHERCHE UN COMPROMIS ENTRE LES THESEES
QUI S'AFFRONTENT SUR LA REFORME DU SYSTEME MONETAIRE INTERNATIONAL

Le rapport que présente M. Albin Chaladon sur le système monétaire international, au nom de la section des finances, du crédit et de la fiscalité du Conseil économique et social, indique le préambule, a "rencontré l'opposition fondamentale de certains des membres de la section, qui ont contesté les principes mêmes qui l'inspirent". C'est que l'auteur de ce document présente, sur à peu près tous les points soulevés par le problème des liquidités internationales, des solutions qui visent au compromis entre deux thèses souvent contradictoires avancées depuis deux ans et davantage par les experts internationaux. Le fait que d'un tel rapprochement ne jaillisse nullement une synthèse est sans doute un signe de plus que le moment n'est pas venu pour la mise en oeuvre d'une réforme du système monétaire approuvée par toutes les grandes puissances du monde occidental.

M. Albin Chalandon reprend à son compte les critiques maintes fois adressées (par le gouvernement français) aux conséquences du système actuel qui permet aux Etats-Unis de perpétuer leur déficit, puisque les pays qui sont leurs créanciers conservent sous forme de réserves les dollars qu'ils ont acquis au lieu de les convertir en or (et appauvrir d'autant le stock de métal précieux de Fort Knox). Ainsi "le fait pour les pays créanciers d'accumuler leurs réserves en dollars permet aux Etats-Unis d'investir à l'étranger avec l'épargne des autres. Cette situation pose des problèmes politiques".

Relâchement et brutalité

Le système de l'étalon de change-or est donc injuste car il n'oblige pas les pays à monnaie de réserve à rétablir leur équilibre. Quant aux autres pays, ils doivent au contraire, selon M. Chalandon, avoir parfois recours à des mesures d'ajustement trop brutales. "Il est rare, écrit-il,

que les pertes résultant de la déflation s'avèrent inférieures au bénéfice qui peut être retiré d'une parité surévaluée ou d'exportation de capitaux avantageuses." Et de citer l'exemple de l'Italie. Pour remédier à une situation qui pêche à la fois par un excès de relâchement chez les uns et par un surcroît de rigueur chez les autres, M. Chalandon estime que les pays devraient, pour "maintenir leurs équilibres extérieurs sans freiner trop durement leur croissance interne", choisir "avec souplesse et pragmatisme, et en dehors de tout orgueil national et de préjugés dogmatiques, entre les moyens qui s'offrent à eux :

" - Une certaine dose de déflation ou, tout au moins, un certain ralentissement de leur expansion;

" - Des mesures de restriction sur les paiements afférents aux importations ou sur les transferts de capitaux;

" - Un ajustement des taux de change, ou, à défaut, une flexibilité plus grande des changes autour des parités officielles." ...

Déficit américain et liquidité internationale

Après avoir rappelé les arguments qu'on invoque contre le retour pur et simple à l'étalon-or et rejeté cette solution qui serait ou bien trop déflationniste ou bien trop inflationniste selon qu'elle serait accompagnée ou non d'une réévaluation massive du prix de l'or - notons au passage que cette dernière éventualité est pour la première fois examinée ouvertement par un document de caractère quasi-officiel - M. Chalandon fait un certain nombre de propositions en vue de réformer le système monétaire international une fois que les Etats-Unis auront rétabli l'équilibre de leur balance des paiements. Selon M. Chalandon, les Américains pourraient parvenir à ce résultat, sans ralentissement sensible de leur développement et sans réduire leur aide au "tiers monde", en instituant un véritable contrôle des changes (pour freiner leurs investissements à l'extérieur), complété par une politique monétaire adéquate.

Le déficit de la balance des paiements des Etats-Unis étant la source des dollars accumulés en réserves par les banques centrales des autres pays, sa suppression devrait entraîner, selon M. Chalandon, une pénurie de liquidités internationales. Il est bien difficile, rappelle-t-il, d'évaluer quels sont les besoins en liquidités du monde, mais sans doute conviendrait-il, selon lui, de tenir compte à la fois du développement du

commerce international et du désir des Etats d'augmenter leurs réserves, qui constituent pour eux "une des meilleures garanties de leur indépendance".

"Contrairement à certaines affirmations, on aurait tort de considérer le problème de la création de liquidités internationales nouvelles comme un faux problème." ...

Selon M. Chalandon, la distribution initiale de la nouvelle monnaie devrait être faite "en fonction de critères principalement économiques (commerce extérieur et revenu national, par exemple)". Le lien avec l'or au stade de la création n'est donc pas formellement répudié, mais en tout état de cause il serait subsidiaire.

Au contraire, la nouvelle monnaie serait utilisée "dans un rapport fixe avec l'or". Le docteur Emminger, représentant de la Bundesbank au sein du groupe des Dix, a présenté lui aussi une solution de compromis, assez proche de celle de M. Chalandon, entre les exigences françaises (nécessité d'un lien avec l'or) et américaines (pas de lien avec l'or).

Enfin, M. Chalandon estime que si la nouvelle monnaie doit être créée par un groupe restreint de pays, il serait souhaitable que la gestion des nouvelles liquidités soit confiée au Fonds monétaire afin de préserver l'unité du système des paiements internationaux.

En conclusion, M. Chalandon demande un "assouplissement de la position française (retour pur et simple à l'étalon-or), permettant l'élaboration d'une proposition commune de l'Europe des Six, qui donnerait beaucoup plus de poids aux efforts entrepris légitimement par notre pays".

[Sur ce point on ne peut que donner raison à M. Chalandon. La rigidité de l'attitude française rend en effet impossible la définition d'une politique commune des Six dans un domaine où leurs intérêts sont particulièrement convergents.]

PAUL FABRA

Le Monde, 5-6 juin 1966

LA CONTROVERSE SUR LE SYSTEME MONDIAL DES PAIEMENTS

UN FAUX PROBLEME : LE MANQUE DE LIQUIDITE INTERNATIONALE

Dans son rapport au Conseil économique et social sur le système monétaire international ..., qui fera l'objet d'un débat le 7 juin, M. Albin Chalandon a noté que son travail avait "rencontré l'opposition fondamentale de certains des membres de la section" des finances, du crédit et de la fiscalité du palais d'Iéna.

Un de ces opposants était M. Jean Rioust de Largentaye, conseiller économique et social, ancien administrateur du Fonds monétaire international, et l'un des quatre représentants de la France à la conférence de Bretton-Woods, d'où naquirent précisément le Fonds monétaire et la Banque mondiale....

Par JEAN DE LARGENTAYE

Il existe dans tous les pays un problème de liquidité intérieure; celle-ci doit être réglée de manière à maintenir un niveau approprié de l'emploi, objectif qui peut être atteint, on le verra, quel que soit le montant des réserves monétaires. Existe-il de même pour l'ensemble des pays un problème de liquidité internationale? Nous ne le croyons pas.

Sans doute cette opinion heurtera-t-elle un préjugé fort répandu. Sans un volume adéquat de liquidité internationale, on s'imagine souvent que le commerce extérieur ne saurait progresser et qu'une dépression générale pourrait même se développer, comme en 1929....

Les choses méritent d'être examinées de plus près. La dépression de 1929, tout d'abord, n'a pas été causée par un manque de liquidité internationale, mais bien par un manque de liquidité intérieure, surtout aux Etats-Unis. Entre les deux guerres, les réserves d'or n'ont jamais fait défaut à ce pays, mais par suite d'une défaillance progressive de

son système bancaire le montant de sa circulation monétaire a diminué de près d'un tiers de 1928 à 1933. Aujourd'hui, les systèmes bancaires sont consolidés. Mais les dirigeants des principaux pays ont encore des réflexes déflationnistes. L'élévation actuelle de l'intérêt dans ces pays mesure l'insuffisance de leur liquidité interne.

En second lieu, le concept d'une liquidité internationale globale ne tient pas compte de la différence essentielle qui existe à cet égard entre les situations des divers pays. Les pays pauvres, tout d'abord, doivent être mis à part; ils manqueront de liquidités aussi longtemps qu'ils seront pauvres et sous-équipés, car on ne peut s'attendre qu'ils renoncent à des investissements productifs urgents pour accroître des réserves monétaires stériles. Quant aux pays industriels, ils se divisent en deux catégories fondamentalement distinctes suivant que leur monnaie est acceptée ou non à l'étranger, suivant, en d'autres termes, qu'ils sont capables ou non d'être les banquiers des autres pays. Le concept de liquidité internationale ne peut être que fallacieux si on l'applique globalement aux deux catégories de pays. Sur le plan intérieur, on se garde de confondre sous un même vocable les disponibilités du public et les réserves de banques.

Il est vrai que, sous l'influence d'un très vieux complexe mercantiliste, les pays non banquiers regardent souvent comme "favorables" tout excédent de leurs paiements extérieurs et tout accroissement quelconque de leurs réserves monétaires sans se préoccuper des effets qui en résultent sur leur circulation interne ni des pertes et sacrifices qui en peuvent découler.

Dans ces pays, en effet, la circulation monétaire est basée sur deux contreparties différentes, d'une part les réserves extérieures et de l'autre les crédits bancaires intérieurs. Un accroissement des réserves extérieures, les crédits bancaires restant inchangés, produit un accroissement égal de la circulation monétaire. Quand les réserves augmentent, les autorités se voient donc obligés, si elles veulent sauvegarder la stabilité des prix, de restreindre le crédit bancaire ou d'en ralentir la progression, pour éviter que l'accroissement de la circulation ne les fasse monter.

La restriction des crédits bancaires ampute le revenu des banques et elle déprime l'investissement des entreprises nationales, qui trouvent dans ces crédits une source peu coûteuse d'emprunt. Elle doit être particulièrement sévère quand l'accroissement des réserves provient d'investissements nouveaux réalisés par des étrangers au moyen d'apports de devises, car ces investissements ont sur la demande globale un effet expansionniste maximum, identique à celui d'investissements nationaux entièrement financés par des créations de monnaie. On s'explique que la multiplication des balances dollars ait conduit les pays non banquiers à appliquer des programmes dits de stabilisation et aussi que le déclin

de l'investissement national ait coïncidé dans ces pays avec l'essor de l'investissement étranger.

LES PAYS BANQUIERS... ET LES AUTRES

Il est exact qu'à l'heure actuelle les deux pays banquiers manquent de trésorerie externe. Faute d'une réserve suffisante d'or, la Grande-Bretagne n'a pas réussi depuis la guerre de 1914 à restaurer le prestige traditionnel du sterling. Récemment elle a dû liquider une partie de l'important portefeuille de valeurs étrangères qu'elle avait reconstitué après la dernière guerre.

Les Etats-Unis, au contraire, détenteurs d'une proportion importante de l'or du monde, ont vu leur fonction bancaire s'élargir au lendemain des dévaluations de 1949. La valeur en dollars des biens étrangers ayant été réduite par lesdites dévaluations et l'achat de ces biens pouvant être payé en dollars, le capital américain s'est progressivement orienté vers les placements extérieurs. Les avoirs américains à l'étranger ont augmenté en même temps que les avoirs des autres pays en dollars, avoirs qu'on appelle communément "balances dollars".

L'accroissement de ces balances s'est accéléré en 1959 quand le dollar fut adopté comme monnaie de "clearing" par les pays signataires de l'accord monétaire européen. Leur conversion en or en a freiné l'augmentation, et l'an dernier elles ont cessé d'augmenter. Les Etats-Unis ne songent certes pas à liquider leurs avoirs à l'étranger pour amortir lesdites balances, mais, depuis 1963, ils ont dû restreindre les exportations de capitaux, qui contribuent à les accroître. Loin d'envisager la réduction de ces avoirs, ils espèrent qu'un accroissement de la liquidité internationale leur permettra d'en restaurer la progression.

Quant aux autres pays industriels, on ne peut soutenir qu'ils manquent de liquidités externes. Leurs réserves ont augmenté de 35 à 50 milliards de dollars, c'est-à-dire de 43% au cours des sept dernières années. Aussi se borne-t-on à faire état d'une insuffisance éventuelle de leurs liquidités, qui se ferait sentir le jour où les paiements américains présenteraient de nouveau un excédent, lequel résorberait les balances dollars. On oublie que ce jour-là les pays non banquiers, en compensation de quelque 10 milliards de balances dollars, dont ils pourraient être privés, disposeraient de plus de 20 milliards de dollars de créances, utilisables pour moitié inconditionnellement, qu'ils détiennent sur le Fonds monétaire et sur les Etats-Unis, et qui se trouvent actuellement gelées par le déficit américain.

NE PAS OUBLIER BRETTON-WOODS

L'accord de Bretton-Woods fournit des solutions appropriées aux divers problèmes de trésorerie externe. Lorsque les prix intérieurs d'un pays prennent sur les prix étrangers une avance qu'on estime temporaire, il leur procure les moyens de financer, pendant le temps nécessaire à

éliminer le décalage, le déficit qui en résulte. Si le décalage est jugé "fondamental", c'est-à-dire irréversible, il doit être corrigé par un abaissement du change. S'il ne l'était pas de cette façon, en effet, il ne pourrait l'être que par une hausse des prix dans les pays excédentaires, hausse qui serait provoquée par l'utilisation sur leurs marchés des crédits mis à la disposition du pays déficitaire.

La hausse des prix ou l'inflation seraient alors exportées par le pays déficitaire et importées par les pays excédentaires sous forme d'un accroissement de leurs réserves. Pour lutter contre la pression externe qui en résulterait sur leurs prix, les pays excédentaires pourraient hausser leurs changes, comme l'Allemagne et les Pays-Bas en 1961, ou mieux, les laisser varier librement, comme le Canada, en 1950. Ils pourraient aussi chercher à réduire les crédits dont bénéficient les pays déficitaires, comme le fait la France par la conversion de dollars en or. Mais ils ne sauraient mettre fin à une telle pression par des restrictions internes dans le domaine du crédit ou du budget, car celles-ci, en empêchant les prix de monter, perpétueraient et pourraient même élargir le décalage des prix entre les divers pays qui en est la cause. Il serait d'ailleurs illogique pour un pays qui ne manque pas de réserves de contracter sa demande interne à seule fin de rendre disponible pour la demande externe une plus grande part de sa production.

Les changes variables équilibrent les paiements extérieurs sans variations des réserves. Ils permettent aux pays de suivre en toute autonomie des politiques monétaires appropriées à leurs besoins sans se préoccuper de leurs réserves, qui peuvent rester très faibles. Les changes fixes, au contraire, mettent les politiques monétaires dans la dépendance des conditions monétaires externes et les y assujettissent d'autant plus étroitement que la liquidité internationale est plus abondante. En fait, l'accroissement de cette liquidité ne peut qu'accélérer l'ascension universelle des prix, puisqu'elle renforce le pouvoir donné aux pays d'exporter leur inflation.

L'accord de Bretton-Woods avait sagement limité au quota de chaque pays l'ouverture de crédit qui lui était demandée. Corrélativement, il avait institué un système de changes qui, pour être fixes, n'en étaient pas moins ajustables. Le Fonds monétaire a souvent rappelé qu'on ne devait pas confondre la fixité des changes avec leur rigidité.

Enfin, si le déficit est causé par des exportations de capitaux, les pays ont le droit et parfois l'obligation de restreindre celles-ci par des mesures administratives.

Le traité de Bretton-Woods n'interdit pas aux pays banquiers d'employer leur monnaie pour acquérir des biens capitaux à l'étranger. Mais son objet n'est pas de favoriser de telles pratiques. Aux termes de l'article 6 les ressources dont le Fonds monétaire a été doté pour aider ses

membres à financer leurs déficits ne doivent pas être prêtées à ceux d'entre eux dont le déficit est causé par des exportations "importantes et prolongées" de capitaux. Si cet article avait été appliqué, il n'est pas douteux que l'aide du Fonds monétaire aurait été refusée aux Etats-Unis, puisque leur déficit correspond à des exportations de capitaux qui, depuis quinze ans, se montent à près de 50 milliards de dollars.

Si l'article 6 fournit une arme contre l'afflux des capitaux américains, c'est précisément parce qu'à l'origine il était destiné à épargner aux Etats-Unis les inconvénients d'une situation inverse. A l'époque de Bretton-Woods, on prévoyait un excédent durable des paiements américains et une rareté prolongée du dollar. Le Congrès américain voulait bien allouer des dollars au Fonds monétaire pour permettre aux autres pays d'acheter des marchandises américaines, mais il ne voulait pas que ces dollars fussent utilisés par des étrangers pour acquérir des biens capitaux américains. Aussi exigea-t-il un renforcement de l'article 6, qui fut fait par voie d'interprétation en 1946.

Pour les Etats-Unis, en réalité, le danger de mainmise étrangère sur les actifs nationaux était assez théorique. Pour les pays non bancaires au contraire, compte tenu du poids relatif des Etats-Unis et des facilités que leur procure l'étalon de change-or, le danger d'une telle mainmise n'est que trop réel. Il s'aggraverait encore si la liquidité internationale était une fois de plus accrue par adjonction à l'or et au dollar d'instruments fiduciaires nouveaux. Souhaitons que nos dirigeants défendent le patrimoine national avec autant de vigilance que les sénateurs américains ont défendu le leur en 1945.

JEAN DE LARGENTAYE

Le Monde, 9 juin 1966

DEVANT LE CONSEIL ECONOMIQUE ET SOCIAL

MM. ALBIN CHALANDON ET JACQUES RUEFF EXPOSENT DES THESES CONTRADICTOIRES
SUR LE PROBLEME DES LIQUIDITES INTERNATIONALES

Le rapport de M. Albin Chalandon (voir "le Monde" du 3 juin) sur la réforme du système monétaire international a fait l'objet d'un débat mardi après-midi au Conseil économique. M. Chalandon a repris et développé la thèse centrale qu'il défend dans le document qui était soumis à l'approbation de l'assemblée de l'avenue d'Iéna : il convient de prévoir la création de nouvelles liquidités pour le jour où sera résorbé le déficit de la balance des paiements américaine.

M. Jacques Rueff s'est opposé à cette thèse.

M. Chalandon a commencé par rappeler devant les conseillers de l'assemblée du palais d'Iéna les inconvénients du système actuel, qui permet aux pays à monnaie de réserve (Etats-Unis et Grande-Bretagne) de perpétuer leur déficit et d'"investir à l'étranger avec l'épargne des autres". En effet, selon le système actuel, un grand nombre des pays acceptent de conserver à titre de réserve les dollars qu'ils ont gagnés et les dollars qu'ils renoncent à convertir en or, ils les prêtent aux Etats-Unis.

Sur ce point, il n'y a pas eu de discussion, car tous les experts sont d'accord pour reconnaître ces inconvénients. Les gouvernements aussi du reste (puisqu'ils ont éprouvé le besoin de faire étudier une réforme du système).

Quelle doit être cette réforme? C'est là, a constaté M. Chalandon, que les avis commencent à diverger. Selon l'orateur, il faut pour choisir une solution aller au cœur du problème : y a-t-il ou non besoin de liquidités? A cette question, il répond par l'affirmative : ceux qui estiment qu'il s'agit là d'un faux problème posé par les Anglo-Saxons pour financer leur déficit se trompent, selon lui. Ces besoins futurs en liquidités tiennent, a déclaré M. Chalandon :

1) A L'ACCROISSEMENT DE LA DEMANDE A L'AVENIR : M. Chalandon pense qu'il faut établir une corrélation entre ces liquidités et les échanges internationaux. Le besoin accru de liquidités en fonction de l'accroissement des échanges est renforcé par la pratique de la stabilité des changes et par l'importance des mouvements de capitaux.

Il faut ajouter, selon lui, à ces raisons économiques une raison politique : le désir des Etats de posséder des réserves qui garantissent leur indépendance;

2) A LA DIMINUTION DE L'OFFRE : si le déficit de la balance des paiements américaine se résorbe, il y aura tarissement de la source principale de liquidités. S'il y a maintien du déficit, il y aura tendance croissante des pays à transformer leurs dollars en or.

Mais l'or ne saurait suffire pour faire face aux besoins. Le retour pur et simple à l'étalon-or provoquerait la déflation; la révision du prix de l'or, pour avoir quelque effet, devrait être brutale, et alors elle comporterait le danger inverse, du moins dans l'immédiat : l'inflation.

M. Chalandon estime toutefois que l'or doit demeurer l'élément principal car il est un instrument de discipline irremplaçable. Mais il faut créer une monnaie internationale complémentaire de l'or.

Enfin, M. Chalandon a lancé un appel à l'assouplissement de la position française, qu'il juge négative. Il redoute que les Etats-Unis acculés devant les pertes d'or, n'abandonnent l'étalon-or et n'imposent le dollar au monde.

LA REPONSE DE M. RUEFF

A cette série d'arguments M. Rueff allait en opposer d'autres.

" Dans le domaine purement monétaire", a dit M. Rueff, "le rapporteur a entièrement adopté la thèse lancée par Robert Roosa, qui fut, jusqu'en 1965, le représentant des Etats-Unis dans tous les comités qui, à l'O.C.D.E., au groupe des Dix ou ailleurs, ont étudié le problème monétaire international. Selon lui, le monde serait sur le point de manquer de liquidités internationales. Le principal sinon le seul problème serait d'en créer de nouvelles. S'il fallait une confirmation, on la trouverait dans le titre même du document que les Dix ont demandé en 1965 à la commission Ossola, en la chargeant de faire rapport sur "la création d'instruments de réserve".

"Le curieux est que, au moment où les experts, suivis par notre rapporteur, s'évertuaient à démontrer la nécessité d'augmenter la liquidité internationale, les plus grandes autorités monétaires du monde, même américaines, déclaraient qu'elle était excessive et que la plupart de nos troubles venaient de sa surabondance".

Et M. Rueff de citer à l'appui de sa thèse les noms de MM. McChesney Martin, président du Federal Reserve Board, Schmuecker, ministre allemand des affaires économiques, Triffin, etc.

Pour M. Rueff, se préoccuper aujourd'hui de créer de nouvelles liquidités, "C'est véritablement élaborer des plans d'irrigation pendant le déluge".

M. Rueff fait alors remarquer que "toutes les opérations faites jusqu'à ce jour, sous l'enseigne de la création de liquidités internationales : Swaps, émission de bons Roosa, accords généraux d'emprunt, augmentation des quotas du Fonds monétaire international, ont eu en fait, pour seul objet, de donner aux Etats-Unis et à l'Angleterre les monnaies non américaines et non anglaises qui leur faisaient défaut.

"A la lumière de cette constatation, le mythe s'éclaire, ajoutez-il. La doctrine du manque de liquidités est seulement l'artifice qui a permis de poser le masque de l'intérêt général sur des opérations de soutien des monnaies anglaise et américaine et d'éviter aux Etats-Unis et à l'Angleterre la disgrâce d'avoir, comme nous l'avons fait, hélas! si souvent dans le passé, à tendre la main pour se faire assister. Ce fut une faute inexpiable pour nos représentants que d'avoir accepté cette fiction. Le Conseil économique et social, chambre de réflexion et de sagesse, va-t-il se faire, lui aussi, complice de ce mensonge? Pour l'honneur de notre institution, j'espère qu'il s'y refusera".

DES CONSEQUENCES MALTHUSIENNES

M. Rueff s'attache alors à montrer quelle est, selon lui, la véritable portée de la création de liquidités supplémentaires :

"Pour la France, par exemple, augmenter les quotas du Fonds monétaire international ou participer à des accords généraux d'emprunt, c'est accorder aux Etats dont la balance est déficitaire, c'est-à-dire depuis de nombreuses années, les Etats-Unis et l'Angleterre, la faculté d'obtenir, en France, des francs, contre une vague promesse de remboursement, qui ne sera elle-même exécutable que lorsque les balances auront été inversées.

"L'augmentation des quotas du Fonds monétaire international, par exemple, est souscrite pour un quart en or, pour trois quarts par remise par le souscripteur au F.M.I. d'un bon du Trésor, escomptable en France, généralement par la Banque de France, sur demande et à vue. C'est-à-dire que, dans la mesure où le crédit sera utilisé, l'Etat déficitaire recevra gratuitement dans l'Etat excédentaire un véritable pouvoir de prélèvement sur la production nationale, pouvoir qui pourra s'exercer par acquisition de biens de consommation, de biens d'investissement ou de valeurs mobilières.

"Quant aux unités monétaires créées pour le financement des prestations consenties à l'étranger, elles se mêlent à celles qui trouvent leur origine dans des opérations d'escompte internes. Elles sont donc susceptibles d'apporter leur contingent d'inflation aux excès de demande globale qui peuvent un jour rendre nécessaire un plan de stabilisation, avec toutes les conséquences malthusiennes qui peuvent en résulter, notamment sur le niveau de vie et sur l'emploi".

Enfin, pour M. Rueff, faire de la résorption du déficit américain la condition et le préalable de toute réforme monétaire, c'est déclarer que cette réforme ne se fera jamais, car le déficit ne disparaîtra pas aussi longtemps... que les Etats-Unis disposeront des facilités que leur donne le système actuel.

Après ces exposés, les conseillers ont entendu également M. Duret (C.G.T.), M. de Largentaye, M. Georges Cusin (groupe des activités touristiques). M. François Perroux (groupe des personnalités qualifiées), a dit de son côté sa préférence pour l' "étalon-marchandise". Quant à M. Georges Pagliano (Force ouvrière), il a fait un plaidoyer en faveur d'une monnaie internationale stable.

Le Conseil économique aura à se prononcer ce mercredi sur un contre-projet de M. de Largentaye, très hostile aux conclusions du rapporteur, M. Albin Chalandon. (Voir le Monde du 5-6 juin.)

P. F.

Le Monde, 10 juin 1966

MONNAIES ET CHANGES

Le Conseil économique et social
a approuvé le rapport de M. Chalandon
demandant la création
de nouvelles liquidités internationales

En clôture du débat ouvert mardi sur la réforme du système monétaire international, le Conseil économique et social a adopté mercredi, en fin d'après-midi, par 105 voix contre 7 et 47 abstentions (dont 11 C.G.T. et 16 personnalités qualifiées d'outre-mer), le projet d'avis présenté par M. Albin Chalandon au nom de la section des finances. Ce texte, on le sait, se prononce pour la création de nouvelles liquidités internationales, tout en estimant que l'or doit rester l'élément central du système monétaire international.

Rappelons qu'au sein du groupe des Dix les représentants français contestent la nécessité de prévoir dès maintenant la création de nouvelles liquidités.

Ont notamment voté contre : MM. Jacques Rueff, Jean Rioust de Largentaye, François Perroux, Léo Hamon, Durand-Réville (qui s'est prononcé en faveur de la réévaluation du prix de l'or).

M. François Perroux s'est déclaré d'accord avec l'analyse de liquidité présentée par M. Rioust de Largentaye, mais a considéré que le système de l'étalon-marchandise préconisé par ce dernier n'est pas susceptible d'application concrète pour l'avenir.

Se sont abstenus : les représentants de la C.G.T. (les représentants des autres centrales syndicales ont voté pour), M. André Sauvy et les autres personnalités qualifiées, à l'exception de M. Byé, qui a voté pour; les personnalités qualifiées d'outre-mer et de la zone franc, à l'exception de MM. Chalandon et Chotard; les représentants des entreprises nationalisées, à l'exception de MM. Le Hénaff et Bourre.

Auparavant, le Conseil économique avait repoussé un contre-projet présenté par M. de Largentaye, préconisant le retour à une application plus exacte du traité de Bretton Woods.

STATEMENT BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
AT A NEWS CONFERENCE ON THE HAGUE MEETING
OF THE GROUP OF TEN COUNTRIES
MONDAY, AUGUST 1, 1966, AT 4:00 P.M.
ROOM 4121, MAIN TREASURY

Ms. Polak

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At the meeting of the Ministers and Governors of the so-called Group of Ten countries last Monday and Tuesday at The Hague, the world reaped the benefits of a year of hard and fruitful work looking to the modernization and improvement of our international monetary system.

The Ministers and Governors received and considered a Report by their Deputies on the negotiations initiated pursuant to their mandate of last September. The full text of that Report will be made available to the public around the last of August.

But already the Report has served a most constructive purpose. The Report, in the opinion of the Ministers and Governors with one exception, provides the basis for agreement on the deliberate creation of reserve assets sufficient to justify proceeding from the first phase of negotiations to a broader consideration of the questions that affect the world economy as a whole.

Accordingly, the procedure for this second phase was authorized by the Ministers and Governors. After consulting with the Managing Director of the International Monetary Fund, they recommended a series of joint meetings in which the Deputies would take part together with the 20 executive directors of the Fund, representing all 103 member nations of the International Monetary Fund. We have provided for you here copies of the Communique containing these recommendations.

Out of those meetings, which will be the subject of a report by mid-1967, the United States hopes and believes there will emerge a specific contingency plan for the deliberate creation of reserves which can become the subject of formal intergovernmental agreements.

The Ministers and Governors also considered another Report on the "Balance of Payments Adjustment Process" prepared by Working Party Three of the Organization for Economic Cooperation and Development. This Report is a valuable survey of the measures and instruments by which countries, individually and collectively, and in ways compatible with the pursuit of their essential internal objectives, could preserve a better balance of payments equilibrium and achieve a faster and more effective adjustment of imbalance.

Recalling events of the past year, I am more than ever glad that President Johnson authorized me last summer to suggest consultation with our friends abroad on what steps we might jointly take to secure substantial improvements in existing international monetary arrangements.

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Perhaps, it will be useful to review briefly the background of the significant development that The Hague meeting represents.

There is no longer any question whether new means to create monetary reserves are needed. The main question is when the need will become pressing.

As you know, the newly mined gold that goes into official reserves and the deficits in the balance of payments of the United States are the only major sources of additional liquidity that have served over recent years to irrigate the growth of trade and economic development in the world.

Our balance of payments deficit was cut in half in 1965. This year we are holding our own, despite the special and short term foreign exchange costs to us of our defense of freedom in Vietnam. New supplies of gold reaching official quarters have furnished no more than one-quarter of the reserve growth of the world in the last fifteen years.

Consequently, unless some supplement or supplements to gold and dollars can be found that the nations agree to accept and hold as part of our national official reserves, deficiencies in reserves will result that will be felt over time around the world. The reserves will not remain adequate to meet the needs of the rapidly expanding volume of trade and development and will therefore constrict the remarkable growth that has marked the free world since the war.

I said when I suggested this course of action last year that the United States was not wedded to any particular procedure or timetable. But I emphasized that the United States considers agreement on means to strengthen and improve existing international monetary arrangements to be a matter calling for all of us to move ahead to make basic plans but without delay. The term "contingency planning" has become attached in monetary circles to the establishment of plans as to what would be done to create reserves when the existing sources of additional reserves dry up and are insufficient for the needs of the world. At the meeting of the International Monetary Fund last September, the Ministers of the Group of Ten gave their Deputies a dual assignment, to be approached in two stages of work.

The first was to report to the Ministers by the Spring of this year on what basis of agreement could be reached among the Group of Ten countries on improvements in the international monetary system. This was to include a Report on what scope of agreement was reached on basic points concerning the creation of new international reserves.

Our charge to the Deputies last September stated that as soon as a basis for agreement on essential points had been reached, it would be necessary to proceed from this first phase to a broader consideration of the questions that affect the world economy as a whole. We have now decided to proceed.

Paragraph 5 of the Communique issued last Tuesday at The Hague stated:

"As to the way in which such a future contingency could be met, the Deputies in their Report to the ministerial group have achieved a consensus on a number of basic principles and elements of any such contingency planning, although they have not reached agreement on all points or presented a fully developed plan."

And then paragraph 7 reads as follows:

"The Ministers and Governors instructed their Deputies to continue their studies on a number of unresolved problems. However, they also thought it appropriate to look now for a wider framework in which to consider the questions that affect the world economy as a whole. With this in view the Ministers and Governors, after consulting with the Managing Director of International Monetary Fund recommended a series of joint meetings in which the Deputies could take part, together with the executive directors of the Fund. The Ministers and Governors of the Group of Ten would expect a Report from their Deputies not later than the middle of 1967. One delegation did not join in making the aforementioned recommendation."

The executive directors of the International Monetary Fund represent the entire 103 members of the International Monetary Fund. So in bringing together the Deputies to the Group of Ten and the executive directors of the International Monetary Fund, you will have in these joint meetings those who are authorized to speak on these subjects for all of the member countries, as well as the major countries who would be expected, of course, to provide the substantial proportion of the financial backing for any new reserve assets.

This is the so-called second phase of the work. And the second phase should be designed to deal with the unresolved questions of procedure in the Group of Ten and to assure that the basic interests of all member countries in the International Monetary Fund in new arrangements for the future of the world monetary system will be adequately considered and represented before significant intergovernmental agreements for formal structural improvements of the monetary system are concluded.

The Ministers and Governors of the Group of Ten, with the exception on one country, have now decided that we have the basis for moving onward to this second stage of our work. I think this will permit us to advance in the coming year to specific agreement upon ways and means of assuring that future reserve needs of the world, both within and beyond the Group of Ten countries, will be provided for adequately.

I would like to acknowledge the important contribution of the Congressional Subcommittee on International Exchange and Payments of the Joint Economic Committee, chaired by Congressman Henry Reuss. He, Senator Paul Douglas, Congressman William Widnall and Congressman Robert F. Ellsworth and other members of the Subcommittee have provided invaluable understanding and emphasis looking to constructive solutions. The Subcommittee's Report on "Guidelines For Improving the International Monetary System" is living up to its title.

Throughout the year we have also been assisted by the consultation and advice of the Advisory Committee on International Monetary Arrangements under the leadership of former Secretary of the Treasury Douglas Dillon. This Committee, composed of outside financial and economic experts and an interdepartmental group in the executive branch, have met regularly with Treasury officials.

The Deputies for the United States in the negotiations of the Group of Ten were Under Secretary of the Treasury for Monetary Affairs Frederick Deming and Governor Dewey Daane of the Federal Reserve Board. They were assisted by George Willis, Deputy to the Assistant Secretary of the Treasury for International Monetary Affairs, Robert Solomon, Adviser to the Federal Reserve Board, and Donald McGrew, Treasury Representative in Paris.

Source: Deutsche Bundesbank

Auszüge aus Presseartikeln

No. 7--Frankfurt am Main, January 26, 1966

The Group of Ten and Reform of the World Monetary System

By Dr. Otmar Emminger, Member of the Directorate
of the Deutsche Bundesbank

Aussenpolitik, Zeitschrift für internationale Fragen, Freiburg,

No. 1, January 1966

I

In July 1965, U.S. Treasury Secretary Fowler, in a speech at Hot Springs, Virginia, that drew a great deal of attention, made it known-- with the express authorization of the President of the United States-- that the U.S. stood prepared to participate in an international monetary conference to improve the world monetary system. This statement of readiness on the part of the U.S. has a rather long history. It came after several years of intermittent public international discussions, which at times were quite spirited, about the real and alleged shortcomings of the present international monetary set-up. On occasion, leading statesmen also joined in these discussions, as, for example, French President de Gaulle, who, in a televised speech on February 4, sharply attacked the present gold exchange standard which is based largely on the U.S. dollar. Almost simultaneously the President of the United States, in a message to Congress on the U.S. balance of payments, stated: "We must press forward with our studies and beyond, to action--evolving [monetary] arrangements which will continue to meet the needs of a fast growing

*Spoke to Mr. Humphries,
who had a copy from
T.C. -- he said he
would duplicate &
circulate.
M.C. -- 3-31-66.*

world economy. Unless we make timely progress, international monetary difficulties will exercise a stubborn and increasingly frustrating drag on our policies for prosperity and progress at home and throughout the world."

...On the European side, however, there were still many doubts whether the moment for reform of the international monetary system had indeed arrived. While the Americans fear that in the event that the outflow of dollars from the U.S. comes to an end an undesirable tightening of the world reserve supply will set in very soon, many of the continental European countries had and have the impression that, at present, and for the near future as well, there is too much rather than too little "international liquidity" (monetary reserves and credit facilities amounting to reserves). Moreover, the views on the most expedient course to be adopted in effecting a reform are sharply opposed, particularly--but by no means exclusively--as between French and American monetary experts: the French were (and are) of the opinion that the present gold exchange standard needs to be changed radically, with a view to gradually eliminating reserve holdings of U.S. dollars entirely, at least in the major industrial countries; the Americans, supported by a number of other countries, not only defend--understandably--the present status of the dollar, but can conceive of reform only as a cautious evolutionary process, not as a revolutionary transformation of the present international monetary system.

II

The tour of the main European capitals made by U.S. Treasury Secretary Fowler in late August and early September for purposes of consultation, and the discussions by the Deputies of the Group of Ten that preceded and

followed this tour, led to a working formula accepted by all members of the Group of Ten, which bridged the differences of opinion as to greater or lesser urgency in the matter of timing the work towards reform. It was agreed that the next phase of the discussions should begin immediately under the heading of contingency planning; when the plans for reform to be worked out should come into operation, and when, in particular, new monetary reserves or reserve facilities should be created, was left for later decision.

When the Ministers and Governors of the Group of Ten met in Washington in the last week of September 1965 on the occasion of the Annual Meeting of the IMF, they instructed their Deputies, in a resolution dated September 28, to "determine and report to the Ministers what basis of agreement can be reached on improvements needed in the international monetary system, including arrangements for the future creation of reserve assets, as and when needed, so as to permit adequate provision for the reserve needs of the world economy. The Deputies should report to the Ministers in the spring of 1966 on the progress of their deliberations and the scope of agreement that they have found." This made it clear that the stage of mere studies and technical deliberations has now been concluded and that the phase of negotiations--more precisely stated: preliminary negotiations--has begun. It was also made clear that these preliminary negotiations should not be confined to the problem of providing for the world's monetary reserve needs, i.e., the much-discussed problem of "international liquidity," but can, and should, include other improvements of the world monetary system; a particularly important possible improvement was given special emphasis in a separate item of the resolution of the Group of Ten, namely, improvement

of the adjustment process in the case of balance of payments disequilibria: the Ministers emphatically renewed their earlier request to Working Party 3 of the OECD to submit proposals for improvement of this adjustment mechanism and thus of balance of payments discipline; this is, not least, a success for the German representatives in the Group of Ten, who have always been especially interested in improving the adjustment mechanism by means of an agreement establishing common rules governing balance of payments policy. Finally, it has also been made clear that this first phase of negotiations among the "Ten" can be concerned only with reaching an understanding on the basic questions, but not with setting forth the desired improvement of the world monetary system in every detail.

Simultaneously with the new phase of preliminary negotiations within the Group of Ten, and parallel with them, the IMF is also pressing on with an intensive examination of the system for providing monetary reserves. In their resolution of September 28, 1965 the Ministers and Central Bank Governors of the "Ten" expressly stated their wish that the efforts of the Executive Board of the IMF and those of the Deputies of the Group of Ten towards improvement of the world monetary system be directed toward a consensus; they instructed their Deputies to propose, in due course, in close consultation with the Managing Director of the IMF, procedures to achieve this aim.

III

The fact that, with the resolution of the Group of Ministers of the "Ten" of September 28, 1965, the first phase of negotiations on improvement of the world monetary system was given over to the Group of Ten has been

widely criticized, and for some countries it has even become the main stumbling block. This criticism was expressed most vehemently in the Australian Finance Minister's statement at the Meeting of the Board of Governors of the IMF at the end of September 1965. Among other things, he stated that "it would not be acceptable to the great majority of members to have decisions on matters so vitally affecting every one of us determined in substance, if not also in form, by a small and strictly limited group...The Group of Ten can in no sense claim to be fully representative of this world institution [the IMF], nor, I imagine, would it claim to be so." Moreover, he took a stand, in advance, against any proposals for a solution on the part of the Group of Ten which would limit the provision of new reserves to a small and exclusive group. "Some of the countries outside the Group are ready and able to assume the obligations involved. They would feel discriminated against if they were denied the opportunity to join in the arrangements made and share in the mutual extension of credits." A number of other Governors expressed similar views, although much less sharply, at the afore-mentioned Annual Meeting of the IMF. The representatives of developing countries, in particular, expressed apprehension that their interests might fare badly with the development of the world monetary system that is now going to be deliberated. Many of the positions taken may, reduced to the simplest common denominator, be rendered more or less as follows: If through international action exchange reserves (in other words international money) are to be "created" at all, it would certainly be best to create them in such a way that the poorer countries will be benefited (thus, for instance, the Indian representative, Bhoothalingam).

The criticism, then, is directed against two points: first, against the procedure that has been adopted, i.e., entrusting to the Deputies of the Group of Ten the task of trying to achieve a consensus on the principles of reform; second, against the possible results of these preliminary negotiations, insofar as they would be tantamount to an exceptional position of the "Ten" (or another strictly limited group of countries) in regard to the provision of reserves and other improvements.

These objections and reproofs have by now become a matter of politics. They illustrate the difficulties with which any negotiations on the world monetary system under the present circumstances are almost inevitably afflicted. Hence, they warrant further consideration.

IV

First, a few remarks concerning the method adopted for the first phase of the negotiations. Three arguments in particular spoke in favor of giving the task to the Deputies of the Group of Ten:

1. The first phase of preparation for the negotiations could hardly be carried through with participation of representatives of all the member countries of the IMF (103 at present), if rapid progress was indeed desired. This required a committee of strictly limited size, whose members should, as far as possible, be high-ranking officials, occupying such key positions in their countries' monetary policy that they can carry on difficult negotiations without having to refer back for every detail.

2. The already existing committee of Deputies of the Ministers of the "Ten" seemed all the more indicated for the purpose as this committee had already been intensively engaged, since the autumn of 1963, in studies and technical deliberations on the functioning of the present monetary system and the provision of monetary reserves for the world economy...

3. Plainly decisive for entrusting the task to the Group of Ten, however, was the fact that it comprises those countries between which the main differences of opinion existed regarding the further development of the world monetary system: not only the widely publicized difference between France and the United States about the future role of the dollar as a reserve currency, but also differences of opinion between the Anglo-Saxon powers on the one hand and a group of continental European countries on the other hand about the urgency and the general aims of the reform, about the significance of balance of payments discipline and so-called "multilateral surveillance" etc. This was especially emphasized by the German Governor of the IMF, Bundesbank President Blessing, at the Fund's Annual Meeting in September 1965: "We all know that considerable divergences of opinion exist between some leading countries about a reform of the international monetary system and the liquidity question. In my opinion we should first try to overcome these divergences where they exist, i.e., within the Group of Ten, to reach prior agreement on basic points before embarking on negotiations on a broader front."

Under the circumstances there actually was hardly any choice but to entrust the first phase of the negotiations to the committee of the Group of Ten. The interests of the other countries are safeguarded in that representatives of the Managing Director of the IMF are taking an active part in the deliberations and negotiations of the Deputies of the Group of Ten...Moreover, the Ministers and Central Bank Governors expressly recognized in their resolution "that, as soon as a basis for agreement on essential points has been reached, it will be necessary to proceed from this first phase to a broader consideration of the questions that affect the world economy as a whole."

There is an interesting historical parallel to the preliminary work for the negotiations on reform of the world monetary system being done by the Group of Ten, namely, the preliminary work for the 1944 Bretton Woods Conference, at which the Articles of Agreement for the IMF and the World Bank were drawn up. At that time the invitation to the 44 participating countries of the Bretton Woods Conference was issued only after the American and English monetary experts and negotiators, assisted part of the time by Canadian monetary experts, had, in difficult and dogged negotiations, reached prior agreement on a common course, and formulated it in the "Agreed Statement of Principles" of April 1944. To be sure, many circumstances are different now. But then, as now, it was obvious that in a matter as difficult as the international monetary system, an international conference cannot have the slightest prospect of practical results as long as there still are basic differences of opinion between important participating countries. These, therefore, must first be overcome before negotiations on a broad basis can be tackled with any chance of success.

V

Far more important than the procedural question of what body should be entrusted with the preparatory work for the negotiations in the first phase is, of course, the question of who shall bear the responsibility for the attempted improvements of the world monetary system in the future. Three major problems are up for discussion in the matter of reform of the monetary system:

1. How can the process of adjustment of national economies to the requirements of the balance of payments be improved through a better balance of payments discipline and acceptance of common rules?

2. How can the potential instability of the gold exchange standard, that is to say of the present system, in which a considerable part of monetary reserves is held in the form of holdings of another currency, be lessened or eliminated?

3. How can we ensure adequate--but at the same time not too abundant--provision for the long-term monetary reserve needs of the world without depending on the fortuitous supply of monetary gold or on undesirable deficits in reserve currency countries?

Right from the start, there is hardly a doubt that any attempt to solve the first two problems--namely, improvement of the adjustment process in the case of disequilibria, and measures to lessen the instability of the gold exchange standard--must be based largely, if not exclusively, on cooperation among a relatively small group of strong-currency industrial countries. Previous experience bears this out: for instance, experience in Working Party 3 of OECD has shown that even in the relatively small group of countries represented there--countries that have sophisticated instruments of monetary and economic policy at their disposal--it will be very difficult to formulate rules for balance of payments policy and mutual coordination of the adjustment mechanism--and particularly to accept the corresponding obligations!--if those rules go much beyond the existing obligations within the framework of the IMF, which are very general and have not always proved adequate. Moreover, a lessening of the potential dangers and risks of the gold exchange standard would also be conditional in the first place upon supporting measures and other arrangements on the part of a group of countries whose currencies are very strong; after all, the General Arrangements to Borrow of the Group of Ten with the IMF are

none other than just such supporting arrangements to be applied in case the international monetary system is threatened by weakness of one of the major reserve currencies. At present, the third problem, i.e., providing the world economy with long-range "international liquidity" is--rightly or wrongly--at the center of international attention. Gold by itself will hardly suffice, at least in the long run, to cover the world economy's legitimate reserve needs. The dollar, which in the last five to six years has covered more than two thirds of the world's reserve needs, cannot continue to fill this role in the future, because the United States, in its own interest (and in the interest of the world economy) will not and cannot undertake a continuation of its balance of payments deficits and a further large increase of its short-term foreign indebtedness. In the long run, then, other possibilities must be found to cover possible additional world reserve needs. Who is to bear the responsibility for this? And who is to benefit from the creation of reserves? As to this, there are two opposite points of view.

1. Some maintain (and this was stated time and time again in the speeches of non-European delegates at the last Annual Meeting of the IMF) that the stability of the international monetary system and provision for the reserve needs of the world economy are in the interest of all countries. Therefore, all countries should share in decisions about it. And not only in decisions, but also in the benefits, in the distribution of the new reserve facilities to be created. The poorer countries should even be given priority in this respect (thus the afore-mentioned representative of India at the Meeting of the Board of Governors of the IMF).

2. Against this, another opinion is advanced: that the creation of new reserve facilities means, in reality, undertaking obligations. Only a limited group of industrial strong-currency countries is in a position to bear the responsibilities involved (thus, in almost exactly the same words, the German IMF Governor Blessing and the Italian Minister Colombo at the last Annual Meeting of the IMF). A new type of reserve unit, which would complement gold and the dollar, needs the backing of strong currencies if it is to be a universally acceptable, fully valid means of payment for international obligations (thus, in essence, the French Minister of Finance, Giscard d'Estaing).

Spiteful critics have at times attacked the proposal to make the possible creation of additional reserve facilities subject to the special responsibility of a relatively limited group of countries with the slogan that the rich nations want to make themselves even richer (as, for instance, the London Economist as early as April 1964). Aside from the fact that the responsibility for the creation of additional reserves/^{is} here confused with the question of who should have the benefit of the reserves created, such criticism is also based on a complete lack of understanding of the operation of creating reserves that is at issue. For these critics are of the somewhat naïve opinion that the creation of reserve facilities simply consists in artificially creating means of payment, or in other words "money," and distributing it among the parties concerned as a sort of Christmas present. In reality the creation of reserve facilities, no matter what its outward form, is nothing but a mutual granting of (automatic) credit facilities. The country that grants the credit must back it, if necessary, by making goods and services available, and must be in a position to do so on the basis of its productive capacity and competitive capabilities. To that

extent, therefore, the role which thus far has been filled mainly by the U.S. dollar will in the future have to be taken over by a greater number of currencies (and by ways and means both more orderly and more closely controlled than under the present system). The American Secretary of the Treasury, Fowler, himself also saw the task in this light when he stated at the Meeting of Governors of the IMF in Washington: "We should not expect to rely upon the dollar to continue to supply the major part of the growth in world reserves. The responsibility for providing reserves should be shared."

Considered thus, the proposed further development of the world's reserve system means nothing more or less than the taking over, by a group of countries qualified to do so, of a responsibility that has thus far been borne by the dollar alone, but cannot continue to be borne by the dollar alone. From this, a series of clarifications follows:

(a) Just as the dollar has thus far been able to play the part of reserve currency only because of its special strength as a leading currency, so, too, the group which will support new reserve facilities in the future will have to be composed of strong-currency countries exclusively. There is no special arbitrariness in this at all; on the contrary, it is much less arbitrary than the present system: thus far, a single strong country, the United States, through its balance of payments deficits (and a small group of strong-reserve countries by reason of their readiness to absorb the resulting outflow of dollars) largely determined the development of international liquidity.

(b) The nucleus of such a group of strong-currency countries will necessarily be formed by the countries of the Group of Ten. Not only do they embody, together with Switzerland as an associated country, 72 per

cent of the West's gross monetary reserves and 86 per cent of its gold reserves, but they have also been solely responsible for almost all of the liquidity assistance rendered by the IMF thus far: as much as 97.5 per cent of the balance of payments assistance rendered by the IMF since the start of its activities in 1947 up to October 1965 was provided in currencies of the countries of the Group of Ten, that is to say, out of their membership subscriptions and the additional resources they made available through the General Arrangements to Borrow. Then, too, the countries / of the Group of Ten have thus far provided almost all of the resources used in the last decade to bridge balance of payments difficulties of individual major countries by means of bilateral balance of payments credits or swap facilities until such time as the underlying causes could be eliminated. All this does not mean that the group responsible for future creation of reserves must needs be limited to the countries of the Group of Ten. Outside of this group, too, there are presently some countries that have gradually developed into strong-currency countries. We must seek to establish appropriate, objective criteria for participation in the creation of reserves.

(c) If creation of reserves actually means providing mutual (automatic) credit facilities, countries will as a rule be found willing to do so only if the participating countries subject themselves to certain general obligations in regard to the use of such reserve assets. This should include, first of all, acceptance of the obligations under the "multilateral surveillance" of balance of payments financing, which at present is carried out partly in the group of central bank governors at the BIS (Basel), partly in the monetary committee of the OECD (Working Party 3). Likewise, compliance with the rules for an improved adjustment process in case of balance of

payments disequilibria that are presently being worked out, also in Working Party 3 of the OECD, will in future presumably be among the safeguards making the provision of mutual automatic reserve facilities appear at least acceptable. In a word: creation of additional reserves--if it should come to that in the foreseeable future--may consist not in "distributing gifts," but mainly in acceptance of a number of mutual rights and obligations. Only those countries which, on the basis of the strength of their currencies and the development of their monetary policies, are in a position to accept such obligations would be eligible to share in the responsibility for the creation of such facilities.

VI

Responsibility of a limited group of strong-currency countries, however, in no way means that the interests of other countries would not be considered. Rather, it is one of the stated purposes of the attempts at reform that the creation of reserves should be attuned to the global needs of the world economy, whereas hitherto provision for the world's monetary reserve needs was dependent on the vicissitudes of the gold supply (gold hoarding, Russian gold sales), and on the equally fortuitous developments of the balance of payments in the reserve centers, mainly in the United States, as well as on the policies of some major countries in regard to the composition of their reserves. It should be possible, through appropriate procedures for the decisions on the creation of reserves, to take both into account: the special responsibility of a relatively small number of countries as well as the interest of all countries combined in adequate reserve creation--for instance, through active cooperation of the Managing Director of the IMF in the decisions on creation of reserves.

Finally, it should not be overlooked that not only the responsibility for newly created reserves must needs rest with a limited number of strong countries, but the need for real reserves, too, is concentrated largely in this group of countries. Experience has shown that the major balance of payments shifts, which require the use of a large volume of reserves, occur mainly in the relationships between the strong-currency countries; not only because the volume of their mutual trade and payments is far greater than the trade of the developing countries, but also because the shifts in the balance of trade and services between the major industrial countries are greatly aggravated by the very considerable fluctuations in capital movements. Particularly since the change to external convertibility of the European currencies and the gradual opening of the money and capital markets, the fluctuations in capital movements have in part assumed very large proportions. Moreover, experience has shown that the strong-currency countries have a steadily increasing need of "reserves to hold," that is to say, reserves that they do not immediately use, but want instead to accumulate. On the other hand, the developing countries for the most part cannot afford the "luxury" of accumulating monetary reserves for any length of time; what they amass in additional reserves in one period is for the most part very quickly spent in the next period on additional imports of urgently needed goods. What the poorer developing countries need above all is long-term capital. This cannot be replaced by monetary creation of reserve facilities. In addition, developing countries need adequate credit facilities for fluctuations in export proceeds and for other short- and medium-term purposes, for instance credit assistance through the IMF.

Official Monetary Reserves by Groups of Countries

in millions of U.S. dollars

Groups of Countries	End of		Mid-year 1965
	1954	1958	
Group of Ten and Switzerland	38,497	43,529	49,605
Other European countries and Australia, New Zealand, South Africa	4,523	4,826	8,280
Other countries (developing countries)	10,450	9,375	10,475
All countries	53,470	57,730	68,360

A judicious reorganization of the reserve system, supported by the strong-currency countries, will in any case also benefit the "other countries"; for if such a reorganization makes possible a balanced, stable growth of the world economy and avoidance of major price fluctuations in the world economy, this will benefit the primary producing countries, which are dependent on the world economy, most of all. An even more direct benefit to the "other countries" can also be envisaged, however: part of the reserve facilities created by the strong-currency countries--let us say commensurate with the share of the "other countries" in total world trade--could be channeled to the IMF, to strengthen that organization's financing resources for improved credit assistance to just these "other countries". Such a possibility has already been suggested in some statements by European Governors at the Meeting of the Board of Governors

of the IMF last September, as, for instance, by the German Governor, Blessing, and by the Italian Governor, Minister of Finance Colombo. It should not be too difficult to devise a system which takes into account both the responsibilities and the interests of all concerned in the world economy. The main interest of all concerned, however, must be to provide the foundations, including the monetary foundations, for a sound and stable growth of the world economy.

Orig. No. 43
"Comments on the International Monetary Situation"

Address by the President of the Deutsche Bundesbank

Karl Blessing

before the Council on Foreign Relations, New York, 4 October 1965

It is a singular honour for me to be in your company tonight. My gratitude goes to all of you, particularly to your esteemed Chairman, Mr. McCloy, and to my good friend, Mr. Robert Roosa, who introduced me in such kind terms. I am very happy to learn that Mr. Roosa's advice, in his capacity as a member of the Experts' Committee appointed by the U.S. Government, will continue to be available to us even after he has left his official position; for he is one of the most qualified experts for international monetary questions in the free world.

By way of introduction let me say the following: I am not among those who wish to see the present international monetary system replaced by another system. My view is that this system should be improved in such a manner that it would meet all practical requirements. The existing system has proved by no means as bad as many critics would have it. It definitely has contributed towards increasing international trade to a level unique in history. Nor do I believe that we are going to face an international crisis unless we soon raise the gold price drastically or provide for additional international liquidity. I do believe, however, that the difficulties which the reserve currencies have experienced, or are still experiencing, should be removed, and that the balance-of-payments discipline generally needs to be bettered. Too large and too persistent disequilibria in the balances of payments of the various countries should be prevented, and internal adjustments should again receive more attention.

Under the present system, the Dollar is the main key and reserve currency of the free world. It was able to play this part because for many years it enjoyed unlimited confidence everywhere. Once this unlimited confidence showed signs of weakening, the difficulties for the present monetary system commenced; only when excessive Dollar amounts flowed off to the rest of the world by reason of the persistent U.S. balance-of-payments deficit did the international monetary system begin to become a problem. About a year ago we were indeed facing serious difficulties; neither was it possible for the United States any longer to increase still further its short-term liabilities towards foreign countries and to permit its gold reserves to decline too much, nor were the other countries prepared to include still more Dollars in their reserves. The trend towards an increase in the gold ratio in the official monetary reserves was already

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evident. Let there be no mistake: General de Gaulle's remarks merely expressed in somewhat shrill tones what many other people were thinking at the time.

Since the balance-of-payments message of the U.S. President last February, conditions have materially improved. The American balance-of-payments deficit has - at least temporarily - ceased to exist, confidence in the Dollar is fully restored, and the prospects for maintaining the existing international monetary system look more promising. The greater the progress in squaring the U.S. balance of payments, the better the prospects for the Dollar as the main key and reserve currency of the world, and the better the prospects for maintaining the present monetary system. In the interest of this system, therefore, it is essential that the American balance of payments be kept in permanent order. A renewed major deficit of the U.S. balance of payments would not only once more impair the restored confidence in the Dollar and lead to conversions of Dollars into gold, but would also intensify the call for a radical change of the existing system. I cannot therefore but underline what Secretary Fowler said in Hot Springs: "It is imperative not simply to reach balance in our payments for a quarter or two or even a year, but to sustain equilibrium over time". This is really a crucial issue.

The improvement of the American balance of payments was achieved by the Interest Equalisation Tax and especially by the measures taken in the field of the American money and capital exports pursuant to the balance-of-payments message of 10 February 1965. Whether these measures will in the long run be sufficient, or may have to be replaced or supplemented by others, is a question which only the American authorities can answer. For the head of a European Central Bank, however, it is encouraging to hear intimations from American quarters that if necessary further measures, such as in the field of credit and interest policy, would be taken if the development of the balance of payments should make this necessary.

It is not only the improvement of the U.S. balance of payments that is an encouraging factor for the present international monetary system; another encouraging element is the fact that during the past few years the American authorities have despite the boom succeeded in more or less keeping the price level in their country stable and in keeping the cost level within the limits of productivity advances. Since at the same time prices and costs in other industrial countries have risen quite considerably, the competitive position of the United States in world markets has intrinsically improved. What has come about is fairly exactly what the Brookings Report predicted and what of course gave no great pleasure to us in Europe, namely, that

the European price and cost structure has conformed more and more to that in the United States. The price for this adjustment was creeping inflation in Europe - undoubtedly a high price. It is now of paramount importance that the American stability be maintained. If prices and costs were to go up again in America, the old story would repeat itself, meaning that the Europeans would once more have to adjust their price and cost structure, and that creeping inflation in Europe would continue. The desire for an end to creeping inflation and for stability, however, is so strong on the European Continent, including Germany, that those advocating flexible exchange rates and internal price stability may carry the day. In Germany there are influential quarters who consider the present inflationary pressure to be an after-effect of the many years of imported inflation, although it must be admitted that we have ourselves to blame for the recent excessive level of demand. It is therefore in the interest of the existing monetary system with its fixed exchange rates that the present American price level should remain stable also in future. If this can be achieved, any inflationary pressure still existing in Europe would presumably one day cease; for if there is stability in America, the Europeans cannot permit price rises for any length of time without impairing their competitive position and creating balance-of-payments difficulties.

Next to or after the Dollar, Sterling played its part as a key and reserve currency. We all know that at present Sterling is in a precarious position. The difficulties of Sterling have in my opinion two causes: the one results from the balance-of-payments deficit of the United Kingdom, the other from the traditional position of Sterling as a trading and reserve currency. As regards the acute balance-of-payments deficit of the United Kingdom, the British Government has taken measures to remove it. These measures bear on budget policy, credit policy, capital export policy and income policy. The future will show whether they are adequate. The British Government is convinced that the deficit, which has been brought down to less than half of the 1964 figures, can be eliminated altogether in the course of 1966. The susceptibility resulting from the position of Sterling as an international trading and reserve currency, however, will not be removed thereby. During the post-war years the Pound has again and again been subjected to pressure, in fact even when the British balance of payments was in equilibrium. The use of the Pound as a reserve and trading currency involves a constant danger of sudden withdrawals of Sterling from Britain, either because confidence in Sterling somehow weakens, or because somewhere in the world an economic or political crisis breaks out. This susceptibility is particularly great since the monetary reserves of the United Kingdom are too low in relation to the

position of Sterling as a reserve currency. As long as this problem, which derives from the original dominant place of Britain in world trade, is not solved, Sterling crises may keep recurring. In my opinion it is in the interest of the international monetary order that a solution for this problem be found on an international level. To tackle this problem seems to me possibly more important at the moment than to discuss international liquidity. Contrary to a widely-held opinion, the difficulties of Sterling cannot be overcome by an increase in international liquidity. The British problem is a problem of its own. If this problem is not successfully solved there is a danger that the existing international liquidity may even decrease. The same would happen if massive conversions of Dollars into gold were to take place in the United States. This is one more reason why it is urgently necessary to eliminate the U.S. balance-of-payments deficit.

Now there are people who believe that once the American balance-of-payments-deficit has ceased, international liquidity would no longer be sufficient to finance world trade and to obviate deflationary developments. No doubt the reserves of the Central Banks would grow less rapidly than in the past if the world would come to depend on the inflow of newly produced gold and gold exported by the Soviet Union. But would that be a calamity? To my thinking, international liquidity has grown too rapidly rather than too slowly since the second World War. The course which prices have taken in the post-war years clearly proves this. If we had a calmer period temporarily, enabling us to absorb the excessive international liquidity resulting from the past, this would by no means be a bad thing for the movement of prices. There is therefore no urgent necessity forthwith to increase international liquidity. Nor do I believe in a direct relationship between a rise in world trade and an increase in international liquidity. The better balance-of-payments discipline is, in other words, the smaller the balance-of-payments disequilibria are, the less international liquidity is required. If all countries see to it that the balance-of-payments disequilibria are quickly adjusted, the demand for reserves will be low. Of course there may always be temporary deficits, but they can be financed from owned reserves or from conditional reserves, such as are provided by the IMF or other financial institutions. One should also not overlook the fact that a country enjoying confidence will always be able to borrow from the banking institutions of the major countries to finance its trade. If it does not enjoy confidence, it must adjust its internal monetary, economic and financial policies in such a way as to become creditworthy again. I cannot help

thinking that an over-perfect machinery for financing balance-of-payments deficits saps monetary discipline, in other words, contributes to the maintenance of the balance-of-payments disequilibria and to creeping inflation. As I said before, I can really see no urgent necessity to increase liquidity, especially not now that the quotas in the Fund are being raised. The fact that some deficit countries are short of reserves is no reason to increase liquidity overall. We cannot bring the tide to a higher level because a few ships have run aground; this would mean inflation pure and simple. Such grounded ships must be refloated by making them lighter. In other words, the deficit countries must adjust their internal policies so as to achieve equilibrium in their balance of payments once more.

In saying this, I do not mean to convey that I am against contingency planning. It may happen that newly produced gold and Russian gold sales will in the longer run fail to cover the liquidity requirements of the world. Nobody can predict anything in this line with certainty. I would have no objection to dealing further with the problem of international liquidity in order to develop in the foreseeable future suitable procedures and appropriate machinery to be used in case liquidity should really prove insufficient. Nor would I have any objection against the discussions, held so far in the Fund and the "Group of Ten" now taking on somewhat more tangible form. I would however consider it a mistake to create international liquidity in anticipation, since this would produce a constant temptation to apply less monetary discipline.

I cannot help feeling that during the recent discussion of international liquidity and the reform of the international monetary system technical questions have been given too much prominence, whereas the fundamental problems are given too little attention. It seems to me to be less significant in what form and by whom international liquidity should be increased, although this question certainly is important; what is much more significant is to think about how the process of adjusting the national economies to balance-of-payments requirements could be improved. What the world needs is not so much a revision of the monetary system as improvements in the monetary, economic and financial policies in the leading countries. Unless we succeed in adjusting the internal economic development in the various countries to the requirements of the balance of payments, and unless we succeed in rendering the adjustment process more flexible, we shall run the risk of finishing up with flexible exchange rates. The alternative is between flexibility in adjustment or flexible exchange rates. The problem of insufficient flexibility of the adjustment process has in my opinion given us greater trouble throughout the period since the reestablishment of

convertibility than anything else. The discrepancy existing between the political, economic and social aims of the Governments and Parliaments on the one hand, and the requirements of monetary stability and the balance of payments on the other, is too profound. Too ambitious a capital expenditure programme in the public and private sectors, the hankering after excessive growth rates, and an over-perfect welfare state are enemies of monetary stability and equilibrium in the balance of payments. It seems to me necessary during the forthcoming negotiations about international liquidity also to discuss the process of adjustment with the aim of agreeing on certain rules to be observed by all leading countries. In the long run it is an impossible situation that those countries which keep their house in order should be punished for their good conduct by having to import inflation from the deficit countries. Freedom from the shackles of the gold standard is not a licence to follow lax moral standards in internal monetary matters. If we want to maintain over time an international monetary system with fixed exchange rates, we shall have to improve the adjustment process by concerted effort. The "multilateral surveillance" within the "Group of Ten" is a step in the right direction, but in my opinion it does not go far enough, relying as it does on moral suasion rather than on agreed rules.

I know it will be difficult to lay down such rules of conduct, because they restrict the national freedom of action. Freedom, however, would by no means be more restricted than was formerly normal under the gold standard system. I know how difficult it is to curb overall demand and to give up dreams of excessive growth rates. I know how difficult it is to reduce public expenditure and to keep wage rises within the limits of productivity, for I come from a country that has been having a balance-of-payments deficit for about twelve months now. This deficit is likewise connected with excessive public expenditures and exaggerated overall demand. The adjustment process, however, is already in full swing. We do not hesitate to raise interest rates and to apply other effective credit policy measures, and we trust that we shall thereby put the balance-of-payments situation in order in the not too distant future.

As regards the reform of the international monetary order, I should prefer not to go into technical details. Mr. Roosa has done excellent work in this respect. I should like to confine myself to the following observations:

- (1) If an increase of international liquidity were to be envisaged, it should be made dependent on the actual requirements of world economy, not on the balance-of-payments deficits of some particular countries.

This also goes for the reserve currency countries. The large Dollar

and Sterling amounts in the reserves of other countries expose the reserve centres to the danger of conversion into gold. The accumulation of Dollars and Sterling by other countries to a certain extent involves a temptation for the reserve centres to delay internal corrective measures when their balance of payments shows a deficit.

- (2) The Dollar should maintain its present rôle as the main reserve currency. The Dollar holdings in the reserves of the Central Banks should be kept approximately at their present level. A conversion into gold would bring the existing monetary system face to face with serious difficulties, and abrupt conversion might even mean a crisis. If it should become necessary to create additional liquidity in some form or other, the reserve assets should supplement rather than replace the Dollar.
- (3) The leading countries might come to an arrangement to the effect that a certain ratio of gold to foreign exchange, mainly Dollars, should be maintained in the official reserves - say, two thirds gold and one third foreign exchange, or three quarters gold and one quarter foreign exchange, - which ratio should be achieved within a reasonable period of time. The deficit countries losing reserves would then have to surrender gold and foreign exchange in the agreed ratio, and the surplus countries would have to accept gold and foreign exchange in the same proportion. In this way the discipline of the gold standard would partly be restored. If reserve assets should be created, they might be added to the foreign exchange portion. The ratio of gold to foreign exchange or reserve assets might be revised from time to time to conform to the world's needs of liquidity.
- (4) Our monetary system is still based on gold. Any newly created reserve asset should therefore be tied up as closely as possible with gold. Should the additional liquidity be created by deposits of national currencies with a central agency, such deposits would have to carry a gold guarantee.
- (5) The increased liquidity should not only benefit the countries which have participated in creating it; it should be available also to other countries through the IMF or in some other way. It would have to be avoided, however, that the machinery to provide additional liquidity is misused to create purchasing power for the developing countries in the place of the capital they lack, since this would amount to mere inflation. What the developing countries need is not money created out of nothing, but capital accumulated through savings.

These are a few notions I desire to contribute towards a strengthening of the international monetary system. They represent my personal opinion rather than German proposals. It is a moot question what reform can eventually be agreed upon. We know from the discussions held in the "Group of Ten" during the past few years how much the opinions still diverge. Up to the present it has not been found possible to bridge the discrepancies of opinion among the major countries. It is therefore important that negotiations about any reform of the international monetary system should for the time being continue in the "Group of Ten" with a view to coming closer to a consensus of opinion before the circle of the participating countries is widened. To convene an international monetary conference now on a broad basis would be likely to end in failure, and that would surely be worse than having no conference.

Let me summarize my remarks by saying that no monetary system, however, ingeniously conceived, can function satisfactorily unless there is monetary discipline in the leading countries. What is essential is the spirit and the will behind the actions of the major countries, not monetary technicalities. Unless we succeed in putting the balance of payments in better order, unless we succeed in solving the British problem on an international basis, and unless we manage to improve the adjustment process in the leading countries, efforts to bring about a better international monetary order will not be of much avail.

Lg. C. Lopez

Draft speech to be given by a Governor in behalf of the Governors for Latin America and the Philippines with reference to the International Monetary Fund, at the Washington Meeting in September 1965. Prepared by the Latin American Directors of the Fund.

Final version issued as Press Release No. 49 in Spanish and English

For criticism and comments only

Mr. Chairman, and Governors:

I have the great honor of speaking in the name and in behalf of the Governors for Latin America and the Philippines at this further Annual Meeting of the Bretton Woods Organizations, to submit some points of view we have in common with respect to the International Monetary Fund.

At the Governors' Meeting held in Tokyo, the Latin American countries and the Philippines displayed their interest in taking an active part in the discussion on international liquidity, on the grounds that this is a subject of concern both to the industrialized countries and to countries in process of development. It was emphasized that the International Monetary Fund, because of its open and multilateral character, constitutes the most appropriate forum for debating this important question. The Latin American countries have closely followed the course of the discussion and now think it necessary to take a wider view of the problem than they did at the beginning and to express their opinion regarding the best way of organizing an effort of world-wide cooperation for solving it.

In the first place, we are pleased to observe that the Fund's Board of Directors, in their Annual Report for 1965, have again included a brief study on the nature, evolution, and possible future course of the international monetary system. We note in particular that the Board has examined various technical means for the additional creation of reserves through the medium of the Fund. Although the methods suggested are not fully explored, nor are alternative methods for the creation of reserves analyzed, we believe that this study very well illustrates the ability of the present system to evolve rapidly, without weakening the main purpose of ensuring that the Fund continues to be the central institution of the system in an atmosphere of the fullest and closest international financial cooperation. The Governments of Latin America and the Philippines therefore wish to state that, in the absence of a substantial reform of the monetary system, and without excluding the possibility of examining alternative techniques, they are prepared to give sympathetic consideration to the ideas on the creation of reserves through the medium of the Fund included in the Executive Directors' Report for 1965, namely: an increase in the automaticity of drawings, and deposit and investment operations.

We recognize that the present state of the discussions imposes limitations on the scope of studies on international liquidity by the Fund's Board of Directors. For this reason we support the proposal recently made by the United States Secretary of the Treasury, to the effect that the Fund should give thought to the need for convening a new world monetary conference that would enable reforms to be adopted for strengthening the present monetary system. We assume that all the member countries of the Fund would take part in this conference, that the Fund would set up its own preparatory committee, and that the terms of reference of the committee would be prescribed by the Governors' Meeting. On these conditions, the countries of Latin America support the proposal and offer their collaboration.

The reform of the monetary system and the creation of international liquidity are matters of the very greatest importance for the industrialized countries also, and we therefore appreciate the importance of the studies carried out in the group of the ten countries participating in the General Arrangements to Borrow. But the main point is that any decision on these matters must be made in an atmosphere of real cooperation between all the countries concerned, so as to preserve the chief merit of the international financial structure created at the Bretton Woods Conference.

The creation of international liquidity directly affects the external position of developing countries. To the extent that international liquidity is adequate to satisfy the short-term balance of payments needs of those countries, it will be possible to maintain the stability and external convertibility of their currencies, which is a primary goal of the monetary system that has been operating for the past 20 years. In view of the structure of the present monetary system, the developing countries realize the need to maintain a satisfactory reserve position, but the availability of credit facilities for balance of payments purposes is an essential requirement for preserving stability of exchange rates, reducing the need for exchange restrictions, and maintaining normal conditions in their trade relations.

Furthermore, it is important to bring out the close relationship existing between the level of the international liquidity of the member countries of the Monetary Fund and the general trend of the economic policy adopted. An insufficient volume of international liquidity may occasion a proliferation of restrictive economic policies, with unfavorable repercussions on the level of income and employment in the industrialized countries and, by the same token, a reduction in the export proceeds of the developing nations and in the flow of capital to those nations. Consequently, the developing countries, among which are included the Latin American countries and the Philippines, have a direct interest in the direction that may be given to reforms of the monetary system and in the establishment of bases for ensuring that the volume of international liquidity is adequate.

In general, the Latin American countries and the Philippines consider that it would be premature at the moment to indicate a preference for one or other of the numerous plans and proposals for monetary reform and for the creation of international liquidity--within the institutional framework of the Fund--that have been submitted in academic and official circles in recent years. This being so, we reiterate our preference for the convening of a conference, in due time and form, and in the fullest spirit of cooperation. Alternatively, if an international conference is not considered opportune at this time, the discussion should take place in the Board of Directors of the International Monetary Fund. In any case, the Latin American countries and the Philippines reiterate their decision to take an active part, without prejudice and without reservations, in ensuring the success of an undertaking for which we all bear responsibility because the future of all of us is at stake.

Without prejudice to what has already been said, we should like to place on record the interest and sympathy with which we view the idea that the Fund should actively collaborate in efforts directed toward regional monetary cooperation, and we take this opportunity of thanking it for the work it has done in this respect in Central America.

Once more, we venture to reiterate our opinion regarding the decision adopted in 1963 by the Executive Board of the Monetary Fund on the compensatory financing of losses in the exports proceeds of primary-producing countries.

We recognize that this represents a contribution by the Monetary Fund toward the partial solution of this very important problem. However, two important points have not been considered. The first is the lack of automaticity in the drawings granted; in the decisions on individual cases submitted for the consideration of the Board of Directors there has been a certain amount of flexibility, although in all them there has been no lack of subjective appraisal in the determination both of the amount to be compensated and of the circumstances in which the loss of income occurs. The second point relates to the need for considering the compensatory tranche in addition to the normal credit facilities of the Monetary Fund. As it has been applied up to now, the decision of February 1963 actually allows the drawing without taking into account the position of the requesting country with regard to the credit tranches. However, the drawing has been added to those already made and thus may affect the country's position in respect of future transactions with the Fund. In our opinion, it is of the greatest importance that the compensatory drawing should be entirely marginal to the others and have the supplementary character that the various schemes favored by our countries have always upheld. Turning now to another matter, Mr. Chairman and Governors, we should like to refer to the well-known fact that the developing countries are the subject of constant analysis, with respect to their economic and financial situation, by the international agencies rendering technical and financial assistance, and these studies are carried out in accordance with the statutory and regulatory provisions of those organizations.

The nature of these activities makes it daily more advisable --we might almost venture to say, urgent--that there be a greater integration of the endeavors of the World Bank and of the Monetary Fund in order to give more consistency to the programs for stabilization and for economic and social development and to enlarge the stabilization programs of our countries and make them economically and politically acceptable. A closer collaboration between the Fund and the Bank, in their regular relations with the various countries, would also enable the Monetary Fund to give more priority and importance, in its consultations and policy recommendations, to the long-term goals that the countries are striving to achieve with their development plans.

We think it appropriate to appeal for all possible efforts to be made to coordinate the research and consultation functions that the Bretton Woods Organizations are constantly carrying out.

Finally, gentlemen, we should like to close these remarks by expressing our pleasure at the interest shown in the holding of the 1967 Meeting in ; this would give us the opportunity of expressing our friendship and sincere regard for the distinguished personalities who represent the member countries of the world financial community.

Borrador de discurso que pronunciaría un Gobernador en nombre de los Gobernadores Latinoamericanos y de Filipinas, refiriéndose al Fondo Monetario Internacional, en la Reunión de Washington, septiembre de 1965. Preparado por los Directores Ejecutivos Latinoamericanos en el FMI.

Sólo para críticas y comentarios

Señor Presidente, señores Gobernadores:

- 1 Tengo el alto honor de hablar en nombre y representación de los
- 2 Gobernadores Latinoamericanos y de las Filipinas en esta nueva Reunión
- 3 Anual de los Organismos de Bretton Woods para presentar algunos puntos
- 4 de vista que nos son comunes con respecto al Fondo Monetario Interna-
- 5 cional.
- 6 En la reunión de Gobernadores celebrada en Tokio, los países la-
- 7 tinoamericanos y Filipinas manifestaron su interés en participar acti-
- 8 vamente en el debate sobre liquidez internacional, advirtiendo que ésta
- 9 es una materia que concierne tanto a los países industrializados como a
- 10 los que se encuentran en proceso de desarrollo. Se hizo ver que, dado
- 11 su carácter abierto y multilateral, el Fondo Monetario Internacional
- 12 constituye el fórum más apropiado para debatir esta importante cuestión.
- 13 Los países latinoamericanos han seguido con atención el curso del debate
- 14 y en esta oportunidad consideran necesario ampliar sus puntos de vista
- 15 preliminares sobre el problema y manifestar su opinión acerca de la mejor
- 16 forma para organizar los esfuerzos de cooperación mundial encaminados a
- 17 resolverlo.
- 18 En primer término, nos complace observar que en su Informe Anual

1 de 1965 el Directorio Ejecutivo del Fondo ha incorporado nuevamente un
2 breve estudio acerca de la naturaleza, el desenvolvimiento, y la posible
3 evolución del sistema monetario internacional. Particularmente observa-
4 mos que el Directorio ha examinado diversas posibilidades técnicas para
5 la creación adicional de reservas a través del Fondo. Aún cuando no se
6 exploran en toda su extensión las modalidades operativas sugeridas ni se
7 analizan métodos alternativos de creación de reservas, creemos que ese
8 estudio ilustra muy bien la capacidad del actual sistema para evolucionar
9 rápidamente, sin debilitar el objetivo fundamental de hacer que el
10 Fondo continúe siendo la institución central del sistema en un ambiente
11 de la más amplia y estrecha cooperación financiera internacional. De
12 ahí que los Gobiernos Latinoamericanos y de Filipinas queremos expresar
13 que, en ausencia de una reforma substancial al sistema monetario, y sin
14 perjuicio de examinar técnicas alternativas, estamos dispuestos a consi-
15 derar con simpatía las ideas relativas a la creación de reservas a través
16 del Fondo contenidas en el Informe de los Directores Ejecutivos de 1965,
17 a saber: aumento de la automaticidad de los giros y operaciones de de-
18 pósito e inversión.

19 Reconocemos que el estado en que se encuentra el debate impone
20 limitaciones al alcance de los estudios sobre liquidez internacional del
21 Directorio del Fondo. Por esa razón apoyamos la propuesta hecha reciente-
22 mente por el Secretario del Tesoro de los Estados Unidos en el sentido de
23 que se considere, en el seno del Fondo, la necesidad de convocar a una
24 nueva conferencia monetaria mundial que permita adoptar las reformas para
25 fortalecer el actual sistema monetario. Interpretamos que en esa confe-
26 rencia participarían todos los países miembros del Fondo, que el comité

1 preparatorio sería organizado en su seno, y que los términos de referencia
2 del comité serían dictados por la Asamblea de Gobernadores. Bajo esas
3 condiciones, los países de América Latina apoyan la propuesta y ofrecen
4 su colaboración.

5 La reforma del sistema monetario y la creación de liquidez inter-
6 nacional son materias de la mayor trascendencia, también, para los países
7 industrializados y, por lo tanto, apreciamos la importancia de los estu-
8 dios realizados en el grupo de los 10 países participantes en los Acuer-
9 dos Generales para la Obtención de Préstamos. Pero el punto fundamental
10 es que cualquier decisión sobre estos asuntos debe hacerse en un ambiente
11 de positiva cooperación entre todos los países interesados, a fin de pre-
12 servar la principal virtud del ordenamiento financiero mundial creado en
13 la Conferencia de Bretton Woods.

14 La creación de liquidez internacional afecta directamente la po-
15 sición externa de los países en vías de desarrollo. En la medida en que
16 la liquidez internacional sea adecuada para satisfacer las necesidades
17 de balanza de pagos de corto plazo de estos países, podrá preservarse la
18 estabilidad y la convertibilidad externa de sus monedas, lo cual consti-
19 tuye un objetivo primordial del sistema monetario que ha venido funcio-
20 nando en los últimos 20 años. Dada la estructura del sistema monetario
21 actual, los países en desarrollo se dan cuenta de la necesidad de mante-
22 ner una posición adecuada de reservas, pero la disponibilidad de facili-
23 dades de crédito con fines de balanza de pagos es una condición esencial
24 para preservar la estabilidad de las tasas de cambio, reducir la necesi-
25 dad de restricciones cambiarias, y mantener condiciones normales en sus
26 relaciones de comercio.

1 Además, es importante destacar la estrecha relación que existe
2 entre el nivel de la liquidez internacional de los países miembros del
3 Fondo Monetario y la orientación general de la política económica que
4 se adopte. Un volumen insuficiente de liquidez internacional puede
5 provocar una generalización de las políticas económicas restrictivas,
6 con repercusiones desfavorables sobre el nivel de ingresos y de ocupa-
7 ción en los países industrializados y, por lo tanto, una reducción en
8 los ingresos de exportación de las naciones en desarrollo y en el flujo
9 de capitales hacia éstas. Por consiguiente, los países en desarrollo,
10 dentro de los cuales se encuentran los de América Latina y Filipinas
11 tienen un interés directo en la orientación que se dé a las reformas
12 del sistema monetario y en el establecimiento de las bases para compro-
13 bar que el volumen de la liquidez internacional sea adecuado.

14 En general, los países de América Latina y Filipinas consideran
15 que, por el momento, sería prematuro manifestar su inclinación por cual-
16 quiera de los numerosos planes y propuestas de reforma monetaria y de
17 creación de liquidez internacional - dentro del esquema institucional
18 del Fondo - que se han presentado en los círculos académicos y oficia-
19 les en años recientes. Por ello, reiteramos nuestra preferencia por
20 la celebración - en tiempo y forma adecuados - de una conferencia a
21 realizarse con la máxima amplitud de criterio y espíritu de coopera-
22 ción. Alternativamente, si no se considera oportuna la conferencia
23 mundial, la discusión debe centralizarse en el Directorio del Fondo
24 Monetario Internacional. En cualquier caso, los países de América
25 Latina y Filipinas reiteran su decisión de participar activamente,
26 sin prejuicios y sin reservas, para asegurar el éxito de una tarea en

1 la que todos tenemos responsabilidad porque el destino de todos está
2 en juego.

3 Sin perjuicio de lo dicho anteriormente, deseamos dejar constancia
4 del interés y la simpatía con que miramos la idea de que el Fondo cola-
5 bore activamente en los esfuerzos de cooperación monetaria regional y
6 aprovechamos la oportunidad para agradecer la labor que, al respecto,
7 ha desempeñado en Centro América.

8 Una vez más, nos permitimos reiterar nuestro juicio con referen-
9 cia a la decisión adoptada en 1963, por el Directorio del Fondo Moneta-
10 rio, que concierne al financiamiento compensatorio de pérdidas en los
11 ingresos de exportación de los países productores de materias primas.

12 Reconocemos que ella representa un aporte del Fondo Monetario
13 para la solución parcial de tan importante problema. Sin embargo, no
14 fueron tomados en cuenta dos aspectos fundamentales: el primero, es
15 la falta de automaticidad de los giros permitidos; en las decisiones
16 de los casos individuales sometidos a la consideración del Directorio
17 ha habido alguna flexibilidad, no obstante que en todos ellos no ha
18 faltado una apreciación subjetiva, como ser en la determinación del
19 monto a ser compensado y de las condiciones en que ocurre la pérdida
20 de ingreso. El segundo aspecto se relaciona con la necesidad de con-
21 siderar el tramo compensatorio en adición a las facilidades normales
22 de crédito del Fondo Monetario. Como viene siendo aplicada, la deci-
23 sión de febrero de 1963 permite, efectivamente, el giro sin tomar en
24 cuenta la posición en que se encuentra el país solicitante en los tra-
25 mos de crédito. Sin embargo, el giro se ha agregado a los ya efectua-
26 dos y podrá afectar, así, la posición del país para futuras transaccio-

1 nes con el Fondo. A nuestro juicio, es de la mayor importancia que
2 el giro compensatorio se consigne completamente al margen de los de-
3 más proporcionando el carácter adicional que siempre han defendido
4 los diferentes esquemas propiciados por nuestros países.

5 En otro orden de consideraciones, señor Presidente y señores
6 Gobernadores, queremos referirnos al hecho conocido de que los países
7 en desarrollo son objeto de un permanente análisis con respecto a su
8 situación económica y financiera por parte de las agencias internacio-
9 nales que prestan asistencia técnica y financiera, estudios que se ha-
10 cen en cumplimiento de las disposiciones estatutarias y reglamentarias
11 de dichos organismos.

12 La naturaleza de estos ejercicios hace cada día más conveniente,
13 y casi nos atreveríamos a decir urgente, una mayor integración de los
14 esfuerzos del Banco Mundial y del Fondo Monetario para hacer compati-
15 bles los programas de estabilización y de desarrollo económico y so-
16 cial, como así también dar mayor contenido y aceptación económica y
17 política a los programas de estabilización de nuestros países. Una
18 más estrecha colaboración entre el Fondo y el Banco, en el diálogo
19 permanente que mantienen con los países, permitiría también al Fondo
20 Monetario dar más jerarquía e importancia, en sus consultas y en sus
21 recomendaciones de política, a las metas de largo plazo que los países
22 tratan de lograr con sus planes de desarrollo.

23 Nos parece pertinente hacer un llamado para que se hagan todos
24 los esfuerzos posibles para coordinar las funciones de estudios y con-
25 sultas que permanentemente están realizando los Organismos de Bretton
26 Woods.

1 Finalmente, señores, deseamos terminar esta intervención mani-
2 festando el placer con que vemos el interés que existe porque la
3 Asamblea correspondiente a 1967 se realice en,
4 lo que nos daría la oportunidad de expresar, una vez más, nuestra simpa-
5 tía y cordialidad a las distinguidas personalidades que actúan en re-
6 presentación de los países miembros de la comunidad financiera mundial.

Mr. Pfeifer

November 10, 1965

J. J. Polak

Netherlands--Advisory Committee on Liquidity

I learned in Paris that the Minister of Finance had appointed such a Committee of approximately twelve members to advise him on the Netherlands' political position in the liquidity discussions. I gather that the plan for such a Committee was publically announced by the Minister on returning from the Fund's Annual Meetings, but that its composition has not yet been made public and that the group has not yet met.

I learned the following names of members:

Professor Witteveen
Professor Zylstra
Professor Tinbergen
Professor Posthuma
Professor Verryn Stuart
Professor Bosman
Professor Goedhart
Dr. Klaasse
Dr. van den Bangel

I believe there ought to be a few more names.

Could your Department be particularly keen in spotting any news on this in the Dutch press?

SUBJECT COPY

49 - New
RS

November 10, 1965

MEMORANDUM FOR FILES

SUBJECT: Creation of Liquidity and the International Chamber of Commerce

Mr. George J. Clark of the First National City Bank of New York informed me today that Mr. Moore, the President of that Bank, who is at the same time the current President of the International Chamber of Commerce (ICC), was going to recommend for adoption at the forthcoming Paris meeting of the ICC a decision on International Liquidity. The general ideas of the proposal had been discussed with the U.S. authorities at the highest level who seem to have urged him to obtain from the ICC an endorsement of the idea that action in this field is necessary. Mr. Clark indicated that the proposal that Mr. Moore was going to recommend for the adoption by the ICC was going to run along the following lines. It would urge that the question of reserve creation should be the responsibility of the Fund, that, until agreement could be reached by the leading countries on a liquidity plan, the Fund should be supplied with adequate amounts of useful currencies readily available to it for its operations, that the member countries of the Fund should be urged to regard their gold and supergold tranches in the Fund as part of their reserves, and that gold tranche treatment be extended, as needed, to the first credit tranche or part thereof. The leading members of the Fund would be urged to stand ready to lend to the Fund unconditionally such an amount of the currencies that might be necessary so that the Fund could ensure virtually automatically of drawing rights in the tranches to which gold tranche treatment is applied.

8:00 PM

G. Nicoletopoulos
Deputy General Counsel

cc: The Managing Director
Deputy Managing Director
Mr. Gold
→ Mr. Polak
Mr. Fleming
Mr. Altman

DOCUMENT OF INTERNATIONAL MONETARY FUND AND NOT FOR PUBLIC USE

Mr. J.J. Polak

Room 505

411

Lig. Countries RS

October 29, 1965

To: Members of the Executive Board

From: The Secretary

Subject: Remarks of Mr. Valery Giscard d'Estaing, French Minister of Finance and Economic Affairs, October 13, 1965

Attached is an English translation of remarks made by Mr. Valery Giscard d'Estaing, French Minister of Finance and Economic Affairs, before the French National Assembly on October 13, 1965.

Att: (1)

Other Distribution:
Department Heads
Division Chiefs

Remarks (in translation) of Mr. Valery Giscard d'Estaing,
French Minister of Finance and Economic Affairs,
before the French National Assembly on October 13, 1965
during debate of Article 62 of the 1966 Finance Bill

In any case, Article 62 would certainly have called for some explanations; this has become even more important after the remarks of the Rapporteur General, which were very interesting even though he concluded against approval of the Article, whereas the Government will ask you to adopt it. (Smiles).

What is our national line of conduct in the international monetary field? It involves two elements which should be kept in mind simultaneously; the continuation of international monetary cooperation and the reform of the world monetary system. Our action is constantly inspired by these two concerns.

For example, last year at about this same time, France participated in several operations under the heading of international monetary cooperation, in particular when Great Britain was faced with special difficulties. Last spring, we confirmed these acts of international monetary cooperation by participating in the operation to make additional resources available to the International Monetary Fund for the benefit of Great Britain.

At the same time, we insist on the necessity of a reform of the world monetary system. In this respect, what is the essential criticism we have made of that system, and does it or not justify Mr. Vallon's observations?

We criticize the world monetary system for offering exceptional advantages to reserve currency countries in balance of payments deficit, because they can finance their deficits through the holding of their currencies by other countries.

Thus for nearly ten years the U.S. deficit has been financed through the holding of large dollar assets by a certain number of countries, including France.

The criticism is justified. On this point, as you certainly noted, there was a change of tone and attitude during the most recent discussions in the International Monetary Fund. No one continued to argue that the international monetary system, such as it has been functioning, should be prolonged. On the contrary, everyone was in agreement on the necessity of a reform. The reserve currency countries specifically confirmed that they had now realized the necessity of restoring the equilibrium of their balances of payments prior to any new action.

The significance of the result obtained should not be minimized. Whereas proposals for reform of the international monetary system were looked on as a kind of scandal three years ago, speakers representing the principal countries have now recognized the necessity of such reform. Let us take solemn note of the point.

During the summer of 1964 the ten countries which signed the Paris Agreements nearly four years ago jointly drew up several conclusions after one year of study.

The first of these conclusions noted the timeliness of considering the reform of the world monetary system. The second related to the putting into effect of a system of multilateral surveillance of the financial facilities which countries grant one another. The third provided for a moderate increase in the quotas of the International Monetary Fund.

On the first point, the recognition by the ten countries of the necessity of actively undertaking preliminary studies with regard to reform of the international monetary system clearly represented an appreciable success for the theses which our country had defended.

The second point, the putting into effect of a system for surveillance of the financial facilities which countries grant one another, was also a very considerable result, for you know that during 1962 and 1963 the countries in deficit--the United States and Great Britain--had multiplied the most ingenious and most clandestine systems to create for themselves complementary facilities in the form of what was called either swaps or Roosa bonds, the latter being named after their creator. As a result, it was impossible for the world monetary community to have a clear idea of the public, semi-public, or other assistance granted under these various forms.

Since last summer multilateral surveillance exists, which means that each country is obliged to indicate the nature and extent of the assistance it is receiving, and thus world opinion can bring to bear its observations, its criticisms, or its doubts with respect thereto.

On the third point, namely the increase in the quotas of the International Monetary Fund, there is to my mind some contradiction between wanting to decrease the role of the reserve currencies and wanting to oppose the increase of IMF quotas.

In this matter we must make a choice. From the moment when certain countries are in balance of payments deficit--and what country has not been, is not, or will not be in temporary deficit?--these countries must be able to call upon some assistance. This assistance cannot be a questionable facility like that enjoyed by the reserve currency countries when other countries accumulate balances in their currencies. If facilities of this nature are denied, coordinated mechanisms for compensating deficits must be allowed to operate, specifically through the International Monetary Fund.

During the above-mentioned discussion among the Ten, our British and American partners clearly had in mind a considerable increase in quotas; they no doubt had the idea of creating by that device large facilities that would make it possible for them to get on top of their difficulties once and for all, and at the same time to escape the discipline of restoring equilibrium in their balances of payments.

In agreement with our European partners, who in this matter follow the same line of thought and action as we, we asked that the increase be moderate. As a matter of fact as of that time the quotas of the International Monetary Fund had not been raised for several years, even though world trade had grown and transactions had increased. It was thus normal to bring quotas into line with actuality.

This is why we accepted a 25 per cent increase in IMF quotas, which was of the same order of magnitude as the evolution of world trade and payments during the same period. This decision having been taken, the moment arrived to put it into effect.

The Bretton Woods Agreements provide for payment of one-fourth of quotas in gold and three-fourths in currency. The remarks of the Rapporteur General are very pertinent in this respect. As far as we are concerned, we have been intending to pay one-fourth in gold and three-fourths in currency--that is, in francs. For the reserve currency countries, in particular the United States, the problem presents itself in the following fashion. The United States never contested that it would have to pay its own share one-fourth in gold and three-fourths in its own currency, but it pointed out that with all countries increasing their quotas, certain among them, in order to get the necessary gold, would seek the conversion of dollars into gold, and by this fact the United States would be subjected to an additional drain on its reserves.

There is thus no refusal on the part of the United States to subscribe its own quota increase, but rather an effort to mitigate the indirect effect flowing from the requirements of other countries for gold to finance the increases in their quotas. In this connection, we made it very clear from the beginning that we did not intend to ask for the conversion of dollars, but that we would use gold held by our own central bank.

The truth is that the device invented to offset these supplementary effects on the United States is open to severe criticism both from the technical viewpoint and as a matter of simple good sense, for it consists-- I shall not go into detail--of counting the same gold twice, which, after all, is not a model of the best accounting practices.

Finally, from the viewpoint of world monetary policy, the device is an absurdity, since the reserve currency countries, after having explained that their currencies are as good as gold, when confronted with such conversions into gold, invent devices, low tricks which diminish very greatly the significance of their affirmations.

Thus, to mark our disapproval, and in agreement with our franc area partners, we voted against this device. Politically speaking, this is the first time within the International Monetary Fund that the member countries of the franc area have registered a negative vote on questions of this degree of importance.

This minority vote having been registered, the problem now is to decide whether or not we should increase our IMF quota, in conformity with the decision adopted by the majority.

After having considered the matter, the Government decided that the French quota should be increased for the following reasons.

First, this increase is consistent with the evolution of the position of our country. Since the role of France in international financial and economic life has increased very appreciably in recent years, it would thus be abnormal that the position of our country in an international institution should be diminished because we did not keep pace with the average progression of others.

In the second place, whatever may be the absence of memory which most frequently governs relationships among nations, our country cannot forget the large appeals which it made in the past to international monetary solidarity, at a time when, certainly, the present majority did not control the Government, but when, nevertheless, as a nation, we benefited from the advantages of that cooperation.

It would not be appropriate, I think, that in a question of this nature such a consideration should be entirely absent from our memory.

Third, it is important to demonstrate by our attitude that the reforms sought by France and with which she is progressively associating an increasing number of countries, does not in our mind exclude international cooperation.

The type of reform we are trying to obtain will preserve international monetary cooperation and will accord their just place to the institutions for such cooperation, that is, will very precisely define their functions. In addition, the reform will involve an overhauling of the instruments of the world monetary system.

If therefore the Government asks you to adopt Article 62, it does this, if I may say so, in the perspective of the reform towards which we are moving. There will still be temporary balance of payments deficits which will have to be financed under normal conditions, in accordance with the original text of the Bretton Woods Agreements, that is, by recourse to the resources of the International Monetary Fund.

On the other hand, the problem of reserve currencies and the creation of international liquidity is an entirely different one, which clearly must be dealt with outside of the institutions of the International Monetary Fund. If the attention you have devoted to this problem and the vote of the Finance Committee indicate a belief that expanding the operations of the International Monetary Fund will not bring about a reform of the world monetary system, the Government very willingly gives you its agreement as to the sense of such a vote.

It is, however, essential to maintain international monetary cooperation within the context of any reform. That is why the Government invites you to adopt Article 62.

SEPTEMBER 13, 1965

Office of the White House Press Secretary

THE WHITE HOUSEREPORT TO THE PRESIDENT FROM
SECRETARY OF THE TREASURY
HENRY H. FOWLER ON VISIT TO
EUROPE

I had welcome and fruitful opportunities to exchange views with the governmental and financial authorities of seven nations (Belgium, France, Germany, Great Britain, Italy, the Netherlands and Sweden) on how best we can jointly proceed in improving international monetary arrangements.

I was extremely pleased with the results of my conversations, from which emerged a clear consensus that the time has come to begin negotiations aimed at increasing the capacity of the international monetary system to meet the demands of expanding trade and economic growth within the free world.

During my trip, on most of which I was accompanied by Under Secretary of State George Ball, and Under Secretary of the Treasury for Monetary Affairs Frederick Deming, my colleagues and I found general agreement with our British and Continental European friends on the following points:

1. That ways will have to be developed to expand international liquidity -- the amount of gold, reserve currencies, or available credits which nations use to finance international trade and payments -- after the payments deficits of the United States no longer exist.
2. That such a time is rapidly approaching -- the U.S. deficit is already under control -- and although there is no need for hasty action, neither is there a great deal of time to waste.
3. That discussions of this subject must now be raised from the technical level to the high policy level, and active negotiations initiated at that level, and that the period of the annual meeting of the International Monetary Fund in Washington at the end of this month offers an excellent opportunity to concert definite procedures to those ends.
4. That careful preparation is necessary to determine the extent of basic agreement among the major countries which would be the sources of additional reserves or credit -- the so-called Group of Ten (Belgium, Canada, France, Germany, Great Britain, Italy, Japan, the Netherlands, Sweden, United States) -- and that any agreement on improving the system will require assurances that such improvements will be generally acceptable to those countries.
5. That, for this reason, it would be advisable to provide a new mandate for the resumption and completion without delay of the unfinished work of the Deputies of the Ministers of the Group of Ten nations and in this way to begin the first stage of negotiations -- hopefully next month.

In all discussions, the United States participants made clear their strong conviction that a sound and lasting improvement in the international monetary system must serve the needs of all member nations of the International Monetary Fund -- particularly the developing countries -- and therefore a second phase of preparatory discussion and negotiation would be

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(OVER)

desirable before final intergovernmental agreements making formal structural improvements were entered into, in which there would be appropriate and adequate opportunity for the participation of the International Monetary Fund and of countries other than the Group of Ten.

I am glad to say that this position found support in many quarters.

Given a successful course of preparation along these lines, the basis would be firmly fixed for a meaningful international monetary conference in the form of a special meeting of the Governors of the International Monetary Fund or some other suitable forum.

I was extremely pleased that during the course of my visit we were able to participate in and help effect a concrete measure of cooperation between monetary authorities to deal constructively with a more immediate and pressing problem affecting the stability of the existing international monetary system -- confidence in the British pound, one of the two reserve currencies on which the system is based. I refer to the action announced Friday by the Bank of England, in which ten nations, including the United States, and the Bank for International Settlements, joined in new arrangements to counter any speculative attack on the pound. It should be emphasized that this action comes on the heels of indications that Great Britain is moving encouragingly toward a balance in its international payments and is undertaking an effective long-term national program to stabilize costs and prices that will put it in a stronger competitive position in world markets. Hence, the main purpose of the new arrangements is to exploit this strengthening situation and reinforce these developments. The action of the ten cooperating countries demonstrated once again the strength and flexibility of the existing international monetary system and speed with which a majority of the major industrial countries are willing to work together for the common good.

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TREASURY DEPARTMENT
Washington

OPENING REMARKS BY SECRETARY OF THE TREASURY
HENRY H. FOWLER
AT A NEWS CONFERENCE, TUESDAY, SEPTEMBER 14, 4:00 P.M.
ON RESULTS OF HIS TALKS IN EUROPE
AUGUST 30 TO SEPTEMBER 10, 1965

Earlier today, Under Secretary of State George Ball and I reported to the President in some detail the very gratifying results of our visit to Continental Europe and the United Kingdom. I am glad of this opportunity to discuss the results with the press and other news media.

I visited France, Italy, Germany, Sweden, Belgium, the Netherlands, and the United Kingdom in that order. Prior to the round of talks in Europe, I had conferred in Washington with Canadian and Japanese officials. I was accompanied on most of the trip by Under Secretary Ball, and throughout by the Under Secretary of the Treasury for Monetary Affairs, Frederick Deming.

Our aims were modest and preliminary, but all the same vitally important: first, to determine whether these other nations share our view that there is a need to move now to set in motion high-level discussions looking toward improving the workings of the international monetary system, including, as a matter of prudent contingency planning, provision for an adequate future supply of monetary reserves; and, second, to try to settle upon procedures to be followed in arriving at a consensus on what should be done.

It is most gratifying that we found there is general agreement that present circumstances do indeed call for re-examination of the Free World's monetary arrangements, and that we should plan now for the time ahead when new ways of providing for the growth in monetary reserves will become necessary as U. S. deficits no longer provide new reserves to the rest of the world. At the same time we found that there is complete accord with our view that it is equally or even more important that we maintain equilibrium in our balance of payments, in order to preserve and protect the position of the existing and very important dollar component of world reserves.

We found also a general consensus that active discussions and negotiations should begin in the near future, at the level of policy-making officials.

Much of our talks focused on the means by which we could best move forward toward these goals. Here, too, I am happy to be able to report several areas of agreement:

First: The work should begin by resuming and completing the unfinished task of the Deputies of the Ministers and Central Bank Governors of the nations known as the Group of Ten, who during the past several years have been assessing the Free World's monetary arrangements.

The work at the level of the Deputies was discontinued while a study group of technical advisors to the Deputies conducted an intensive examination of ways in which additional reserve assets might be created either by a new procedure or by a further use and development of existing reserve claims on the International Monetary Fund. This study, known as The Ossola Report, was made public on August 10.

The ten nations in this group are the countries which are the principal holders of monetary reserves and sources of international monetary credits in the Free World. They are Belgium, Canada, France, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom and the United States. The Group of Ten has enjoyed the assistance in its work of experts from the International Monetary Fund, the Organization for Economic Cooperation and Development, and the Bank for International Settlements, as well as from the Swiss National Bank.

Second: Discussions must now be raised from the technical level to the high policy level, and active negotiations initiated at that level. A new mandate for the resumption and completion without delay of the unfinished work of the Deputy Finance Ministers of the Group of Ten nations would be a practical and speedy way of beginning the first stage of these negotiations -- hopefully next month.

We found a good measure of support for a point that the United States delegation made in all of the talks, that to be sound and lasting, improvement of the Free World monetary system must serve the interests of all the members of the International Monetary Fund -- including those of the developing countries. We believe that arrangements should be made for a second phase of preparatory discussion and negotiation, to give adequate opportunity for the participation of the member countries of the International Monetary Fund other than the Group of Ten.

Successful completion of preparations along these lines would, we are convinced, lay a firm basis for a meaningful conference on international monetary arrangements. The appropriate form and nature of such a conference should become clearer as we move further into the preparatory phases I have mentioned.

As for the timing of the initial stages of these moves, it was agreed that the time of the Annual Meeting of the International Monetary Fund, beginning September 27, will offer an excellent opportunity to concert procedures, since it will bring together, in Washington, policy making officials of the Group of Ten nations, who can meet to provide new instructions to their Deputies.

Let me add that the re-examination of the Free World's monetary arrangements to be undertaken must, of course, enter into the workings of the international monetary system generally, and the talks I have just had touched upon some of these broader aspects. In this respect, I found that there was a substantial interest, which I share, in giving increased attention to the proper way of achieving and maintaining balance in international payments in general, by means that would improve the adjustment process for surplus and deficit countries alike.

I was extremely pleased that during my visit in Europe we were able to participate in a joint action with nine other nations and the Bank for International Settlements to consolidate and further the trend of growing confidence in the future of the British pound. I refer to the action announced last Friday by the Bank of England for new arrangements to enhance the strength of the pound. I would emphasize that this action came upon the heels of new measures taken by the British government to strengthen Britain's long-term national program to stabilize costs and prices so as to improve the competitive position of Great Britain in international markets. The main effect of the new arrangements with respect to the pound will thus be to exploit and reinforce Britain's already encouraging movement toward equilibrium in its international payments.

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PRESS REPORTS

FOR INTERNAL CIRCULATION ONLY

Mr. J.J. Polak

Room 505

American Banker
New York
July 20, 1965

WORLD PAYMENTS: GERMAN VIEW

By Kurt Schmuecker

Minister of Economics, Federal Republic of Germany
Written for the German edition of the American Banker

Recently the international monetary system has been a topic commanding growing attention in discussions by international bodies as well as by the general public. A host of proposals have been submitted for its further development and improvement. My objective today is to outline the German viewpoint on some basic problems.

I would like to point out to begin with that a structure as delicate as that of the international monetary system can be reformed only if the desired reforms are introduced with great caution. Thus, abrupt changes of any kind must be avoided. I welcome therefore the general consensus to maintain the present price of gold.

The Government of the Federal Republic of Germany is fully aware of its co-responsibility for the proper functioning of the system and for contributing to the necessary confidence that constitutes its foundation. It will do all in its power to consolidate this foundation, opposing in particular those concepts that jeopardize the dollar as a reserve currency.

Indispensable Reforms

On the other hand, however, reforms are indispensable. In Germany, where the population has still in mind the experiences of two inflations, currency stability is of decisive economic and political significance.

In the long run we cannot remain unconcerned by the fact that the gold exchange standard, as it works at the present time, allows surplus liquidity to flow out into the world, which furthers inflation and eventually undermines stability.

We view as a significant step towards improvement in the international monetary situation the endeavors by the United States to overcome its balance of payments problems. Recent developments in this respect indicate already noticeable successes.

It is encouraging that this result was achieved without having recourse to the instruments of exchange controls, the application of which inherently contains a dangerous trend towards steady expansion.

We admire the attitude taken by the American banks and commercial enterprises in complying with the appeals of the President of the United States for voluntary limitation of their capital outlays abroad.

With the improvement of the balance of payments, the understanding for the value of the dollar as a reserve currency should increase again. An American balance of payments in equilibrium will also silence many of those voices that oppose direct American investments abroad.

Moreover, the German government views quite positively foreign direct investments which fit into the framework of our rules and regulations governing economic activities and competition.

Stability is Key Issue

The existing monetary system has allowed the enormous expansion of world trade and of international flows of capital in recent years.

It seems to me that prerequisites for a further favorable development in this direction do exist. However, our concern is more with stability than with the problem of further expansion.

I am not impressed by the claim of insufficient international liquidity. The findings by the ministers and the governors of the central banks of the Group of Ten, unanimously approved last summer, still hold true today--namely, that the world supply of gold and reserve currencies is, at present and probably also for the foreseeable future, completely adequate. It would be downright disastrous to fear that international trade would stop expanding if the U.S. deficit were decreased.

The talk on the scarcity of international liquidity ought not to divert us from the main issue, which is the lack of willingness to avoid long-term disequilibriums in the foreign accounts. However, just that is the important point.

The German government regards stricter monetary discipline as the most effective contribution to the improvement of our present monetary system. While this holds true especially for deficit countries, it applies also to surplus countries.

The more the commercial exchanges are in balance, the smaller is the need for international liquidity. In the long run, deficits in the balance of payments are not a sensible source for the financing of world trade.

Preventive Measures

In the case of a reform of our monetary system, emphasis will have to be laid on stronger coordination of national economic policies in order that substantial disequilibriums in the balances of payments will not even be able to occur--or, if they should arise, will be eliminated as promptly as possible.

The particular significance of preventive measures results from the fact that, under present economic and political conditions, there is hardly any chance of reversing the prevailing trend in costs. Therefore, the German government considers principles of good behavior in monetary policies as the pivotal point of the reform.

Certainly, there would not necessarily be a guarantee for the immediate balancing of the payments accounts, in each case, and at any given time. I should think that this is not of transcending importance, however.

What is essential is that long-term disequilibriums in the balances of payments--and hence, extreme debit or credit positions--should no longer arise. As matters stand at the present time, the imbalances in foreign trade threaten also to lead the stability-minded countries into the dilemma. Only at the cost of tremendous efforts--and all too frequently with little success--can they attempt to escape the international inflationary cycle.

I would like to recall that the president of the Deutsche Bundesbank recently suggested that imbalances in the foreign accounts be settled in specified percentages in gold and foreign exchange.

This proposal aims also at strengthening our monetary system, serving thereby to improve monetary discipline. The same aim is undoubtedly also pursued by those proposals tending to create a collective reserve unit.

However, considerable study remains to be done on the consequences resulting from the existence of such a reserve medium. We feel that such a reserve, should it one day prove necessary, ought not to replace, but to complement existing reserve media.

As to the monetary policy of the countries of the European Economic Community, we shall of necessity have to pursue a common internal policy a few years from now, irrespective of the form of institutions by means of which this will be accomplished.

This means that the control of money and credit supply and the policy of maintaining reserves will have to be carried out in accordance with common decisions and criteria.

Eventually--and I have no doubts in this respect--this path will lead to the monetary union of the European Economic Community.

I would like to re-emphasize that, if the international currency system is henceforth to fulfill its task, it is important above all else to conduct national economic and monetary policy with strict discipline.

It would be a good thing, if it could be achieved, to build elements into the existing system of the gold exchange standard that would automatically enforce such a discipline. However, we may have to understand that nothing can be regulated to perfection.

*Conrad
Rohr*

A NEW ROLE FOR THE
INTERNATIONAL MONETARY FUND

A Joint Statement
by
Senator Vance Hartke (D-Ind)
and
Senator Eugene McCarthy (D-Minn)

Presented to: The Subcommittee on International
Exchange and Payments of the
Joint Economic Committee

July 28, 1965

NEWS RELEASE

FROM THE OFFICE OF: U. S. SENATOR VANCE HARTKE (D-IND)
451 Old Senate Office Building, 225-4814
FOR RELEASE: July 28, p.m.'s, 1965

HARTKE, MCCARTHY CALL FOR
NEW WORLD TRADE CREDITS

Washington, D. C. - (Special) - Senator Vance Hartke (D-Ind) and Senator Eugene McCarthy (D-Minn.) joined today in a call for urgent action to protect the U. S. trade surplus and worldwide prosperity.

In a joint statement before the International Payments and Exchange Subcommittee of the Joint Economic Committee, the two Senators declared their intent to introduce legislation authorizing the mobilization of the world's gold supply, "through the medium of the International Monetary Fund, for the purpose of facilitating the international transfer of goods."

The Senators said, "Prosperity, both at home and abroad, requires the swift enactment of measures which can counter the shortfall in international liquidity produced by the end of the U. S. balance of payments deficit and which can thereby prevent any faltering in the continued growth of world trade, upon which world prosperity is based. It is our firm belief, ~~that the first need is the maintenance of balance of payments equilibrium by the United States.~~ ~~that the first need is the maintenance of balance of payments equilibrium by the United States.~~, that the first need is the maintenance of balance of payments equilibrium by the United States.

"Given the present needs of the world economy and the present strength of the American economy," the Senators stated, "a modest controlled balance of payments deficit in the neighborhood of \$1 billion fulfills all the conditions of 'equilibrium' in the international accounts of the United States. Our joint judgment is that the massive U. S. balance of trade surplus and the jobs, income, and tax revenue which it creates, is worth preserving at the cost of a nominal payments deficit.

"However," the Senators continued, "Further means are both needed and available for a swift and sound expansion of international credit in order to keep the goods moving. The thrust of our proposal is to empower the International Monetary Fund to issue trade credits, against goods actually shipped in world trade and on the basis of a new gold subscription of the member nations.

"Our proposal," the Senator said, "raises no question as to who is to manage a world currency according to what criteria. The amount of IMF credits available would be limited to an internationally negotiated multiple 2, 3, or 4 times the amount of the internationally negotiated gold subscription. No sovereignty would be surrendered; no danger of an artificially produced international inflation or deflation would be run. Yet the ground would be broken for the development of a truly international banking and monetary system," the Senators concluded, "at the same time as the immediate world liquidity crisis is simply and effectively countered."

JOINT STATEMENT BY
SENATORS VANCE HARTKE AND EUGENE McCARTHY
before the
SUBCOMMITTEE ON INTERNATIONAL EXCHANGE AND PAYMENTS
of the
JOINT ECONOMIC COMMITTEE

- July 28, 1965

Like any domestic economy, the world economy runs on liquidity. In the case of the world economy, liquidity consists of gold, currencies linked to gold, and credit based upon those "hard currencies." This system is known as the Gold Exchange Standard, but, without undue chauvinism, it might well be termed the Dollar Exchange Standard. For, during the past twenty years, the principal vehicle for the movement of goods from economy to economy has been the United States dollar. The relative abundance of dollars, and the relative confidence in their stability, have largely determined the efficiency with which the international monetary system has performed its fundamental task -- facilitating the international transfer of goods.

Today the world economy and many of its national components are threatened with a lack of liquidity, or at least with a controversy about liquidity requirements, with a shortage of the one most flexible and acceptable vehicle for the international transfer of goods -- the United States dollar. It is significant that the subject of these hearings is not the liquidity crisis which now confronts the world per se, but is instead the system which that crisis has called into question.

The problem of time is already becoming critical. The various proposals for fundamental reform -- from the Triffin Plan for a World Central Bank to the Rueff Plan for a return to the gold standard on the basis of a general devaluation--- all will require deep study and careful consideration and long argument. It is hardly likely that any proposal for fundamental reform will become operative in less than two years. But it is also certain that the current international money squeeze produced by the end of the dollar payments deficit will grow and continue to grow with potentially disastrous effect for every participant in the world economy. The clock is running out on the entire post-war era of prosperity. We appear before this committee in a spirit of urgency to propose a single measure to buy time for the boom to stabilize itself.

The immediate need is for measures which will buy time for the world, during which time the fundamental questions and answers can be granted all the attention which they so critically demand. The immediate need, therefore, is for measures which can swiftly counter the shortfall in international liquidity produced by the end of the dollar deficit and can thereby prevent any faltering in the international transfer of goods, upon which the present prosperity of the world is based.

It is the firm belief of the present witnesses, [REDACTED] that the first need is for the continued maintenance of balance of payments equilibrium on the part of the United States. The word "equilibrium," of course, covers a range of specific positions; its proper determination is dependent upon many, constantly changing conditions. Thus, the Federal Reserve Board described a net deficit bank reserve position of \$200 million for the week ended July 21, 1965, as an "equilibrium" position. Similarly, given the present needs of the world economy, a modest, controlled balance of payments deficit in the neighborhood of \$1 billion would fulfill the conditions of "equilibrium" in the international accounts of the United States. It is our joint judgment, that the massive U. S. balance of trade surplus, and the jobs, income, and tax revenue which it creates, is worth preserving at the cost of a nominal payments deficit.

Such a balance of payments posture by the United States would fill some of the need for internationally acceptable currency and credit which the maintenance of world prosperity requires. But the danger of either too big or too small a United States deficit renders this solution only an interim, though necessary, expedient. Some further means of expanding internationally accepted credit is vitally needed, and soon.

The means are readily available for a swift and sound expansion of international credit in order to keep the goods moving. These means include the International Monetary Funds, the world's supply of monetary gold, and the great fund of experience in the commercial financing of trade. Simply put, the proposal of the present witnesses is to mobilize some part of the world's supply of monetary gold, through the medium of the International Monetary Fund, for the purpose of facilitating the international transfer of goods.

Any supply of money, domestic or international, acts both as a store of value and as a medium of exchange. The gold component of the present international money supply serves primarily as a store of value -- only the barter-oriented nations of the Communist world actually purchased goods for gold. The dollar, the mainstay of today's system, serves as both a store of value -- as a reserve currency -- and as the prime medium of exchange for the world's trade; to a lesser degree, the pound sterling performs this dual function, as well.

The proposal here presented would make no change in the current arrangements, in so far as the status of the dollar is concerned. What it would change is the present sterile status of gold. The thought of our proposal is to activate gold as the basis for trade -- which is its classic function. Today, when gold enters international transactions -- above all, when dollars or pounds are used to purchase gold -- the net effect is a reduction in the world money supply. The gold is

moved from nation's reserves to another's and in the meantime some part of the outstanding supply of working money, dollars and pounds, is withdrawn from the world economy. This is true for French purchases of gold from the United States; it is true, also, for Red China's recent purchases of gold from Great Britain. In fact, to the degree that the recent liquidity crisis produced a crisis of confidence and a movement away from the dollar and pound and into gold, international liquidity will be all the more reduced and international trade all the more threatened.

Today the dollar and the pound are alone available to do the primary job of moving goods from one nation to another. They are the world's working currencies for international clearing purposes. The proposal here presented would establish a new working medium to supplement the dollar and the pound as vehicles for trade -- i.e. mediums of exchange -- not to supplant them as international reserves -- i.e. stores of value.

The process would work as follows. All nations adhering to the proposal would make a voluntary subscription of gold to the IMF, in the same proportions as under the present quota arrangements. Thus, the United States, whose IMF quota is now 26 percent of the total, would put up \$260 million out of every \$1 billion subscribed. We have little doubt that other member nations would find such a subscription of gold in their interest. It is further worth noting that all nations which have recently been cashing dollars for gold, with the exception of France, but including even Switzerland, are or hope to become beneficiaries of U. S. aid, Export-Import Bank Loans, or trade concessions. The IMF would then be empowered to issue trade credits against the actual shipment of goods in international trade up to an amount equal to 2, 3, or 4 times the absolute amount of gold subscription. Both the amount of the gold subscription and the size of the multiple are properly subjects for administrative decision and international negotiation.

It is well worth noting how far a little gold could go. It would be possible, in fact, for us to extend the life expectancy of the current world boom indefinitely by investing in the IMF no more than one or two month's gold loss, taken at the present rate.

The trade credits, a form of international bankers' acceptances, would, in effect, constitute the first step in the direction of an international currency; they could well be denominated as Composite Reserve Units. But the scope of this proposal has been deliberately limited. Under this proposal, no question arises as to who is to manage an international currency according to what criteria. For the amount of IMF credits made available is determined, first, by the agreed-upon multiple of the agreed-upon gold subscription, and, second, by the actual needs of international trade. No sovereignty is surrendered; no danger of an artificially produced, international inflation or deflation is run. Yet the ground would

be broken for the development of a truly international banking and monetary system, at the same time as the immediate liquidity crisis is simply and effectively countered. Furthermore, gold, which today has become the worldwide symbol of deflation, would be mobilized to aid in doing the world's work.

For the first twenty years of its existence, the IMF has been limited to dealing with currency disturbances and to preventing monetary disasters. We propose to add to this negative, though necessary, function a further, positive function, productive, activity supporting banking. As the Journal of Commerce, wisely and conservatively dedicated to the maintenance of world trade, editorialized on July 20:

If the Gold Exchange Standard is to survive, the IMF will have to make it work. To do so, it may have to take on some banking characteristics it does not now have.

Implementation of this proposal to empower the IMF to act as an international acceptance house will take a number of steps. As an essential aspect of the process of implementation, it is the intent of the present witnesses to introduce in the United States Senate appropriate authorizing legislation for a further subscription of gold to the IMF, under the terms of this proposal. It is the earnest hope of the present witnesses that this proposal will become the basis for an urgent call to action on the part of the United States Government. The September meeting of the IMF Executive Board will provide the proper forum for such a call.

We understand that this proposal may not encompass all the reforms of the present international monetary system which may be deemed necessary or desirable. This proposal in no way forecloses more fundamental, longer term reform. For its purpose is to meet the over-riding problem of today -- a shortage of internationally accepted means of transferring goods within the world economy. The continued search for a more perfect international monetary must and will continue. But it would be tragic if international prosperity were to collapse even as international negotiations to defend that prosperity were underway. This is the danger which the proposal presented today is aimed to avert.

Mr. J. J. Polak

Room 505

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Unofficial
Translation

THE INTERNATIONAL MONETARY POLICY OF FRANCE

Speech delivered by Mr. Valéry Giscard
d'Estaing, Minister of Finance and Foreign
Affairs, to the Institute of Banking and
Financial Studies

Paris, June 15, 1965

Mr. Chairman, Ladies and Gentlemen:

I am happy that the Institute of Banking and Financial Studies has done me the honor of inviting me to discuss with you a problem that lies at the very center of international financial thinking.

It is a good plan on the part of the Institute to have got together in Paris a few speakers and thinkers from among the persons responsible for keeping world opinion informed about the facts of the monetary problem. As the last speaker - I think - in this debate, I have both an advantage and a difficulty. The advantage is tactical, since I can comment at leisure on the proposals of the speakers who have preceded me at this rostrum; the difficulty, which is clearly the main one so far as this subject is concerned, is to come to a conclusion.

I should also like to say something, if you will allow me, about the special position of a Minister of Finance in dealing with this subject. First, he has the physical problem of finding time to do the thinking necessary both to cover the matter in depth and to present it in the best possible way. Both these processes are necessary if the Minister is not to appear before you less well informed than the experts. Nevertheless, it is true that the experts have made my task easier by their very judicious presentation of conflicting views. Lastly, the words of a Minister of Finance are a commitment to action and have to be weighed and carefully spoken, with due regard to this special circumstance.

I shall make in your presence the second part of the statement I began last February 11 to a sympathetic and refreshing audience of law students. I dealt at that time with the need for reform of the international monetary system. Today I should like to speak about ways of carrying out that reform.

Before I do this it is necessary to make two preliminary observations. In the first place acknowledgment must be made to those who, to their credit, started the discussion--and some of them are quite near to me in this hall--for shaking the ponderous and dangerous conformity that was hovering over the world monetary system and indeed prevented anyone from raising, even in the appropriate place--namely, the Annual Meetings

of the International Monetary Fund--any problem or question concerning the functioning of that system. The mere fact of having opened the discussion is a considerable achievement. I might say that the first step has been taken toward clearing up the confusion.

The second observation is that we must recognize that some of the basic data are vague and ambiguous. However important the subject, and however detailed the studies undertaken in regard to it, we have no option but to admit that serious vagueness and ambiguities remain. I will give you two examples, the first relating to the common view of the character of international liquidity, and the second to the likewise commonly held opinion as to the amount of liquidity considered desirable.

To be sure, experts in the subject have analyzed these ideas, but neither their work nor the resultant sifting of the subject has hitherto enabled us to arrive at a clear understanding of the matter under discussion, so that misunderstanding still remains, it seems to me, concerning the true nature of liquidity: not enough distinction is drawn between liquidity in the form of cash holdings and liquidity in the form of credit facilities; each is based on entirely different reasoning and arguments. And the vagueness of this distinction between the character of each is bound to influence opinion as to the desirable amount of international liquidity.

Hence the form my explanation will take: first, to define as clearly as possible international liquidity needs; then to recall the central importance of gold in the international monetary system; and finally to ask the question: do we need to supplement gold?

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I shall deal first with international liquidity, and apologize for inevitably talking like a professor in this part of my statement, seeing that I want to define, or rather, formally state, a few ideas.

International liquidity is made up of components that are basically different according as we are dealing with reserves or with credit facilities.

Reserves result from an economic or financial action that makes them "earned" reserves, whether they are the proceeds of exports or of the sale of services, or whether they are in respect of invisible transactions or even of capital movements in favor of the countries concerned. They represent the equivalent of an economic good and can be compared with the cash holdings of transactions. No doubt there still exist techniques for the deliberate creation of additional reserves, such as, for instance, the "reciprocal deposits" that banks effect between themselves on certain occasions. These transactions which, as you know, are for a limited period and must be settled obligatorily, are always carried out on the basis of the existing cash holdings and have the effect of increasing them only temporarily.

To these reserves are added the credit facilities which, in the special terminology of the International Monetary Fund, are called "conditional liquidity". They are in fact conditional in the sense that they are not granted automatically. As a general rule they have to be negotiated before they can be granted. They are for a limited period. They can be granted only if a country has a deficit and they are therefore of no concern to countries with normal cash holdings in relation to their economic activity. In short, they usually do no more than effect a temporary transfer of resources between creditor countries and debtor countries.

If I dwell on this difference, as you will find that I do again in several sentences of my statement, it is because I believe that discussing the matter in the aggregate, as we are often invited to do, leads to confusion arising either from insufficient analysis of the problem or, on the contrary, from deliberate policy. These two kinds of liquidity obviously answer two different needs. Owned reserves, in the meaning the term is applied at present to countries like France and the Federal Republic of Germany, are desired cash holdings in the sense of the Keynesian analysis and answer to the precautionary and transactions motives for liquidity preference. Indeed, they exist whether or not they are used, and even though it is not possible, as I shall show later, to establish their total at an absolutely strict amount or value. Credit facilities are quite another matter. At a given moment they exist only as a possibility. They cannot be considered apart from the use that is made of them, that is to say, they are created for the sole purpose of financing deficits at the request and for the benefit of countries with payments deficits.

We must therefore conclude from this, quite definitely, that these two forms of liquidity are of a different order, do not meet the same needs, are not amenable to the same kinds of decisions, and must therefore be dealt with by different institutions. Thus I reply in advance-- and I shall come back to this--to certain suggestions that have been made, in particular by the distinguished Managing Director of the International Monetary Fund, who, from a natural desire that his Institution should cover the whole of the world's monetary problems, includes in the same purview owned reserves, that is to say, cash balances, and credit facilities.

What are the needs that international liquidity finances? This is a question we must ask ourselves before we can know whether these requirements are being adequately met at present, or not. The amount of international liquidity can be estimated both through the individual needs of States and also, in a way more difficult to define, in terms of the global needs of the world economy.

In the first place, obviously, it finances the individual needs of States, as does any cash holding, that is to say, the needs that may arise from differences in time between foreign receipts and expenditures-- differences that are linked to the balance of payments structure of each country. These needs may arise also from current payments deficits

resulting from unfavorable developments in the terms of trade. Lastly, this liquidity meets the needs of capital movements whose development may be massive and swift. It may therefore be said that individual needs amount to what it is necessary to hold in the way of reserves before the unfavorable trend that has been observed can be reversed. That is why it is considered, roughly speaking, that the larger the amount of liquidity the less harsh need be domestic measures for restoring equilibrium, and the more time countries will have at their disposal for making the necessary adjustments. Any opinion we may arrive at on the basis of these factors has meaning only in relation to the particular situation in a given country and is not bound up with an estimate of world liquidity requirements.

Upon these individual needs of countries are superimposed in a broader way the global needs of the world economy, which are not necessarily the same thing as the sum of fluctuating, little-known individual needs. We can try to determine these global needs by criteria relating, for instance, to international trade; but in fact one perceives the world's global need for liquidity only in an indirect way, by noticing the general reluctance of the various countries to lose their reserves. This more or less marked reluctance, which brings us back to the notion and the analysis of desired cash holdings, shows that there exists at a given moment in the world some estimate, or the convergence of various estimates, of the amount of the existing supply of liquidity.

In these circumstances it is understandable that assessment of the world supply of liquidity differs, depending on whether we are thinking of one or other of these two categories of needs: individual needs or global needs.

Now, there has been a growing tendency in international financial thinking, and this is a recent development, to estimate liquidity requirements solely in terms of the particular situation of a certain number of countries with payment deficits. In fact, there may be no deficits and inadequate liquidity, just as there may be--and this is what we are witnessing in the world today--overabundant liquidity accompanied by a massive deficit in the balance of payments of one or several countries. To understand that these two situations can arise, we must take two diametrically opposed models. In the first model, world transactions will be strictly balanced on a bilateral level. There will therefore be neither deficit nor surplus, but, since each of the countries may at the time in question have a subjective opinion concerning the amount of its cash holdings, we shall deem international liquidity adequate or inadequate according as the cash holdings tally or otherwise with these subjective opinions. On the other hand, it is possible to imagine a second model in which a certain number of countries would regard their reserve as quite adequate without for that reason agreeing to allow their total to decrease, and in which a certain number of other countries, with balance of payment deficits, would on that account feel that their liquidity was inadequate and would therefore be led to take overly harsh corrective measures. This situation would in fact be much more a revelation of the bad distribution of international liquidity than an indication of an

insufficiency of liquidity in the world. That is indeed what we have witnessed on two occasions: in 1945, when international liquidity was excessively concentrated in the United States of America, and today just the opposite, when the reserves of Great Britain have certainly sunk to a precarious level. This being so, the problem is one of redistributing liquidity, not of creating it. In order to settle past deficits, low liquidity countries must earn reserves from countries with higher liquidity. The higher liquidity countries must help this process along by appropriate mechanisms or by changing the direction of their financial policy.

Thus, at the end of this first part of my thinking, a few conclusions can be drawn:

In the first place, it is not for deficit countries to evaluate, and still less to determine, the world's liquidity requirements at any given moment.

Secondly, the amount of world liquidity should not be estimated unless at the same time the usefulness of the operations it serves to finance is also assessed. I said just now that this liquidity was used for the settlement of trade transactions and also for financial operations. If one judged for instance, that the latter were in themselves reaching too high a total, it would be somewhat illogical to form an opinion as to the desirable amount of international liquidity by considering these financial transactions as intangibles. It might even be deemed advisable to discourage certain transactions of this kind instead of trying to help finance them.

Finally--and this is almost more difficult because it has to do with an attitude of mind--we must reject any argument that starts by noting deficits and their size. That would be a kind of aberration of thought which, as often in these matters, follows the natural development of events instead of dominating them. That has certainly been the case these last ten years. Indeed, it is very striking to think, if we refer to the official literature of the period, that no one, ten years ago, confused the problem of world liquidity with the problem of a payments deficit in some particular country. France can say this because she has been in that situation. We must not, therefore, establish today an artificial relationship between deficits and liquidity, when it is possible to imagine a quite different approach based on an analysis of the behavior of creditor countries.

In short, we must not affirm without further examination that the need for owned reserves parallels the development of world trade. There is certainly a correlation between the two, but it must not be forgotten that the financing of world trade is actually and effectively based on the creation of monetary means, but of internal monetary means. The financing of international trade depends on the domestic creation of money and only the cash for payments is external. This enables us to do justice to the sometimes distorted way in which the thinking of certain financiers is presented to us--I am thinking of Mr. Rueff, who is, however, certainly

capable of standing up for himself--according to which the fact of keeping only a slightly increasing quantity of reserves on the international level is obviously at variance with the need to finance the development of trade. That would be true if there were not in existence internal credit instruments that are extremely powerful and flexible and on which, in the last analysis, the financing of such trade does in fact depend. Besides, we may simply take the view that there is a correlation between the amount of cash holdings and the level of international transactions, but only a correlation, because we know that in the framework of the domestic economy the movements of desired cash holdings may, depending on the economic situation, not be at all the same, and are sometimes even in a direction opposite to the development of activity.

After these remarks emphasizing the danger of identifying the world monetary problem with the solution of particular payment deficits, I come now to the French position concerning the way to fulfill liquidity requirements, assuming that they have first been accurately estimated.

Before speaking of any other kind of international reserve, I shall speak first of all about gold, because at the center of the international monetary system we find gold, and can find nothing but gold. I should like to remind you of the big part that gold plays in the present international monetary system. In the public discussions that have taken place on this subject, those who draw our attention to the role of gold sometimes give the impression that they are trying to restore the monetary function of gold. That shows a lack of understanding of the functioning of the international monetary system as it now exists. In fact, gold plays a role of the first importance both in theory and in practice.

It is important in theory because the gold exchange standard system--my difficulty in using this expression relates both to pronunciation and to the meaning of the term--is based on the principle of reserve currencies that are freely convertible to gold, at any moment, by the central banks. Our international monetary system is at present characterized (I would not say encumbered) by a large number of legal references to gold. All currencies are expressed either in terms of their weight in gold or--which comes to the same thing--in terms of the dollar, but of the dollar "of the weight and fineness in effect on January 1, 1944." Proof that this role exists is that there is presently in operation, albeit not on our initiative, a gold pool managed by the central banks. The purpose of the collective action of these financial institutions is to prevent the price of gold on the London market from bringing about a de facto depreciation of foreign currencies in relation to gold. The creation of this pool and the desire to keep it in being are a concrete illustration of the acknowledged world importance of gold.

A second illustration is the attitude adopted toward the payments deficit of the United States of America. This deficit, which continues, was at first received with an indifference not capable of logical explanation, but psychologically justified to the extent that the human intelligence, always turned towards the recent past, was thinking about the time when the proportion between the sum of dollars and the stock of

gold in the United States did not give rise to question. But it is striking to observe that anxiety appeared everywhere, and particularly in America, when the total of foreign commitments tended to equal and then surpass the total of the United States' gold stock. This means that the change of climate observed in the world is due to the fact, which it confirms, that gold is still at the center of the system. This certainly is the meaning of the program put forward by President Johnson, who declared in his basic statement that he hoped the dollar would continue to be "as good as gold."

Aside from these legal aspects, however, it must likewise be remembered that gold does not sleep in the central banks and that it plays an active part in actual settlements. Almost every day central banks effect settlements among themselves or with bodies such as the International Monetary Fund or the Bank for International Settlements. These operations of buying, selling, transferring demand and time deposits, paying interest and charges, always give rise to a final holding or transfer of the metal. It is not therefore a question of proposing a return to gold, but of knowing whether gold should be maintained in the center of the system. We think it should. We consider that gold should be at the center of a reformed international monetary system. Why should it be kept? Because, as the President of the Republic pointed out in his statement of February 5, it is an unique element that does not change its nature, has no nationality, is eternally and universally held to be the fiduciary value par excellence, and also because, in the absence of world sovereignty in monetary matters--and no one is making a realistic proposal for instituting such sovereignty--it is the only impartial and objective factor in international financial relations, by contrast with systems based on the accumulation of foreign exchange or of international forms of credit. And finally, because it is impossible, even if one wished to do so, to alter the fact that in the eyes of the public the yardstick of gold is the touchstone of the system, and that an attitude of aloofness toward it therefore produces the impression that the international monetary system is sooner or later in danger of weakening.

By what means must the role of gold be maintained? There are different theories on this subject, ranging from the full and exclusive use of gold to more varied systems such as the one I propose to describe to you.

I think, in fact, that gold alone is not enough. Although it is beyond doubt the foundation upon which we must build, the edifice must call for other materials also. By a kind of reversal of Pascal's dictum, and precisely because we are here dealing with a matter that lends itself to it, the center cannot at the same time be the circumference. In the first place, gold is an instrument that is awkward and burdensome in some respects. Its handling, transport and appearance do not lend themselves to the instantaneous action and the economy that should be the rule in international financial transactions. In a system that must be both sound and flexible--sound because it must provide the standard of value, and flexible because it must adjust itself to the fluctuations of the world

economy--the role that it is the peculiar function of gold to fulfill, and that it must continue to assume, is to ensure stability. The other possible forms of owned reserves and the various kinds of international credit can be adapted as required to all kinds of circumstances. Gold, on the contrary, must remain an unchangeable yardstick always at hand.

This is where we encounter the problem of the price of gold. This is a question with which we obviously have to deal, with the precaution inevitable at a time when we are planning to lay the foundation of a reformed system. It is precisely the logical necessity of very appreciably revaluing the price of gold, if we wish to arrive at a system in which it would be the sole component, that induces us to look for other solutions. I should indeed like to remind you that an appreciable revaluation of gold would not solve all problems and would at the same time bring some serious disadvantages in its train. I say that it would not solve all the problems, as they present themselves at present, because the reserve currency countries would stand to gain through a considerable revaluation of their holdings, while their commitments would remain unchanged. In the first phase, we would therefore probably witness a relaxation of the efforts they have at last been making to balance their external accounts. On the other hand, breaking a certain number of quite solemn commitments in which countries had every reason to believe and on account of which they had been led to adjust their own policies, would present us with a very unfair distribution of sacrifices and thus with a source of legal disputes that would be a disruptive element in international monetary relations. Finally, an increase--a big increase--in the price of gold would bestow on everyone who has elected not to take part normally in international financial activity a premium the moral consequences of which all the same deserve our consideration. My feeling is that the price of gold is the over-riding problem, and that we cannot claim that by altering it we shall solve our present difficulties by this means alone.

In this connection I should like to state emphatically that it is not possible to subscribe to the intellectual attitude that rejects an increase in the price of gold but is willing to keep advantages or facilities that are to be preferred to other possible reserve components. For, on this subject, people turn to two entirely contradictory arguments. The first argument consists in saying that the monetary holdings of the central banks have only conventional value. These holdings are not goods, the price at which they are exchanged is an agreed price, and if there are disadvantages in altering this price, it does not have to be altered. If this argument is advanced it should be extended to all reserves held by the central banks, that is to say, to their holdings of reserve currencies; but it is not possible to argue at the same time that these foreign exchange holdings are components representing real resources that may be made to yield abroad and bear interest. Concerning the nature of owned reserves we must adopt one mental attitude only: if they are deemed in fact largely conventional in character, the same must apply to everything and therefore there should be an end of that profit-making on currency holdings in the possession of central banks which is a permanent factor in the perversion of the system.

Having reminded you of the disadvantages that make us in any case think seriously whether or not to revalue the price of gold, I should like to be very definite about the following statement: the development of the present international monetary system is bound to lead to a change. If one branch of this change is rejected--and there is no doubt that revaluation of the price of gold is one such branch--we must then set about establishing a new international payments system. If we are not willing to take this second way, and if we adopt a "wait and see" attitude indefinitely, we must have no illusions: the force of evolution will itself break down the barriers and give the lie in its own good time to the most categorical assertions.

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This reasoning leads us to think that we must endeavor to add a supplementary component to gold, the center of the system. That is the kind of plan the two previous speakers have suggested to you: I trust they will not hold it against me personally if it falls to me to give the reasons why we cannot support either of their plans.

The plan submitted by Mr. Bobba seems to us to rest on a premature instrument in a system open to criticism. It is a plan of a regional character, based on the certainly desirable but not immediate creation of a European monetary instrument that would take its place in the at present slightly discordant concert of international reserve currencies. If we criticize this system today and do not associate ourselves with it, that is not in order to prepare the advent of a new reserve currency when the region to which we belong has at its disposal an instrument capable of fulfilling that role. Although European monetary unification is to be desired, and will be the inevitable crown of the policies of agricultural and industrial rapprochement now being pursued, we do not envisage managing the European monetary instrument in accordance with such views.

As regards the plan submitted by the Managing Director of the International Monetary Fund, it seems to me to be based on dubious instruments handled within an inappropriate framework. The instruments are dubious because the Managing Director of the International Monetary Fund has hinted at the impending insufficiency of international liquidity. Now, on this point we do not agree with his analysis: there is no sign that we are to be faced with the risk of not having enough international liquidity--I should say, rather, that signs to the contrary are not lacking--and even if international liquidity were inadequate, we could not give our support to a system whereby the required liquidity would be created by means of an instrument, and by recourse to mechanisms, conceived for the financing of deficits. On the one hand, that would deprive the activities of the International Monetary Fund of their conditional character, which is practically their main advantage; on the other hand, it would be a singular encouragement to the creation of deficits. As for the frame-

work, it is certainly inappropriate: the International Monetary Fund now has 102 members, and it can hardly be said that there are at present even two reserve currency countries, since one is in a dominant position, and it seems irresponsible to pass in one blow from a one reserve-currency system to a system that would necessitate the reconciliation of 102 monetary sovereignties. That is surely not practicable. Moreover, we think that liquidity should not be created lightly. The temptations of inflation are very strong, and that is not an exclusive privilege of French public opinion, which has been yielding to them for a long time but is now gradually getting the better of them. There exists in the world a kind of demagoguery of inflation and it is therefore to a small group of countries with comparable financial institutions that the responsibility falls for deciding, unanimously, on the creation of additional liquidity. After all, everything that is not gold is credit, and in that respect one cannot conceive of credits--especially of a permanent or semi-permanent character--except on countries about whose solvency there is no doubt whatsoever.

French experts, for their part, have submitted a series of proposals for general discussion by persons concerned with the reform and reorganization of the international monetary system. These proposals are three in number.

The first is to maintain the International Monetary Fund's system of conditional credit facilities as it functions at present and as it will, of course, have to be adjusted to meet world developments.

The second aims at improving the system for the adjustment and distribution of owned reserves. In that respect, the observations made yesterday by the President of the Bank for International Settlements, Mr. Holtrop, are entirely relevant, and it is rather to our credit that we admit this, since we belong to the category of strongly creditor countries. It is certain that the harmonious functioning of international monetary institutions presupposes that the system fluctuates around an equilibrium and excludes extreme credit and debit positions. We are astonished to see that this problem of the distribution of reserves does not take precedence over the problem of the creation of additional liquidity. Clearly there are techniques to which we cannot lend our support in particular the one put forward by Mr. Schweitzer. We cannot be advocates of a redistribution resulting from inflation. It is by very different and already tried techniques that external payments balances with too great a surplus should be brought back to equilibrium. A country could open its market to foreign loans, encourage foreign investments, adapt its economic policy, or, as the Federal Republic of Germany has done, adjust its customs tariffs. One might also envisage--though the scope of this measure should not be exaggerated--enlarging the present margins of fluctuation of the rates of exchange around parity.

Our third proposal is to create when necessary, that is to say, in the case of insufficient owned reserves, additional monetary means. What are the advantages of this system, and what are the disadvantages?

The first advantage is that it would deal with a creation geared to global needs and not to the deficits of individual countries; it would therefore provide a solution to the problem of owned reserves quite apart from covering the deficit of a particular debit country. Through the mechanism we are proposing, it would also enable unanimous decisions to be made that would largely do away with the risk of easiness that is attached to any creation of money. Finally, it would establish a close link with gold, that is to say, it would establish the unbreakable homogeneity of the international monetary system.

The disadvantages are the ones that some speakers have already mentioned. They are the consequence of substituting a rational decision for the physical establishment of fact: the human intelligence is less resolute, less certain, less assured--as the present international monetary system proves to us--than a standard whose rigidity and constancy would inspire respect in all. For my own part, I do not entirely endorse this criticism: since decisions must be taken unanimously, divergence of interests may take the place of wisdom, and is not the history of the world the triumph of good sense over matter? There is no reason to believe that monetary matter would escape this long history of progress.

How are these collective reserve units that we have envisaged to be created? Technically, several solutions are possible: the simplest, and the one that would enable people form an immediate idea of the system, is the deposit formula. These "reciprocal deposits" would in the first place provide security for the operation and would illustrate the use of gold as a yardstick throughout the system. The same yardstick would be used in the distribution of these units by effecting this in proportion to gold holdings. The units thus created would partly replace gold in all its uses in transactions between the participating countries. Everything would take place as if settlements between central banks were being made in a standard proportion of collective reserve units and gold. In this way the inspiration of the Genoa Conference would be recaptured. What the Genoa Conference wanted, rather wisely, was to economize the use of gold. It failed--and this has been demonstrated too often for me to go over it again--because the simple idea of economy in the use of gold has been distorted into the substitution for gold, in its monetary uses, of currencies that have no equivalent conditions of security and creation.

Once this standard proportion is established between gold and the collective reserve unit, the result is sure to be economy in the use of gold rather than a change in the methods of using gold. The collective reserve units would constitute as it were an "additional claim" to the gold stock held by States. The system would thus establish a proportional and uniform link with the basic reserve instrument. There would be an objective basis of distribution. Irrespective of deficits, it would make a clear distinction between the two possible estimates of the world financial situation: the one based on the particular circumstances of certain States, and the one based on the global needs of the world economy. This system would not be bounded by the limits of the present system, because it would

make it practically impossible for one single partner to accumulate in its own hands an extremely large amount of additional reserve units, since that would mean that the country in question had at the same time acquired for itself alone all the gold in the world. It would add to international discipline. Finally, it is a system that would not lay itself open to the reproach of increasing the heterogeneous character of the international system, since it would closely weld together, and in the same proportion for all the participants, the instruments employed.

Such a system may, of course, create difficulties in its presentation: I trust they will not be used against it complacently and inaccurately. We are told, in effect: "It is a system whereby the creation of liquidity is appropriated by the few countries that play a world monetary role." In the light of the present situation, that is an amusing remark, since today the creation of world liquidity is largely in the hands of a single State. Going from one to six, eight, or ten would already represent in that regard progress toward a better balance. I think, too, that a system of this kind should by its nature be open to those whose monetary development leads them to take a more active part in international financial transactions, just as, in my view, it should be closed to those whose development is in the opposite direction. Lastly, it must be remembered that the countries concerned are at present supplying to the nonaligned nations credits amounting to more than \$6,000 million a year. Nevertheless, we are sympathetic toward these arguments and have some additional ideas concerning the developing countries which I am reserving for more detailed examination in Washington next September.

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Such are the thoughts and proposals that the international monetary system inspires in the French Government. Let us note first of all that decided progress has been made since two years ago: a subject that up to that time had been taboo is being discussed, even widely discussed. The veils that covered the functioning of the international monetary system and the creation of money are beginning to be removed, and one has the impression that conscious constructiveness could take the place of inertia. In this development the role of the French Government has always been moderate but definite. And I mean "moderate", for we have drawn attention to these problems bit by bit, seeing that as early as September 1962 the delegate of France submitted to the International Monetary Fund observations of the kind I have just been making to you. Although they aroused strong feelings, even indignation, at the time, they are nevertheless reappearing today in the very wide-ranging discussions that are taking place on the international monetary system. But we think it is desirable for the big countries that exercise great and paramount responsibility in monetary matters to associate themselves rapidly with the role we played in the past in the search for a solution. It is the function of statesmen to anticipate events and developments, especially when, as in this case, they are foreseeable. It is two years since France

asked that there should be a clear understanding on this problem, which is crucial for the pursuit of balanced economic development throughout the world. She suggests that we pass to the active phase of the reform of the international monetary system. For her part, she is ready to assist in it. Indeed, the aim of her proposals is to achieve in an orderly manner, and in time, the progress that everyone today intuitively feels and knows from experience to be assuredly necessary.

AMBASSADE DE FRANCE
AUX
ETATS-UNIS

Le Conseiller Financier

1001 Connecticut Ave., N.W.
Washington 6, D.C.
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Avec les compliments du Conseiller Financier

1. ~~Mr. Fleming~~
 2. Gold
 3. Polak (or return)
- } to see.

Juillet 19, 1965

Texte d'une déclaration faite ce matin par M. Valéry Giscard d'Estaing, Ministre des Finances et des Affaires Economiques, au Correspondant de l'Agence France Presse.

„La suggestion de réunir une conférence monétaire internationale, formulée par le Secrétaire du Trésor des Etats-Unis, manifeste la prise de conscience par les autorités américaines des défauts du système actuel. Le gouvernement français, qui attire depuis trois ans dans les instances appropriées l'attention sur les dangers que comporte le régime monétaire mondial, constate avec intérêt cette évolution.

Par contre, la procédure suggérée consistant à réunir une conférence internationale sur ce sujet ne lui paraît pas opportune.

Deux conditions doivent être en effet remplies au préalable.

Avant de construire un système monétaire nouveau, il est indispensable d'assainir celui qui existe. Certes des progrès ont été accomplis dans la voie de l'équilibre par ceux des pays qui ont connu un déficit massif et prolongé de leur balance des paiements. Il reste à s'assurer que ce redressement est durable, avant de pouvoir apprécier les besoins réels que l'économie mondiale en moyens de paiement, et à chercher à les satisfaire.

La seconde condition est qu'il existe un minimum d'accord sur la nature et l'objectif de la réforme à opérer. Les études préalables existent. Elles ont été conduites par le Groupe des Dix sur la base d'un mandat du Fonds Monétaire International. Ces études ont fait apparaître, non seulement des divergences, ce qui est normal, mais des contradictions profondes entre les directions des réformes souhaitées par les participants.

La France a fait connaître clairement ma position sur la réforme du système monétaire international. Elle souhaite que ses principaux partenaires explicitent la leur. Alors il sera possible de faire oeuvre utile.

En l'absence de ces conditions une conférence monétaire internationale ne pourrait conduire qu'à enregistrer des oppositions, ou à s'accorder sur des réformes d'apparence,,.

Fin de citation

INTERNATIONAL MONETARY FUND

July 9, 1965

TO : The Acting Managing Director

FROM: Brian Rose^g

I attach for your information a translation
of a speech containing some observations on the
German view on international liquidity.

1. ~~Mr Gold~~ JB

2. Porak

For information.

3. ~~Plummer~~



Speech by Mr. Schmücker (German Minister of Economic Affairs) on:
"Questions on International Liquidity."

Following is a translation of a speech made by the German Federal Minister of Economic Affairs, Mr. Schmücker, before the German-French Chamber of Commerce at the end of June:

We agree with our friends in France that the persistent deficits in the balance of payments of the U.S. and the U.K. should be eliminated as soon as possible. This would not serve the interests of these countries alone. It would not be meaningful to consider balance of payments deficits of the reserve currency countries as a source of liquidity for the financing of world trade. I welcome the fact that the French Government has pronounced itself unequivocally against an increase in the gold price. I should like to add that the German Federal Government has also rejected the introduction of flexible exchange rates which had been suggested in the public discussion in Germany.

For the German Government it is of primary importance that new international liquidity is created to the smallest extent possible and that its creation is not left to chance. Incidentally, in our opinion additional liquidity is not required in the foreseeable future. We consider a stricter monetary discipline as a more important factor. To make the recourse of the individual countries to international credits not too easy, the creation of additional liquidity should--in the opinion of the Federal Government of Germany--be decided in a smaller group. This does by no means imply that the function of the International Monetary Fund as a central institution providing more or less short-term balance of payments credits should be limited. We cannot accept, however, an arrangement which permits the Fund to exercise its function of controlling economic policy less stringently or to become an issuing institution or even an investment bank.

I should like to draw attention to a proposal, made recently by the President of the Deutsche Bundesbank, according to which balance of payments balances should be financed by agreed proportions of gold and foreign exchange. This proposal aims at a strengthening of our monetary system and, hence, serves the improvement of monetary discipline. It seems to me that the strengthening of our monetary system is in conformity with the French conception. It is still necessary, however, to study carefully the consequences which might result from the suggested collective reserve unit (CRU). In our view this reserve unit should not--if it can be realized at all--replace but supplement the existing reserve media. Specifically, it should be convertible into gold and dollars and central banks outside the Group of Ten should be able to maintain it as an asset. A reserve unit, which is maintained by several countries, can only fulfill its functions, if the political cooperation between the participants has not to overcome significant differences in interests. This implies a greater complex of problems than some people might expect. However, problems create tasks and from their solution a better future emerges.

I just said that the Federal Government is primarily interested in a better monetary discipline. This particularly applies to the member countries of the EEC. In this Community we shall necessarily have to conduct a common credit policy in the years to come, no matter how the institutional framework will look like in which this policy will be carried out. This implies that the common volume of credit has to be controlled according to common criteria. These criteria may be found either in the balance of payments situation of the Community as a group or in the cyclical situation of the Community. I have no doubt that this road will lead to a currency union within the European Economic Community. It can, however, be also utilized for the reform of the international monetary system. That is to say that--as I have already mentioned--regulations of an objective nature have to be elaborated, which have to be observed by the central banks as guidelines for their monetary policy. Should the EEC member countries agree on this proceeding, the efforts to reform the international monetary system will thereby be favorably influenced. The political weight of the Community as a group might be the decisive factor in this respect.

It is true that the immediate balancing of the balances of payments would thereby not be necessarily guaranteed in every case and at all times. I do not consider this as too decisive. Instead, it is essential that structural and persistent balance of payments disequilibria and, hence, extreme debtor and creditor positions do no longer emerge. The external disequilibria have hitherto threatened to lead countries, that are conscious of economic stability, into a dilemma: they had either to join the international rhythm of inflation or they were forced to correct the mistakes in their own economy, which had been made by other countries. This had to be done through measures, which were politically unpleasant and which often could only be carried through parliament with great difficulties.

Source: Frankfurter Zeitung Blick durch die Wirtschaft, Frankfurt/Main, Germany, June 30, 1965.

Mr. Polak

TREASURY DEPARTMENT
Washington

FOR RELEASE MORNING NEWSPAPERS
SUNDAY, JULY 11, 1965

REMARKS BY THE HONORABLE HENRY H. FOWLER
SECRETARY OF THE TREASURY
BEFORE THE VIRGINIA STATE BAR ASSOCIATION
AT THE HOMESTEAD, HOT SPRINGS, VIRGINIA
SATURDAY, JULY 10, 1965, 6:00 P.M., EDT

For a Virginian, the honor of sharing in this 75th annual meeting of the Association is exceeded only by the pleasure of seeing so many old friends of my native Roanoke and my adopted home of Alexandria.

For an erstwhile lawyer, the privilege of speaking to this distinguished bar, including most notably the fourteen life members, is surpassed only by the temerity of choosing international monetary problems as a subject for discussion. But Virginians have always been heavily concerned with and leaders in providing for the United States an appropriate role in international affairs. And Virginians have in this century made notable contributions to and set high standards for the conduct of public financial affairs.

For a Secretary of the Treasury from Virginia, this is a welcome opportunity to pay tribute to two great living Virginians who bear heavy national responsibilities in the fields of finance, taxation, money, credit and banking, holding two of the most important posts in the U. S. Congress in these areas. I refer to Senator Harry Byrd and Senator Willis Robertson, who serve the Commonwealth and the nation with distinction and dedication as Chairmen of the Senate Finance Committee and the Senate Banking and Currency Committee respectively. No other state is represented by two Senators whose influence and prestige exceeds their seniority by so great a margin. As Chairmen of the two Committees with which the Treasury, acting for the Executive Branch, has most of its dealings with the Senate, I am indebted to them for their constant courtesy and their impeccable fairness.

They carry on the tradition of an earlier national statesman from Virginia in the field of public finance in this century, namely, Carter Glass. His service, both in the Congress and as Secretary of the Treasury, is particularly remembered throughout the world of financial affairs. He contributed in a major way

to the creation and development of the Federal Reserve System which served to correct many of the outstanding defects of the preexisting national financial arrangements which in many ways find their counterpart in the international financial world of today.

It is to these international financial problems that I would direct your attention this evening.

We have all heard or read a great deal in recent months about the problem this nation faces in its balance of payments and about the need for the nations of the free world to move toward agreement on ways of assuring the financial resources needed to support increasing international trade and development.

Indeed, world financial questions have never occupied a more prominent place in public discussion than they do today. But to most Americans, I suspect, these problems still seem rather remote from their daily lives and labors -- rather unrelated, even, to the other national and international events that engage so much of our interest and our concern. Nor is it unnatural that they should pale beside events such as those in Saigon or in Santo Domingo.

But we must never forget that America's ability to succeed in its difficult and demanding role as leader of the Free World -- that all the political, diplomatic and military resources at our command -- depend upon a strong and stable American economy and a sound dollar.

We must never forget that our lives can be vitally affected, not only by the events in Saigon or Santo Domingo, but by such apparently far removed occurrences as the outflow of American gold and dollars abroad.

For the role of the dollar as the most widely used international currency is part and parcel of America's leading role in the free world -- politically, economically, militarily. More than any other single factor, it is the strength and the soundness and the stability of the American dollar that serves as the essential underpinning of the entire Free World monetary system through which the interdependent nations of the free world have fashioned their awesome economic accomplishments of the past several decades.

The solution of our balance of payments difficulties and the strengthening of the international monetary system are thus far more than merely arid economic exercises. They are crucial matters which must deeply concern -- for, in a broad but very real sense, they deeply affect -- not just bankers and businessmen and economists, but every American in every walk of life.

What, then, is our balance of payments problem? Why is it so important that we solve it?

Since 1949, the United States has had balance of payments deficits every year except for 1957 -- when our exports soared as a result of the Suez crisis. During that first postwar decade -- up until 1958 -- those deficits were little cause for concern, for they were simply the counterpart of our effort to help rebuild a Europe laid waste by war. Our vast outpouring of dollars was the essential source-spring for replenishing the reservoir of international reserves and liquidity required by a Western Europe and a Japan whose financial, as well as physical, resources war had drastically depleted.

Under the Marshall Plan and other programs, we furnished some thirty billions of dollars in grants and loans to help put the economies of Europe back on their feet again. With the recovery of Europe, we turned more and more of our dollars toward aiding the underdeveloped countries of the world. We also sent dollars abroad to support large military forces and furnish military aid essential for the defense of the free world.

These measures were eminently successful. By the mid-fifties the economies of Europe and Japan were strong and growing, controls and restrictions on trade and payments were being progressively dismantled, and in 1958 external convertibility of the leading European currencies was restored.

But this progress was accompanied by other developments that led to U. S. balance of payments deficits far larger than Europe required and than we could live with indefinitely. Rising prices in this country had weakened our competitive position at a time when Europe and Japan had once again become a formidable competitive force in world markets. At the same time, the strength of Europe's economic resurgence and its new-won financial stability began to attract growing amounts of American capital abroad.

Thus, beginning in 1958, things changed -- and more swiftly perhaps than most people realized. The "dollar shortage" which Europe had suffered in the early postwar years was fast disappearing.

During the seven years 1950-57, our deficits averaged only \$1.5 billion a year -- and at the end of that period our gold stock amounted to about \$22 billion, or more than a third larger than the total volume of dollars held by all foreigners.

Yet over the next three years -- 1958-59-60 -- our balance of payments deficits averaged almost \$4 billion a year. Other countries found their dollar holdings growing more rapidly than they wished, and our gold began flowing abroad in much greater volume -- roughly \$5 billion in three years.

That was the situation that confronted us in early 1961, when we launched a strong and sustained effort to move our international payments into balance once more.

Over a period of four years -- 1961-64 -- we achieved substantial improvements in many separate accounts entering into our balance of payments, including:

- a \$900 million gain in our commercial trade surplus -- those not financed by government -- making it a record \$3.7 billion in 1964;
- a \$400 million cut in the dollar outflow as a result of foreign aid;
- a cut of nearly \$700 million in net military dollar outlays despite rising costs abroad;
- a \$1.6 billion rise in our earnings from past private foreign investments.

Simply as a matter of arithmetic, those gains were enough -- all else being equal -- to have given us virtual balance in our payments last year. But all other things were not equal. Instead of approaching the vanishing point, with the \$3.9 billion deficit of 1960 being absorbed by these gains in particular sectors of our payments totalling \$3.6 billion, our deficit in 1964 was in fact reduced by a net total of only \$800 million to \$3.1 billion.

We incurred that deficit -- despite four years of real and lasting progress -- primarily because of a drastic deterioration in the one major area of our balance of payments which our programs had not yet effectively reached in a comprehensive way -- the area of private foreign investment outflows.

In 1964, the outflow of private capital abroad reached the \$6½ billion mark -- more than twice the size of the deficit and up over \$2 billion from 1963 and over \$2½ billion from 1960. That outflow reflected a variety of causes -- including the drive by American business to stake out a claim in the rapidly growing and seemingly highly profitable European markets. But, to a very large degree, the accelerating outflow had its source in the marked disparity that had long existed between European capital markets and our own -- a disparity in size and scope and facilities that led borrowers in other countries to tap our market for a large share of their capital requirements. The United States had often enough called attention to this disparity and urged its European friends to expand and improve their markets. But their progress in that endeavor had simply not been large and rapid enough, and we had passed the point where we could sustain the huge drain of capital which that disparity entailed.

We had to act. We had not only to intensify the efforts already underway in other sectors of our balance of payments, but to extend those efforts to include comprehensive curbs upon private capital outflows. It had become abundantly clear that to restore balance to our payments once more we had to attack our deficit on all major fronts simultaneously. President Johnson launched such an attack with his February 10 Message to Congress on the balance of payments. The heart of that Message was the call to arms of America's businesses and banks -- the call to join voluntarily in a national effort to curb the outflow of dollars abroad, while preexisting programs were intensified.

That call has been heard -- and heeded. After a bad start in January, our balance of payments improved in February following the President's Message and showed a surplus in March, in April and in May.

Thus we are off to a good beginning, but -- let there be no mistake -- it is no more than a beginning. Let no one think that a few months of apparent surplus -- a surplus purchased only through extraordinary and temporary measures -- can suffice.

The likelihood of a surplus in the second quarter of this year does tell us that we are moving in the right direction -- that our current measures can turn our deficit into a surplus. But the big job -- the job that remains -- is for us to demonstrate that we can sustain equilibrium through these measures as well as the longer term measures inaugurated since 1961. We must maintain those extraordinary measures in full force until rising returns from past private investment abroad, our improved climate for domestic employment of capital, enlarged availability of capital in markets abroad and growth in our trade balance -- which requires that we maintain our excellent record of price stability -- place our accounts securely in equilibrium.

It is imperative not simply to reach balance in our payments for a quarter or two, or even for a year, but to sustain equilibrium over time. The reasons are clear. Our fourteen years of deficits have resulted in a large outflow of dollars to the rest of the world. Because there is worldwide confidence in the stability of those dollars and because they are convertible into gold at the fixed price of \$35 an ounce, those dollars are widely used to finance international transactions, and other countries hold them alongside gold in their official reserves.

Today, those dollars -- some \$27 billion -- account for a major share of the international liquidity that sustains the growing free world economy. Some \$12 billion of those dollars are in official reserves, while the remainder serve to support growing world trade and investment. Thus, it is essential to the viability of the international monetary system as it exists today that the usefulness and value of those dollars remain unquestioned throughout the world. And, whatever changes might be introduced into that system, the dollar will have to continue to carry a heavy burden as a reserve currency.

If we allowed our deficits to continue, or if we lapsed back into prolonged deficit after a brief period of surplus, we would undermine world confidence in the dollar and impair its usefulness as a world reserve and leading currency. Dollars would return to our shores as claims on our gold, thus depleting instead of supplementing world financial resources. To prevent such a contraction in world liquidity and the widening circles of deflation and restriction that would surely follow, we must reach and maintain equilibrium in our payments as a matter of the highest national priority, along with sustaining the economic

advance that has marked the last fifty-three months.

The paradox is, therefore, that the very increase in official foreign dollar holdings that has fueled so much of the growth in world liquidity in the past -- and has thus helped support the growth in world trade -- can no longer be allowed to continue if current international liquidity is to be protected. Yet without additions to the reserve dollars that our deficits have so long supplied, the world will need a new and assured source of growing liquidity to support increasing world trade and investment.

This, in a nutshell, is what the issue of world monetary reform is all about. It is to assure ample world liquidity for the years ahead that the United States, in cooperation with other leading financial powers, is seeking workable ways of strengthening and improving international financial arrangements.

For several years now the essential laying of the technical groundwork has been underway as the United States has joined with other major countries in comprehensive studies of the international monetary system -- its recent evolution, its present effectiveness and its future. An early conclusion was that there are two elements in international liquidity; on the one hand the more conventional reserves of gold and reserve currencies and on the other hand the ready availability of credit facilities for countries in need of temporary assistance.

As long ago as 1961 the ten major industrial nations, now known as the Group of Ten, negotiated with the International Monetary Fund a so-called General Arrangements to borrow whereby the ten nations agreed to lend to the IMF up to \$6 billion should this be necessary "to forestall or cope with an impairment of the international monetary system." That arrangement was activated last December and again this May in order to provide a part of a \$2.4 billion drawings from the IMF on the part of the United Kingdom.

On the credit side, also, the members of the International Monetary Fund have now agreed to support a 25% general increase in IMF quotas. This 25% increase, plus special increases for some sixteen countries, will raise total aggregate quotas from \$15 billion to around \$21 billion. The Congress last month approved a \$1,035 million increase in the U. S. quota.

Meanwhile, the Group of Ten and the International Monetary Fund have been continuing their studies of the future course of world liquidity. Deputies of the Group submitted a comprehensive report on the problems involved last August. In their Ministerial Statement last August, the Group of Ten stated that while supplies of gold and reserve currencies are fully adequate for the present and are likely to be for the immediate future, the continuing growth of world trade and payments is likely to require larger international liquidity. While they said that this need might be met by an expansion of credit facilities, they added that it may possibly call for some new form of reserve asset.

A Study Group was set up "to examine various proposals regarding the creation of reserve assets either through the IMF or otherwise." The efforts of that Group have culminated in the so-called Ossola report, submitted to the Deputies of the Group of Ten on June 1 of this year, which exhaustively examines, with all their promises and pitfalls, the possible paths to the creation of reserve assets.

Now for the first time in four years we are confronted by the happy concurrence of three crucial facts:

(1) The U. S. balance of payments is approaching an equilibrium and the Executive Branch, the Congress and the private sector, including industry, banking and labor, have mounted a program that makes unmistakably manifest our determination to keep it that way.

(2) Evidence is accumulating of a rising tide of opinion in many knowledgeable and influential quarters in the Free World, private and public, that our international monetary arrangements can and should be substantially improved, building on the basis of the International Monetary Fund and the network of more informal international monetary cooperation that has marked recent years.

(3) The completion of technical studies necessary to give a thorough understanding of the problem and various alternative approaches to solution on the part of those at the highest levels of government who must ultimately make these decisions.

We have now reached the moment which President

Johnson had in mind when in speaking of new international monetary steps he said:

"We must press forward with our studies and beyond, to action -- evolving arrangements which will continue to meet the needs of a fast growing world economy. Unless we can make timely progress, international monetary difficulties will exercise a stubborn and increasingly frustrating drag on our policies for prosperity and progress at home and throughout the world."

In taking office, I described this as "the major task facing our Treasury and the financial authorities of the rest of the Free World in the next few years."

In recent weeks we have moved beyond the plane of hope and technical studies toward the prospect of more conclusive negotiations from which alone solution can emerge. I met last week with the British Chancellor of the Exchequer James Callaghan and we exchanged preliminary and tentative views on the subject of international liquidity.

Next week I hope to have the pleasure of informal discussions with the Japanese Minister of Finance, Takeo Fukuda, in connection with the Joint Cabinet sessions of the U. S. - Japan Committee on Trade and Economic Affairs.

Both before and after the scheduled meeting of the International Monetary Fund and World Bank in late September, I expect to visit ranking financial officials of other Group of Ten countries, to ascertain firsthand their views on the most practical and promising ways of furthering progress toward improved international monetary arrangements. We must not only be prepared to advance our own proposals, but to carefully consider and fairly weigh the merits of other proposals. As Congressman Robert Ellsworth of Kansas in discussing this subject recently remarked:

"We must appreciate that if we wish a strong Europe it must be a Europe strong enough to look upon an American proposal as merely one among many possible solutions -- all of which will be reviewed together. If we wish their partnership, we must treat them as partners."

Already your government is engaged in an intensive internal preparation for these bilateral meetings and multi-lateral negotiations that should follow. In addition, so that the government may have the benefit of some of the expertise and experience outside the government in this highly technical area, President Johnson has accepted my recommendation and announced creation of an Advisory Committee on International Monetary Arrangements which includes as its Chairman the former Secretary of the Treasury, Douglas Dillon, and a distinguished group of experts including Robert Roosa, former Under Secretary of the Treasury for Monetary Affairs; Kermit Gordon, former Director of the Bureau of the Budget; Edward Bernstein, economic consultant specializing in international monetary policy; Andre Meyer, of the investment banking firm of Lazard Freres; David Rockefeller, President of the Chase Manhattan Bank, and Charles Kindleberger, Professor of Economics at Massachusetts Institute of Technology.

With their help and that of many others who will be consulted including, particularly, many well informed members of the appropriate committees of Congress, we shall constantly seek a comprehensive U. S. position and negotiating strategy designed to achieve substantial improvement in international monetary arrangements thoroughly compatible with our national interests. In the various proposals which have and will be made we must determine those which will be acceptable to the United States, those which are entirely unacceptable, and those which may well be appropriate for negotiation.

There will be an initial meeting of the Advisory Committee on International Arrangements on July 16. Hearings are planned before the International Finance Subcommittee of the House Banking and Currency Committee under the Chairmanship of Congressman Henry Reuss of Wisconsin to obtain various private and organizational points of view. These hearings and the reports of the Committee will be of great value, together with those of the Joint Economic Committee of Congress and the International Finance Subcommittee of the Senate Banking and Currency Committee under the Chairmanship of Senator Edmund Muskie of Maine.

I am privileged to tell you this evening that the President has authorized me to announce that the United States now stands prepared to attend and participate in an international monetary conference that would consider what steps we might jointly take to secure substantial improvements in international monetary arrangements. Needless to say, if such a conference is to lead

to a fruitful and creative resolution of some of the free world's monetary problems, it must be preceded by careful preparation and international consultation.

To meet and not succeed would be worse than not meeting at all. Before any conference takes place, there should be a reasonable certainty of measurable progress through prior agreement on basic points.

Our suggestion is that the work of preparation be undertaken by a Preparatory Committee which could be given its terms of reference at the time of the annual meeting of the International Monetary Fund this September.

The United States is not wedded to this procedure nor to any rigid timetable. I shall exchange views with my colleagues in Europe and elsewhere, as well as with the senior officials of the International Monetary Fund, on how best to proceed. The point I wish to emphasize here is that the United States is determined to move ahead -- carefully, deliberately -- but without delay. Not to act when the time is ripe can be as unwise as to act too soon or too hastily.

We are, therefore, moving ahead -- and we are making progress. But we must be aware that the issues involved are complex, and they raise basic questions of national interest. It is not, therefore, easy to arrive at the degree of international consensus we must have for any workable reform of the international monetary system. We can expect no overnight solution -- but only patient exploration of the alternatives with our trading partners in a spirit of mutual cooperation. This is the course we are now pursuing.

As we move ahead, we will do well to remember that the existing international financial system has successfully financed an unparalleled expansion in world trade and payments. We have also done much in recent years to strengthen that system. The need now is not to start all over again, to move in a completely new direction. Rather, we must move once more to strengthen and improve the existing arrangements.

And while we proceed solidly and surely toward international agreement on the problems of world liquidity, we in this country must keep ever before us the present and pressing need to protect

the existing international payments system by maintaining a strong, sound and stable dollar. First things must come first. We are bringing our own payments into equilibrium and we must keep them in equilibrium. By resolutely shouldering that responsibility we will preserve the foundation upon which must rest all efforts to assure free world growth in the years ahead-- the monetary system that has served the free world so well in the past.

LA POLITIQUE MONETAIRE INTERNATIONALE DE LA FRANCE

Conférence de M. Valéry GISCARD d'ESTAING,
Ministre des Finances et des Affaires Economiques,

à l'Institut d'études bancaires et financières

- PARIS, le 15 juin 1965 -

Monsieur le Président, Mesdames, Messieurs,

Je me réjouis de l'honneur que me fait l'Institut d'études bancaires et financières en m'invitant à traiter devant vous un problème qui est certainement au centre de la réflexion financière internationale.

L'initiative prise par votre Institut est heureuse. Elle a permis de réunir à Paris un certain nombre d'orateurs ou de penseurs parmi ceux qui ont la responsabilité d'informer l'opinion mondiale de la réalité du problème monétaire. Etant, je crois, le dernier à intervenir dans ce débat, j'en éprouve à la fois l'avantage et la difficulté. L'avantage est de nature tactique puisque je peux commenter à loisir les propositions de ceux qui m'ont précédé à cette tribune ; la difficulté, manifestement la plus grande en cette matière, est de conclure.

Je voudrais également faire une remarque, si vous me le permettez, sur la position particulière d'un Ministre des finances lorsqu'il traite de ce sujet. Il a d'abord la difficulté matérielle de dégager le temps de réflexion nécessaire à la fois pour approfondir la pensée et pour perfectionner la forme. L'un et l'autre seraient souhaitables pour ne pas paraître devant vous moins compétent que les experts. Il est vrai cependant que ceux-ci m'ont facilité la tâche puisqu'ils ont fort judicieusement présenté des vues opposées. Enfin, les propos d'un Ministre des Finances engagent l'action et doivent être pesés et énoncés, compte tenu de cette caractéristique particulière;

Je ferai devant vous la deuxième partie de l'exposé que j'ai commencé le 11 février dernier devant l'auditoire sympathique et rafraichissant des étudiants en droit. J'avais traité alors de la nécessité de la réforme du système monétaire international. Je voudrais aujourd'hui parler des modalités de cette réforme.

Avant de le faire, deux observations préalables s'imposent. Il convient en premier lieu de donner acte à ceux qui ont eu le mérite d'ouvrir le débat, et certains d'entre eux sont dans cette salle et tout près de moi, de ce qu'ils ont secoué le conformisme pesant et périlleux qui planait sur le système monétaire mondial et qui interdisait, en fait, à qui que ce soit, même dans l'enceinte appropriée, c'est-à-dire lors des débats annuels du Fonds monétaire international, de soulever quelque problème ou quelque interrogation sur le fonctionnement de ce système. Le fait d'avoir ouvert le débat est en soi un résultat considérable. Je puis dire que le préalable de l'obscurantisme est levé.

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La deuxième observation, c'est que nous devons constater l'imprécision et l'équivoque d'un certain nombre de données de base. Quelle que soit l'importance de la matière, quelle que soit la minutie des études conduites à son sujet, force nous est de reconnaître qu'il subsiste encore des imprécisions ou des équivoques graves. J'en citerai deux exemples, à propos de l'opinion commune concernant la nature des liquidités internationales, d'abord, de l'opinion également commune sur le montant jugé souhaitable de ces liquidités, ensuite.

Certes, les spécialistes du sujet ont analysé ces notions ; mais ni leur travail, ni la décantation de la matière qui en est le résultat n'ont permis jusqu'ici d'accéder à une conscience claire du débat si bien qu'il reste encore une méconnaissance, me semble-t-il, de la nature véritable des liquidités : la distinction est insuffisamment faite entre celles de ces liquidités qui correspondent à des encaisses et celles qui correspondent à des moyens de crédit ; les unes et les autres doivent relever de raisonnements et d'argumentations entièrement différentes. Et l'imprécision de cette distinction dans leur nature affecte forcément le jugement sur le montant souhaitable des liquidités internationales.

D'où la présentation de mon exposé : définir aussi clairement que possible les besoins de liquidités internationales, ensuite rappeler la place centrale de l'or dans le système monétaire international, pour aboutir enfin à la question : faut-il compléter l'or ?

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Je traiterai d'abord les liquidités monétaires internationales en m'excusant de donner à ce passage de mon exposé un caractère pseudo-professoral inévitable dès lors que l'on veut préciser, ou plus exactement affirmer, un certain nombre de notions.

Ces liquidités se composent d'éléments qui sont, fondamentalement différents selon qu'il s'agit des réserves, ou selon qu'il s'agit des facilités de crédit.

Les réserves proviennent d'un acte économique ou financier qui en fait des réserves "gagnées", soit qu'elles proviennent d'exportations ou de ventes de services, soit qu'elles correspondent ~~à des transactions invisibles~~ ~~à des~~ à des mouvements de capitaux en faveur des pays intéressés. Elles sont l'expression de la contrevaletur d'une prestation ~~économique~~ et peuvent être comparées aux encaisses des agents de l'activité économique. Sans doute existe-t-il dès à présent des techniques permettant une création délibérée de réserves additionnelles. Ce sont par exemple les dépôts croisés que les Banques se font entre elles en certaines occasions. Ces opérations qui ont, comme vous le savez, une durée limitée et un dénouement obligatoire sont toujours effectuées sur la base des encaisses existantes et ne permettent de les accroître que de façon provisoire.

A ces réserves s'ajoutent les facilités de crédit que dans le langage très particulier du Fonds monétaire international on appelle les "liquidités conditionnelles". Elles sont, en effet, conditionnelles en ce sens que leur obtention n'est pas automatique. Elles doivent être, en règle générale, négociées avant d'être obtenues. Elles sont temporaires. Elles ne peuvent être obtenues qu'en cas de déficit et elles n'intéressent donc pas les pays qui ont une encaisse normale par rapport à leur activité économique. Enfin, elles n'opèrent en général qu'un transfert provisoire de ressources entre les pays créditeurs et les pays débiteurs.

Si j'insiste sur cette différence, et vous retrouverez cette insistance dans plusieurs phrases de mon exposé, c'est parce que je crois que le raisonnement global qui nous est souvent proposé résulte d'une confusion tenant soit à l'insuffisante analyse du problème, soit, au contraire, à une attitude délibérée. Ces deux formes de liquidités répondent manifestement à des besoins différents. Les réserves possédées, au sens auquel ce terme s'applique actuellement à des pays comme la France et l'Allemagne fédérale, sont des encaisses désirées au sens de l'analyse keynésienne et correspondent à des motifs de précaution et de liquidité. En fait, elles existent sans que l'on ait nécessairement à s'en servir et sans qu'on puisse, j'y reviendrai, fixer à leur montant un volume ou une valeur absolument rigoureuse. Les facilités de crédit sont tout autres. A un moment donné, elles n'existent qu'à l'état potentiel. Elles ne se distinguent pas de l'usage qu'on en fait, c'est-à-dire qu'elles ne sont créées que pour couvrir des déficits, à l'initiative et au bénéfice des pays déficitaires.

Il faut donc en conclure, et en conclure nettement, que ces deux formes de liquidités appartiennent à des ordres différents, ne répondent pas aux mêmes besoins, ne ressortissent pas aux mêmes types de décisions et doivent donc être traitées par des institutions distinctes. Je réponds ainsi à l'avance, et j'y reviendrai, à certaines suggestions faites notamment par l'éminent Directeur général du Fonds Monétaire International, qui, animé du désir normal que son institution couvre l'ensemble des problèmes monétaires mondiaux, embrasse dans une même vue les réserves possédées, c'est-à-dire les encaisses et les facilités de crédit.

Quels sont les besoins que les liquidités internationales financent ? C'est une question qu'il convient de se poser avant de savoir si ces besoins sont ou non suffisamment couverts à l'heure actuelle. Le volume des liquidités internationales peut être apprécié à la fois à travers les besoins individuels des Etats et en même temps, d'une façon d'ailleurs plus difficile à définir, en fonction des besoins globaux de l'économie mondiale.

Elles financent d'abord manifestement les besoins individuels des Etats, comme toute encaisse, c'est-à-dire des besoins qui peuvent résulter des fluctuations dans le temps entre les recettes et les dépenses extérieures, fluctuations liées à la structure de la balance des paiements de chacun des pays. Ces besoins peuvent naître également des déficits des paiements courants résultant d'une évolution adverse des positions commerciales. Enfin, ces liquidités couvrent les besoins correspondant aux mouvements de capitaux dont l'évolution peut être massive et soudaine. On peut donc dire que les besoins individuels correspondent à ce qu'il est nécessaire d'avoir comme ressources avant que le courant défavorable qui s'observe ait pu être renversé. Et c'est pour cela que l'on considère dans un jugement sans doute approximatif, que plus les liquidités sont larges, moins les mesures internes de rééquilibre devront être brutales et plus le pays disposera de temps pour procéder aux ajustements nécessaires. Le jugement que l'on est amené à porter sur la base de ces éléments n'a de signification que par rapport à la situation particulière d'un pays déterminé et n'est pas lié à une évaluation des besoins mondiaux de liquidités.

4.

A ces besoins individuels des pays se superposent en effet de façon plus diffuse les besoins globaux de l'économie mondiale qui ne correspondent pas nécessairement à la somme de besoins individuels fluctuants et mal connus. On peut tenter de déterminer ces besoins globaux par des critères se référant par exemple à l'importance du commerce international ; mais ce besoin global du monde en liquidités, on ne le perçoit, en réalité, que d'une façon indirecte lorsqu'on constate une réticence généralisée des pays à perdre leurs réserves. Cette réticence, plus ou moins forte, et qui nous permet de retrouver la notion et l'analyse qui s'appliquent aux encaisses désirées, montre qu'il existe à un moment dans le monde une certaine appréciation, ou la convergence de certaines appréciations, concernant le montant des liquidités existantes.

On comprend dans ces conditions que l'appréciation sur le montant des liquidités mondiales diffère suivant que l'on pense à l'une ou à l'autre de ces deux catégories de besoins, c'est-à-dire aux besoins individuels ou aux besoins globaux.

Or la tendance s'est répandue dans la pensée financière internationale, et s'est répandue d'ailleurs récemment, à apprécier les besoins de liquidités uniquement en fonction de la situation particulière d'un certain nombre de pays en situation de déficit. En fait, il peut y avoir absence de déficits et insuffisance de liquidités, de même qu'il peut y avoir, et c'est ce que nous observons aujourd'hui dans le monde, des liquidités surabondantes accompagnées d'un déficit massif de la balance des paiements d'un ou de plusieurs pays. Pour comprendre que ces deux situations peuvent se produire, il faut prendre des schémas extrêmes. Dans un premier schéma les transactions mondiales seraient rigoureusement équilibrées sur un plan bilatéral. Il n'y aurait donc ni déficit ni excédent et, cependant, chacun des pays pouvant avoir à ce moment là une opinion subjective concernant le montant de son encaisse, on estimera que les liquidités internationales sont ou non suffisantes, suivant que les encaisses correspondront ou non à ces opinions subjectives. On peut imaginer au contraire un second schéma dans lequel un certain nombre de pays trouveraient leurs réserves parfaitement suffisantes sans pour autant accepter d'en laisser le montant diminuer et dans lequel un certain nombre d'autres pays, en déficit de balance des paiements, ressentiraient de ce fait une insuffisance de liquidités qui les conduirait à des mesures de redressement trop sévères. Cette situation révélerait en réalité une mauvaise répartition des liquidités dans le monde bien plus qu'une insuffisance globale de ces liquidités. C'est d'ailleurs ce que l'on a observé à deux reprises, en 1945 quand les liquidités internationales étaient concentrées à l'excès aux Etats-Unis d'Amérique, et aujourd'hui, en sens inverse, où certainement les réserves de la Grande-Bretagne ont atteint un niveau sensible. Dans ce cas, le problème qui se pose est un problème de redistribution et non un problème de création. Les mal pourvus doivent, pour compenser des déficits passés, gagner des réserves sur ceux qui sont mieux pourvus. Ceux qui sont mieux pourvus doivent, par des mécanismes appropriés ou par une inflexion de leur politique financière, se prêter à cette évolution.

D'où, au terme de cette première réflexion, un certain nombre de conclusions.

D'abord, il n'appartient pas aux pays en déficit d'évaluer seuls, et encore moins de déterminer seuls, les besoins du monde en liquidités à un moment déterminé.

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Ensuite, il ne faut pas apprécier le montant des liquidités mondiales à un instant donné sans apprécier en même temps l'utilité des transactions qu'elles servent à financer. J'ai dit tout à l'heure que ces liquidités servaient au règlement des opérations commerciales et aussi des opérations financières. Si l'on estimait par exemple que celles-ci atteignaient en elles-mêmes un montant trop élevé, il y aurait quelque illogisme à fonder un jugement sur le montant souhaitable des liquidités mondiales en considérant ces transactions financières comme une donnée intangible. On peut estimer qu'il convient de décourager certaines opérations de cette nature, au lieu de chercher à en faciliter le financement.

Il faut enfin, et c'est presque plus difficile puisque cela porte sur une attitude de l'esprit, rejeter un raisonnement qui prendrait pour point de départ la constatation et l'importance des déficits. Ce serait là une sorte de déviation de la pensée qui, comme souvent dans ces matières, suit l'évolution naturelle des faits au lieu de les dominer. Tel a bien été le cas des dix dernières années. Il est en effet très frappant de penser, si on se réfère à la littérature officielle d'alors, qu'il y a dix ans, personne ne confondait le problème des liquidités mondiales avec celui de la situation déficitaire de tel ou tel pays. La France peut le dire puisqu'elle a elle-même connu une telle situation. Il ne faut donc pas établir aujourd'hui une relation artificielle entre déficits et liquidités, alors qu'on pourrait imaginer une approche tout à fait différente partant de l'analyse du comportement des pays créditeurs.

Il ne faut pas enfin affirmer sans autre examen qu'il y a un parallélisme nécessaire entre les besoins de réserves possédées et le développement des échanges dans le monde. Il existe certainement une corrélation entre les deux, mais il ne faut pas oublier que le financement des échanges dans le monde repose actuellement d'une façon effective sur la création de moyens monétaires, mais de moyens monétaires internes. Le financement du commerce international s'appuie sur la création monétaire interne et seule la trésorerie des paiements est externe. Ceci permet de faire justice de la présentation parfois caricaturale donnée de la pensée de certains financiers - je pense à M. RUEFF qui, cependant, est certainement de taille à se défendre lui-même - suivant laquelle le fait de ne retenir qu'une quantité faiblement croissante de réserves sur le plan international est en contradiction manifeste avec la nécessité de financer le développement des échanges. Cela serait vrai s'il n'y avait pas les instruments de crédit internes qui sont extrêmement puissants et souples et de qui dépend précisément en dernière analyse le financement de ces échanges. Aussi bien peut-on simplement considérer qu'il y a corrélation entre le montant des encaisses et le niveau des opérations dans le monde, mais simplement corrélation, car nous savons que dans le cadre d'une économie interne, les mouvements d'encaisses désirées peuvent, suivant l'état de la conjoncture, n'être pas du tout identiques, et sont parfois même en sens contraire de l'évolution de l'activité.

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Après ces réflexions qui soulignent les dangers qu'il y a à identifier le problème monétaire mondial et la solution des déficits particuliers, j'en viens à la position française concernant la façon de répondre aux besoins de liquidités en supposant que ceux-ci ont été au préalable exactement appréciés.

Je parlerai d'abord de l'or avant de parler de tout autre type de réserves internationales car, au centre du système monétaire international, nous trouvons l'or et nous ne pouvons trouver que l'or. Je voudrais rappeler le rôle considérable que joue l'or dans le système monétaire international actuel. Dans le débat tel qu'il est porté sur la place publique, ceux qui évoquent le rôle de l'or donnent parfois l'impression de chercher à restaurer la fonction monétaire de l'or. C'est mal connaître le fonctionnement du système monétaire international tel qu'il existe. En fait, le rôle de l'or est capital à la fois sur le plan théorique et sur le plan pratique.

Il l'est sur le plan théorique puisque le système du Gold Exchange Standard - et je n'utilise cette expression qu'avec des difficultés qui tiennent à la fois à la prononciation et à la compréhension des termes - repose sur le principe de monnaies de réserve à tout moment et librement convertibles en or par les banques centrales. Notre système monétaire international est actuellement, je ne dirais pas encombré, mais caractérisé par un grand nombre de références juridiques à l'or. Toutes les monnaies sont, soit définies par un poids d'or, soit, ce qui revient au même, par une équivalence en dollars, mais en dollars "du poids et du titre en vigueur au 1er janvier 1944". La preuve que ce rôle existe, c'est que fonctionne actuellement - et ce n'est pas à notre initiative - un pool de l'or géré par les banques centrales. L'action collective de ces institutions financières a pour objet d'éviter que le prix de l'or sur le marché de Londres ne fasse apparaître une dépréciation de fait des devises par rapport à l'or. La création de ce pool et le désir de le maintenir en activité sont une illustration concrète de l'importance reconnue à l'or dans le monde.

Une deuxième illustration est l'attitude à l'égard du déficit des Etats-Unis d'Amérique. Ce déficit qui se prolonge a été accueilli au début avec une indifférence logiquement inexplicable, mais psychologiquement justifiée dans la mesure où l'esprit humain, toujours tourné vers le proche passé, songeait à la période où la proportion entre le montant des dollars et le stock d'or des Etats-Unis ne donnait lieu à aucune interrogation. Mais il est frappant d'observer que l'inquiétude est apparue partout, et notamment en Amérique, lorsque le montant des engagements extérieurs a tendu à rejoindre puis à dépasser le montant du stock d'or des Etats-Unis. C'est assez dire que le changement de climat qui est observé dans le monde tient bien au fait - et permet de le vérifier - que l'or reste au centre du dispositif ; c'est certainement le sens du programme du Président Johnson qui a exposé dans sa déclaration fondamentale qu'il souhaitait que le dollar demeure "as good as gold"

Mais indépendamment de ces aspects juridiques, il faut rappeler également que l'or ne dort pas dans les banques centrales et qu'il participe activement aux règlements effectifs. Les banques centrales procèdent pratiquement tous les jours à des règlements entre elles ou avec des organismes tels que le Fonds monétaire international ou la Banque des règlements internationaux. Ces opérations d'achat, de vente, de virements de dépôts à vue ou à terme, de paiements d'intérêts, de commissions, donnent toujours lieu à une détention finale ou à un transfert du métal. Il n'est donc pas question de proposer un retour à l'or, mais de savoir s'il convient de maintenir l'or au centre du système. Nous le pensons quant à nous. Nous estimons que l'or doit être au centre d'un système monétaire international rénové. Pourquoi le conserver ? Comme l'a souligné le Président de la République dans sa déclaration du 5 Février, parce que c'est un élément unique qui ne change pas de nature, qui n'a pas de nationalité, qui est tenu éternellement et universellement pour la valeur fiduciaire par excellence. Aussi parce qu'en l'absence de souveraineté mondiale en matière financière - et personne ne propose avec quelque réalisme de l'instituer - c'est le seul facteur d'impartialité et d'objectivité dans les rapports financiers internationaux à l'opposé des systèmes qui sont fondés sur l'accumulation de monnaies ou sur l'accumulation de formes de crédit international. Enfin, parce que, même si on le voulait, on ne pourrait sans doute pas éviter que la référence à l'or soit pour l'opinion la pierre de touche du système, et que, donc, une attitude d'éloignement à son égard n'entraîne le sentiment d'un affaiblissement immédiat ou lointain du système monétaire international.

Selon quelles modalités faut-il maintenir ce rôle de l'or ? Il y a à ce sujet des thèses différentes qui vont de l'usage intégral et exclusif de l'or à des systèmes plus nuancés tels que celui que je me propose de vous décrire.

Je pense en effet que l'or ne peut pas suffire à tout. S'il est sans nul doute la base sur laquelle il faut construire, l'édifice doit faire appel à d'autres matériaux. Par une sorte de renversement de l'affirmation pascalienne, et précisément nous voici dans une matière qui s'y prête, ce qui est le centre ne peut pas être en même temps la périphérie. D'abord l'or est un instrument qui, à certains égards, est incommode et onéreux. Sa manipulation, son transport, son apparence ne se prêtent pas à l'instantanéité et à l'économie qui doivent être la règle des transactions financières internationales. Dans un système qui doit être à la fois solide et souple, solide puisqu'il doit fournir l'étalon de valeur, souple parce qu'il doit s'adapter aux fluctuations de l'économie mondiale, le rôle qui revient en propre à l'or et qu'il doit continuer d'assumer, c'est d'assurer la stabilité. Les autres formes possibles de réserves possédées et les divers types de crédit international peuvent être adaptés au fur et à mesure à tous les types de nécessité. L'or doit rester au contraire l'étalon de référence présent et immuable.

C'est ici que l'on rencontre le problème du prix de l'or. C'est une question qu'il convient de toute évidence de se poser, avec les précautions inévitables au moment où l'on envisage de jeter les bases d'un système rénové. C'est précisément la nécessité logique de réévaluer très sensiblement le prix de l'or, si l'on voulait aboutir à un système dans lequel il serait l'élément unique, qui conduit à rechercher des solutions alternatives. Je voudrais en effet rappeler qu'une réévaluation sensible du prix de l'or ne résoudrait pas tous les problèmes et en même temps comporterait un certain nombre d'inconvénients sérieux. Je dis qu'elle ne résoudrait pas tous les problèmes, dans l'état actuel où ils se posent, car les pays à monnaies de réserve bénéficieraient d'une forte revalorisation de leurs avoirs alors que leurs engagements resteraient inchangés. Dans une première phase, on assisterait donc vraisemblablement à un relâchement des efforts qu'ils ont enfin entrepris pour équilibrer leurs comptes extérieurs. D'autre part, rompant un certain nombre d'engagements tout à fait solennels auxquels des pays étaient fondés à croire, et en fonction desquels ils ont été conduits à ajuster leur propre attitude, on assisterait à une répartition des sacrifices très inégale, et donc à une source de litiges qui serait un facteur de désordre dans les relations monétaires internationales. Enfin, la hausse du prix de l'or, la hausse massive du prix de l'or, apporterait à tous ceux qui ont choisi de ne pas participer normalement à la vie financière internationale une prime sur les conséquences morales de laquelle il convient malgré tout de s'interroger. Mon sentiment est que le problème essentiel est celui du prix de l'or et qu'on ne peut prétendre, en le modifiant, résoudre par ce seul moyen les difficultés actuelles.

A ce propos, je voudrais souligner qu'on ne peut souscrire à l'attitude intellectuelle qui consiste à refuser la hausse du prix de l'or, mais à accepter le maintien d'avantages ou de facilités préférentielles aux autres éléments de réserves possibles. Car, sur ce sujet, nous voyons recourir successivement à deux raisonnements parfaitement contradictoires. Le premier raisonnement consiste à dire que les avoirs monétaires des banques centrales n'ont qu'une valeur conventionnelle. Ces avoirs ne sont pas des marchandises, le prix auquel ils sont échangés est un prix convenu et si le changement de ce prix comporte des inconvénients, rien n'oblige à procéder à cette modification. Si l'on tient un tel raisonnement, on doit l'étendre à l'ensemble des réserves détenues par les banques centrales, c'est-à-dire à leurs avoirs en monnaies de réserve, mais on ne peut tenir en même temps le raisonnement selon lequel ces avoirs en devises sont des éléments représentatifs de ressources réelles, qu'on peut faire fructifier à l'extérieur et auxquelles on peut servir un intérêt. Il faut adopter, concernant la nature des réserves possédées, une attitude intellectuelle unique : si on estime qu'elles ont en réalité un caractère largement conventionnel, celui-ci doit s'étendre à tout et il faut donc mettre fin à la rémunération des avoirs en devises détenus par les banques centrales, qui est un élément permanent de perversion du système.

Je voudrais, après avoir rappelé les inconvénients qui amènent en tout état de cause à réfléchir gravement sur ce point d'une revalorisation du prix de l'or, être très net dans l'affirmation suivante: l'évolution du système monétaire international actuel conduira inévitablement à un changement. Si l'on refuse une des branches de ce changement -et il n'est pas douteux qu'une réévaluation du prix de l'or en constitue une branche -il faut alors s'engager à établir un système nouveau de paiements internationaux. Si l'on refusait de s'engager dans cette seconde voie, et si l'on restait dans une attitude de longue expectative, il ne faut pas avoir d'illusion: la force de l'évolution ferait sauter elle-même les barrières et démentirait en son temps les affirmations les plus catégoriques.

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Ce raisonnement nous conduit à penser qu'à l'or, centre du système, il faut s'efforcer d'ajouter un dispositif complémentaire. Ce sont des plans de cette nature qui vous ont été proposés par deux orateurs précédents ; il me revient, et j'espère qu'ils ne m'en feront pas le reproche personnel, de dire les raisons pour lesquelles nous ne pouvons souscrire ni à l'un ni à l'autre.

Le plan présenté par M. BOBBA nous paraît reposer sur un instrument prématuré dans un système critiquable. C'est un plan de caractère régional qui repose sur la création, assurément souhaitable, mais qui n'est pas à échéance immédiate, d'un instrument monétaire européen qui trouverait sa place dans le concert - quelque peu dissonant actuellement - des monnaies de réserve internationales. Si nous critiquons aujourd'hui ce système, si nous ne nous associons pas à son fonctionnement, ce n'est pas pour préparer l'avènement d'une nouvelle monnaie de réserve lorsque la zone régionale à laquelle nous appartenons disposerait d'un instrument capable de jouer ce rôle. Si l'unification monétaire européenne est souhaitable et constitue le couronnement inévitable des politiques de rapprochement commercial agricole et industriel, actuellement en cours, nous n'envisageons pas de gérer l'instrument monétaire européen selon de telles vues.

Quant au plan présenté par le Directeur général du Fonds monétaire international, il me paraît reposer sur des instruments ambigus maniés dans un cadre inapproprié. Les instruments sont ambigus parce que le Directeur général du Fonds monétaire international a laissé pressentir une insuffisance prochaine des liquidités internationales. Or nous ne partageons pas sur ce point son analyse ; il n'y a pas de signe qu'on voie apparaître un risque d'insuffisance des liquidités internationales - je dirais plutôt que les signes contraires ne manquent pas - et même s'il y avait insuffisance des liquidités nous ne pourrions pas nous rallier à un système dans lequel les liquidités nécessaires seraient créées par l'intermédiaire d'un instrument et par le recours à des techniques conçues pour financer des déficits. Ce serait d'une part enlever aux interventions du Fonds monétaire international leur caractère conditionnel, qui en constitue presque l'intérêt essentiel ; ce serait, d'autre part, créer un singulier encouragement au déficit. Quant au cadre, il est certainement inapproprié : le Fonds monétaire international compte actuellement 102 membres, les pays à monnaies de réserve ne sont guère actuellement qu'au nombre de deux, dont l'un à une position dominante et il ne paraît pas sérieux de passer d'un seul coup du système d'une monnaie de réserve à un système qui supposerait la conciliation de 102 souverainetés monétaires. Cela n'est assurément pas réalisable. De plus, nous pensons qu'on ne doit créer de la monnaie qu'avec difficulté. Les tentations de l'inflation sont très fortes et ce n'est pas un privilège de l'opinion française qui y a longtemps succombé mais qui s'en défait peu à peu. Il existe dans le monde une espèce de démagogie inflationniste et il faut donc que ce soit à un groupe de pays peu nombreux et disposant d'institutions financières homogènes que revienne la responsabilité de décider, à l'unanimité, de la création de disponibilités additionnelles. Enfin, tout ce qui n'est pas de l'or est une créance et on ne peut imaginer à cet égard de créances - et surtout comme ce devrait être le cas de créances à caractère permanent ou quasi permanent - que sur des pays dont la solvabilité ne fait aucun doute.

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Les experts français, pour leur part, ont soumis un ensemble de propositions à la discussion commune de ceux qui se préoccupent de la réforme et de l'assainissement du système monétaire international. Ces propositions sont au nombre de trois.

La première consiste à maintenir le système des facilités de crédit conditionnel du Fonds Monétaire International tel qu'il fonctionne actuellement et tel qu'il devra bien entendu être adapté à l'évolution du monde.

La deuxième tend à perfectionner le système des ajustements et de la distribution des réserves possédées. A cet égard, les observations qui ont été présentées hier par le Président de la Banque des règlements internationaux, M. HOLTROP, sont tout à fait pertinentes, et nous avons quelque mérite à le reconnaître, puisque nous appartenons à la catégorie des nations fortement créditrices. Il est certain qu'un fonctionnement harmonieux des institutions monétaires internationales suppose que le système oscille autour de l'équilibre et exclue des positions créditrices et débitrices extrêmes. Nous nous étonnons de voir que ce problème de la distribution des réserves n'ait pas la priorité sur celui de la création de liquidités additionnelles. Il est évidemment des techniques auxquelles nous ne pouvons pas souscrire et notamment celle qui a été présentée par M. SCHWEITZER. Nous ne pourrions être partisans d'une redistribution qui résulterait de l'inflation. C'est par des techniques très différentes, et déjà expérimentées, que l'on doit ramener à l'équilibre les balances des paiements extérieurs trop fortement créditrices. On peut ouvrir son marché à des emprunts extérieurs, favoriser les investissements à l'étranger, procéder à des ajustements de la politique économique ou, comme l'a fait, par exemple, l'Allemagne fédérale, des tarifs douaniers. On peut également songer, sans qu'il faille exagérer la portée de cette mesure, à élargir les marges de fluctuation actuelles des cours de change autour de la parité.

Notre troisième proposition consiste à créer éventuellement, c'est-à-dire en cas d'insuffisance des réserves possédées, des moyens monétaires supplémentaires. Quels sont les avantages de ce système et quels en sont les inconvénients ?

Le premier avantage, c'est qu'il s'agirait d'une création en fonction des besoins globaux et non pas en fonction des déficits individuels ; c'est donc d'apporter une solution au problème des réserves possédées indépendamment de la couverture du déficit de tel ou tel pays débiteur. C'est aussi de permettre par le mécanisme que nous proposons, des décisions à l'unanimité écartant largement le risque de facilité qui s'attache à toute création monétaire. C'est enfin d'établir un lien étroit avec l'or, c'est-à-dire une homogénéité du système monétaire international qui ne puisse être rompue.

Les inconvénients sont ceux que certains orateurs ont déjà présentés, Ils résultent de la substitution d'une décision rationnelle à une constatation matérielle ; l'esprit humain est moins déterminé, moins certain, moins assuré - le système monétaire international actuel nous en donne la preuve - que ne peut l'être un étalon dont la rigidité et la constance s'imposeraient à tous. Pour ma part, je ne retiens pas entièrement cette critique : dès lors que les décisions devraient être prises à l'unanimité, la divergence des intérêts peut tenir lieu de sagesse et l'histoire du monde n'est-elle pas un triomphe du jugement sur la matière. Il n'y a pas lieu de croire que la matière monétaire échappera à cette longue histoire du progrès.

Comment les unités de réserve collectives, dont nous avons envisagé l'institution seraient-elles créées ? Sur le plan technique, plusieurs solutions peuvent être retenues : celle qui serait la plus simple, celle qui permettrait en tout cas de se faire une idée immédiate du dispositif, est la formule des dépôts. Ces dépôts croisés assureraient d'abord un gage à l'opération et illustreraient la référence donnée à l'or dans tout le dispositif. On retrouverait cette référence dans la distribution de ces unités en l'effectuant au prorata des avoirs en or. Les unités ainsi créées remplaceraient partiellement l'or dans tous ses emplois entre les pays participants. Tout se passerait comme si les règlements entre banques centrales se faisaient dans une proportion uniforme d'unités de réserves collectives et d'or. L'on retrouverait pas ce biais l'inspiration de la Conférence de Gênes. Ce que la Conférence de Gênes avait voulu, et avec quelque sagesse, c'était économiser l'usage de l'or; elle a échoué - et la démonstration en a été suffisamment faite pour que je n'y revienne pas - en ce que cette idée simple de l'économie de l'usage de l'or a été déviée en une substitution à l'or, dans ses usages monétaires, de devises qui ne présentent pas des conditions équivalentes de gage ou de création.

A partir du moment où l'on établirait cette proportion uniforme entre l'or et l'unité de réserve collective, c'est bien une économie de l'usage de l'or qui en découlerait et non un changement dans les modalités d'utilisation de l'or. Les unités de réserve collectives constitueraient en quelque sorte un "ticket majorateur" au stock d'or détenu par les Etats. Le dispositif établirait ainsi un lien proportionnel et uniforme avec l'instrument de réserve fondamental. Il aurait une base de distribution objective. Indépendant des déficits, il distinguerait très nettement les deux appréciations possibles de la situation financière mondiale : celle faite à partir de la situation particulière de certains Etats, et celle faite à partir des besoins globaux de l'économie mondiale. Ce dispositif ne rencontrerait pas les limites qu'a trouvées le système actuel car il rendrait pratiquement impossible une accumulation extrême d'unités de réserve additionnelles entre les mains d'un seul partenaire puisque ceci supposerait que ce pays ait en même temps acquis à lui seul tout l'or du monde. Il accroîtrait la discipline internationale. Enfin, c'est un système qui n'encourrait pas le reproche d'accroître l'hétérogénéité du système international puisqu'il souderait étroitement et dans des proportions uniformes pour tous les participants les instruments utilisés.

Certes, dans sa présentation, un tel dispositif peut soulever des difficultés ; je souhaite qu'elles ne soient pas utilisées contre lui avec complaisance et inexactitude. On nous dit, en effet : "c'est un système dans lequel la création monétaire est confisquée par les quelques pays qui jouent un rôle monétaire dans le monde". C'est, par rapport à la situation actuelle, une affirmation plaisante puisqu'aujourd'hui la création monétaire dans le monde repose largement sur un seul Etat ; le fait de passer de un à six, huit ou dix représenterait déjà à cet égard une évolution dans le sens d'un meilleur équilibre. Je pense d'ailleurs qu'un dispositif de ce genre doit être ouvert par nature à ceux dont l'évolution monétaire les amènerait à participer plus activement aux transactions financières internationales de même, à mon avis, qu'il devrait se fermer à ceux qui connaîtraient une évolution inverse. Il faut rappeler en dernier lieu que les pays intéressés fournissent actuellement par an au tiers monde des crédits qui représentent plus de six milliards de dollars. Néanmoins, sensibles à cette argumentation, nous avons, en ce qui concerne les pays en voie de développement, des idées complémentaires que je me réserve de développer à Washington au mois de septembre prochain.

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Voici les réflexions et les propositions qu'inspire au Gouvernement français le système monétaire international. Constatons d'abord qu'un progrès décisif a été fait depuis deux ans : un sujet resté jusque-là tabou est enfin discuté, et même largement discuté. Les voiles qui recouvraient le fonctionnement du système international et les mystères de la création monétaire commencent à être soulevés et on a idée qu'une construction consciente pourrait supplanter la passivité. Dans cette évolution le rôle du Gouvernement français a toujours été modéré mais positif. Je dis bien modéré, car c'est progressivement que nous avons attiré l'attention sur ces problèmes, puisque, dès Septembre 1962, le délégué de la France a présenté au Fonds monétaire international des réflexions de la nature de celles que je viens de vous exposer ; si elles ont suscité à l'époque l'émotion, voire une certaine indignation, elles se retrouvent pourtant aujourd'hui dans les très larges discussions sur le système monétaire international. Mais, à ce rôle joué dans le passé, nous pensons qu'il est souhaitable que les grands pays qui exercent des responsabilités monétaires considérables et primordiales s'associent rapidement dans la recherche d'une solution. Le rôle des hommes d'Etat, c'est d'anticiper sur l'évènement et sur l'évolution, surtout lorsque, comme c'est le cas, cette évolution est prévisible. Il y a deux ans que la France demande qu'une claire conscience soit prise de ce problème décisif pour la poursuite d'un développement économique équilibré dans le monde. Elle propose que l'on passe à la phase active de la réforme du système monétaire international. Elle est prête pour sa part à y contribuer. Ses propositions visent en effet à réaliser dans l'ordre, et à temps, les évolutions dont chacun pressent et éprouve aujourd'hui qu'elles sont assurément nécessaires.

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

At the request of Mr. T. K. Whitaker,
Secretary, Department of Finance, Dublin,
I have circulated the attached memorandum
to members of the Executive Board.

With the Compliments of

S. J. Handfield-Jones

Executive Director

Memorandum on International Monetary Arrangements

1. The present international monetary system has in general worked well. Without it, it is unlikely that the great expansion of world trade and payments which has taken place in the post-war period and which has helped to sustain high rates of economic growth would have been achieved.
2. However, there are now clear indications that serious flaws have developed in the system which require to be remedied if maximum economic advance is to be attained in the future. In particular, the heavy reliance on two main reserve currencies, the U.S. dollar and the pound sterling, is giving rise to considerable difficulties both in the reserve currency countries themselves and in the rest of the world. Both the United States and the United Kingdom incurred very large deficits in their balances of payments in 1964. The combined total was no less than \$5 billion. As a result of the weak balance of payments position, the pound sterling has in recent months undergone a major crisis of confidence. The dollar has also been under pressure and the American authorities have had to introduce further restrictive measures. The prospects for 1965 are for some improvement in the external accounts of the two countries but it is obvious that it will take quite some time for them to reach positions of surplus or even of balance.
3. In view of these developments, the reserve currencies cannot be said at present to be discharging their functions fully. Gold is, in effect, no longer freely available against dollars as the theory of the gold exchange standard requires. Sterling has been subject to persistent devaluation rumours. A system of ad hoc agreements has had to be established to prop up both currencies. These arrangements, admirable in themselves, have the disadvantage of being temporary and informal.

4. The reserve currency system, besides playing a very important part in the post-war expansion of Western economies, has brought considerable benefits to the United States and the United Kingdom also. However, recent events have shown that it has drawbacks, as well as advantages, for these economies. The United States authorities, because of the balance of payments position, have been hampered in taking action to increase growth and reduce unemployment from its present high level of almost 5 per cent. The Council of Economic Advisers in a recent report stated that the sustained and balanced growth of the United States economy in recent years has occurred at too low a level. A "gap" of at least \$20 billion still remains between the United States actual and potential output. The freedom of action of the United Kingdom authorities in managing the economy has also been limited by the necessity to bring about a drastic improvement in the balance of payments.

5. If the United States and the United Kingdom are not running at full capacity, there are serious implications for the less well-off countries. These cannot hope to make the progress they desire unless industrial nations like the United States and the United Kingdom, who constitute their principal markets and are the source of so large a part of their development capital, are making full use of their productive capacity.

6. Success by the American and British authorities in reducing the balance of payments deficit will not of itself make the present machinery work better. This was recognised by President Johnson in his speech in February when he stated that as the flow of deficit dollars into foreign central banks is eliminated a shortage of reserves could emerge. In other words, a reduction in the United States deficit, instead of leading to an improvement in the present situation, could cause a reduction in international liquidity.

7. If the United States and the United Kingdom are to fulfil their duties as providers of reserve currencies they are virtually forced to have permanent deficits in their balance of payments. Although deficits mean an increase in resources of the debtor, at the expense of the creditor countries, they weaken confidence in the value of reserve currencies and impair their usefulness as a medium for international trading transactions. A report last year on international monetary arrangements by an international study group of 32 economists pointed out that "the rate at which a reserve currency country runs a deficit cannot simultaneously perform two functions: that of increasing liquidity at an appropriate rate and that of maintaining confidence in the convertibility of its currency into gold".

8. Something has to be done soon to take some of the burden of financing world trade and payments off the reserve currencies. The abolition of the present system and its replacement by one in which predominant reliance was placed on gold would not, however, be desirable. The best arrangement would appear to be a gradual adjustment under which a new international fiduciary currency, rather than any further increase in reserve currencies, met the growth in world liquidity needs, and gold played a diminishing, though still important, role in international settlements.

9. If the present monetary mechanism were to be altered in favour of a system more closely tied to gold, a rise in the price of gold would be necessary if overall liquidity were not to be reduced. In the Irish submission of January, 1961, to the Fund's Board of Executive Directors on "The Future of the International Monetary Fund", it was stated that the raising of the gold price would be an unscientific and purely temporary expedient, an evasion of the fundamental problem. It would benefit those countries which already held large gold stocks and would cause the diversion of scarce resources to the futile

production of the metal. It would have a relatively adverse effect on those countries, among them many less-developed economies, whose reserves are held largely in the form of reserve currencies. It would lead to uncertainty: there would be periodic speculation that a further rise in the price of gold, to meet a real or imagined liquidity shortage, was imminent. Finally, and perhaps most important, it would entrench the position of gold, instead of lessening its prestige and influence - as has happened in the sphere of domestic banking - and gradually emphasising, with adequate safeguards, the role of credit.

10. It should be possible as an exercise in intelligent management of economic affairs to devise a system of international credit which would supplement the reserve currencies in a way consistent with monetary stability and the optimum use of productive capacity in the major industrial countries. If such a system were devised, it would avoid the rigidities and dangers of an automatic system. But, as in domestic banking, control would be needed to ensure that, while the credit available was fully adequate for development needs, it would not be so plentiful as to generate international inflation.

11. A number of schemes to improve international liquidity by means of the creation of international credit have been proposed in recent years. It is important that any scheme eventually adopted should, in the interests of all countries, both great and small, be multilateral in character. The Fund would be the most suitable institution to manage the issue and control of an international currency. A gradual assumption of functions in this regard would help its development eventually into a central bank for central banks.

12. In the short-term, an improvement in the supply of international reserves would be achieved if the statutory requirement

of a 25 per cent gold cover against the United States domestic note issue were removed. The recent abolition of the gold cover for member bank balances with the Federal Reserve system is a step in the right direction but does not appear to be sufficient to alleviate concern about the United States balance of payments as the deficit is still big and substantial gold losses are likely during the year.

DEPARTMENT OF FINANCE,

DUBLIN,

April, 1965.

RECENT EVOLUTION AND PRESENT POSITION OF THE
INTERNATIONAL MONETARY SYSTEM

(Notes for Remarks of Louis Rasminsky, Governor of the Bank of Canada
at the Second Meeting of Central Bank Governors of the American
Continent, Punta Del Este, Uruguay, May 2nd to 5th, 1965).

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When I suggested that we should include on the agenda of this meeting some discussion of the recent evolution and present position of the international monetary system, I had in mind that, though our main pre-occupation at these meetings is to exchange views on our handling of our domestic problems and to consider the techniques of constructive regional co-operation, we all share a common interest in the proper functioning of the international monetary system. The developing countries of Latin America, no less than those of North America and indeed of the whole Free World, have a strong interest in international financial arrangements which will enable world trade to expand, which will encourage the international flow of funds to underdeveloped countries for productive investment, and which will help the large industrial countries to maintain their balance of payments on a basis which does not inhibit the flow of imports or foreign aid. In addition, of course, the countries of Latin America have their own particular problems which must be taken into account in the further evolution of the international monetary system.

It may be appropriate to begin these remarks on the evolution of the international payments system by recalling the important developments

which have occurred since our last meeting in Guatemala a year ago. Last summer you will recall that two important studies dealing with the international monetary system and the probable future need for liquidity appeared. One of these studies was prepared by the staff of the International Monetary Fund, the other by what is popularly known as the Group of Ten, that is the Ministers of Finance and central bank Governors of the ten countries, including Canada, participating in the Fund's General Arrangements to Borrow. While these studies were not definitive in their conclusions regarding the future evolution of the world payments and reserve system, they provided a valuable appraisal of the system as it now exists and have helped to direct attention to the problems requiring additional study. In general, both studies conclude that the present international payments system, based on the established price for gold and fixed exchange rates, provides a foundation on which to build and that the existing supply of international liquidity is adequate for the present. At the same time both studies note that in the longer run there is a possibility that the supply of gold and foreign exchange reserves may prove to be inadequate for the over-all reserve needs of the world economy.

The Fund study suggested various ways in which the Fund might enhance its contribution to the supply of international liquidity. The study prepared by the Group of Ten made two concrete proposals. The first involved giving support during the pending quinquennial review of International Monetary Fund quotas to a "moderate" general increase in member quotas and to a

relative adjustment of those individual quotas which were "clearly out of line". The second involved strengthening the techniques of international monetary co-operation and consultation which have been developed in recent years, in particular by agreement among the ten participating countries to collaborate in "multilateral surveillance" of the ways and means of financing balance of payments disequilibria. In addition, the report of the Group of Ten suggested that certain special studies should be undertaken without delay - it recommended the establishment of a study group to examine various proposals regarding the creation of some new form of reserve asset, either through the International Monetary Fund or otherwise, and invited Working Party 3 of the O. E. C. D. to take charge of a study on the processes and procedures for maintaining balance of payments equilibrium.

What have been the concrete results of the various conclusions and proposals arising from these efforts? The first and most important of course was the decision of the Board of Governors of the Fund at the annual meeting in Tokyo last September to request the Executive Directors to undertake a review of the proposals to increase the general resources of the Fund. As you know the Executive Directors recently completed their discussions and recommended two proposals for adoption by the Governors - namely (1) a general increase of 25 per cent in members' quotas and (2) special additional increases for sixteen countries (including Mexico, Venezuela and Canada) whose quotas were clearly out of line in relation to their relative economic growth and their

position in world trade. The Governors have now indicated their acceptance of these recommendations and all that is now required to make the proposal effective is the necessary legislative approval of member Governments. If all the proposed quota increases are taken up, the total resources of the Fund will be increased from their current level of \$16 billion to about \$21 billion - an important and extremely helpful supplement to international liquidity. (1) This follows the important contribution of over \$6 billion in supplementary resources made available to the Fund for a four year period by a number of industrial countries under the General Arrangements to Borrow, which became effective in October 1962.

In addition, the machinery for the conduct of "multilateral surveillance" has been established through the facilities of the Bank for International Settlements and the O. E. C. D. , and special study groups are undertaking the investigations proposed by the Group of Ten with regard to the possible creation of some form of supplementary reserve asset and the achievement of more effective adjustment of balance of payments disequilibria.

The underlying concern throughout these discussions of course has been whether or not present arrangements are likely to provide adequately for the world's rising needs of liquidity as world trade continues to grow. Is there a danger that inability to meet these growing needs will inhibit the

(1) The quotas of the 19 Latin American members will be increased by \$450 million to \$1,795 million as a result of these proposals.

expansion of world trade and hence of economic growth as well? Along the way, another question has frequently arisen - do present arrangements facilitate or impede the process of adjustment of the imbalances which arise from time to time in the payments position of individual countries - a process of adjustment which is continuously required if the international monetary system is to operate satisfactorily?

It may be useful at this point to refer briefly to the nature of present international monetary arrangements and how they evolved. The gold exchange standard as it developed in the period between the two world wars represented a substantial modification of the gold standard which had operated prior to 1914. Put in its simplest terms, the gold exchange standard is a system in which national currencies - notably, the pound sterling and the United States dollar - act as supplements to and substitutes for gold. Such a system of course demands complete confidence in the national moneys which are held as an alternative to gold in international reserves. In this system gold remains the ultimate or basic form of international exchange. The possible vulnerability of a currency exchange standard in periods when a loss of confidence in the reserve currencies occurs was dramatically evident in the crisis of 1931 and the disorganization of the international monetary system which ensued.

Following the Second World War, important modifications were made to the system as it had existed during the inter-war period. By far the

most important of these of course was the creation of the International Monetary Fund, about which I shall have more to say later. In addition, however, there was, with the weakening of the economic position of Britain (reflected in the long period of sterling inconvertibility), an increasing reliance upon the United States dollar as the principal supplement or substitute for gold. The relative ease with which this transition occurred in the early post-war period was due in considerable measure to the extremely generous grants and long-term loans which were given by the United States at the time to facilitate the rapid reconstruction of war-ravaged countries. Throughout the period in which the threat of a serious dollar shortage prevailed, this substantial outflow of aid to developed as well as to the less-developed countries prevented the emergence of a serious liquidity problem.

During the 1950's a gradual shift occurred in the balance of payments position between the United States and the countries of Western Europe. As the outflow of official aid payments by the United States to these countries dwindled, the outflow of private capital began to rise and accelerated sharply toward the end of the 1950's. As a result a sizeable net flow of capital from the United States to Western Europe continued even after Europe had completed its post-war reconstruction and was able to finance its imports from its greatly expanded export trade - that is to say without large net inflows of capital. In recent years, therefore, this large movement of private capital has contributed on the one hand to the substantial over-all deficit in the balance of payments of

the United States and on the other hand to a steady build-up in the gold and foreign exchange holdings of the continental European countries.

Earlier I mentioned the great importance which I would attach to the role which has been played by the International Monetary Fund in the post-war period and the extent to which the existence of the Fund has improved and strengthened the functioning of the gold exchange standard compared to the years prior to World War II. By making available substantial short-term credits to countries in balance of payments difficulties, it has provided borrowers with the time needed to make necessary adjustments and work out policies in ways that are much less disruptive than used to be the case. It has achieved - more effectively than all but the most optimistic would have expected at the time of its organization at Bretton Woods - the major objectives of exchange stability, convertibility and non-discrimination in transactions among the major trading nations of the world. Moreover, in contrast to the mechanistic workings of the gold standard in its classic form, these international objectives have been substantially achieved without the sacrifice of national economic objectives of sustained rapid economic growth and high levels of employment in the major industrial countries. When one looks back on the performance of the system since the organization of the International Monetary Fund, and especially if one contrasts this performance with that of the inter-war period, I think that one must recognize that it has worked remarkably well and that international and national economic objectives have

been reconciled to a much greater extent than ever before.

Nevertheless, in the last few years signs of strain have emerged. These have been due to the continuation of large deficits by reserve currency countries on the one hand and the concentration of the offsetting surpluses in the hands of Western European countries which, for one reason or another, have not developed compensating capital outflows. The result has been a growing concern on the part of the surplus countries of Europe regarding the possible inflationary dangers arising from the undesired accretions to their exchange reserves at a time when their economies are already at full stretch. More seriously, this concern has been accompanied by some questioning of the basic functioning of a system which enables the reserve currency countries to continue to run large payments deficits without being forced to take adequate corrective action. This in turn has led to a reduced willingness on the part of surplus countries to continue adding these currencies to their rising exchange reserves.

It is in the light of these evidences of strain in the system that the present balance of payments problems of the United States have come to assume a central position. As I have already mentioned, the deficit in that country's international balance of payments at the present time does not arise from any weakness in its current account balance. On the contrary, in 1964 the United States generated a commercial surplus on goods and services of close to \$7 billion. Rather the deficit arises entirely from very large financial

outflows. The United States has much the largest and most accessible capital market in the world, and private U. S. corporations have greatly increased their investment in other parts of the world. In addition to this, the United States has provided very large economic aid to other countries and, in pursuit of its world-wide responsibilities, has incurred heavy military expenditures abroad. More recently U. S. bank loans to residents of other countries have been extended on an unprecedented scale. At the same time the United States Administration has been concerned with maintaining a domestic economic environment which would promote the highest rate of growth in national output consistent with internal stability and the reduction of unemployment below the relatively high rates which have persisted over recent years. Consequently the United States has been extremely reluctant to use the traditional weapon of high interest rates to restrain these very large outflows of private capital for fear that this might dampen the healthy and highly satisfactory rate of economic growth that has been sustained since the beginning of 1961.

On the other hand, European authorities have been faced with a dilemma which is almost the exact opposite of that confronting the authorities in the United States. In these countries, most of which have been operating at levels very close to the limit of their capacity for a number of years, the dangers of "over-heating" have been a persistent threat to internal stability, and increasing concern has been evident over the degree of inflation which has been experienced in the last few years. In these circumstances the sizeable

net capital inflows which have been the counterpart of the deficit in the U. S. balance of payments are regarded as an unwelcome supplement to the inflationary pressures already threatening domestic economic stability. While a good argument can be made that the structure of European interest rates is inappropriately high, and that this reflects to some extent at least the inadequate development of capital markets in some of these countries, European authorities at the present time are understandably reluctant to have recourse to measures which, while deterring capital inflows, might increase the dangers of domestic inflation. In this connection I might say that Working Party 3 of the O. E. C. D. is providing an extremely valuable forum for frank and open discussion between the principals in this debate. Such mutual consultation is especially desirable at a time, such as the present, when as I have suggested there are genuine differences of view as to the precise mix of domestic policies that may be appropriate to the particular circumstances of individual member countries.

One consequence of the weakened position of the two main reserve currencies has been that the discussion of the further evolution of the international monetary system during the past year has not been as purposeful and concrete as one would have hoped. This stalemate has, moreover, opened the door to some disturbingly extreme views, exemplified by the proposals for a return to the gold standard which are currently being promulgated in certain quarters. To me the present impasse underlines the importance which must be attached to the efforts of the United States and British authorities to

restore equilibrium to their balance of payments positions. Only when the efforts of these two countries have met with success will they be able to resume their proper and influential role in the discussions about the future evolution of the international payments system. At the same time, I think a strong possibility exists that, as these countries - and particularly the United States - approach their objectives of overall balance, further development and modification of the international system will be needed.

In the first place the annual increase in official gold holdings alone cannot be relied upon to provide sufficient liquidity to meet the needs of an expanding world economy. Nor can we expect the necessary supplement to liquidity to be dependent upon the resumption of large payments deficits by reserve currency countries. New solutions must be sought - solutions which ideally should make the creation of liquidity subject to more rational and more conscious control than was possible either under the original gold standard system or under the gold exchange standard system as it has operated to date. Such rational and conscious control must of course steer for the narrow course that lies between inadequate and unduly rapid expansion of liquidity: this expansion must be large enough to prevent sound economic growth from being inhibited by a scramble for reserves but not so large that there is no pressure on countries to apply domestic economic policies of a character which results in reasonable equilibrium between their international receipts and payments. Such an ideal course is not an easy one to achieve but, difficult as it may be, it is essentially the same goal which we central bankers must always strive to achieve in our domestic monetary management.

As to the mechanism that should be adopted, I do not rule out the possibility that the solution we seek may be attainable by the appropriate enhancement and adjustment of the resources and machinery of the International Monetary Fund. But neither do I rule out the possibility that in addition we may have to adopt some more radical solution such as one of the various proposals to create a new composite currency for holding as an exchange reserve asset. The latter question of course is under active study at the present time by officials of the Group of Ten countries, and I do not propose to pre-judge the conclusions which may be reached in these discussions. Moreover, there are inevitably delicate questions relating to the control and management of such a system which may call for difficult compromises. I would hope that in the event that some new form of reserve asset is brought into being that it will not be necessary to adopt a system which places its operation and management wholly outside the aegis of the International Monetary Fund. It would be regrettable if a consequence of the creation of a new reserve asset were to be the establishment of a second, completely autonomous international monetary authority. In the search for the best solution to the problem of maintaining adequate international liquidity, the most important thing will be for all of us at this time to be receptive to new ideas and to be willing to examine closely all responsible suggestions that are offered by experts in the field.

So far in these remarks my comments have been directed toward the problem, as viewed by one of the active participants in the discussions which have been taking place over the last year or two. Before concluding

I would like to say something about the significance of recent developments in the international monetary system for the countries of Latin America.

There is one point in particular on which I can assure you that Canada's concern comes very close to those of Latin America - namely the vulnerability of our economies to major economic dislocations in the main industrial countries of the world. Canada, like many countries of Latin America, continues in its export trade to depend heavily on the sale of foodstuffs and industrial raw materials to the United States and other major industrial countries. We are most conscious of the importance to our own national well-being of a satisfactory evolution of the international monetary system. Recurring major balance of payments crises among the larger industrial nations or the retardation of growth in these countries as a result of a failure to make necessary improvements and modifications in the system pose as serious a threat to Canada's economic prospects as to any country in this hemisphere. It is, therefore, I think a matter to which we all need to give the highest priority at this time.

I realize that unlike Canada many of the countries of Latin America, in common with most of the less-developed countries of Asia and Africa, suffer from a persistent tendency toward inadequate levels of exchange reserves and that this shortage ranks very high among your problems. A good international monetary system must take account of this problem. However, in my opinion this problem of reserve shortage is not in essence a reflection of inadequacies

in the international payments system. While these may tend to aggravate the shortage, the fundamental reason for the low level of reserves in many of these countries arises from their very high propensity to import and from the simple fact that most rapidly developing countries cannot afford to hold a significant proportion of their resources in the form of exchange reserves.

Because this is so I think it is very important to make a clear distinction between proposals to reform the international monetary system and proposals to improve the allocation of international resources to meet the needs of developing countries. I do not feel that it is practical to attempt to blur this distinction by reforming the international monetary system in such a way as to try to settle both problems in one neat package. A resolution of present problems in the international monetary system is a necessary precondition to more vigorous efforts to deal effectively with the grave problems and difficulties associated with the economic development of the less-developed regions of the world.

It is probable that, even when further progress has been made in our international payments arrangements, the scarcity of resources available to hold in the form of international reserves will continue to confront many countries in Latin America and elsewhere. For this reason the careful examination of co-operative pooling arrangements such as we have been considering at this meeting represents, in my opinion, a constructive step.

In addition the probability that the problem of reserve shortage will be a

continuing one emphasizes the importance which must be attached to strengthening the invaluable role which the International Monetary Fund can play by providing a second line of defence when exchange reserves prove inadequate. Ultimately of course none of us can escape the fundamental concomitant that the proper management of our national economies remains of the first importance. However much further progress we may make in improving the machinery of the international monetary system, no arrangements can ever in themselves be a substitute for the application of appropriate policies at home.

REMARKS BY THE HONORABLE DOUGLAS DILLON
FORMER SECRETARY OF THE TREASURY
AT COMMENCEMENT EXERCISES
MIDDLEBURY COLLEGE, MIDDLEBURY, VERMONT
MONDAY, JUNE 14, 1965 ___ A. M. ___

Cardinal Newman once said: "A university ... is a place which wins the admiration of the young by its celebrity, kindles the affection of the middle aged by its beauty, and rivets the fidelity of the old by its associations."

This morning, I experience each of those emotions as I become an honorary member of the distinguished Middlebury family and share with you one of the most meaningful moments in the life of a college community.

At no time in our history has economic and financial literacy been higher or more widespread among our citizens. At no time has there been wider or more sophisticated public discussion of complex and difficult economic issues than during the past five years. The front pages of our newspapers have been filled with lucid and intelligent accounts of issues and events that only a few years ago would have been buried in the financial pages where few would find them, even fewer read them, and fewer yet understand them. This is a healthy thing, for a democracy such as ours cannot advance much faster than the understanding of its citizens -- and nowhere is our advancement more apparent, or more important, than in national economic policy.

Today I want to talk to you about an aspect of our economic policy that is of great and growing urgency -- the compelling need to improve and strengthen the international monetary system. This is a problem whose solution has generally been delegated to a handful of monetary experts. But, it must concern all of us, for unless we and our free world partners can agree on how to make the needed improvements in the system, the consequences for the economies of all free countries, including the United States, will be most serious.

As you know, the international monetary system is the network of agreements and arrangements, official and unofficial, by which countries of the free world finance trade with each other, both in goods and in capital. Nations cannot trade -- and capital cannot flow across frontiers, unless there is some kind of mutually acceptable standard and mechanism by which currencies can be exchanged. In the 19th century, that standard was gold and gold alone. More recently, gold has been supplemented by American dollars and, to a lesser, though still important degree, by British pounds.

If trade between nations could somehow neatly balance out, so that no country ended up in debt to another, the international monetary system would operate very simply. But, between nations, as between individuals, there are always creditors and debtors -- and one nation's surplus is reflected in another's deficit.

Since no free nation's economy is isolated from another's, one of the most vital jobs of the international monetary system is to backstop the financing of the shifting deficits and surpluses that result from international trade and capital flows in such a manner as to avoid severe disruptions to the economies of the countries involved, as well as to the overall volume of international trade and investment. Another important task is to maintain sufficient pressure on deficit countries so that they are induced to put their financial affairs in order and balance their accounts with surplus countries.

The international monetary system does not of itself finance trade or investment. This is largely accomplished by private means. It does, however, provide the mechanism and the means through which overall imbalances between countries are financed. The assets available for this purpose are the resources which the world's central banks command -- basically, gold, reserve currencies and access to credit. These assets provide what is known as international liquidity.

In a prosperous world -- as, by and large, the free world is today -- steady growth in international trade is essential, and so is an ever expanding flow of investment capital between countries. This means that the net results of international trade and capital transactions -- the temporary payments surpluses and deficits experienced by various countries -- are almost certain to grow over the years ahead. Hence, an ever larger pool of reserves -- or, in other words, a growing supply of international liquidity -- will be needed to maintain and accelerate the free world's economic growth and prosperity.

One important way that payments deficits are financed is through the International Monetary Fund. Toward the end of World War II, recognizing that available gold supplies would be inadequate to meet the need for international liquidity, the free nations of the world met not many miles from here, at Bretton Woods in New Hampshire, and created the International Monetary Fund. Each member nation subscribed a quota: one-quarter in gold and three-quarters in its own currency. Whenever a country runs a deficit which cannot be settled by its own resources, it can turn to the Fund and obtain currencies that are acceptable to its debtors. Such drawings from the Monetary Fund are conditioned upon appropriate action by the recipient country to correct its payments troubles.

The history of the Monetary Fund has been one of outstanding success. Instead of the calamitous contraction of international liquidity that played such a disastrous role in the world-wide depression of the 1930's, an uninterrupted expansion in overall international liquidity has helped to support the continuous growth of free world trade and investment since World War II. No small part of this remarkable record is due to the Fund. It was in recognition of this fine record -- as well as of the need for growth in international reserves -- that the Fund's member countries have twice agreed to increase its resources. First, in 1958, a 50 percent general increase in quotas was agreed upon. Then, last fall in Tokyo, at the Fund's annual meeting, a further 25 percent general increase was recommended and is now

in process of final approval by the member countries. In addition, provision has been made for additional special quota increases for a few countries whose economic and financial growth has outrun the average and put them in a position to make larger contributions to the Fund.

These quota increases, although extremely helpful in meeting the needs of an expanding free world economy, are not enough. Further action is needed -- and in the relatively near future.

Why has this need recently become urgent?

The answer is simple: the balance of payments deficits which the United States has run during most of the years since the end of World War II are now coming to an end. Since the United States pays for its deficits partly in gold and partly in dollars, those deficits have served to increase overall international liquidity by adding dollars to the reserve holdings of other countries. The importance of this contribution is shown by the fact that, in the seventeen years since the low point in December 1947, short-term dollar assets held as reserves by foreign monetary authorities increased by more than \$11 billion.

Our earlier post-war deficits were useful in refilling the coffers of Western European and other central banks that had been depleted by the ravages of war. However, for the past seven years, our deficits have been too large and too continuous. A real danger arose that the world would lose confidence in the dollar. Since about one-third of the world's reserve assets

are held in dollars, any widespread flight from the dollar would necessarily involve a sharp shrinkage in international liquidity, with a corresponding contraction in international trade and investment. Such developments could not fail to bring on recessions -- first in those countries most dependent on world trade and foreign investment, then in virtually all free countries, including our own.

It has therefore become essential to end our payments deficits. Prompt action to do so over a broad spectrum of transactions was undertaken by President Kennedy in early 1961, soon after he took office. Military spending overseas was reduced; cash sales of U. S. military equipment were greatly increased -- thus further reducing the net cost of maintaining our military forces overseas; foreign aid was tied more closely to the purchase for use abroad of U. S. goods and services, so that now less than 20 percent of our foreign aid expenditures enter into our balance of payments; the competitive posture of U. S. industry was strengthened through a 7 percent tax credit for new business investment and through far more generous depreciation allowances on business equipment; an entirely new system of export insurance was established; and finally, strong and successful efforts were made to hold prices stable and to avoid inflation so that our goods could become more competitive in markets at home and abroad.

While this was a broadly based and effective program, it left one area -- dollar outflows through private investment abroad -- virtually untouched.

Except for legislation to eliminate special preferences in tax haven countries, and monetary measures that kept our short term interest rates in rough alignment with those in other industrialized countries, the government deliberately avoided action to restrain the flow of private investment abroad. However, because of the failure of foreign capital markets to adequately meet the needs of foreign borrowers, this omission soon proved to be a serious chink in our armor. A rush of foreign borrowers into our capital markets during early 1963 forced the government, despite its reluctance to act in this area, to impose an Interest Equalization Tax which successfully reduced the excessive sales of foreign securities in our markets.

But then, last year, an even heavier outflow of bank loans and liquid corporate funds made it clearly evident that still further action to reduce these dollar drains had become mandatory. As a result, President Johnson early this year launched a new program that calls for voluntary restraints by American banks and companies to lessen capital outflows. The banks and companies have responded admirably and, with the voluntary program now successfully under way, we can, at long last, look forward to an end to our payments deficits. This is so because we now, for the first time, have in operation a program which deals effectively with all the major aspects of our payments problems.

If our overall attack on the payments imbalance continues to be successful -- if we continue to maintain price stability and to keep our

products competitive in markets at home and abroad -- then, as our export profits increase, and as the return flow of profits from earlier long-term foreign investment expands, we should gradually be able to relax the present voluntary restraints on capital outflows. And the sooner the better, for free movements of capital are an essential element of rapid growth. But the security of the dollar must always come first. And its security will require not just a few months of balance in our payments, but a long enough period to convince even the most skeptical that the United States has both the capacity and the will to balance its accounts with the rest of the world and to keep them balanced. Only when this has been accomplished can we prudently undertake any relaxation of our present programs, whether they be voluntary or otherwise.

The end of our payments deficits will mean that the United States -- which has financed an \$18.5 billion rise in official and private foreign holdings of dollars since World War II -- will no longer be contributing anything at all to those holdings. International trade and investment cannot continue to expand at anywhere near an adequate rate if forced to rely on newly mined gold as the sole source of new reserves. The free world, therefore, is rapidly approaching a financial crossroads. There is an urgent need to strengthen the international monetary system, so as to ensure that the needed increases in reserves will be forthcoming. For inadequate growth in international liquidity would hamper world trade, slow up the economic growth of individual countries, and threaten a world-wide recession.

Ways of strengthening the international monetary system have been widely discussed in academic circles, both here and abroad, for a number of years. In more concrete terms, senior representatives of ten of the most important industrialized countries, since joined by a representative of Switzerland, have been working on the matter since the fall of 1963. While they have made little progress in reaching agreement, they have made a great contribution by casting light on the overall problem, and by crystalizing alternative proposals for serious consideration.

These discussions are continuing, and the prospects for their success have been immeasurably enhanced by the effectiveness of this country's new payments program. Until recently, a number of European monetary authorities have felt that the chief international financial problem was not the creation of additional international liquidity, but rather how to put an end to the chronic American payments deficits, which seemed to them to threaten an over-abundance of liquidity. Understandably, they felt little enthusiasm for studies designed to find new ways of increasing liquidity so long as -- in their view -- the United States was demonstrating neither the will nor the capacity to end its own chronic payments deficits. Many of their proposals were designed to put pressure on the United States to halt these deficits. But now that we are clearly succeeding in righting our own payments by our own actions, it is to be hoped that they will be prepared to enter freely into negotiations aimed at ensuring continued growth in international reserves. For all agree that such growth will be required if the economic progress of the free world is to be maintained and accelerated.

There is a general concensus that international liquidity is presently fully adequate to meet today's needs. But nothing is harder to measure or to predict with any accuracy than the adequacy of reserves to meet the future expansion of world trade and investment requirements. There is plenty of time to consider the issues fully and carefully so that we may act wisely. But there is no longer any time to dally. A strengthened international monetary system must be installed before it is needed, and not after the crash.

Proposals on how the system can be strengthened are multitudinous. Each has its own virtues and faults. I do not intend to discuss specific ideas today. I simply want to suggest that a great deal can be done to increase the effectiveness of the present system, particularly through relatively modest changes in the functioning of the International Monetary Fund. It seems only elementary common sense to improve the system that has served us so well over the past twenty years before rocketing off into new and completely uncharted space.

It is essential that the main objective always be kept clearly in mind: changes are required in the system primarily so that we can be sure of adequate international reserves over the years ahead. Any change that directly or indirectly serves to reduce international liquidity would clearly not be in the general interest. Changes of this nature have been proposed from time to time by certain European experts. With the end of our deficits and the renewed strength of the dollar, there is no longer any valid reason for such restrictive suggestions, and it is to be hoped that they will now be dropped.

There is one other aspect of this matter which also should be mentioned; international reserves are limited to the holdings of monetary authorities, that is, of central banks. But trade and investment is not directly financed by central banks. The great bulk of free world trade is privately financed -- for the most part in dollars, which, with sterling constitute the monetary basis for practically all international trade. For instance, if a German wishes to sell or buy in Argentina, or Morocco, or Japan, he will consummate his transactions in dollars, the universally accepted medium of exchange. Hence, a steady growth in central bank reserves is not in itself enough to ensure the smooth flow of world trade.

Growth in the private holdings of dollars by foreigners is also required -- and it has been taking place. In the ten-year period, 1954 to 1964, foreign, private short-term holdings of dollars grew from \$4.4 billion to \$10.6 billion, an average increase of \$600 million per year. More recently, along with a more rapid rise in the volume of world trade, this growth has accelerated. It is important to note that these dollars are held voluntarily, since at any time the holders can turn them in to their central banks for their own domestic currencies.

The size of these holdings and their steady growth are a clear measure of the need for substantial and increasing private holdings of dollars to finance international transactions. But, if the United States should achieve and maintain a balance in its payments on the basis of its present balance of payments

accounting procedures, there would be no further rise in private dollar holdings except at the expense of central bank reserves. World trade could soon be hindered by a lack of private dollars. While this situation is not an immediate threat, it nevertheless poses a serious problem.

We can do one of two things to meet it: first, we can maintain our present statistical methods and, after a suitable period of balance, adjust our payments so as to run a continual deficit of sufficient size to provide the necessary growth in the private holdings of dollars by foreigners; or second, and, in my view, the preferable course, we can accept the basic proposals of an eminent committee of eight outstanding private experts headed by Dr. Edward Bernstein, which unanimously recommended last April, after a two-year study of our balance of payments statistics, that we adopt the general statistical procedures currently used by all other countries and by the International Monetary Fund itself.

This latter course would mean the adoption of the "official settlements" concept as the primary measure of our payments results. Under this system, only transactions involving other central banks are counted, and private dollar holdings of foreigners are ignored. This would give balance to our figures, since we are presently in the anomalous position of listing private outflows as liabilities, but not counting private foreign inflows as assets. In other words, if one deposits funds in a Canadian bank, our deficit is

T H E E C O N O M I S T

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INTERVIEW BY FRED HIRSCH WITH JACQUES RUEFF

- Q. M. Rueff, you are a man, to say the least, of distinctive ideas; and most people, ourselves included, have hitherto dismissed your ideas on a return to the gold standard as irrelevant nostalgia. Yet now, as one commentator has put it, we see you as scriptwriter to General de Gaulle. How do you get your ideas across?
- A. Well, first I must protest against this notion. I am not in any degree scriptwriter to General de Gaulle. You see, General de Gaulle doesn't need a scriptwriter. Still more: I have no responsibility at all in the wording of his last message and I don't know anybody who has any responsibility; he has done it absolutely alone. It is true that I have had many opportunities since the financial reform of 1958 to express my view, and my concern about the gold exchange standard is a very old one. Early in 1959 I made clear to him that we had more or less stabilized the franc in terms of the dollar and that we were strongly interested in the stability and the solvency of the dollar itself. And therefore, that we had not only the right, but the duty, to see that there were no danger in the money standard which was the base of our own money. My only influence has been to express my view in the most candid way, through my writings and through my talk with various friends.
- Q. Do you see yourself, in exerting this general influence, as in any rivalry with the official advisors in the Bank of France and the Ministry of Finance?
- A. Well, they are all friends of mine. I have served many years both in the Treasury and on the board of the Bank of France; I don't think there is any question of rivalry. There may be a different tendency. Well, there is no doubt that there has been some difference of inspiration. But the trend is changing quite a lot.....

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The first part of the document discusses the importance of maintaining accurate records of all transactions. It emphasizes that every entry should be supported by a valid receipt or invoice. This ensures transparency and allows for easy verification of the data.

In the second section, the author outlines the various methods used to collect and analyze the data. This includes both manual and automated techniques. The goal is to ensure that the information gathered is both reliable and comprehensive.

The third section provides a detailed breakdown of the results. It shows that there is a significant correlation between the variables being studied. This finding is supported by statistical analysis and is consistent with previous research in the field.

Finally, the document concludes with a series of recommendations for future research. It suggests that further studies should be conducted to explore the underlying causes of the observed trends. This will help to refine the current model and provide more accurate predictions.

Q. The official trend?

A. The general trend in the world. If we look on the wind from the East, it is teaching some principles on the role of the price mechanism and of profits which are very valuable for us. And if we look at what has happened in Germany in the kingdom of the Sozialmarktwirtschaft, we see a policy which is basically established on market forces, corrected with social inspiration which tries to make it acceptable even politically for the people. We have more or less the same trend in France. I am sometimes considered a survival of the past....I many times feel myself bold enough to consider myself a precursor of the near future.

Q. That's interestingly put. But may I put this to you. You have a very respected intellectual position in France; you are a member of the Academie Française. But within your own discipline, among economists, you are relatively isolated, especially in your international ideas. Do you feel at all worried about this?

A. You said I am a member of the French Academie. I have this great privilege to be the successor of a poet, Jean Cocteau. And he said somewhere that to be influential you have to be dead. Il faut etre un homme vivant, mais un auteur posthume. Well, of course as long as you are alive there are always some objections; but I remember the teaching of my predecessor and I hope that my posthumous influence may be effective.

And I am not so sure that I am isolated; because for instance in my second committee in 1960 on the obstacles to economic expansion, I had with me about 60 rapporteurs who were all the young people in the administration, and we felt extra-ordinarily united. And don't forget that my report has been unanimously approved even by the representatives of the three non-communist trade unions. Of course there has been a lot of divergence about my views; but may I say that in the latest period they have always been adopted - which doesn't suggest any isolation!

Q. I meant on the international gold standard side. Could you perhaps tell us now your particular objections to the gold exchange standard and why in particular you think that it

should be replaced, not as people like Triffin and we ourselves believe, by an increase in international credit, but rather by a return to gold itself?

- A. I wrote in 1961 that the West was risking a credit collapse and that the gold exchange standard was a great danger for western civilisation. If I did so, it is because I am convinced - and I am very emphatic on this point - that the gold exchange standard attains to such a degree of absurdity that no human brain having the power to reason can defend it. What is the essence of the regime, and what is its difference with the gold standard? It is that when a country with a key currency has a deficit in its balance of payment - that is to say the United States for example - it pays dollars to the creditor country, which end up with its central bank. But the dollars are of no use in Bonn, or in Tokyo or in Paris. The very same day, they are relent to the New York money market, so that they return to the place of origin. Thus the debtor country does not lose what the creditor country has gained. So the key currency country never feels the effect of a deficit of its balance of payments. And the main consequence is that there is no reason whatever for the deficit to disappear, because it does not appear.

Let me be more positive: if I had an agreement with my tailor that whatever I pay him he returns the money to me the very same day as a loan, I would have no objection at all to order more suits from him.

- Q. But isn't this to some extent in the nature of all credit? After all, I deposit money in a bank and the bank will lend the money to somebody else - possibly even somebody connected with me. Isn't your objection to this international use of credit really an objection to the internationalisation of what is in the nature of all credit?
- A. I don't think I agree with this presentation. Of course, you could say that what the gold exchange does not do, that is contract global demand in the debtor country, could be done by deliberate credit policy.

- Q. Yes.

- A. Theoretically it seems possible. But let us first realise that if any country in the world would have been in the position to do that it would be the United States. They have in the public employment more economists, and I think more readers of The Economist, than any other country in the world. And they have had for five years an enormous deficit in the balance of payments. If they have not done by credit policy what the gold standard would have done by automatically restricting purchasing power, it is proof that it is not possible. And why is it not possible? I don't imagine any parliamentary country with a democratic regime in which you could do so difficult a thing.....
- Q. Except under stress.
- A. Not except under stress, but, when the natural restrictive effects are undone more or less automatically and not felt by anybody.
- Q. Many of us largely agree with your criticisms of the gold exchange standard, which interestingly are much the same kind of criticisms as are made from the other wing by Triffin. But what I cannot understand in your proposed solution to return to gold is this. Suppose for example that the United States had taken your advice in 1961 and had then trebled the price of gold, to \$100 an ounce. Would it not now, with so much larger a gold reserve in relation to its liabilities, feel able, in fact, to continue its balance of payments deficit for much longer?
- A. Well, this point must be taken in detail. You have first named Triffin, my friend Triffin. I must say that we are in full agreement on the diagnosis. We differ on the remedy, but the diagnosis is the same. You have spoken of trebling the price of gold in 1961. I consider the price of gold as only a side issue. It is not at all the aim; it is not at all a remedy; rather it is only a small condition of which I shall speak later. The aim is to restore a system which is not contrary to the most elementary common sense; in other words, to ensure that the debtor country loses what the creditor country gains. And let us be more positive on this point. It needs no

economic theory to identify the main reason for the deficit of the US balance of payments: it is that despite all the past deficits there has never been any scarcity of money on the New York money market. Why? Because the money which is paid is immediately returned to the New York money market and is always available there for further investment, at home or abroad. We sometimes complain of the excessive invasion of foreign interests in Europe. Personally I am not afraid of that. But the cause is not at all a desire of the United States to conquer. The cause is that the creditor countries themselves created the situation that makes it possible and automatic for the United States to invest abroad because there is always so much excess liquidity on the New York money market. It has to find an outlet.

Q. You are referring here to the flow of Eurodollars back to New York.

A. to the simple mechanism of the gold exchange standard which means that when a central bank receives dollars it returns them the very same day by wire through say the purchase of Treasury bills on the New York market.

Q. But may one try and pin you down on this? I accept that in principle an increase in the gold price may not be your aim; but nevertheless if it is part of the means we do have to consider what the result would be

A. I have until now always avoided to speak about the price of gold explicitly, because I did not want to create difficulty for the central banks or to engender speculation in gold. But now the question is in the open and there is no reason to keep the same discretion. The price of gold is to me incidental: what I want to restore is the rule of the gold standard. That means that from the date of the reform the central banks shall return to the old rule, of creating money only against gold or bills in national currency. In other words they shall not build up, except for daily settlement, any assets in dollars. Well, from this moment on I am entirely convinced that the deficit of the balance of payment of the United States will disappear in less than three months. That is a very audacious prediction. But

I have never seen a country with a real system of international payments in which the deficit stays more than three months after it has re-established the balance of purchasing power; I mean suppressed the inflationary excesses. So, what I really have in mind is to restore such a system.

But then appears the side issue, and a purely side issue, which is the liquidation of the past. We have accumulated such large currency balances that we can only come back to the free play of a transfer mechanism, a real transfer mechanism as in the gold standard, if we are no longer under the menace of these balances and the insolvency that they could bring. Therefore, they must either be funded or reimbursed. The funding is very difficult to obtain and it would do great harm.....

Q. It would be very deflationary; and you say you are not a deflationist!

A. Most certainly not. I will come back to that. Well, for the reimbursement you have two solutions, you have an option. One is the Triffin plan to put the balances into IMF deposits, the other one is the increase of the price of gold. And all the other things are in between and these are the two families of remedy.

Q. Yes.

A. Well the Triffin plan is a plan. I don't like it, because I think it will give to a monetary authority or a fiscal authority the power to decide the amount of credit which has to be created. I have been myself a monetary authority during many months: I know that these authorities are not able, they have not the power - the human possibility, at least in our regime - to follow the policy which they ought to. I repeat, if it were possible the Federal Reserve Board which is probably intellectually the loftiest organisation in the field of money, would have done it, and they have done just the reverse; you see that they always compensate the outflow of gold by creation of credit. I don't mean that they have done it intentionally.

- Q. Why not? They do after all follow a conscious managed credit policy and not an automatic one. Surely they don't claim, and they don't want, and ought not to want, blindly to follow an automatic policy?
- A. I am not sure that you are right. Let me tell you that my friends in Washington told me in 1962 that I was wrong in thinking that the deficit of the balance of payments in the United States will survive as long as the gold exchange will survive. They told me they had a timetable that the deficit will be reduced by half at the end of 1962, and disappear at the end of 1963. But it will not be so, because the gold exchange standard's very essence is to maintain the deficit. As long as the debtor country does not itself feel the effect of the deficit automatically the deficit goes on. So I do not hesitate to forecast the future. I am absolutely convinced that the deficit of the balance of payment of the United States will not disappear as long as we maintain the gold exchange standard. And in 1962 I backed this forecast with a rash bet with one of my Washington friends: a bet of one dollar a year.
- Q. Gold guaranteed, I trust?
- A. Not guaranteed.
- Q. You say, and many people will instinctively agree, that you don't believe that any human management could be so all knowing as to manage credit correctly in exactly the right way. But the objection that many people have to your preference for the gold standard as such is that this would leave the volume of credit not as now in the imperfect hands of the best central banking authorities we have, but rather in the completely arbitrary hands of the gold mining companies of South Africa, the trading policy of the communist party of the Soviet Union, or whatever technical discoveries happen to be made which might increase or decrease the world's credit base by quite wild amounts in a way that not even the stupidest monetary authority would do.

A. But it's not me, it's first Adam Smith and then Keynes in his last letter who have spoken of the "hidden hand", which results from the price mechanism. Credit management is not stupid as such. But it very often is stupid when it is done in the wrong direction, so as, for instance, to compensate the internal consequences of the gold movement.

I fully accept the conscious use of the discount rate and of open market policy - provided that it takes account of the market situation that should be created by the gold movements and does not systematically reverse it.

Q. Are you in favour of the pre-1931 gold standard where all parities were constantly stable?

A. I am not in favour of floating exchange rates. I am not in favour of daily change of parity. But when you have had very exceptional situations you may need exceptional policies to clean up the past. Let us take a positive example. It is what President Franklin Roosevelt did in raising the price of gold in 1934 - and I would like my friends in Washington to keep that in mind.

It is often said that what we want to avoid is return of the trouble and the mischief of the gold standard in the twenties. But if you take the balance sheets of the central banks you will see that the mischief is not the mischief of the gold standard but the mischief of the gold exchange standard. The evolution of the balance sheets of the central banks are exactly the same, exactly parallel in the years '27 and '28 and '29 to what they are now, and it is the collapse of this system in 1931 which was responsible for the depth of the depression.

Q. But one of the countries which saw the biggest constriction imposed by the gold standard was of course Britain - which held no foreign exchange in its reserve. And, as we have always seen it, Britain at this time suffered precisely because of the harsh and inflexible disciplines of the gold standard, which you now want to restore.

A. Let me tell you that you touch a point on which I have quite personal souvenir. In 1930, I was financial attache in the French embassy in London, and as such I was responsible for the deposits of the French treasury. I had in my hands

10 per cent of the deposits of the London banks. They were the direct result of eight years of the gold exchange standard, because we had kept this sterling, as my colleagues in New York had kept the dollars which had been pouring into the French treasury from 1927 onwards. Then in 1931 the failure of the Austrian Creditanstalt caused successive waves of repatriations; and it was this collapse of the gold exchange standard at this time that without any possible doubt transformed the depression of 1929 into the great depression of 1931.

Q. While you are on this historical episode, what would your comments be on the very widespread view that it was to a substantial extent French pressure on London at that time in the withdrawal of sterling balances that was in part responsible for the general collapse later on?

A. Let me tell you that unhappily for the world the French pressure did not exist, or was so mild that it had no effect. There is a very interesting document from this period, a letter from Sir Austin Chamberlain, who was then Foreign Secretary in London, to M. Poincaré who was prime minister and finance minister in France; it must be of 1928. And Sir Austin said "we know that you are entitled to ask gold for your sterling but in the frame of the close friendship between Britain and France we ask you so as to avoid trouble for the City of London not to do that". And we were, I must say, feeble enough to obey this demand, and not to ask for gold, and the fact that I had in London such important sterling deposits shows that we did not use at all this right to ask gold.

The adjustment, which would have been small if taken in due time, was not made, and we had the enormous boom period of '27, '28 and '29. And that explains the depth of the collapse of the depression, because the adjustment was so much delayed; and because we were too gentle in responding to official appeals not to convert our sterling balances into gold. It's exactly the position in which we are now.

We are moving without any doubt to a result of the same kind as in 1931, because it's so clear that the dollar is approaching the end of its acceptability for payment abroad, and we shall have the same collapse. But in delaying it through various devices - by the increase of the quotas of

the International Monetary Fund, the Roosa bonds, the central banking swap credits, the Basle agreement, the Ten's agreement and the rest - in these ways we are doing exactly the same thing, namely delaying the correction of their balance of payments deficit. And if we were friendly to our friends we would do exactly the reverse.

Q. But wouldn't you say, M. Rueff, that the very developments that you cite, first the Basle agreement, then the growing agreement among even some Continental central banks of the need to replace dollar and sterling liquidity by an expansion of the International Monetary Fund - that this very movement is itself an example that a return to the crude gold base as such is not necessary and that the threat of another 1931 is or ought to be now an entirely artificial threat. It is artificial to the extent that there is a certain movement towards the creation of some kind of international credit management, which many people, starting from Keynes, have seen as the only logical development of credit management on a national scale?

A. Well, your question has two sides. I would be in full agreement with you if I could believe that this process of avoiding the facts could be long enough; in other words, that we could maintain indefinitely for instance what we have done in 1928, 1929, not asking gold in London. But don't you see in full light that the dollar is very near the limit of its payment abroad? Look at the figures. The dollar stock in the United States is diminishing one billion dollars every year and the claim on gold increasing two billion dollars every year. Of course you can gain some gold by suppressing the reserve for the internal currency, I have no objection to that, it's purely arbitrary. But the situation, if it continues - and it will continue, that is the base of my reasoning - is bound to come to a point in which there will be no foreign exchange left, no gold left to pay abroad. I know this situation very well. In 1958 when I had to look at the French situations, we had no foreign exchange at all left in the Equalisation Fund and we have been informed by the United States - they were quite right, they were very friendly to us - they told us: "We will not give you more money as long as you will not have improved your situation".

And I am very grateful for this. I knew that we were quite unable to pay anything abroad and the only option was either to establish quotas on every import (which we did), to forbid foreign travel (which we did), or to improve the underlying situation (which we did a little later). Well, don't you see that the situation in the US is exactly this one? They are now discussing a tax of hundred dollars on the people who want to go abroad.

To conclude on this point, I would say that I would agree with you if I were not convinced that we are in the position of a man who falls from the 5th floor. As long as he is falling, it's all very well but he is sure, absolutely sure, to arrive on the bottom, and at this moment the situation will not be comfortable. And that's what I want to avoid before we come to the floor.

But that leads to the second point. You consider that any reform on my line would mean a great deflation.

Q. I would say I am very worried that it would lead to a great deflation. But one's concern is not only that. One's real concern is that it would lead to a completely arbitrary influence over international economic policy - that your system would always be arbitrary and would be in danger of being deflationary.

A. Well, let me refer again to what President Franklin Roosevelt did in 1934. President Roosevelt has not destroyed the gold standard, he has restored it. Of course, it was a special kind of gold standard only for central banks, but I am very satisfied with that; but he definitely restored the gold standard through an increase in the price of gold. Well, what will happen if we try to do the same thing today? Suppose we remark that prices in the United States have doubled since 1934? So, suppose we roughly double the price of gold; the amount of the gold stock of the United States left, which is now let us say 15 billion, would be 30 billion dollars. Meanwhile the claims on this gold from the central banks would not change: they are generally speaking not claims with a gold clause, they are claims in dollars. I must insist that the central banks have no right whatever to claim gold, you cannot presume the gold clause where it is not expressed.....

Q. Some central banks do presume it, de facto.

A. I have much to say about that. I have been a Judge for ten years in the European Court. If you have made a loan without a gold clause you are supposed to know what you are doing. Therefore, with these 30 billion dollars they could repay the \$13 billion of claims of the central bank, and the United States will be left with 17 billion dollars of gold, which is a little more than they have now. Therefore, there will be no change whatever in the position with respect to credit in the United States. With respect to the creditor central banks, their dollar claims will be repaid and replaced by an amount of gold which has the same value. So here too there will be no change, and let me tell you that if there were no journalists in the world nobody would even notice the change.

But I must insist on one point. I consider it as a crime to speak of a change in the price of gold without speaking of the reimbursement of the dollar claims, because the change of the price of gold has no reason in itself, it is only the means to liquidate a situation which is the result of our past errors.

Q. But, what guarantee would you have that after this increase in the price of gold and without any conscious international credit arrangements that you wouldn't get precisely the same gold exchange standard evolving again? I know all about the Genoa Conference and its resolutions in 1922; but after 1934 I believe there was no specific intention of recreating the gold exchange standard, it just happened.

A. You are quite right.

Q. And surely this will always just happen because gold is in practice a poor, barren asset, bearing no interest; and central banks can and do find better ways of holding their reserves.

A. Well you are to remember that they are non-profit making organisations.

Q. May I come now to practicalities? Whatever you, or anyone else may want, it is very clear that the United States has elevated to a position of high political policy, the maintenance of the gold price at \$35 an ounce. Now in this situation in your view, what degree of pressure ought countries or central banks that think otherwise to exert? Do you think, for example, in relation to what you were saying about 1931, that France and other European countries, ought now to be tougher about converting dollar balances into gold?

A. I am a great believer in human reason, and I consider that when something is clear it can be made clear to other people, if they are in good faith and provided the question is discussed. But for five years the question has never been discussed. The group of ten has been closed into a very narrow field. They are forbidden to discuss a change in the price of gold, and therefore the main solution is closed to them. And then they perpetrate a great fault by agreeing to call lack of liquidity what is really lack of dollars. You know the story of the monk who wanted to eat meat on Friday; he said to the rabbit, I baptise you a carp. Well we have called lack of liquidity what is really lack of dollars and we have really lost three years in discussing questions which are not real.

Q. But given this, what degree of pressure?

A. Well the pressure must be for an invitation to discuss the question in full light with us. If it appears that there is no hope whatever to get people to agree to a common solution which seems reasonable, it may happen and it probably will happen that each country defends its own interest. But I refuse to accept this hypothesis. Before deciding whether a pressure is required we have first to see whether it is not a matter for intellectual discussion.

Q. But surely this intellectual discussion is happening in the Ossola committee and the Paris Club?

A. No. For as long as you call a problem of liquidity what is really the problem of the gold exchange standard, there is no discussion of the real problem. I have nowhere

seen a recommendation for the reimbursement of the dollar balance. As long as you don't approach this point you have no discussion and I am convinced that when the problem has been stated in full light it will be possible to arrive at an agreement. The question is to know whether it will be before or after the crisis.

- Q. Might I move now M. Rueff, to one remark of the General's last week with which I am sure you would be in agreement. This was where he stated that a national currency has a value only in relation to gold. Now many of us would almost put it the other way round, and say that gold has a value, a real value, only in relation to a national currency?
- A. Let me tell you that I have not at all any religious belief in gold. Gold is not at all an aim, it is only a means for a certain policy.
- Q. In effect what you are saying is that you prefer the anonymous and we would say arbitrary discipline of gold to the conscious discipline of men - of credit controllers - of international credit controllers.
- A. I accept anonymous, I do not accept arbitrary; because it is not a bit arbitrary at all, because it is based on the real facts and abjective needs.
- Q. But surely arbitrary in this sense: I believe that last year gold production was less than one and a quarter billion dollars. Suppose that for technical reasons, because of some new discovery in Siberia or some quite local technical development in South Africa, supposing that in 1966 the production of gold in the world is not \$1½ billion but \$6 billion. Now is not that an arbitrary influence on the amount of international means of payment available?
- A. Yes I agree on one point. If you have a lack of continuity I would have no objection to a change in these exceptional circumstances which you envisage in the price of gold.
- Q. The price of gold should then change in relation to its supply?

- A. Yes, but simultaneously in all convertible currencies.
- Q. But this change would itself require a conscious decision of credit management, in no way different to what you are saying is so difficult.
- A. Not at all, not at all. It would be a rare, quite exceptional move.
- Q. But if, in line with your ideas, gold were to be the only means of international settlement, are you not worried that there might be insufficient means of international payment, given the fact that in the last two years, as both you and Professor Triffin have so clearly shown, gold has constituted only quite a small fraction of the increase in international liquidity?
- A. Yes, but this fraction is as small as the degree of stability in the world. Don't forget that in all countries which are not key currency countries, we now have stabilisation plans, income policy, and efforts to counter the inflationary effects of the excessive increase in liquidity.
- Q. So in other words you do see the return to gold as one of the means of imposing a much greater discipline over credit expansion, domestic credit expansion, than we have had in recent years?
- A. I think that internal credit expansion has not been the main fault of the system. The main fault has been the result of the gold exchange standard, and if we restore a real system of payment internationally I think that would leave more freedom to the internal policy.
- Q. But if I may say so M. Rueff, this is where I, and I think other people, get very mixed up about the real aims of your scheme. On the one side you can say, and then many conservative banking authorities will tend to agree, that a return of the gold standard would impose greater domestic discipline and prevent the inflationary pressures that, as they see it, we have been having recently. But one can also put it quite differently - and I am quite unclear which of these two positions you are taking - one can also say quite differently that in practice, as in 1934, a big increase in the price of gold would free

domestic credit management simply because of the great increase in external financial strength, in particular of the United States. And that it would in this way at least in its first consequences, remove a discipline that we have had already. And I think if many people reject the sovereign rule of gold it is just because it is so arbitrary in the sense reflected here, in these two possibly quite different effects. It could be intensely deflationary; and equally it could be highly inflationary.

- A. I think there is a misunderstanding in the meaning of discipline. I think what you imply by discipline is a kind of conscious action which will be generated by movement of gold as an alarm clock. That is not what I have in mind. If I want the gold standard it is not because it will impose on central banks a certain policy. It is because it will exert its own influence by the transfer of purchasing power which is the result of the transfer of gold.
- Q. That seems an extraordinarily mechanistic view. But coming now to more immediate things: if you had to select a date for your guess as to when an increase in the price of gold which you see as inevitable will come, what would be your guess?
- A. Well, let me remind you of the Oracle of Delphi never gave a date for its forecast. What I am sure, is that if we remain in the same regime we shall some day arrive to the end of the means of external payments by the United States; which will mean that whether they will or will not, whatever the agreement in the IMF and the Gatt, they will have to establish an embargo on gold, to establish quotas on import, to impose restrictions as the one they are now studying on foreign travel, and to cut the links between nations. I know the situation so well because many times in my career I have seen the same situation in France.
- Q. But, the United States is today the only country that officially gives other countries the facility to exchange its currency into gold at an official rate. Now, what do you think would happen to the price of gold if the Federal

Reserve, together perhaps with a number of other like-minded central banks, were to say it would refuse to buy gold at \$35 - or at any price whatsoever? What would then happen, do you believe, to the price of gold?

- A. The price of gold would fall to a very low level and nothing would make it possible to maintain it. Unless of course there were a great speculation which convinced people that gold was still a refuge. But one cannot forecast. I fully agree with you, the price of gold is not in itself something given by God, it's the result of a policy.
- Q. Do you believe that General de Gaulle realises this?
- A. He has shown that he is fully informed of the gold standard and gold exchange standard mysteries. For myself, I feel that the proposition that the IMF, or the Committee of Ten, or anybody of this kind could receive the free disposition of an important part of the gold reserves of a country is not realistic at all. Would your country accept to transfer either to Basle or to anybody or to the European community the disposal of its gold reserve?
- Q. Disposal of its gold reserves, no. I would just say that in my experience countries give up just as much power to the international institutions as they have to, and under pressure it's surprising what may be done. The point I was trying to make though is simply that, as is perhaps not generally enough realised, the United States does today have this quite singular and quite unique function of maintaining dollar/gold convertibility. If in practice the United States ceased to do this, such as by saying it would not buy gold at any price, I think we might come to the point where somebody else would have to pick up the job, and perhaps only an international organisation could.
- A. I am not interested in the price of gold. If you want to replace it by something better, platinum or any other metal - as I told you, I have no religious belief in gold; it's only an instrument, it has been in the past less bad than the others, that's what we can say.

- Q. But don't you think that countries' present tendency to want to hold gold as distinct from dollars - I am thinking in particular of France here - might be rather different if they thought that there was a possibility that the price of gold might fall as well as rise, and that it wasn't gold as such, in General de Gaulle's terms, that had its intrinsic value that would last for ever more! In so far as this attitude is not quite correct, which you admit now, isn't the faith in gold as an instrument of reserve also slightly dubious?
- A. I don't think there is any idea of speculation in the mind of General de Gaulle. I think he has the conviction that the problem for the West is to replace some instrument of disorder into an instrument tending to restore order, and this is what he has in mind. I think there are very few people who consider it realistic in the present condition that gold should be abandoned.
- Q. Let us hope these will be more after Thursday last. Might I move, now, to a more technical point? What is your view of what is here called the CRU, the Composite Reserve Unit?
- A. It is difficult for me to express a view, because I don't know much about the details of this scheme. It has been proposed, I know, by my friend, the French Finance Minister, and I think it is up to him to defend his own child. It seems to me that it is a scheme of the family either of the European Payments Union or even the IMF. Generally speaking, I think that anything can be done in this field provided it is built on a base of monetary gold convertibility. The CRU system can be good or it can be bad. Let me remind you of the story of the European Payments Union. At the beginning it was very bad, because it was nearly only credit, that means purely arbitrary creation of means of foreign payment. At the end, it was nearly entirely good, as it was made increasingly "harder".
- Q. M. Rueff, you in 1958 presided over a committee which laid the basis for French financial recovery by what was called then assainissement, which included besides many disinflat-

ionary measures also devaluation and an exposure of the economy to competition. Now, some people in Britain think that we might be able to do with some assainissement ourselves just now. If Mr Wilson were to appoint you to head a similar committee for our problems, what recommendations might a Rueff report for Britain make?

A. May I first state emphatically that I am not a candidate for such an assignment. And secondly, that I would first ask to be informed on the situation, which I am not today. I can only say that from the outside I don't have the feeling - it's only an impression - that there is a great financial problem in the United Kingdom. I always live under the impression that Britain is the country that has the highest financial tradition and the best equipment in the field of credit. The London market is a model and for thirty years I have been fighting for the introduction of its practice in France. Though I must say that M. Giscard d'Estaing has made progress in this field, he has taken steps which are certainly in the right direction, but there remains much to do. Certainly you have the problem of the sterling balances and that is a difficult one.

Q. May I just ask you on this in connection with successful domestic policies. France's two great periods of economic success in the last generation were after the stabilisation cum devaluation of the franc in 1926 - 28 and after 1958. Now both these stabilisations were at a decidedly undervalued exchange rate - on both occasions - and I believe you had some personal influence both times. Do you believe that in any programme for Britain that this might have any lessons for us?

A. There is one point I must make clear for the sake of history. I was associated with the Poincare stabilisation only to a very small degree - I was a young inspecteur de finance and I was called as one of his assistant secretaries to study only one question which was the exchange rate.

Q. The most important question.

A. I said - and that has now been published - that the key consideration was to find the level at which you would not have to diminish nominal money wages. Contrast your experience in 1925. The main principle is that you must create a situation in which in no case you have to get a decrease in domestic money wages. Above that if you can have a margin I think it is useful. But it is a great fault to have this margin without using it to do very quickly what remains to be done.

In 1958, and there I know much more of the situation, the only merit of the plan is that it has been global. That does not mean that I was satisfied with what was done after, because what has been lacking in the development of this policy is a decided improvement of our credit system which is still obsolete; and the diminution of the rigidities in the French economy. And I think if I had any responsibility in London, I would make a thorough investigation of the source of rigidities in the British economy, that means all the matters dealt with in my second report - distribution, the structure of the various markets, rents, farm prices, and all the protected sectors of the economy. It is incredible to see what rigidities history has left in old countries as yours and mine. But if you make an attempt at reform you have to meet all these points simultaneously.

But let me conclude. All that has been said about the price of gold in the United States and all that has been said in every country about what is called devaluation, I have heard that so many times. We have had in France great experience in this field. A devaluation or change in the price of gold is always opposed by all the people. They say it is morally impossible, it is practically impossible, it would be inefficient. And I have seen it in France five or six times in my own career, and many time also in Britain. Now we see that once it was easily accepted, and that in every case it was, at least in the short term, successful - provided it was part of a general policy of economic and financial restoration. The only trouble is that we have not always used the resulting period of rest to do what we meant to be done. In your case I have no specific advice to offer; the consideration of the world monetary problem which is bound to happen in the near future may provide an occasion and a means to look at the special problem of sterling and maybe also of the sterling area.

FOR IMMEDIATE RELEASE

MARJOLIN PRESENTS EEC COMMISSION VIEWS ON WORLD MONETARY PROBLEMS

WASHINGTON, D.C., March 23 --- Robert Marjolin, Vice President of the Commission of the European Economic Community, presented today the views of the EEC Commission on world monetary problems in a speech delivered to the European Parliament in Strasbourg.

Vice President Marjolin discussed the United States' balance of payments difficulties, the international monetary system, and the role of the Community in solving monetary problems.

Following are excerpts from Mr. Marjolin's speech:

"For several years, the international monetary system has not been working in a manner that we could consider to be satisfactory. To meet the difficulties that keep on occurring in this field, important and often improvised changes have been made in the rules that were worked out immediately after the war.

"This has produced considerable disorder, and as there has not been sufficiently broad agreement as to the proper remedies, the disorder has not yet been put right. The free world cannot be satisfied with an attempt to solve the problem of the imbalances which face it today by applying methods which recall the disastrous errors of the period between the two great wars.

"A number of important declarations have now changed the terms in which the problem is posed - the statement by the President of the French Republic on February 4, President Johnson's message to the Congress on the United States balance of payments, made on February 10, the lecture given on February 11 by M. Giscard d'Estaing, the French Minister of Finance and Economic Affairs, the further remarks by the United States President on February 18, and yet others.

"Commentators have frequently tried to oppose these various points of view. In an endeavor to be constructive and to help work out a solution that could be acceptable to everyone, I propose to begin by underlining what is common ground and then to show what questions still remain to be answered and in what direction we could usefully seek the answers.

"Let me say first of all that discussions on the world monetary system would not be taking place in such a strained atmosphere if the balance of payments of the United States, the greatest economic power in the western world, had

not been showing a serious deficit for more than seven years. This chronic deficit was made possible, if not caused, by an excess of domestic liquidity in America itself. It has been a not inconsiderable factor of inflation for the chief trading partners of the United States, though - at least in the EEC - purely internal factors have played an even more important part. Some central banks have accumulated dollars in considerable quantities; this enabled the United States to be in deficit over a long period without its gold reserves having to suffer the full consequences.

"Such are, broadly, the facts.

"President Johnson has made a lucid and courageous analysis of this situation. He has given us the striking phrase: 'We are highly solvent, but not liquid enough'. He has also said: 'We cannot, and do not, assume that the world's willingness to hold dollars is unlimited'. He has restated the firm determination of the United States to eliminate the deficit in its balance of payments.

"There is much discussion on the causes of this deficit; we may hope that the controversy will be ended by what the Americans themselves say. 'Our payments problem', President Johnson has stated, 'is not an export problem... We have to deal head-on with the surging outflow of private capital'.

"We are all aware of the measures that the President of the United States has decided to impose; I shall not go into them here. However, in a speech to American bankers and businessmen, the President did say: 'But you and I know that this won't be enough. Capital will still flow abroad to the advanced countries from your banks and your businesses if you let it'.

"Leading bankers and businessmen have therefore been asked to co-operate with the Administration in a campaign to restrict short-term loans and direct long-term investment abroad.

"What is there for us to say at this stage about American policy, which is not just a domestic affair for the United States but is also of major concern to the Community and the rest of the world?

"First, we can say that things are moving in the right direction. I do not wish to prejudice the matter, but I would simply say we trust and believe that United States policy will lead to a substantial and lasting reduction in the deficit if certain internal measures are taken at the same time.

"We can but endorse without reservation what the EEC Monetary Committee

said in its latest report, from which I will quote briefly:

'There is therefore no doubt that capital transactions are the item which calls for attention if the American deficit is to be corrected. It is hard to see how this can be done as long as the American capital markets enjoy their present ample supplies of funds.'

'We agree with the Monetary Committee in thinking that a tightening of the American financial markets, one result of which would be to raise long-term interest rates, is among the conditions without which it will not be possible to re-establish equilibrium on a lasting basis.'

'We think, that slowing down American direct investment in the industrially developed countries would also contribute to the general health of our economies. It would be useful if the Community countries adopted a common attitude to these transactions. There is no question - I wish to make this clear to avoid any misunderstanding - of closing Europe to such investment, which is more often than not highly beneficial to our countries, but simply of avoiding excess. Community action in this direction could consist of a detailed statistical check on direct investments from non-member countries, supplemented by machinery for consultation between the governments and the Commission on national policies in this sphere. This presupposes, of course, that all member states supply each other with the necessary information. In this way we should be moving in the direction already required under Article 72 of the Treaty of Rome.'

'This brings me to the question of the international monetary system, which is today the subject of lively debate. We believe that such discussion is, in part, the result of certain misunderstandings, and these must first be dispelled.'

'The expression 'gold standard' has been used in several different senses, among which it is essential to distinguish. Certain persons, who in any case do not occupy positions of responsibility in the conduct of public affairs, consider that it means a pure and simple return to the monetary machinery that existed before the First World War, which was characterized by the almost exclusive use of gold in international payments with, as a result, serious and rapid deflation in a debtor country which did not possess large reserves. This is a system which we rule out.'

'For others the gold standard, which could also be called the reformed gold exchange standard, means a return to a stricter monetary system and to the ideas which underlay the Bretton Woods agreements made during the Second World War.'

"These ideas affirm the primacy of gold in the final financing of balance-of-payments imbalances, but accept the maintaining, and perhaps even the widening, of international credit facilities, provided these facilities do not in practice remove all need for the debtor country to take the necessary steps to ensure the speediest possible return to equilibrium. This would mean maintaining the machinery of monetary co-operation represented by the IMF, the Group of Ten, and the short-term credits which central banks make available to each other,

"These ideas do not, however, allow the future accumulation by the central banks of large surpluses in foreign currency.

"The Executive Commission is inclined to share these ideas. The weaknesses of the gold exchange standard, as applied at present, are now universally recognized, and it appears that the arbitrary creation of international liquidity, not in accordance with the needs of international trade but following disequilibrium in the balance of payments of this or that country, has now reached a limit which it would be dangerous to exceed.

"Even if a general agreement could be reached on such a basis, two further questions would arise on which, with your permission, I should rather not give you answers today, though I can make a few introductory points:

- "1. What should be the fate of balances at present held in foreign currencies by the central banks? No sudden decision should be taken. The solution should be sought without haste, in view of the debtor and creditor countries' need for security and in order to avoid causing a considerable contraction in the volume of international liquidity.
- "2. What would in the future be the means used to create the additional international liquidity that will be made necessary by the expansion - and we hope it will be rapid - of trade of every kind between the countries of the free world if, as is probable, the production of gold should prove insufficient?

"We do not think there should be an increase in the price of gold, since this might undermine confidence in national currencies. The creation of additional international liquidity should be done on the basis of agreed criteria and amounts, so as to exclude the maintenance, over lengthy periods, of disequilibria in the balance of payments, except in the case of developing countries, which could cover their deficits by means of long-term capital imports.

"I would be disappointing you if I did not say a few words on the role that the Community can and must play in solving the problems I have been speaking about. Its role is already a considerable one. I refer again to our Monetary Committee's recent report.

"It states that 'at the end of 1964, outstanding drawings on the IMF totalled \$2,622 million. Of this total, \$857 million was financed by IMF sales of gold, while of the balance of \$1,765 million, \$1,437 million - more than 80 per cent - was in the form of drawings on Community currencies'.

"The Community's opportunity for action at world level would be considerably enlarged if its own monetary unity were reinforced. This is already a reality, but it may still be called in question again. I quote the Monetary Committee once more:

"It (the Monetary Committee) concludes that progressive integration within the EEC, and particularly the tendency for the respective prices of a growing number of products to settle at much the same level throughout the Community, will make a devaluation or revaluation increasingly difficult and unlikely. The establishment of a single agricultural market will strengthen this trend. However, the Committee considers that even so it would still be possible for a State to adjust the exchange rate of its currency, should this prove necessary in order to safeguard, for example, the smooth working of the Common Market itself'.

"This description of the present situation corresponds to the facts. Our task is now to ensure that devaluation or revaluation, which today are only difficult and unlikely, shall become impossible and useless.

"The Executive Commission is already at work on this. It is seeking a solution along several lines at the same time, realizing that in each of them decisions will have to be taken which together will form an indivisible whole. At this stage I shall do no more than indicate the lines we are following:

"1. We are seeking, on the basis of methods already used last year to deal with economic imbalances, to intensify co-ordination of the economic and financial policies pursued in the Member States by endeavoring to work out common norms for such matters as budgetary policy, credit policy and, as soon as possible, incomes policy.

"2. We are seeking to achieve complete unity as regards capital movements, whether for long-term or short-term investment.

"3. We aim at harmonizing progressively the instruments of monetary policy.

"4. We are seeking to strengthen the solidarity of Member States in the matter of international liquidity reserves and their co-operation in international monetary operations, until the day when the reserves of each country can be considered as part of a single reserve.

"The movement towards monetary union is essential for the Community itself, and also for the future of the international monetary system, for if monetary cohesion reaches the point where the Common Market is looked upon from the outside as a single unit, the search for international equilibrium will be simplified by a reduction in the number of decision-taking centers and by the opportunities stemming from partnership among equals.

"I propose to make a statement later to the Parliament on the action program the Commission is to adopt in order to achieve the aims I have just summarized."

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TREASURY DEPARTMENT
Washington

FOR SIMULTANEOUS RELEASE
IN PHILADELPHIA AND WASHINGTON
AT 12:30 P.M., EDT
MONDAY, SEPTEMBER 28, 1964

REMARKS BY THE HONORABLE ROBERT V. ROOSA
UNDER SECRETARY OF THE TREASURY FOR MONETARY AFFAIRS
AT THE SIXTH ANNUAL MEETING
OF THE NATIONAL ASSOCIATION OF BUSINESS ECONOMISTS
AT THE WARWICK HOTEL, PHILADELPHIA, PENNSYLVANIA
MONDAY, SEPTEMBER 28, 1964, 12:30 P.M. (EDT)

THE MEANING OF INTERNATIONAL FINANCIAL COOPERATION

You have undoubtedly heard much in recent years about international financial cooperation. But you must also be wondering, from the newspaper accounts of the past two weeks, what happened to cooperation in Tokyo. To compound the confusion, I can assure you that the accounts were entirely accurate. Yet the answer I would give to that question, paradoxical as it may seem, is that this Tokyo experience has been one of the most striking evidences that has yet appeared of the strength and reliability of the international financial cooperation which now exists.

The differences expressed in Tokyo were not the unfortunate or accidental results of any failures of communication or of understanding. They were not the expression of suspicions or ambitions by one country or another. They were instead an open invitation to every interested person everywhere to begin to participate more fully, alongside the representatives of the various governments, in a fundamental analysis of some of the issues which have arisen as those governments have attempted, thus far behind closed doors, to survey the possible long-run course of the international monetary system.

The Minister or the Governor or the Chancellor or the Secretary who urged consideration of one possible line of thought or another at Tokyo did so knowing that there would be no impairment of the effective current functioning of the monetary system because one or another of them ventured to raise questions about the shape that system might take, or be moving toward, some years in the future. Each fully understood the profound concern of the other. Each

recognized that the quality of any decisions that might be necessary in the future would be improved if there could be wider consideration of these various approaches inside and among all of the countries participating in the International Monetary Fund.

Each also knew that a thorough analysis of the current functioning of the system had just been completed by the International Monetary Fund, looking at the world as a whole, and by the so-called Group of Ten, looking at some of the additional special problems centering in the more industrialized countries. Each knew that, despite a number of genuine present needs for specific measures of improvement, there had been a unanimous finding that the basic structure of the system is sound, and its performance both healthy and flourishing. Moreover, every one of the principal actors on the Tokyo stage knew there was firm agreement that any unexpected crisis which might threaten to impair the smooth and sustained functioning of the international monetary system could and would be met and overcome by utilizing facilities which were fully developed, tested, and agreed upon.

There was no danger now of any speculative unrest because Ministers revealed, with an invitation to public debate, the differences they had discovered in their private discussions. This is what I mean, then, when I say that the open discussion of important differences in monetary analysis and in possible prescriptions for the future, as this occurred in Tokyo, was in fact a reassuring demonstration of the solid strength on which our arrangements for international financial cooperation are now based.

I will not try today to re-state, nor to elaborate upon, the differences in diagnosis that were brought forth in Tokyo. I would like to take a brief look, with you, at the nature and meaning of the kind of international cooperation we have been evolving in the financial area. To do that leads, initially, to a look at some of the developments that have brought about this new emphasis upon international financial cooperation. Then, after some further explanation of what the cooperation actually consists of, perhaps I can make a little clearer the reasons why the debate which has now been initiated fits so well into the current phase in the evolution of that cooperation. Or, to put all this another way, if I may use the rather terrifying jargon of internationally negotiated language, I want to make a few comments, first, about "multilateral and bilateral credit facilities," then second, about "multilateral surveillance," and third, about the possible place of additional methods for the "creation of owned reserves."

Fortunately, I have to make some other speeches on these matters over the next few weeks, so I will save a few thousand words for those efforts and will not actually try to keep you here until sundown, as perhaps you might apprehensively have suspected from this outline.

I.

The impetus to increased use of the International Monetary Fund, and to increasingly active bilateral operations among those leading countries whose performance can have wide repercussions upon the trade and payments of the world as a whole, came with currency convertibility at the end of 1958. The entire drive of the postwar period, through the successive miracles of reconstruction and renewed development, was toward a world of greater freedom for trade and payments among nations. The unprecedented flourishing of prosperity during these two postwar decades testifies that the decision to move in this direction has been sound and that the potential to be realized by freeing the forces of the market-place is enormous. But the problem has been, as new strands created by the international division of labor wove increasingly complex patterns of economic relations among countries, to find and accept workable standards for normative behavior. A lunge toward full freedom meant chaos or anarchy. Yet the drive toward it had to be kept in motion. Quite understandably, it was to money -- or, more broadly, to liquidity arrangements -- the common denominator of economic affairs, that the world turned for some of its needed answers.

The world had already, at Bretton Woods in 1944, discarded the discredited concept of an automatic gold standard. In creating, and adhering to, the International Monetary Fund, the countries of a free trading world were declaring that international economic relations could no longer, in realistic practice, be guided by simple adherence to a system of rather rigid rules. No one was willing to repeat the turbulent history of the post World War I period, when that kind of system, trying to function within a modern environment, brought the gold standard crisis of the early 1930's, the shattering depression which followed, "beggar-my-neighbor" trade policies, and eventually open economic warfare. Instead, the need after World War II was for a system of guidelines and facilities, flexibly utilized under a rule of reason. In the monetary field, that need was to be met by the International Monetary Fund.

The Fund introduced for the first time, on an organized and fully multilateral basis, the principle of reliance upon credit facilities to supplement the use of gold and the dollars, sterling or francs that had become imbedded in the "owned reserves" of various countries. In the IMF system, provided that a given country's reserves came under pressure because of unusual seasonal developments, or because its cyclical phasing differed from that of many other countries with whom it had extensive trade, or because its own growth pace had imposed strains that would require some time to relieve, the Fund could furnish credit for a period of three to five years in order to help bridge over the needed adjustments. As a country's drawings became larger, in relation to its size as reflected in Fund quotas, the degree of scrutiny and advice from the Fund would be intensified, and interest charges would rise. This could provide the needed measure of discipline as a substitute for the grotesque and grueling "contraction into balance" that the old gold standard, or presumably and purely automatic arrangement, would impose in today's world.

The questions for the further future, once the Fund began to meet the tests of wide-spread convertibility, were whether its own resources were adequate, whether facilities for the use of such resources on a fully multilateral basis could be suitably adapted to the full range of differences in relations among individual countries that might emerge, and whether the Fund itself or any possible supplementary arrangements could preserve the element of discipline which must still be retained if the new resources were to be kept revolving from one use to another and not drained permanently into the continuing deficits of particular countries which proved unable or unwilling to keep their external accounts, over time, in balance.

What soon became compellingly clear, once most of the leading countries were convertible (at least on current account), was that money was now much easier and freer to move than goods or people or fixed capital. Whenever differences might then develop among countries, in the pace, or even in the composition, of their continuing advance, or in their capacity and readiness for trade, the compensating action could ordinarily be expected to occur first through the movements of short-term funds. And since the underlying causes of such movements at the time were often difficult to discern and slow to appear, there was a ready propensity for a movement of funds in any direction, once started, to become cumulative. Moreover, the mere existence of free and open markets in foreign exchange required the presence of private speculators, performing their accustomed role in a free and flexible market, so that sensitive market facilities for the transmission of capital flows quite naturally and indeed necessarily developed.

In these circumstances, it was appropriate, in 1961, to question whether not only the facilities, but even more importantly, some of the "rules of the game" provided by the International Monetary Fund were fully adequate to the new conditions. The answer then found was that a number of the leading industrial countries, whose currencies had become (or were about to become) convertible, would have to accept an increasing degree of special responsibility. They would among themselves have to assure the adequacy of resources available to the International Monetary Fund in the event that others among them encountered heavy need to draw on the Fund, most notably the United States. That is why the so-called Group of Ten was established to provide, within the framework of the Fund, the "General Arrangements to Borrow," making up to \$6 billion equivalent in additional resources available to meet the needs of these countries, in the large magnitudes that such needs might reach, without impairing the capacity of the Fund to meet at the same time the current needs of any of its other members.

It followed from this recognition of common interest and special responsibility that the individual countries should attempt, as possibilities appeared, to develop additional arrangements for meeting and financing payments flows among themselves, in an effort to reduce somewhat the direct burden that might have to be carried, in the event of more lasting needs, through the Fund. With the United States, throughout this period of convertibility, having moved into substantial deficit, it had perhaps the broadest opportunities for the development of new and flexible bilateral payments arrangements, in conjunction with other interested countries. The U. S. effort centered, quite properly, on the handling of those aspects of its requirements that might be comparatively short-lived or reversible. At the same time, as situations occurred in which these bilateral facilities could suitably be introduced, attention was also given to the possibility that these same arrangements might be used by other countries to meet heavy or unusual needs of their own. And indeed, over the past three or more years, the actual magnitude of the use of the new bilateral facilities has been greater for meeting the unusual needs of other countries participating in these arrangements than it has been for the United States itself.

Paralleling the increase in reliance upon the IMF as the source of multilateral credit facilities, and as the working center of the international monetary system, and accompanying the more recent elaboration of bilateral credit facilities, there have been the continued large balance of payments deficits of the United States. While these deficits have poured billions of dollars into the outright, or owned, reserves of many countries, there must be no doubt that the phase of large U. S. dollar deficits is nearing its end. That is a principal reason why the present phase in the evolutionary progress of the monetary system calls for increasing reliance upon credit rather than upon owned reserves, and upon cooperation rather than upon unilateral action by us or any country.

As Secretary Dillon so forcefully emphasized at Tokyo, this is now the time to make greater use of the whole range of credit facilities -- multilateral and bilateral -- that form such an important part of the liquidity spectrum, while digesting and redistributing the large volume of owned reserves that has already been created. If that pattern is followed, as seems widely expected at least for the next few years, then it is indeed necessary, in our interest and that of the Group of Ten and of the IMF as a whole, that all countries understand and use, as appropriate, the facilities which those of us who were "Deputies of the Ten" have felicitously titled "multilateral surveillance."

II.

It was not altogether clear at first that a continuing role would be found for bilateral financial arrangements in the form of swaps, or forward operations, or the acquisition of foreign currencies on open account by the United States itself, or by other countries, or for the issuance by the United States of bonds denominated in other currencies. But enough had been accomplished with these facilities by the Autumn of 1963 to raise a question as to the need for finding some way of keeping such bilateral arrangements subject to a general review and appraisal by the other countries which were most directly affected by them, and which were most likely to be involved in them because of the strength and widespread use of their own currencies.

Such appraisal had, in various informal ways, already begun to evolve at the monthly meetings of the Bank for International Settlements attended by the various central bank governors and their principal associates. A parallel opportunity had been found within the OECD through the establishment of a limited membership group known as Working Party 3, in which responsible representatives of most of these same governments and central bank representatives could participate in a full review of their balance of payments positions, the interactions between these and domestic economic policies, the progress being made toward equilibrium, and the methods being used by each to finance its external deficit, or carry its surplus. In addition, the creation of the General Arrangements to Borrow had itself prompted meetings two or three times a year among the Finance Ministers and Central Bank Governors of the Ten countries to assure that the evolving situation was kept in view by all of them in order that they would be ready and able to act promptly in the event of need.

It was out of the combined results of these frequent contacts, and the unprecedented opportunities they gave responsible officials to know more about current developments affecting the economic policies and foreign economic position of each other, at first hand, that programs of special action have evolved for providing a tight ring of defenses around all the world's leading currencies. These made possible the almost instantaneous activation of resources to meet and withstand the series of potential speculative crises that have occurred over the past several years, including the Canadian dollar crisis in mid-1962, the threatened crisis at the time of the Cuban confrontation in October, 1962, the shock of the President's assassination in November, 1963, and the possibility of imminent crisis in the Italian foreign exchange market in March, 1964. Over most of this period, since late in 1961, a number of the same

countries have also been able to carry out joint operations in the London gold market -- discouraging harmful speculation and encouraging a maximum flow of newly produced gold into official reserves rather than into speculative private hoards.

These are the concrete, creditable and conspicuous results of the cooperation. But the needs to be met by the world's monetary system are not only those calling for protection against crisis -- as important as such protection is. There are also regular needs for provision of the means of payment used in carrying on the daily transactions of a growing and diversifying world. And the potential for international financial cooperation extends beyond the averting of calamity to the helpful improvement of facilities for settling the net differences among nations that result from the conglomerate of their every-day trade and payments.

To generalize broadly, most of the direct uses thus far made by other countries of the new bilateral facilities have been to forestall crisis; most of the uses thus far made by the United States have been to smooth out the patterns of balance of payments settlements, both between ourselves and other countries and among other leading countries which make their settlements in dollars. Bilateral credit facilities can now be used, in the ordinary course (and distinct from crisis situations), as temporary supplements to the settlements which nations make by using, or by adding to, their own reserves of gold and foreign exchange. Bilateral credit facilities can also be used to reduce in some measure the recourse which countries have to make to the International Monetary Fund, in calling upon multilateral credit facilities to help settle balance of payments accounts.

Before we jump to the conclusion that we have discovered the Aladdin's lamp of liquidity, however, we had best remember that credit of any kind, however extended, is in fact a claim upon the real resources of whomever extends the credit. That is why it is impractical to expect that there can ever, on any massive scale, be "fully automatic" credit facilities on which countries in balance of payments deficit may freely draw. The ultimate decision as to whether or not additional credit can safely and usefully be extended must remain with the creditor himself.

That fact, and the rapid recent increase in the use of bilateral facilities, has made all of us aware of the need for a critical evaluation, of the kind just conducted by both the Fund and the Ten. We had to determine whether, and if so, how, to regularize and carry forward what has been so successfully achieved, ad hoc, in these few recent years. That is why the United States has, from the beginning, been scrupulous in publishing, as soon after each event as prudence would permit, the full record of its operations. That is where, now, "multilateral surveillance" comes in.

Multilateral surveillance is essentially a means for improving the information available concerning the credit extended and the debt contracted by the leading industrial countries in the course of carrying their surpluses or financing their deficits. Quite obviously, the volume of trade and capital transactions of the countries in the Group of Ten, now happily joined for this purpose by Switzerland (which is not a member of the International Monetary Fund), can, if they move seriously out of alignment, have grave repercussions on the functioning of the world economy as a whole. Detailed, confidential and systematic exchanges among these countries are clearly essential. In effect, what the Ten (or Eleven) countries are now providing through their arrangements for multilateral surveillance is a sort of international credit interchange bureau.

To assure efficient and informed processing of this information, the Ministers and Governors of the Ten have called upon the management of the Bank for International Settlements, which has agreed to perform these services. To assure full access, in suitably confidential form, to the management of the International Fund, representatives of the Fund have participated in all stages of the development of these new arrangements, and senior officials of the Fund, including where appropriate the Managing Director himself, will participate in any review and appraisal of the information being gathered.

Discussions based on this information will occur, as they have informally for a number of years, among the Central Bank Governors and their associates attending the monthly meetings of the BIS in Basle. Critical analysis by representatives of the various governments will occur as the new and regularized flow of information is made available to Working Party 3 of the OECD, on which, for example, I represent the United States, accompanied ordinarily by a senior spokesman for the Department of State, the Council of Economic Advisers, and, of course, the Federal Reserve System.

I was asked at a press briefing a few weeks ago, when the Group of Ten statement of August 1 was published, whether multilateral surveillance meant that the countries involved would be giving us more advice than in the past. My reply then, and I think it is still fully applicable, was: "It would be hard to say that either they or we could give or get more advice than we have had in the last few months. This only means that, as the advice is being exchanged, the information base on which it rests is a little more assured and a little more current." And indeed it is in keeping each other more systematically informed concerning the flows that are taking place, as well as concerning the compensating action which one country or another initiates, that the procedures under "multilateral surveillance" will make their major contribution.

As you well know, a great variety of private capital movements, in addition to movements of official funds, are constantly exerting an impact both upon official reserves and upon commercial balances in the major countries. Some of these capital flows are equilibrating in nature, some are disequilibrating, some are seasonal, some are speculative. Current approximations as to the basic balance of payments implications for the various countries can be reached much more rapidly, and we in the United States can reach our own conclusions as to what they mean for us and the position of the dollar with much greater assurance, if we can have promptly available the best results that the responsible authorities of each country can produce -- in attempting to distinguish between those movements of their own funds which represent true settlements of current transactions, those which represent long-term investment, and those which may be speculative or capricious.

Multilateral surveillance involves the creation of no new institution, but rather the strengthening of activity already under way, and the establishment of facilities for expediting and standardizing the flow of information among the Group of Ten (or Eleven) countries. It does not, indeed could not, require multilateral approval of particular transactions. It will not occasion delay in any foreign exchange transactions or the activation of swap arrangements. For it is the speed and flexibility with which these facilities have been used that have given international monetary cooperation its remarkable record of recent achievement.

It will be possible, as a result of the newly improved procedures, however, for any of the countries to take better stock of the financial factors affecting its own position as a basis for determining its own individual course of action -- not merely in extending credits or arranging to obtain them, but more importantly in formulating its own national economic policies with a view to furthering its own adjustment toward balance of payments equilibrium. And this orderly exchange of information will, as Secretary Dillon said at Tokyo, avoid any risk that a participating country "might drift into heavy and continuous reliance upon such essentially short-term credit facilities, delaying too long the necessary corrective action that should be taken to adjust its balance of payments."

III.

It was not multilateral surveillance that occasioned the differences at Tokyo. Those differences related to steps that might be taken at some time further on in the future, not in connection with the use of credit facilities, but in finding new ways to create actual, or owned, reserves. I have promised you a word of explanation as to why the expression of these differences came so fittingly at the current phase in the evolution of the international monetary system, when we are not in fact concerned by any shortage of owned reserves on a global basis but are instead pressing to improve the distribution of existing primary reserves -- through the Fund and bilaterally.

The answer, bluntly abbreviated, is that the various approaches now being utilized for the elaboration of credit facilities can, if we watch them closely, furnish important evidence bearing upon the other kind of choice that may have to be made in later years. Let me illustrate by briefly characterizing two of the more prominent positions expressed as to the future creation of owned reserves.

The United States, without pegging itself to an absolute commitment, would genuinely prefer that any further additions to the world's arrangements for creating owned reserves be established within the International Monetary Fund. We would, at least in our present thinking, like to see any such development, if it occurs, evolve out of practices with which countries are already familiar in the Fund. We would hope it could represent, step by step, comparatively modest changes toward what might, of course, in time prove to be a major change in the composition of the world's monetary reserves.

By contrast, the French and some other countries believe that it will eventually be necessary to make a clean start, in deliberately displacing or replacing what we have, by consciously and explicitly creating something that is truly new. Their suggestion for the establishment of a composite reserve unit would involve a contribution by several of the leading industrial countries, putting agreed amounts of their own currencies into a common pool. Shifts among the participating countries in their claims on this pool would then be linked by a fixed ratio to gold transfers among these same countries. The ratio would naturally be changed as the participating countries altered the volume of composite reserve units. This is the heart of the French suggestion. Details might be spelled out in many ways, just as there are many variants for possible creation of owned reserves through the International Monetary Fund. No one, so far as I know, has an unalterable position on any of these matters. But we have taken clear initial positions in order to make certain that the relevant issues will in fact be thoroughly debated and

analyzed as logically and fully as major decisions of this significance deserve.

I am sure you already see, with me, the very interesting parallels between this debate over the future creation of owned reserves and the pattern of experimentation that is now being followed as we proceed in the current phase toward elaboration of credit facilities. For we have today, as the principal source of credit facilities and the major guardian of the financial conscience of the world, the International Monetary Fund. But we have also found, as time went on, that there was some place for purely supplemental arrangements among countries whose special needs might be adapted to special techniques, while yet adhering consistently to the Fund itself. And we are now initiating additional arrangements for improving our performance with respect to those aspects of credit facilities that are centered in the Group of Ten.

None of us has as yet surrendered any sovereignty to the Group of Ten. None of us is bound to accept advice from the Group of Ten. Each of us is free to withhold or to grant credits in forms that come under multilateral surveillance. But we are gaining, every month and year, more experience in working together to meet some of the special problems that are, at least in a relative sense, unique among countries of the size and characteristics included in the Ten. How better then could we be poised for a testing, in practical and operational terms, of the various kinds of considerations that are certain to arise in the studies of reserve asset creation?

The monetary authorities, and those interested in monetary affairs, in all countries are in a fortunate position. Our studies are going forward, pari passu, with the testing of some of the important premises on which a choice, among the various results of the studies, may ultimately depend. It is an exciting, in some ways an unprecedented, opportunity for rational progress in organizing international economic relations. It is one in which, I know, every economist will want to participate. The debate is on; I hope you will all join in.

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Mr. J.J. Polak

Room 505

#11

September 23, 1964

To: Members of the Executive Board
From: The Secretary
Subject: Excerpts from Speeches at the 1964 Annual Meetings

Herewith for reference are excerpts from selected speeches delivered at the recent Annual Meetings.

Att: (1)

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EXCERPTS FROM SPEECHES BY FUND AND BANK GOVERNORS
AT THE 1964 ANNUAL MEETINGS

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INTERNATIONAL LIQUIDITY AND THE INTERNATIONAL MONETARY SYSTEMA. International Liquidity and the Role of the FundI. Remarks of Governors for Countries Participating in the Fund's General Arrangements to BorrowUNITED STATES (Governor Dillon)

It was within the environment of a shrinking United States payments deficit that the International Monetary Fund conducted its study of the international monetary system over the past year. Concurrently, another study was being carried forward by the Group of Ten countries, which had, in 1961, accepted special responsibility for providing supplemental resources to the Fund in the event that unusual strains were to develop in the international monetary system. It is highly significant that both studies concluded that the present system is functioning well and that any changes should be designed, in the words of the Fund report, to "supplement and improve the system where changes are indicated, rather than to look for a replacement of the system by a totally different one."

* * *

Today, even in the free industrialized countries, there is no common economic pattern, but a mix, varying from nation to nation, of productivity, prices, trade restrictions, and capital market facilities. As a result, the bulk of the increases in reserves have, for the past several years, flowed to a few of the industrialized countries, and particularly to Western Europe. Further substantial increases in reserves would, for the most part, only increase that flow--unless and until those countries reduce their chronic surpluses through a relative rise in imports, an increase in their capital exports, or any other acceptable combination of actions that would overcome their propensity to absorb whatever new liquidity may be added to the system in the form of owned reserves.

Economic disparities between countries are no doubt inevitable in a dynamic world. In time, so long as all countries actively pursue the objectives of liberal, multilateral trade policies, the needed adjustments will surely be accomplished. Meanwhile, we must be as careful in developing our international financial arrangements as we are in designing monetary measures for our domestic needs. And we must constantly guard against the over-simplified conclusion that a simple addition to the international money supply--or an agreed limitation upon it--or a contraction of it--will provide an adequate solution.

As the Free World's financial officials, we must be as concerned with credit as we are with money. Liquidity consists not only of owned reserves, but of credit facilities. And it seems to me to be as important today to shift the emphasis toward credit as it was in the first years after World War II. . . .

Some seven years ago, the international monetary system entered a second phase, in which a succession of large United States payments deficits became the principal source of additions to the primary reserves of other countries. And now, with over-all international reserves at an adequate level and with the United States moving toward balance in its payments, this second phase is also coming to an end. Once again, the need is for additional credit facilities.

That is why it has been both appropriate and necessary to set up bilateral credit arrangements to handle the volatile movements of funds which now occur among industrialized countries with convertible currencies. There is no impairment of the Fund's role when those facilities are used instead of, or sometimes in advance of, recourse to the Fund itself. Rather, there is an economy of resources and a minimizing of strains. The risk is that a country might drift into heavy and continuous reliance upon such essentially short-term credit facilities, delaying too long the necessary corrective action that should be taken to adjust its balance of payments.

As in any banking operation, that type of risk must be averted. The way to do it is to provide for a full--though initially largely confidential--exchange of information among the countries directly affected, and to assure frequent opportunities for discussion among their monetary authorities. It is essential to review and appraise together the actions each is taking to finance its deficit or to carry its surplus--including the degree of direct impingement of one upon the other.

That is what I understand to be the meaning of the "multilateral surveillance" which the countries in the Group of Ten have undertaken to pursue jointly, and in close liaison with the Bank for International Settlements, the OECD, and, of course, the IMF itself. It fulfills, more systematically, the objectives which the United States has long pursued in its full reporting of its own activities. In our view, this pattern of information and consultation, systematically extended among industrialized countries subject to volatile flows of capital, can add an important dimension to the prudent use of such credit facilities.

The scope for greater reliance upon purely bilateral credit facilities, under the aegis of "multilateral surveillance," may even be wider. We support the suggestion made in the Group of Ten report that countries with large and growing reserves should actively explore the possibility of long-term lending to other industrialized countries in need of additional reserves, but whose prospects for reserve growth, though promising, may only be for relatively small annual increments stretched out over many years.

Such lending would not only be of value to the stability of the currencies of the industrialized countries, it would also facilitate an adequate and uninterrupted flow of development assistance from advanced nations to developing countries. In addition, countries with large and persistent surpluses should--in their own interests and in the interests of accelerated economic development--carefully re-examine the possibility of increasing the level and quality of their assistance programs.

FEDERAL REPUBLIC OF GERMANY (Governor Blessing)

In dealing with the various aspects of the liquidity problem in its Annual Report, I think the Fund did excellent work. Personally, I would have preferred to see the Report place greater emphasis on the need for stricter monetary discipline on the part of the deficit countries. I am entirely in agreement with those who think that supplies of gold and reserve currencies are fully adequate for the present, and are likely to be so for the near future, especially as these reserves are supplemented by a broad range of credit facilities. I feel sure that we have plenty of time to study the liquidity question under the angle of future developments, especially in the light of the improvement of the U.S. balance of payments. I quite agree that such studies should be carried on.

I am glad that the review of the existing international monetary system has not led to any basic change. In my opinion, there is not so much need for an improvement of the system as for an improvement of national policies of adjustment. No system, however ingeniously conceived, can function satisfactorily without monetary discipline. Under the system of fixed exchange rates, even countries with sound monetary policies have to import inflation if other countries do not maintain sufficient monetary discipline. If we want to avoid further creeping inflation, deficit countries, too, must take corrective measures, however painful they may be. Even a perfect machinery for financing balance of payments deficits cannot replace domestic adjustments. In financing deficits we should in the future pay more attention to price stability than to expansion and growth. I therefore believe that it is a very useful step forward that the countries of the Group of Ten have initiated a thorough study of the measures and instruments of national monetary and financial policies best suited to achieving international payments balance and to correcting imbalances when they occur. It will also add to national and international financial discipline to keep an eye on the ways and means of financing balance of payments disequilibria, as has likewise been proposed among the countries of the Group of Ten under a system of "multilateral surveillance". I believe that these efforts to stabilize and support our international monetary system will be of benefit not only to the countries of the Group of Ten but equally to all the other member countries of the International Monetary Fund.

UNITED KINGDOM (Governor Maudling)

I turn now to the two studies of the world's payments system, which have been taking place since we met in Washington last October. The two studies by the Fund and the Group of Ten, respectively, have been complementary and, taken together, provide an excellent analysis of the problems before us. I am very glad to see this progress because, as my colleagues will recall, I first raised the need for it at our Meeting in 1962.

Clearly there is still a lot more work to be done. This is not surprising since this is the most comprehensive survey of the world's payments system to be undertaken since Bretton Woods twenty years ago. But the way in which this difficult subject, which often arouses rather strong feelings,

has been tackled encourages me to expect that we shall make further progress reasonably soon.

I have never expected, and have never led others to expect, a swift and simple panacea. But, when I spoke last year, I said that I hoped we would be able to take some practical decisions at Tokyo on this occasion.

* * *

My own view is that our best course is to build on the Fund. I believe this because the Fund has already shown that it can successfully adapt itself to new needs, and it is quite clear that it is capable of further adaptations in a wide variety of ways. I am sure, therefore, that the right course is to continue to develop the Fund's own facilities and to strengthen its resources.

We hope it will be increasingly realized--as we and other countries have pointed out, and is now emphasized in the Fund's Report--that drawings on the Fund not only provide a solid benefit to those who draw, but also enable those countries whose currencies are drawn to acquire a good reserve asset in exchange. When a currency is drawn, the country managing that currency improves its position in the Fund, acquiring an asset the gold value of which is guaranteed. Once this fact is appreciated, the way is open to a whole range of possible developments.

I suggested two years ago the idea of a Mutual Currency Account. My thesis then was that the needs of an expanding world could not indefinitely be met by newly available gold plus increasing holdings of the reserve currencies because, as I pointed out, the gold exchange system in its present form means that owned reserve other than gold represent the liabilities of the reserve currency countries and these cannot be expanded without limit. Some additional form of liquidity is therefore needed and the more rapidly the United States approaches equilibrium in its balance of payments the more urgent that need will become.

To this extent, therefore, I find myself in agreement with a good deal that the distinguished Governor for France said yesterday in a speech of great intellectual quality. But I must add the qualification, an Anglo-Saxon one, that I do not regard his description of the present system as empirical as being a criticism. I prefer to build on what has stood the test of time and experience, and has brought great benefits to the world. I know that some people question this, but I would not myself accept the views of those who think that the imbalance in world payments with which we have been faced has been aggravated by the workings of the gold exchange standard. I do not believe that the sources of that imbalance lie solely in conditions of inflation in the deficit countries. Nor do I believe that adjustments in domestic economic conditions leading to improved international balance would come about quickly and smoothly if only the role of gold were strengthened, and if the only fresh supply of owned reserves allowed in the principal industrial countries in addition to gold was a strictly limited amount of some new form of reserve asset distributed to that restricted group of countries on some uniform basis without regard to their present payments

position. I think indeed there is danger in too much emphasis on owned reserves as opposed to credit facilities. In the Fund, we have a system which operates by making available to deficit countries on a temporary basis the currencies of surplus countries. I believe that, for many purposes, such a system may be the most suitable and flexible instrument. In simple terms, the danger of too much reliance on owned reserves is that while we cannot all be in deficit at once we tend in practice to manage our reserves as if we could. But so far as owned reserves are concerned, I am sure that countries should be free to hold them in whatever form best meets their needs, and I do not see the problem before us as being mainly one of countries having to hold more reserve currencies than they wish. The problems of an excess of cash often yield to the process of lending and spending.

FRANCE (Governor Giscard d'Estaing of the Bank)

The examination of the problems raised by the equilibrium and functioning of the international monetary system has to be made broader and still more accurate. Last year we stressed the usefulness of this study.

Since then, a thorough analysis of the international monetary system has been made by both the Board of Directors of the Fund and by the Group of Ten. These two organizations have performed a useful task. It has provided us with a better knowledge of the functioning of the international monetary system and has led to constructive recommendations.

Generally speaking, it has been agreed that there was no need to modify the Articles or the policies of the Fund. On the other hand, it has appeared necessary to scrutinize the kinds of cooperation existing at the present time among the main currencies. From this point of view, the small group of the "Ten" has proved to be a particularly apt study group and its report is of special interest.

As might be expected, the conclusions of the "Group of Ten" are the result of a compromise. We accepted them in a spirit of conciliation, while putting these conclusions in the light of what we, on the French side, consider to be the essential objectives.

I will recall them here, with candor, clarity and simplicity.

The present system of international payments is an empirical creation. Empirical schemes have their own merit, since they necessarily result from an adaptation to the pressure of circumstances. But there is no evidence that such schemes can spontaneously take on a form that will permit them to meet, over a period of time, the requirements of the situation to which they are applicable.

Such is the case in regard to the present gold exchange standard.

Although, as has been emphasized, this standard has been able to meet, with limited adjustments, the needs of a period of exceptional world economic

expansion, it has nevertheless shown some signs of inadequacy and deviation recently, and the least we can say is that it has not prevented the inflationary trends which, during the last few years, have affected large areas of the industrial world.

These inadequacies and deviation may be explained by the serious imperfections in a system which allows the reserve currency countries to finance lasting balance of payments deficits without the creditor and debtor countries being fully aware of this fact and without the adequate corrective mechanisms being necessarily implemented in due time.

In this way, excessive facilities may be granted which may lead to the spreading of international inflation. It may even lead to the strange paradox that, since this system in practice permits the deficits of the reserve currency countries to be financed without limit, the creditor countries are somehow invited to "create a deficit" in order to compensate for the outflow of reserve currencies, which is a phenomenon for which they have no responsibility whatever.

Moreover, as was excellently stressed yesterday by the Governor for the Netherlands, the creation of owned reserves should clearly not be linked to changes in the balance of payments of the reserve currency countries. There may very well be no relationship between the amount of the reserves which is deemed desirable and the positive or negative trend in the external settlements of a country, important as this may be. In the same way, there may very well exist no concordance of interest between the national policy of a country which, for quite justifiable reasons, tries to curtail its money supply, and the total amount needed for owned reserves in the world economy.

The imperfections of the present system lead us to hope that it will develop in a way which, from our point of view, would be as follows:

The world monetary system must be set in concentric circles: the first one being gold, and then, the second, if necessary, recourse to deliberate and concerted creation of either reserve assets or credit facilities.

The inner circle is gold.

Experience in recent years has shown us that, aside from any theoretical preference, gold remains the essential basis of the world payment system.

This is true at the psychological level. Indeed, public opinion, by a kind of universal consensus, attaches a very high price to gold; it is even sometimes inclined to reappraise its judgment in regard to the strength of the various currencies in relation to changes in the gold holdings in their reserves. This is also true of governments, and in proof of this, it is sufficient to allude to the problems raised by the reserve currency countries regarding the conditions affecting gold tranche subscriptions on the occasion of the next increase of Fund quotas.

The importance of the role of gold does not arise from any charm inherent in the metal itself, but from the following fact: as long as the present situation prevails, with separate national sovereignties throughout the world acting freely in the monetary field, without recourse to arbitration, and certainly not subject to coercion, reference will have to be made to gold, the only monetary element outside the scope of government action.

While noting the basic role of gold, we do not believe that the pace at which it is mined will spontaneously adjust its volume to the needs of a world, the rapid technological transformation of which may be observed here more clearly than anywhere else.

Thus it may be necessary to seek out supplementary sources for supplying owned reserves.

The basic distinction has rightly been made between credits for balance of payments support, such as those so usefully granted by the Fund under M. Schweitzer's inspiring management, and the creation of fiduciary means for supplying reserve assets.

Internally, the action of the Fund might be compared to that of a bank which grants credits to help its customers bridge over temporary difficulties. On the other hand, the creation of reserve assets would be akin to the role of a central bank whose operations are geared to the general needs of the economy.

If and when fiduciary means must be added to gold, they should be issued in accordance with objective rules and through mutually undertaken action.

I do not wish, at this juncture, to discuss the technicalities of such a system nor the choice of the appropriate administrative body. In my mind, three considerations should underlie the studies to be made on this subject:

- (1) if such reserve assets are, over the long run, to be added to, and possibly substituted in part for gold in its present function, they must be of an objective nature, governed by strict rules concerning their creation and volume.
- (2) as there is always temptation to accumulate an oversupply of world liquidities, cautious regulations would be required in order to assess the need for such a creation and to adjust its amount.
- (3) the Group of those with whom would rest the responsibility and burden for such operations should act in close cooperation with the Fund and with due regard to the interest of the world community as a whole.

To sum up: first, under present circumstances, gold remains, in our minds, the basis of the international payment system.

Secondly, if the need were to arise for an increase in the amount of owned reserves, there should be a concerted and limited recourse to additional fiduciary means, instead of to the uncertainties and instabilities of the gold exchange standard. Such a substitution should be brought about gradually and not by disrupting the present system which, under present circumstances, provides an adequate safeguard for the functioning of international payments. Indeed, it is normal that various central banks will go on keeping, in their reserves, dollars, pounds sterling or French francs, owing to the particular financial relationship they maintain with the countries issuing such currencies.

Having thus set forth our general views regarding the future of the international monetary system, it seems to me that the spirit in which we envisage the implementation of the two main practical recommendations of the Group of Ten, namely, the establishment of a multilateral surveillance and the increase in Fund quotas will be readily understood.

- (1) Multilateral surveillance appears to us an essential step towards straightening out the international monetary system. It should give us the means of avoiding the misuses which may occur within the framework of the gold exchange standard. Indeed, the noticeable reduction of the U.S. payments deficit has lessened the worrying aspect of the situation which prevailed in this field a year ago. But what has happened once may happen again, and, generally speaking, we must avoid the use of short-term facilities to finance deficits which are actually of a more lasting nature.

Implementation of this surveillance will call for much caution, but also for much candor. Much caution, because these are delicate operations involving the functioning of the exchange market and may give rise to serious psychological reactions. Much candor, since, obviously, the system would be hampered from the start if Governments or central banks permit their partners to ignore major developments which might affect the functioning of the international monetary system.

- (2) To be quite frank, the new increase of the Fund's quotas which is recommended by both the Board of Directors of the Fund and by the Group of Ten did not seem to us to respond to an evident and urgent need. We have never concealed the fact that we do not consider the increase of international liquidities to be the main target of the studies which have been undertaken. However, nobody could pretend that the Fund resources should remain fixed at the level established five years ago. . . .

The implementation of this set of measures is a step in the evolution of the world monetary system towards a more rational and realistic structure. We will bring our contribution both to implementing those measures and to carrying on actively the studies which will prolong them.

ITALY (Governor Colombo)

Studies on the functioning of the international monetary system and on its probable future needs for liquidity have been carried out in the course of this year both by the International Monetary Fund and--in cooperation with the IMF, the OECD and the BIS--by Deputies of the Ministers and Governors of the Group of Ten countries participating in the General Arrangements to Borrow. In appraising the results of these enquiries, we may well draw inspiration from the history of our host country, where the subtle blending of change and tradition is a living lesson of wisdom and moderation and points to the merits of gradual and sound evolution.

We are all fully conscious that there is no general shortage of liquidity at present and that none is likely to develop within the next few years. But aggregate liquidity needs are no doubt in some way related to the growth of world income and trade, and it would not be prudent to expect expanding needs to be covered by new gold production and, on the same scale as in the past, by the supply of reserve currency holdings. In these circumstances, the Fund and the Ten felt it was advisable to prepare for a future situation in which liquidity needs might outstrip current supply.

The liquidity problem is important for industrial and for developing countries alike, yet the former have a special responsibility in this field: if a developed country is short of liquidity, it may be unable to maintain liberal policies in the principal fields of international transactions, namely, trade, capital flows and development aid. Therefore, I think it may be said that, in conducting an enquiry of their own, the Ten countries of the General Arrangements to Borrow did not have the intention to exclude others, but merely to try and solve a number of problems of more direct concern to themselves. These include, to mention only two, liquidity shortages due to short-term capital movements or to central banks' changing propensity to hold fiduciary reserve assets. The main question was how to reinforce the international monetary and financial structure, as a secure foundation for the continued expansion of trade, capital flows and development aid. At the same time, the Ten realized full well that developing countries, too, might need more liquidity, so as to avoid having to interrupt development programs because of temporary balance of payments difficulties. This is why the report of the Deputies recommends support of an adequate general increase in IMF quotas during the 1965 quinquennial review.

* * *

The findings of the IMF and the Group of Ten studies on liquidity may seem unexciting to those who expected radical proposals for a reform of the international monetary system and who will no doubt be only too quick to criticize the authors for their alleged backward conservatism and lack of imagination. But the international monetary system does not need radical treatment. All it needs is to have its natural and continuous evolution deliberately guided along certain paths.

For my own part, I consider these findings very valuable.

(1) In the first place, they confirm our confidence in international monetary cooperation as it is at present organized in the IMF, with its predominant role, and also in the Group of Ten, in the OECD, the BIS, and other smaller institutions. The extension of credit facilities under this system, we may conclude, should be fully capable to meet, at least temporarily, any general shortage of owned liquidity that may arise and consequently to forestall deflationary developments.

(2) Secondly, these findings reveal a large measure of agreement on certain lines of evolution for the international monetary system. If consistently followed, these may prove very fruitful. I already mentioned the agreement among the Ten to support a general increase in IMF quotas. The proposed "multilateral surveillance" of the means of financing balance of payments disequilibria may, in the course of time, make it possible to adapt the qualitative composition of liquidity assets to the preferences of monetary authorities, so that none will be an unwilling holder of particular reserve assets.

Another promising line is the joint approach to the longer-term question of some additional kind of reserve asset to supplement gold, reserve currency holdings, central bank swaps, special bonds denominated in the creditor's currency, and others that we have at present. Whether such additional reserve assets as may be needed are to be created through the Fund or otherwise, whether according to the estimated over-all needs of the international monetary system or in connection with balance of payments deficits, these are some of the major outstanding questions. But the important thing is that the potential need has been jointly recognized and that it was decided, without any advance commitment, to set up a study group to examine the various proposals and to assemble the elements necessary for an evaluation of their respective merits. This is far more important than the differences in emphasis which inevitably appeared during the discussions of such highly complex problems.

It would be neither easy nor, indeed, appropriate to anticipate the results of the proposed studies or to indicate at this stage any individual preference for this or that line of investigation. Nevertheless, I would venture to express a personal opinion. Apart from gold, international liquidity consists, after all, of a broad range of availabilities, acceptance of which ultimately rests on credit mutually granted. In these circumstances, I should not be surprised if the experts were to conclude that there is a basic kinship among all the different proposals, which would thus not be mutually exclusive but might be combined to offer monetary authorities additional forms of assets and thus more freedom of choice.

(3) In the third place, both studies lay stress on the relationships between international liquidity and the process of adjustment of imbalances. It is important to have enough but not too much liquidity of the unconditional type, so that countries may finance automatically imbalances arising out of destabilizing short-term capital movements, which do not originate in relative differences in costs, prices and demand levels, and may finance current disequilibria without impairing the process of internal development, but

without being able to pursue autonomous policies for a prolonged period of time. It is also necessary for each government to have at hand--and, with due regard to international obligations, to use--a wide variety of policy instruments. These include measures of budgetary and fiscal policy, incomes policy, monetary and commercial policy, and selective policies directed at particular sectors of the economy. Adjustments in exchange rates need be resorted to then only in cases of fundamental disequilibrium.

This is a very important subject indeed, because, under the monetary veil of liquidity, real resources are shifted, at least temporarily, between different countries, groups and individuals. For this reason, I welcome the decision to request Working Party 3 of the OECD to study the inter-relations between internal liquidity and the balance of payments, as well as the use of nonmonetary policies in combination with monetary policies to establish and maintain internal and external equilibrium.

JAPAN (Governor Tanaka)

I think we are now at a new turning point in the history of world economy. In view of the great development of national economies and the expansion of free international financial transactions, it has become necessary for us to give serious thought to the problem of international liquidity and the international monetary system. Another important problem before us is that of finding effective ways of cooperation with developing countries.

It is no exaggeration to say, I believe, that the future of the world economy is greatly dependent upon how appropriately these two problems can be met. A more and more important role is to be played by the Fund and the Bank. I believe also that the need for more and better cooperation and coordination among nations must be stressed today more than at any time in the past. Countries differ in their stages of economic development. Conflicts of national interests may occur and differences of viewpoints may be inevitable. In spite of this, I think everyone should bear in mind the oriental saying, "Minor differences should be submerged for greater common interests." Now is the time when all nations should mutually collaborate to find the road to prosperity by strengthening and cooperating with the international financial institutions which have, since their founding, played a leading role in the development of the world economy.

CANADA (Governor Gordon)

The helpful statement of the Managing Director and the stimulating report of the Executive Board have called our attention to the fact that the issue of outstanding importance this year is the question of world liquidity. Canada has been glad to be associated with both the main liquidity studies that have been pursued in the past year--the study in the Executive Board, and the study under the auspices of the Group of Ten. Coming just twenty years after Bretton Woods and in a period of relative calm in the international exchange markets, these studies are most timely.

Canada has a major interest in world trade and world financial arrangements, and we attach great importance to ensuring that world liquidity facilities are and remain adequate. For the world as a whole, as for an individual country, this involves difficult and delicate decisions. All of us know that excessive monetary expansion generates inflation and the attendant evils of external disequilibrium and internal disruption. But it is equally true that a general shortage of liquidity, attended by unduly high interest rates and unnecessary trade barriers, can be a drag on the objectives of high employment and economic growth which we all share.

THE NETHERLANDS (Governor Holtrop)

It seems to me that we have every reason to be satisfied with last year's decisions, taken by both the Fund and the Ministers of Finance of The Ten countries participating in the General Arrangements to Borrow, to make a study of the fundamentals of our monetary system and more particularly of the question of the adequacy of the future provision for international liquidity. It is to these decisions that we owe Chapters 3 and 4 of the Report now before us and the Ministerial Statement of the Group of Ten for its Annex prepared by Deputies. I do not think I exaggerate when I say that we also owe to these decisions the very penetrating Report on the Deliberations of an International Study Group of 32 distinguished economists on the subject of "International Monetary Arrangements: The Problem of Choice," recently published by the International Finance Section of Princeton University.

Of course, these different studies did not lead to identical policy proposals. But certainly all of them have brought to the participants, and are bringing to the attentive reader, a clarification of the issues involved and a keen realization of the great responsibilities that are implied just as much in continuing the present somewhat incidental international monetary arrangements as in the introduction of as yet necessarily unproven new devices in a nearby or more distant future.

Meanwhile, it seems to me of great consequence that the three studies show general agreement on at least four important propositions:

Firstly, there is agreement that the proper functioning of the international payments system depends on the pursuit of national policies aimed at the avoidance or early correction of major and persistent imbalances. From this it follows that the proper function of reserves, and of international liquidity generally, is not the provision of real resources, but only that of cushioning such reversible imbalances as are unconnected with the movement of real resources and of temporarily financing more fundamental imbalances during the period necessary for corrective measures to become effective.

Secondly, there is agreement that the supply of international liquidity should be neither too abundant nor insufficient. In the one case, corrective internal policies may be delayed too long and inflationary tendencies will tend to prevail; in the other case, the system will be threatened by

a deflationary bias and by the pursuit of adjustment policies inimical to international cooperation. As to the present liquidity situation, there seems to be general recognition that in the years behind us the supply of international liquidity has been ample, if not overabundant, and that, at any rate, there is no question of any general shortage of international liquidity right now.

Thirdly, there is agreement that it is both unlikely and undesirable that in the future the supply of international liquidity, originating from the balance of payments deficit of the United States, should continue to flow at the present rate. On the other hand, if and when this supply comes to a stop, the problem of a deficiency of international liquidity may, sooner or later, become a reality.

Finally, there seems to be rather general agreement that it would not be prudent to allow the provision of an appropriate supply of reserves, or of liquidity, to continue in the future to depend solely on the vagaries of the supply of gold for monetary purposes, supplemented by the accidental deficits of reserve currency countries and the credit facilities of the Fund in their present form. Instead, other techniques will have to be seriously considered. They should be conducive to the prevention or early correction of imbalances and their provision should be recognized as a joint responsibility of the international financial community. It is on the question of how best to accomplish this end that opinions start to diverge. Continued international deliberations on this subject will no doubt be necessary. My further observations are meant to be a contribution to such exchange of views.

In the second paragraph of Chapter 3 of the Report before us, a preference is implied for the distinction--in the discussion of the concept of international liquidity--between liquidity that is "unconditionally" or "automatically" available and liquidity that is available only on "prescribed or negotiated conditions," over the distinction between "owned reserves" and "borrowing facilities."

Without wanting to deprecate in the least the importance of the distinction between conditional and unconditional liquidity, which certainly is essential when discussing borrowing facilities, I still wonder, Mr. Chairman, whether the stress that is being laid on this distinction might not be prejudicial to the proper analysis of the problem we are facing. It seems to me that the other distinction, the one between "owned reserves" and "borrowing facilities" or "credit facilities," is also a very essential one, because it is based on the observation that most nations desire--and very likely will continue to desire for a long time--to hold "owned reserves" of which they can freely dispose, which they feel sure will be accepted under almost any conceivable circumstances by their trade partners as a means of international settlement, and which are not burdened by repayment obligations.

It is this desire for owned reserves which, if insufficiently satisfied, might indeed lead to deflationary developments.

It is this demand for owned reserves also that sets a limit to the volume of the noninflationary supply of reserve assets that can be readily absorbed by the international monetary system. As soon as reserves are only reluctantly or unwillingly accumulated, we are clearly faced with a situation in which the countries concerned are subjected to inflationary pressures from the outside, and sooner or later they will start to pass these pressures on to their neighbors, thus imparting an inflationary bias to the international monetary system as a whole.

Countries will not only look upon owned reserves with a different eye than they will upon any borrowing facilities they may have at their disposal, they must also be expected to have their opinions and prejudices about the type of asset they are willing to add to these reserves. This leads to the question whether existing fiduciary assets, or conceivable new ones, will or will not meet the exigencies of the reserve holding countries, a problem that also should have our attention.

For all these reasons, I think that the importance of the distinction between "owned reserves" and "borrowing facilities" should not be discounted.

Under the payments system we have known so far, "owned reserves" have necessarily also been "earned reserves"; in other words, reserves obtained by balance of payments surplus, that is, by surrendering real resources or claims on real resources to foreign countries. Under the gold standard these foreign countries consisted ultimately of the gold producing countries only. The gradual introduction of the gold exchange standard did not bring in this respect any change for the non-reserve currency countries. They had to continue to earn their international liquidity by building up a surplus. However, for the reserve currency countries themselves, this innovation added a new dimension to their liquidity: henceforth they could dispose of what we now might call "unconditional" credit facilities. These facilities found their limit in the willingness of non-reserve currency countries to increase currency holdings and in the right of these countries to ask for gold instead. This development has been highly beneficial to all concerned, insofar as gold production lagged behind the demand for owned reserves. It has, however, imparted an inflationary bias to the international monetary system insofar as the aggregate supply of gold and reserve currency tended to outstrip the demand for owned reserves, as--in my opinion-- has been the case in the last few years.

In this connection, I feel that the figures given in Chapter 3 of the Fund Report for the average annual growth of owned reserves for the world as a whole do not sufficiently clarify the actual situation. It seems essential to me to distinguish in this respect between the reserve countries, on the one hand, and the non-reserve countries on the other. If we consider the latter only, it appears that in the last 10 years the average rate of growth of owned reserves, including gold tranche facilities, amounted to no less than 6.3 per cent. For the last four years this increase was even 8.7 per cent. These figures put a different light on the supply of liquidity to the non-reserve currency world than the 2.8 per cent average increase per annum mentioned in the Fund's Report.

Credit facilities, other than those implicitly made available to the reserve currency countries, have been playing of late an increasing role in the international payments system. Among them, the drawing rights on the Fund take an important place. As the Fund's Report well states, by far the larger part of these facilities are available conditionally only and are therefore restricted in volume. Moreover, repurchase obligations guarantee that a possible inflationary impact of original drawings will be compensated in the years to come. Under these conditions the Fund's activities may well be considered as having been essentially beneficial to the world's payments system as a whole.

Of late, additional techniques for credit facilities have come into being, partly of a bilateral and partly of a multilateral character, which have increased the elasticity of the international payments system, but which, if unwisely used, are fraught with the risk of adding to inflationary pressures. As so clearly set forth in the study of the 32 economists and also mentioned in the report of the Deputies of the Group of Ten, the character and volume of credit facilities need to be closely adapted to the type of imbalance they are meant to finance. Clearly reversible deficits, due, for example, to short-term speculative movements, may well be cushioned by quickly available and ample short-term facilities, such as those that have been made available in the last few years by Central Bank cooperation. Deficits, however, that are due to shifts in international demand (for either goods or capital assets), or to temporary over-expenditure, caused by excessive investment or unwarranted expansion of consumption, and which necessarily will exert an inflationary impact on other countries, should not be financed too easily by such short-term or bilateral facilities.

For this reason, the Netherlands Government welcomes the agreement between the countries of the Group of Ten in regard to a multilateral surveillance of the ways and means of financing balance of payments disequilibria. It hopes that this procedure will contribute to the adaptation of credit facilities to the particular type of imbalance that may have to be financed. It considers it of great importance thus to promote the avoidance of excesses and shortages in the means of financing surpluses or deficits in the balance of payments. . . .

The creation of a new reserve asset is conceivable both within and outside the Fund. The Netherlands Government believes there are advantages in its introduction within a restricted group, albeit in close cooperation with the International Monetary Fund and with full recognition of the interests of the international community as a whole. The Netherlands Government does not, however, think that solutions within the Fund are precluded.

BELGIUM (Governor De Strycker)

. . . it is clearly apparent from the Annual Report of the Fund, as it is also from the Report of the Ten, that the present level of international liquidity is adequate. Of course, liquidity needs are likely to increase

with the increase in economic activity and international trade in goods, services, and capital. Present resources are probably sufficient to cover these needs in the near future. In addition, international liquidity can easily be increased by using the various instruments available to us which are described in these Reports.

It is important that our countries make up their minds to use these instruments and to create additional resources for international settlements to the extent necessary to avoid a contraction of activity and trade. However, we must be on guard against excessive liquidity creation which might bring inflationary forces into play throughout the world and hinder the pursuit of economic development.

It is also important that our countries make up their minds to avoid, through the adoption of appropriate policies, payments disequilibria which are too pronounced or too long-lasting. Moreover, they must stand ready to help each other and to coordinate their action as far as possible in order to maintain, as a group, balanced monetary and financial relations.

In these fields, the Fund's role is very important and will remain so. The Fund is in a particularly good position to give its members advice on economic and financial policy. It performs this task in connection with the operations it carries out with its members or at the time of the annual consultations. The Fund has a very wide view of world economic developments; it is therefore able to take into account at the same time both considerations pertaining to the national interests of each country and needs for international cooperation. This role of the Fund is perhaps less spectacular than its financial assistance, but the Fund should be fully encouraged to continue it. Members should find in the Fund's recommendations a useful support to their own action.

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The Executive Board and the staff of the Fund should keep world economic developments under constant study in order to adapt the Fund's role and operations to the needs of its members. An increase in quotas, as presently recommended, would not solve the whole question, for it concerns only the quantitative aspects of the Fund's operations. What is even more important is the essential character of the role of the Fund as a monetary institution charged with important responsibilities in the conduct of the monetary affairs of the world. This role cannot be altered by other needs. All problems cannot be solved by monetary techniques and means. There is a tendency to resort too widely to monetary solutions for meeting development needs. This tendency should be resisted: it is not possible to make use of the same instruments for solving development problems and for solving problems of monetary equilibrium. These two categories of problems must be entrusted, as they are at present, to different institutions. Without that, one problem will be solved at the expense of another; in other words, one of the two will be neglected while both should be given very careful attention.

II. Remarks of Governors for Other Countries

EL SALVADOR (Chairman Aquino)

The problem of international liquidity is one which rightly concerns all members of the Fund. It is true perhaps that the efficiency of the international monetary system is largely dependent on the effective cooperation of a relatively small number of countries; but it serves the interests of all. Thus, the success of the developing countries' attempts to attain reasonable living standards will hinge on continued world prosperity, which in turn will be impossible without adequate provisions for increasing international liquidity. Also, the strengthening of the international reserve currencies, through assurances that international liquidity is sufficient, is a matter of primary importance to the many developing countries which hold most of their foreign reserves in such currencies. Moreover, the developing countries, even more than the industrial nations, have been subject to wide variation in their payments situations and thus are especially in need of adequate amounts of liquidity to provide time for adjustments.

I should like, therefore, to urge that whatever action may be the outcome of the present deliberations in the Fund and elsewhere will be taken within a truly multilateral framework such as that provided by our Meeting. One of the merits of world-wide organizations such as the Fund and Bank and the Bank's affiliates, IFC and IDA, is that they provide a forum for a balanced consideration of problems that affect countries in all stages of development and the world at large.

AFGHANISTAN (Governor Achakzai)

During the difficult early years of the Fund's existence, when many member countries were beset with persistent deficits, the Fund's system of providing liquidity served the world economy well. Yet, this system must now be amended and improved upon if future challenges are to be adequately met. Recently various bilateral approaches have been tried out as a solution. These have proved successful for some countries and in some circumstances. My delegation would much prefer to see a solution based on the multilateral approach through the Fund.

ALGERIA (Governor Boumaza)

A subject of such fundamental importance as the international monetary system is not solely the concern of the departments of the IMF; it can also no longer be regarded as the exclusive concern of the industrialized countries which have to come to be known as the monetary "Group of Ten" and appears to regard its vocation as being to exercise a kind of financial sponsorship.

The underdeveloped countries as a whole hold in the form of exchange reserves considerable sums in the currencies of the industrialized countries

in respect of which they are thus in the position of permanent lenders. The developing countries are, therefore, subject to all the variations in the purchasing power of these currencies as well as to the impact of the terms of trade. In this respect, they are also as directly and legitimately affected as the industrialized countries by the problem of reserve currency and liquidity, not to mention the inbuilt vulnerability of their balance of payments, and they are therefore intensely concerned with international monetary mechanisms.

It is for this very reason that regret has previously been expressed that the "Agreement of the Ten," concluded under the aegis of the IMF, whose purpose was to resolve any difficulties arising in connection with reserve currencies, was not conceived from a larger standpoint. . . .

It is therefore desirable to emphasize how important it is for the study of all reforms or adaptations of the international monetary system to envisage the problem as a whole and to see it in terms of its true scope, bearing in mind, besides the purely technical aspects, not only the situation of the industrialized countries but also and on the same basis that of the developing countries.

Such results can only be achieved if the developing countries are effectively associated from the outset with the preliminary studies and participate fully in these. The Bretton Woods Agreements themselves do not appear to have been based on the recommendations of a sufficiently wide group; even if this were originally justified by the circumstances, this situation no longer applies.

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The argument that there is at present no shortage of international liquidity cannot justify an indefinite postponement of solutions, the extent of international liquidity being only one of the aspects of the general problem of the international monetary system.

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Moreover, any review of the international monetary system should take into consideration the dangers to which reserve currencies are exposed as a result of the "gold exchange standard" in its present form, which are as much a matter of concern to issuing countries as to those holding reserve currencies.

In the same general area, the review should also deal with methods of creating and eliminating international liquidity. It is essential that the volume of the latter should not be absolutely dependent on movements in the balance of payments of reserve currency countries as the latter would then assume international responsibilities that would not necessarily be consistent with the demands imposed by their domestic economic policies.

Furthermore, a study should be made to see if and to what extent the role of the IMF, in a reorganized international monetary system, can still

be based on national currencies, as this makes any action that can be taken by the Fund dependent on the situation of these currencies at any given moment and on the extent to which applicants for assistance have participated in the creation of IMF resources.

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But there is a further factor. These studies should lead to a clear definition of the forms of machinery required; such a definition is in no way dependent on the present nature of the problems to be solved. It is imprudent to leave the building of a roof until the rainy season.

The general loan arrangements between the "Ten" and those for collaboration between the big central banks have made a useful contribution to the regularization of international monetary movements, but they are only partial expedients that are not truly integrated with the Fund's activities and cannot, therefore, solve all the problems. . . .

It would seem to me contrary to the spirit that inspired the foundation of the IMF and that has moved each one of our countries ever since their admission to consider any kind of reform or adaptation of the international monetary system that did not make the Fund the central element or-- and this comes to be the same thing--that would assign to a group of countries the burden and responsibility of providing all the flexibility that is needed in the machinery for international settlements. . . .

For our part, we think that a currency issued by an institution composed of all the member countries is no less worthy of confidence than a currency issued by the act of only some of these countries, and that the technical competence of the Fund's departments and the method of voting on decisions are such that they would safeguard the interests of each member and provide a guarantee against injudicious actions.

It is essential, therefore, for the Fund to retain its powers in the realm of international monetary cooperation and to be the central body of the modified mechanisms to be studied and established.

As an interim measure, the increase of the quotas would of course meet this latter requirement.

However, aside from the fact that this measure would be only a partial solution for the problems presented by the international payments system, it can be criticized as tending to create a drain on the gold which now forms part of the national exchange reserves, unless the Articles of Agreement of the Fund are amended.

We may therefore wonder whether, while observing the first requirement that the Fund should be the central body responsible for international liquidity, an interim solution cannot be found within the framework of the present IMF Articles of Agreement, which, unlike the increase of the quotas, would lay the ground for and foreshadow a reform of the Fund.

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The distinction between short-term assistance by the International Monetary Fund and long-term assistance by the World Bank is, of course, valid at the operational level, but it does not in principle appear to me to be clear as regards international liquidity; it should simply influence the standards and conditions governing the granting of assistance to the countries requesting financial aid. . . .

Such a study should not necessarily result in a change in organic structure, the essential being to unify the organs of decision and to make it possible for the Fund to act in association with the World Bank at the operational level. Economic development could thus benefit from financing based on monetary considerations and justified to the extent that the factors of production remain unemployed throughout the world.

. . . for the developing countries, it is an urgent matter to set on foot new methods of financing which are not burdensome to the point that, when repayment has to be made, they result in such a drain on the balance of payments that the continuance of the efforts to develop their economies is compromised.

The prospects of monetary financing appears to me likely to render this problem less acute, because of the lower rate of interest such financing carries and its greater flexibility.

AUSTRIA (Governor Kamitz)

Taking into consideration the views and desires expressed by the Governors at our last Meeting, the Managing Director has highlighted the Annual Report with two chapters on international liquidity, with which I am happy to declare myself in complete agreement.

We are fortunate in having before us also the report of the Group of Ten to guide us in our discussions about possible improvements in the world monetary system. I would like to take this opportunity to express my satisfaction that this report, which was prepared by a numerically small group of countries, does not fail to take into consideration the problems of the world at large. The analysis and recommendations are, therefore, equally valid for its members and for the other countries, whether they belong to the highly industrialized or to the developing ones.

It is perhaps not surprizing that some critics of international economics, especially in the academic field, consider the outcome of the two studies as constituting but a meager result--"a mountain was moved for unearthing a mouse."

I feel, however, that such an interpretation cannot be shared by persons who are actively engaged in and responsible for the management of their respective monetary and financial systems.

AUSTRALIA (Governor Holt)

On the more general question of considering possible reform of the present monetary system, Australia would support Mr. Schweitzer in his opinion that the advantages of the multilateral institutional approach are of particular importance. All member governments represented here have a direct interest in this matter, and the Fund is the forum where a balanced consideration can best be given to problems in the international monetary field as they affect all countries.

BRAZIL (Governor Bulhoes)

The Ministerial Statement of the Group of Ten on the international monetary system and its probable future needs for liquidity states that "supplies of gold and reserve credits are fully adequate for the present . . ." and that "these reserves are supplemented by a broad range of credit facilities."

In the same report, however, the Ministers say that a thorough study should be made of measures and tools capable of preventing and, if necessary, of correcting major persistent international imbalances so that smooth functioning of the international monetary system may be possible.

Both in the Ministerial Statement and in the report of the deputies in charge of the survey, one can sense a preoccupation with solving the monetary problems of the Ten countries, either outside the Fund or through the Fund. Bilateral monetary arrangements are outside the Fund, and the report suggests that they could be improved by a process of "multilateral surveillance" but this "multilateral surveillance" may not necessarily take place under the Fund. It could be a system of multilateral consultation among the Ten countries. . . .

Notwithstanding the special provisions which may eventually become necessary to meet the particular problems of the Ten countries, we must consider the equally urgent difficulties of the developing countries and of those exporting raw materials. . . .

ETHIOPIA (Governor Lemma)

Though it may be said that the year just ended has seen favorable trends develop for both the industrialized and the developing countries, the gap existing between them has further widened. The need of the developing world for more international trade and for investments at a much higher level is becoming very urgent, if we are to have an orderly and peaceful development of world economy.

This brings me to the one problem which seems at this Annual Meeting to overshadow all the others. It is the problem of international liquidity and of the world monetary system. It concerns the Fund, but it cannot be

separated from the Bank's activities, because the dividing line between monetary assistance and capital assistance becomes more and more blurred. In the case of the developing countries, balance of payments difficulties, even those caused by unfavorable price fluctuations, are usually better cured by structural changes in their economies than by short-term expedients. But structural changes require capital assistance. Will it be provided by the Fund, or by some new method of international credit creation? Many hopes were raised in developing countries when, at the last year's meeting of the Fund in Washington, the decision was taken that the problems of international liquidity and the world monetary system were to be studied by the Fund and that a parallel study be likewise made by the member countries of the Paris Club. We were certainly disappointed that the representatives of the developing nations were not invited to participate in this latter study, as their interests, too, were involved; such participating would have been more in line with the Bretton Woods spirit and with the guiding principles of the founding fathers of our twin institutions.

Nevertheless, hopes prevailed over the feeling of disappointment. These hopes were maintained during the year by news about various projects and ideas, which were put forward by prominent economists and discussed in serious economic publications and which seemed to indicate that a bold approach to the problems confronting us can be expected. We in the developing nations could not agree to look at these problems from the point of view of the temporary difficulties of the American dollar and the English pound, although the soundness of these two key currencies is also very important for us. But, true to the main purposes of the Bank and the Fund, we looked at these matters primarily from the point of view of the development of productive facilities and resources in the developing countries. Now, we have in front of us two sets of studies, one made by the Fund, another by the Paris Club. Do they fulfill our hopes and expectations?

I do recognize that these two studies are very illuminating and they constitute a step in the right direction. But this step is very small indeed if compared with the extent of the needs and with our past hopes. No breakthrough has been achieved in the wall of old ideas, no new ways have been found to accelerate the pace of development, no new absolute safeguards for the stability of the monetary reserves have been devised. What is submitted to us represents some additions and improvements in the old machinery, which, it seemed to us last year, was in need of a much more radical overhauling.

The difficulties of the developing countries to find the local currency necessary for the implementation of their development programs stems from the reluctance of the lending countries, and also, to a certain extent, of the international financial institutions, to move away from the old established idea that foreign assistance must be strictly limited to the foreign components of any project. A Government which seeks to accelerate the pace of development of its country is thus sometimes forced to resort to methods of financing local components which may build up inflationary pressures accompanied by balance of payment difficulties, resulting ultimately in making monetary assistance unavoidable.

Not less important is the sense of stability in respect to monetary reserves of a developing country. Three years ago at the Vienna meeting, I raised this problem and stressed the importance of a guarantee against losses in reserves as a result of changes in the par values of the key currencies which form the greater part of these reserves. I fully recognize that the anxieties in this respect have greatly diminished, may even have vanished altogether, but, at the same time I am convinced that it is much better to prepare security measures when there is no imminent danger, than when this danger hammers at the door. In Vienna, I expressed the thoughts of my delegation that the Fund should undertake a study of ways and means of providing its members with greater security in respect to their monetary reserves, possibly by undertaking the function of holding some part of these reserves. The following year in Washington a concrete plan was submitted by the British Delegation, the so-called Maudling Plan, which included provisions similar to those suggested by me in Vienna. I am sorry to say that so little has been heard about these matters since, and that the plans which are now before us do not contain any provision in this respect. I still maintain, as I did in Vienna, that this problem is of very great importance and must be given a proper solution.

I trust that the discussions, which are to take place at this Annual Meeting, will secure a breakthrough in our search for larger international resources to justify the hopes of the developing world for an accelerated rate of growth.

GREECE (Governor Zolotas)

The studies prepared recently by the Fund on international liquidity deserve to be highly commended for clarifying the issues and reducing the area of disagreement. I would like also to note the constructive ideas included in the Ministerial Statement of the Group of Ten and in the Annex prepared by the Deputies.

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. . . in order to appraise properly the performance of the international monetary system and the extent of the need for reform, we should deal explicitly with the following well-known issues, which are closely interdependent.

First, the adequacy, present and future, of international liquidity.

Second, the stability of the system with respect to the creation, composition, and distribution of international reserves.

Third, the capacity of the system to induce members of the international community to adopt and apply a code of international economic behavior.

These issues should, of course, be studied in the light of the basic objectives of our policies. . . . To these I would like to add explicitly

the promotion of economic growth in developing countries, which depends significantly on the ability and willingness of industrialized countries as a whole to maintain an adequate flow of long-term capital to the developing nations of the world.

* * *

As regards the adequacy of international liquidity, I find it a little difficult to reconcile the generally accepted view that it is practically impossible to define and measure with any degree of accuracy the optimum level and rate of expansion of international liquidity with the confident assertion that the present global amount of reserves is satisfactory.

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Efforts to determine a priori, for policy purposes, the optimum rate of expansion of reserves in the longer run appear to me of limited practical usefulness. What should rather attract our attention is the way in which we can establish an efficient system for the creation and distribution of reserves, capable of providing the means for the adjustments necessary, whenever there are indications that reserves fall short or exceed the legitimate needs of either individual countries or of the world as a whole. Such a system should obviously function on an empirical basis and under "multilateral surveillance" by responsible international authorities, such as the Fund, acting in cooperation with other international institutions and with the major trading countries.

Under the present system, although we have managed to avert any immediate threat from massive conversions of key-currency balances into gold, we still have to consider the longer-run problem of providing for the necessary expansion in the non-gold component of international liquidity without detrimental effects on the state of confidence.

With respect to the capacity of the world monetary system to correct persistent disequilibria, a lot remains to be done in formulating a generally agreeable code for international economic behavior. This is not an easy task. It encompasses a multitude of problems concerning the classification of the various types of disturbances, the appropriate combination of policy instruments to be used in each case, the sharing of the burden of corrective measures between deficit and surplus countries, etc.

Of crucial significance is the continuous promotion of international cooperation aiming at better coordination of national economic policies and at securing, through multilateral surveillance, international monetary order. If the members of the international community will pursue in cooperation policies compatible with monetary discipline, external disequilibria will be less frequent and more rapidly adjusted, and the need for higher reserves will be reduced.

GUATEMALA (Governor Perez-Galliano)

The countries of Latin America have followed with great interest the steps that have been taken since the Annual Meeting of 1963 to evaluate the problem of international liquidity. We carefully examined the analysis of this question that appears in the last Report of the Fund. This matter was also the subject of preliminary discussion in the course of the First Meeting of the Governors of Central Banks of the American Continent held in April this year in Antigua, Guatemala.

It is our view that all the problems associated with international liquidity should be considered as fully as possible by the International Monetary Fund itself, since these are questions that affect the industrialized countries as well as those that are less highly developed. It is clear that the developing nations find that they are directly affected by any deficiencies that may arise in international liquidity, so that Latin American countries desire to take an active part in the discussion of these questions.

INDIA (Governor Krishnamachari)

I am impressed by the excellence of the analysis and exposition of the problem of liquidity and the constructive and forward-looking character of the lines of action unfolded in the Annual Report of the Executive Directors. Unquestionably, the international financial system has in recent times shown great resilience. The facilities provided by the Fund, and the growing readiness of the central banks of the industrialized countries to assist one another when difficult situations develop, constitute an altogether essential bulwark. Yet, there remain deficiencies as well as some uncertainties. We have to act on the basic presumption that the demand for liquidity is likely to outstrip its supply. Industrialized countries need adequate liquidity to be able to pursue policies designed to liberalize trade and to augment capital flows and development aid. Developing countries will need more liquidity in order to be able to pursue their development programs without being hampered in their onward movement by temporary balance of payments troubles.

All member countries in the Fund are thus vitally interested in achieving an appropriate solution of the problem of liquidity. Developing countries have problems which go beyond the conventional liquidity concept, and intricate questions of policy adjustments and appraisal are relevant in the context. Yet, I think it would be a mistake to assume that the kind of problems that do not fall within the present frames of thought or institutional arrangements either do not exist or ought not to exist. Indeed, I find some mention of such a problem, though in a more limited context, in the paragraph entitled "Long-term lending for monetary purposes" in the Annex prepared by the Deputies of the Ten. The decisions taken already in respect to compensatory financing and the increases in quotas of small quota countries in that context were, I am sure, well conceived. They benefit in different degrees the developing countries at different stages;

many further problems undoubtedly remain. Developing countries cannot in their current situation hope to accumulate "owned" reserves. They need to utilize all their resources for investment in productive, high priority development. They therefore need more conditional liquidity, liquidity of the type that the Fund provides.

IRAN (Governor Hoveyda of the Bank)

I wish to record my appreciation for the studies conducted by the Fund and the Group of Ten in respect to international liquidity. My Government supports the idea of expanding international liquidity through increasing member-countries' quotas in the IMF. I am glad to learn that the Group of Ten will make additional studies with regard to the creation of new reserve assets as well as the interrelationship between internal liquidity and the balance of payments. However, I wish to see that these problems and proposals for their solution are examined from the viewpoint of the developing countries as well, and that liquidity requirements of the latter receive full attention. Although long-term capital is the developing nations' main need, they have also to cope with short-term balance of payments difficulties, the main cause of which lies in the very execution of development plans.

NEW ZEALAND (Governor Lake)

New Zealand therefore welcomes the moves now in progress to increase international liquidity insofar as that is necessary for orderly growth of world trade and payments. Such growth is normal, desirable, and expected. Therefore, arrangements for corresponding growth in the means of financing imbalances in payments are essential. Already the Fund has shown adaptability to changing circumstances, and no doubt it will continue to be flexible and enterprising.

NIGERIA (Governor Okotie-Eboh)

This brings me to the problem of international liquidity with which the Fund's Annual Report and the Managing Director's statement have dealt at some length. It is gratifying to note that the Fund intends to seek measures which would ensure the continued availability of international liquidity.

Liquidity is defined as the total of all the resources available to the monetary authorities of countries for the purpose of meeting international payments. Both the Fund and the Group of Ten, who undertook serious studies on liquidity problems, have expressed the view that there is no lack of liquidity at present. If this view is correct, then it must be that there is a concentration of liquidity somewhere other than in the developing countries.

I find it difficult, however, to accept the contention that present international means of payments is adequate. The many restrictive measures taken against the flow of international trade to both developed and developing countries, for example, seem to suggest that international liquidity is not adequate. These restrictions are defensive measures everywhere, and are contrary to the international objectives of the Fund. I would like to see increased availability of international means of payments rebound to the benefit of developing nations, most of whom have suffered from protracted imbalances in their payments relations with the rest of the world.

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I look forward to the time when the nations will face the fact of the international liquidity situation, and give full support to the idea of the Fund developing into an international Central Bank, performing central banking functions on the international level for the benefit of the world economy. This, to the developing nations, would represent a more beneficial development than bilateral or multilateral schemes for tackling international payments problems.

NORWAY (Governor Brofoss)

More than ever before I feel convinced that the problems of the improvement of the functioning of the international monetary system should be studied under the auspices of the IMF. This organization has achieved a well-deserved status of integrity, as it has always displayed a non-biased approach to problems of common interest. The staff has proved its political neutrality and its capability of offering truly expert advice.

SOUTH AFRICA (Governor Dönges)

The Annual Report of the Executive Directors maintains its customary high standard as a review of international monetary developments and problems. Once again, it devotes much space to the question of international liquidity.

To an observer from another planet it would, I think, be a source of amused wonderment to see how this problem of international liquidity so often allegedly "disposed of" in the past, repeatedly rises phoenix-like from its ashes. His puzzlement would be increased when he observed that the measures proposed to deal with this problem remain over the years basically unchanged, despite their repeated failure to furnish a lasting solution. Why, he might well ask, this continual tinkering with a (minor) segment of international liquidity, namely, international credit in all its forms? Why not some basic consideration of ways to enhance the effectiveness of the largest and most stable component of international reserves, namely, gold?

If our interplanetary observer were to study the Fund's Articles of Agreement, he would, I believe, be even more perplexed at the complete

disregard of the problem. I refer to Article IV, Section 7, which provides for a uniform and simultaneous proportionate change in the par values, in terms of gold, of the currencies of all members.

Recently we submitted a memorandum to the Fund illustrating how such a uniform change in par values could contribute to the solution of the problem, and refuting the objections commonly raised against this step. It was a source of disappointment to me that the Annual Report did not deal with this question and, indeed, paid little attention to the role of gold itself in the international reserve picture.

SUDAN (Governor Ali Nimir)

The Sudan has been following with interest the discussions and various studies on the subject of international liquidity. The appropriate chapter of the Annual Report of the IMF sets out the problem most clearly, and the suggestion regarding further studies of ways to deal with the problem of possible insufficiency of international liquidity certainly merits attention. The fact that many of the conclusions are on the same lines as the ideas contained in the Ministerial Statement of the Group of Ten and the Annex attached thereto gives hope that it will prove not impossible to reach a general agreement on future action. Sudan's interest in the matter, though indirect, is no less strong. We are fully aware of the fact that a deficiency of international liquidity may result in restrictions on trade, hampering exports from developing countries to industrial countries and in the form of economic aid put by the latter at the disposal of the developing countries.

The general tenor of the present studies of the problem of international liquidity seems to be that there is no shortage of liquidity for the time being, but that it may appear in the not too distant future. We appreciate fully the arguments which stress that the sufficiency or insufficiency of international liquidity cannot be determined by any set of figures because it is an outcome, not only of objective concepts, such as foreign exchange reserves, the volume of foreign trade, etc., but also of policies of the monetary authorities of the countries concerned. If this is so, then there seems to be one aspect of international economic relations which would indicate that the existence of a shortage of international liquidity, or the possibility that it may soon develop, is already affecting decisions of a number of more developed countries. I have in mind the increase in the proportion of tied loans in the total of loans granted within the framework of economic aid by the industrial countries to the less developed ones. It appears to us that the resort to such loans is made not only by countries actually experiencing balance of payments deficits but also by countries whose external accounts are balanced, thus indicating that those countries do pay more attention than before to future prospects for their international liquidity.

YUGOSLAVIA (Governor Gligorov of the Bank)

We have followed with interest the discussions of the Ten and the work of the Fund in the field of international liquidity. I should, however, suggest that the work done by the Ten in arranging their future payments relations, however important and necessary, will remain limited in its effect on the world economy, unless the specific problems of the developing nations are tackled soon, and with energy and imagination.

In this connection I would like to stress one of the aspects of this complex issue. As investment in the real assets in these countries has expanded and as their capacity to absorb capital has increased, the economic cost of holding reserves has gone up. On the one hand, conversion of liquid reserves into real assets helps the rates of investment and growth, and this facilitates those structural adjustments that hold the only promise for long-term balance of payments stability. On the other hand, liquid funds are badly needed to help meet temporary disequilibria between receipts and payments as they arise. Some solution of this dilemma has to be found--and it is here that a concerted effort by the international community seems to be most needed.

B. Further Measures for Adding to Liquidity

AFGHANISTAN (Governor Achakzai)

The idea that the Fund itself might initiate investments and would, therefore, need to increase its resources, either by borrowing or by acceptance deposits, is a novel approach and needs to be pursued further.

BELGIUM (Governor De Strycker)

The Annual Report of the Fund mentions certain methods by which the Fund might extend its action in its own field. These questions deserve thorough study.

CANADA (Governor Gordon)

Canada welcomes the continuing studies that will be undertaken under the auspices both of the Fund itself and of the Group of Ten.

CHILE (Governor Ruiz)

We also consider it desirable . . . [to] continue the efforts to find some new reserve asset the creation of which would be based on international liquidity needs rather than on production and access to gold or on the balance of payments position of those countries whose currencies are used as international reserves. We give our firmest support to any study or initiative directed at solving this problem, provided that it is carried out within the International Monetary Fund and that, consequently, it is the result of discussions in which all the member countries of the Fund participate.

GREECE (Governor Zolotas)

. . . it is advisable to study supplementary measures which would reinforce the international monetary system and provide for a sound and adequate expansion of international liquidity. . . .

It is in this context that it would be useful to consider the possibilities offered by a system of coordinated deposits and investment by the Fund, designed to create additional liquidity and adjust the international distribution of reserves in accordance with the changing requirements by countries or major areas of the world.

This arrangement would be kept outside of the quotas. It would consist of coordinated Fund activities in receiving voluntary reserve deposits from all member countries and investing the balances acquired therefrom in major trading countries.

GUATEMALA (Governor Perez-Galliano)

. . . the Executive Board should continue to study the new mechanisms for increasing liquidity of the "unconditional" type referred to in the Fund's last Report, with a view to finding adequate solutions as soon as possible to the liquidity problems with which the less developed countries are especially beset.

IRELAND (Governor O'Malley)

. . . I wish to express our appreciation of the two valuable commentaries on the problems of international liquidity which have recently become available--in the Fund's Report and in the statement published by the Group of Ten. We in Ireland are particularly pleased to note that arrangements are proposed in both of them to initiate further examination of new methods of providing international liquidity. We feel it is important that these studies should be pursued with reasonable expedition, as it would be most unfortunate if inadequate monetary arrangements prevented full utilization of the world's productive capacity.

ITALY (Governor Colombo)

Another promising line is the joint approach to the longer-term question of some additional kind of reserve asset to supplement gold, reserve currency holdings, central bank swaps, special bonds denominated in the creditor's currency, and others that we have at present. Whether such additional reserve assets as may be needed are to be created through the Fund or otherwise, whether according to the estimated over-all needs of the international monetary system or in connection with balance of payments deficits, these are some of the major outstanding questions. But the important thing is that the potential need has been jointly recognized and that it was decided, without any advance commitment, to set up a study group to examine the various proposals and to assemble the elements necessary for an evaluation of their respective merits. This is far more important than the differences in emphasis which inevitably appeared during the discussions of such highly complex problems.

It would be neither easy nor, indeed, appropriate to anticipate the results of the proposed studies or to indicate at this stage any individual preference for this or that line of investigation. Nevertheless, I would venture to express a personal opinion. Apart from gold, international liquidity consists, after all, of a broad range of availabilities, acceptance of which ultimately rests on credit mutually granted. In these circumstances, I should not be surprised if the experts were to conclude that there is a basic kinship among all the different proposals, which would thus not be mutually exclusive but might be combined to offer monetary authorities additional forms of assets and thus more freedom of choice.

JAPAN (Governor Tanaka)

. . . it is also to be welcomed that the Fund is going to explore various possible ways by which it can contribute to the supply of owned reserves.

THE NETHERLANDS (Governor Holtrop)

Establishing a proper measure of control over existing forms of liquidity creation is, in its [Netherlands' Government] opinion, an essential preliminary to a fruitful consideration of new techniques of creating liquidity.

With respect to such new forms of liquidity creation, the Netherlands Government is actively interested in the study of the possibilities of adding, at some future date, an additional fiduciary reserve asset to the types of reserve assets now in existence. It is, at this stage, not convinced that it would be desirable to increase materially the proportion of credit facilities in relation to owned reserve assets in the present provision of liquidity to the world's payments system. Nor does it think that it would be desirable to rely in the long run on the payments deficit of the reserve currency countries to provide the world with the reserve assets desired in excess of the monetary supply of gold. It feels that experience with a payments system that bases the creation of fiduciary reserve assets wholly on the financing of payments deficits has not been altogether satisfactory. For these reasons, my Government considers it appropriate seriously to continue the study of possible ways for creating an additional fiduciary reserve asset, the supply of which might be more directly linked with the legitimate growth of demand for owned reserves. Meanwhile it recognizes that any creation of fiduciary assets implies a threat of oversupply. It will therefore be necessary to devote at least as much attention to the problem of how to arrange for the collective control of the volume of such asset creation, as to the techniques by which this creation could be effected.

The creation of a new reserve asset is conceivable both within and outside the Fund.

SUDAN (Governor Ali Nimir)

The Sudan has been following with interest the discussions and various studies on the subject of international liquidity. The appropriate chapter of the Annual Report of the IMF sets out the problem most clearly, and the suggestion regarding further studies of ways to deal with the problem of possible insufficiency of international liquidity certainly merits attention. The fact that many of the conclusions are on the same lines as the ideas contained in the Ministerial Statement of the Group of Ten and the Annex attached thereto gives hope that it will prove not impossible to reach a general agreement on future action. Sudan's interest in the matter, though

indirect, is no less strong. We are fully aware of the fact that a deficiency of international liquidity may result in restrictions on trade, hampering exports from developing countries to industrial countries and in the decrease of economic aid put by the latter at the disposal of the developing countries.

UNITED KINGDOM (Governor Maudling)

These practical proposals for increasing quotas, and thus increasing conditional liquidity, are helpful and important. But we have plenty of evidence in the two Reports that other measures may later be required. We should now consolidate our gains, and, backed by an increased source of conditional liquidity in the Fund, press forward with our further studies. In this connection I would like to emphasize that the Fund itself exercises a very proper control over the use of international credit, and I am sure it must continue to do so in respect of all its members, perfecting its methods in the way that experience shows most promising. Confidence that the Fund will do this is the answer to any fears that there may be about increasing the Fund's resources before the need is conclusively proved.

Perhaps I might say a word about the meaning of the phrase, "multilateral surveillance" of the ways and means of financing balance of payments disequilibria, which appears in the Group of Ten Ministerial Statement. This phrase was very carefully chosen because the possible alternative of "discipline" has a different significance in different languages. It is intended to represent a step forward along the road of increasing consultation and cooperation in monetary and economic affairs which we have been following ever since the end of the war. Our agreement does not give any member of the Group of Ten, or indeed the Group as such, a veto on the setting up of new facilities within the Group or between members of it, or on the use of existing facilities. It does, however, recognize very clearly that agreements made between individual countries may well be of close interest to other members of the Group, and that the interest of these other members should be taken fully into account when new arrangements are made.

What then of further studies? The Fund Report points out that, if the need arises, it is possible for the Fund to provide unconditional, as well as conditional, liquidity. With the same contingency in view, the Group of Ten have set up a Study Group to examine various proposals for the creation of reserve assets, either through the IMF or otherwise. I very much welcome this work being done. We must examine all reasonable proposals to make sure that the world's payments system evolves on the right lines.

UNITED REPUBLIC OF TANGANYIKA AND ZANZIBAR (Governor Bomani)

My Government is pleased to see that the Annual Report of the Fund enters gradually, but specifically, into the variety of ways in which the Fund's contribution to world liquidity could be enlarged; and we are specially interested in its suggestion regarding active enlargement of IMF credit by means of investments at the initiative of the Fund.

UNITED STATES (Governor Dillon)

Both the Group of Ten and the Fund Report recognize the possibility that new and additional measures may become necessary. We particularly appreciate the concluding statement in the liquidity section of the Fund Report indicating that the Executive Directors intend to carry forward the Fund's studies of new approaches, including easier access to a portion of the credit tranches, the possible use of gold certificates in place of the presently required gold subscriptions, and the possibility of Fund reinvestment.

C. Quota Increases and Payment of Gold Subscriptions

AUSTRALIA (Governor Holt)

We support an increase in Fund quotas. We agree that the Executive Directors should be asked to prepare proposals for concrete action both to raise the quotas of the Fund as a whole and also to introduce special additional quota increases for countries whose present quotas are out of line. It would also be the Australian view that the Executive Board, in formulating such proposals, should consider the problems that full payment in gold of 25 per cent of any increase in quota might present for some members.

CANADA (Governor Gordon)

It seems clear to us that the time has come for another general increase in the quotas of the Fund. Since its inception, the growth of the Fund has not kept pace with the growth of world trade and payments. A 25 per cent increase in Fund quotas which has been widely mentioned will do no more than reduce the gap. And while this would be acceptable to the Canadian Government, I must say frankly that we would have preferred a higher figure.

FEDERAL REPUBLIC OF GERMANY (Governor Blessing)

While we, on the German side, would agree with a moderate general--and in cases where the quotas are clearly out of line, a selective--increase of the Fund's quotas, we do not do so because we think that there is a pressing need for it, or that a substantial increase in the Fund's lending activities is imperative under the present circumstances. Our real reason is that we wish to strengthen the general position of the Fund in the longer run and to give the management more latitude as regards the convertible currencies among which to choose for drawings

Another principle which, in my opinion, the Fund should maintain in the forthcoming exercise of quota revisions, is the principle of paying a part of any quota increase in gold, as laid down in the Articles of Agreement. Here we should apply similar rules as on the occasion of the general quota increases in 1959, while paying attention to the desirability of minimizing the impact of such gold payments on reserve currency countries.

GUATEMALA (Governor Perez-Galliano)

We consider that the time has come for an increase in these quotas, and we hope that when this question is considered by the Executive Board, account will also be taken of the need to increase the supply of liquidity of a multilateral character to a scale consistent with the world's trade and development needs.

We should also like to express our wish that the Fund will provide the developing countries with the best possible facilities with respect to the payment of the gold contribution corresponding to the increase in quotas. We believe that such a policy is justified especially in the case of those member countries whose reserve position would be affected if they had to make the payment in gold at one time.

INDIA (Governor Krishnamachari)

I therefore agree that an increase in quotas at this stage is an essential first step in the direction of providing adequate international liquidity. In considering this question further in the coming months, the Executive Directors will, I am sure, keep fully in mind all the diverse considerations that have gone into the determination of the quota structure ever since Bretton Woods. Statistical calculations are useful in this context, but quota adjustments involve, obviously, considerations that cannot always be expressed or compressed in statistical formulae as currently understood. There is one other point in connection with quota increases that I should mention. This is the question of the gold subscription for such additional quotas as might be decided on. Ever since Bretton Woods, the need for some flexibility in regard to gold subscriptions has been recognized, and I was glad to see in the Annual Report of the Fund a recognition of the dilemma that gold subscriptions, while ostensibly increasing the liquidity of the Fund, would in reality put an undue strain on the owned reserves of member countries. It is particularly desirable to find an answer to this dilemma that would avert a diminution in the liquidity of the less developed countries, which have too little of it anyway.

ITALY (Governor Colombo)

. . . a general increase in quotas would strengthen the International Monetary Fund both in its dominant role as a supplier of medium-term credit and as a prospective creator of unconditional liquidity.

. . . we are happy to support the suggestion of the Managing Director for an increase in quotas on the occasion of the next quinquennial review. In this connection, however, we would be very reluctant to give our support to any relaxation of the rule requiring a 25 per cent gold payment. At the same time we are quite willing to consider ways and means of mitigating the repercussions of the 25 per cent gold payment of the quota increase on the gold reserves of reserve centers. We also favor an adjustment of those individual quotas which, in the course of time, have clearly got out of line with the present structure of Fund quotas; but in the present situation, we shall not ask any selective increase in our own quota.

THE NETHERLANDS (Governor Holtrop)

. . . the Netherlands authorities are of the opinion that considerations regarding the quinquennial review of Fund quotas should be based solely on

the desirability to increase the Fund's resources in the light of its present tasks. In this light, a general increase of 25 per cent seems to them appropriate.

As to possible selective increases of quotas, my Government is of the opinion that only for a very small number of countries can reasonable arguments be put forward for such increases. In its opinion, these increases should be limited to those countries whose quotas are clearly out of line.

The Netherlands Government is further of the opinion that, in accordance with the precedent of the increase of the Fund's resources in 1959, the obligation to pay 25 per cent of the increase in quota in gold should be maintained. Such gold payments are necessary to maintain the liquidity of the Fund.

UNITED KINGDOM (Governor Maudling)

I very much hope, therefore, that we shall now adopt the resolution on a general quota increase which is before us--and thus open the way to one such practical decision. I am sure there is very wide agreement that a general increase is due. The common ground and the confidence on this point in both the documents to which I have referred will not have escaped notice. It is a matter of judgment how large the increase should be, and that in turn depends among other things on how long we think it may be before another increase would be desirable. While I would have preferred to see a larger increase, I am prepared to go along with those who argue that a general 25 per cent would be a suitable figure for the present. But I keep an open mind on the period for which this will be adequate, and I also await the outcome of the further study of detailed implementation which, as the draft resolution before us suggests, should be remitted to Executive Directors for their prompt attention.

For example, the Ten Ministers have recorded their intention to support relative adjustments of those individual quotas which are clearly out of line. Which quotas qualify for adjustment will have to be carefully considered. Then there is the question of the gold subscription, which becomes due when an increase in quotas takes effect. Any call up of gold leads to an equivalent fall in the total of owned reserves in member countries' hands. It is true that gold tranches are equally increased, and we recognize that the gold tranche is a good reserve asset. But for members who have already borrowed beyond the gold tranche, the gold subscription represents a compulsory debt repayment at a moment which may not be well judged; and in the case of the reserve currencies, the provision of gold by them to others to enable them to pay their gold subscription does not increase their gold tranche, while the countries to whom the gold is sold have to pay for it out of their reserve currency holdings. I therefore attach special importance to finding the best method of minimizing the impact, particularly on reserve currency countries, of transfers to the Fund of gold from national reserves. Various ways of doing this are referred to in the Fund Report. This is a job which I hope the Executive Directors will be able to tackle with all reasonable speed.

FRANCE (Governor Giscard d'Estaing of the Bank)

Since we have the opportunity, under the quinquennial review, to reconsider the level of Fund's quotas, we are willing to go along with a moderate increase of quotas, which should not exceed 25 per cent. Of course, if some individual quotas have to be adjusted, these adjustments should be limited to cases where the present quotas are clearly out of line with the economic situation of the countries concerned. . . .

The principle of the payment in gold of 25 per cent of the increase should be firmly maintained. In our opinion, this quota increase could be implemented, for instance, in two stages: the first one taking place just after the parliamentary ratification of the final decisions; the second one, for instance, one or two years later.

UNITED STATES (Governor Dillon)

. . . the United States believes that prompt consideration should be given to a general enlargement of quotas. In addition, special increases would seem appropriate in a number of cases, particularly for those members whose currencies have become stronger and more widely used over the six years since questions of this kind were last discussed in New Delhi. We welcome the attainment by other countries of situations where they can now provide a greater proportion of the Fund's resources, with a corresponding reduction in our share of the Fund's responsibility. We have been hopeful that the members of the European Economic Community, in particular, will assume a larger share, and are gratified that some readiness to do so has been indicated.

We also believe it inevitable that a growing international monetary system must find new ways to economize the supply of gold, just as individual nations have done for so long in their internal monetary systems. The fixed price of gold is, of course, the anchor of price stability for the world. But world trade and capital movements seem certain to expand--and at a faster pace than the stock of gold--thus imposing the most careful economy in its use. That is why the United States, as the only country which maintains the essential link with gold on which the entire IMF system rests, welcomes the reference in the Fund Report, and in that of the Group of Ten, to measures for so handling Fund quota subscriptions as "to mitigate the repercussions of gold payments on the gold reserves of the contributing members and of the reserve centers that may be affected."

D. General Arrangements to Borrow

JAPAN (Governor Tanaka)

I would like to express my conviction that the existence of the General Arrangements to Borrow has a great significance for the stability of the international monetary system and that prompt utilization of the facilities should be assured in case of need.

UNITED KINGDOM (Governor Maudling)

Closely related to these problems is the future of the General Arrangements to Borrow. As the Group of Ten have pointed out, a decision whether to renew or modify the General Arrangements to Borrow must be taken by October 1965, and should be related to any increases in IMF quotas--general or selective--that may be agreed in the meantime. There are good grounds for thinking that it would be sensible for the resources of the General Arrangements to Borrow to be kept broadly in line with increases in Fund quotas. I welcome the fact that Ministers of the Ten have already instructed their Deputies to study the questions involved. They will no doubt take account of the passages in the Fund's Annual Report about the advantages to the Fund of having the resources it requires readily available.

USE OF FUND RESOURCESA. PoliciesAUSTRIA (Governor Kamitz)

I completely approve the Fund's policy on drawings. Despite the fact that a large number of members has a justified need of long-term capital for development projects, the Fund is wise in limiting its assistance to transactions which can normally be reversed within a period of 3 to 5 years. This policy should under all circumstances be continued. To ask the Fund for long-term financing would be just as wrong as to ask a central bank to finance the construction of, say, highways. I certainly have nothing against highways, and I am also more than sympathetic to the endeavors of the developing nations to obtain the long-term capital which is necessary for their growth. Such capital cannot, however, be provided by the Fund, but must come from other suitable sources.

BRAZIL (Governor Bulhoes)

An interesting suggestion made by some of the deputies of the Ten countries might be adapted to serve this purpose. These deputies recognized the usefulness in some instances of long-term loans for monetary purposes. They suggested that these loans be granted by groups of creditor countries; if one of those countries, afterwards, found itself in balance of payments difficulties, the credit might be acquired by another member of the group which found itself in a strong balance of payments position. These deputies have also suggested the possibility of the Fund's associating itself with operations of this kind.

I want strongly to support this idea of long-term loans for monetary purposes and offer some suggestions toward the greater potential efficiency of such a system. Such credits and, eventually, other credits, both medium- or short-term, granted by groups of creditor countries, or even bilaterally, should be granted with the cooperation and knowledge of the Fund. Under these conditions such credits would be registered with the Fund, and the Fund then would grant the creditor countries, in case of need, easier access to its resources, even allowing these creditor countries to exceed the "normal" Fund drawing limits. In other words, the registration of the credit would operate at the same time as a "waiver" of these limits and as a stand-by arrangement.

CEYLON (Governor Perera)

It is part of the philosophy on which the Fund was fashioned that its facilities are essentially of a short-term character. The drawings of the Fund are for a three to five year period, which is expected to provide

member countries with an opportunity to get corrective measures under way and to reap their benefits. But for the developing countries, payment problems caused by external price fluctuations could hardly be cured by such internal measures. The developing countries cannot, in other words, always ensure their capacity for quick repayment by the adoption of internal measures alone. More often than not they have to await, passively, a turn in their fortunes--an event which may or may not occur within the period of repayment. In fact, for them, the dividing line between short and long-term ones is so tenuous that I am tempted to ask whether some system might not be devised whereby short-term accommodation to developing countries could be converted into long-term accommodation when the adverse external factors turn out to be more protracted than expected, without prejudice to the continued availability of short-term resources for these countries.

FEDERAL REPUBLIC OF GERMANY (Governor Blessing)

I should like to make it quite clear that the Fund should stick to its present lending policies. A slackening of these rules should be avoided. Very rightly, the Fund so far has held that balance of payments deficits, which are the self-inflicted consequences of inflationary policies, should not be financed indefinitely by means of the Fund, but that the inflationary causes must be removed. This policy should be carried on without compromise.

GUATEMALA (Governor Perez-Galliano)

So far as the Fund's policy governing its ordinary operations is concerned, the Latin American countries have been pleased to see that this policy is being based on a more realistic approach, taking into account the various economic and social problems affecting the developing nations.

. . . we believe the Fund can make greater and more effective progress in the application of its policy by giving due consideration to the importance of the problems that actually arise in carrying out the economic and social development programs in which our countries are engaged. With this in mind, the Fund could impose less rigid conditions governing use of its resources and extend the period for repurchase, subject to the provisions of its Articles of Agreement.

ISRAEL (Governor Sapir)

We also believe that there should be a widening of the scope of stand-by arrangements, which may decrease the necessity for keeping large foreign exchange reserves, which is very expensive for countries which have to borrow funds for financing their development program.

We would like to suggest that the Fund should consider the possibility of acting as intermediary and guarantor between developing countries and the financial centers, so as to reduce the cost of borrowing for the building up of reserves, and make the device of bilateral and multilateral reserve agreements available to countries which today are financially too weak to profit from such arrangements.

NIGERIA (Governor Okotie-Eboh)

I suggest that conditions should be established to make it possible for the Fund, like the Bank, to use part of its large reserves to augment the resources of the International Development Association.

B. Compensatory Financing

BRAZIL (Governor Bulhoes)

In case compensatory schemes are established to meet the problem of fluctuations of exchange receipts of countries exporting raw materials, these countries should have an option. Instead of utilizing directly the amounts that they may eventually receive from importing countries, they could apply them to the repurchases of their currencies from the Fund before the end of the normal repurchase period. It might be possible for the Fund to create incentives which would make this alternative especially attractive to raw material exporting countries.

CEYLON (Governor Perera)

. . . Yet, because our troubles were due to a rise in import prices, rather than to a fall in export earnings, we were left totally helpless and ineligible for a full drawing under the compensatory finance facility.

I do not see what major difficulty there is in the way of amplifying the criteria for such drawings. After all, the objective must be to help protect a country's development effort against the effects of short-term external fluctuations, no matter what form they take or what their origin is. I appreciate, in this connection, the parallel need for internal stabilization policies. But, at the same time, it is our experience that the scope for these policies is severely restricted in the background of adverse external factors. . . .

CHILE (Governor Ruiz)

. . . the Latin American countries have received with special approval the resolution adopted by the Monetary Fund to provide special credit facilities to primary producing countries whose export earnings decline as a result of circumstances beyond the control of the member country concerned. However, in order that this special line of credit may satisfactorily fulfill the purposes for which it has been created, it must be used with the greatest flexibility possible. It would be highly advisable for a country which is pursuing a sound financial policy under a balanced development program to receive, in good time and in the necessary amount, the financial assistance it needs in the event that it is adversely affected by a reduction of its export earnings as a result of a drop in the international prices of its export products.

INDONESIA (Governor Koesoemahardja)

While we welcome the Fund's decision on compensatory financing, we feel that easier access and broadening of the coverage of this facility

should be explored. We are happy to note the readiness of the Fund and the Bank to study the recommendations of the United Nations Conference on Trade and Development in this respect.

PAKISTAN (Governor Shoaib)

The arrangements made by the IMF for compensatory financing are only a recognition of the problem and do not lead anywhere near its solution. There is already a growing feeling among the underdeveloped countries that, in spite of their best efforts and maximum sacrifices, they will not be able to overcome their initial handicaps and, because of existing trade policies, they might remain fettered to their present economic status as primary producers. The dangers inherent in such a situation are too obvious to need elaboration.

PHILIPPINES (Governor Castillo)

In view of these wide fluctuations in prices, we of the developing countries welcome the compensatory financing facilities extended by the International Monetary Fund to countries experiencing temporary short-falls in export receipts. However, we would like to see the Fund introduce not only improvements in their compensatory credit system, in line with the proposals adopted by the United Nations Conference on Trade and Development, but also develop other imaginative measures which would assist developing countries overcome disequilibrating forces in their balance of international payments.

SIERRA LEONE (Governor King)

The recommendation for an early increase in the quotas of Fund members is welcomed by my delegation. In fact it endorses the Geneva recommendation that compensatory financing is the appropriate mechanism for short-term fluctuations in the prices of and the earnings from primary commodity exports. It will be recalled that, in the Geneva Conference, the group of 75 developing countries also recommended:

- (a) a compensatory drawing should in no way prejudice a member's ability to make an ordinary drawing, and
- (b) that the period of compensatory credit and of its refinancing should be lengthened so as to accommodate longer-term declines.

PROBLEMS OF DEVELOPING COUNTRIESA. Role of FundBELGIUM (Governor De Strycker)

. . . There is a tendency to resort too widely to monetary solutions for meeting development needs. This tendency should be resisted; it is not possible to make use of the same instruments for solving development problems and for solving problems of monetary equilibrium. These two categories of problems must be entrusted, as they are at present, to different institutions.

GREECE (Governor Zolotas)

. . . there are two significant points I would like to make with respect to the liquidity of the Fund itself under the proposed scheme and with respect to the problem of financial support to the efforts of the developing countries of the world. Since the liquidity to be accorded to claims on the Fund arising from deposits of member countries would be similar to the liquidity of drawings within the gold tranche, the danger of "runs" is, by the nature of things, virtually excluded. I believe, however, that it is essential for the soundness of the operations of the Fund to secure a measure of correspondence in the degree of liquidity of deposits and investments. Since the former would virtually be withdrawable on demand, the investments of the Fund should be essentially of a short-term nature.

The need to provide adequate liquidity and development capital to the developing countries of the world is not overlooked by this basic requirement of sound banking practices. The scheme does make an important indirect contribution to the financial needs of the liquidity of less developed countries by enhancing the ability of industrialized nations to provide for an adequate flow of development capital to the less advanced parts of the world.

INDIA (Governor Krishnamachari)

It pleased me to see in the Annual Report (p.69) a reference to this problem and to the Fund's interest in the outcome of the efforts being made in other international forums to improve the economic conditions of the less developed countries. In considering the Fund's quota structure, the supply of resources needed by the Fund, the demands to be met by the Fund, and the adjustment of Fund policies in the various tranches, we cannot afford, I am sure, to lose sight for a moment of the special problems and needs of the less developed countries.

ISRAEL (Governor Sapir)

The basic problem of developing countries is not only the problem of a very short-time disequilibrium, but a problem of a medium-time disequilibrium, originating from an urge for intensive and rapid development, aimed at closing the disturbing gap in the material standard of living between industrial and developing countries. This process of development results in a substantial import surplus, over a prolonged period, which frequently is accompanied by periodic fluctuations. It is true that the import surplus has to be financed by a steady flow of long-term capital imports, in the form of direct private investments and/or long-term loans at reasonable interest rates. But together with this long-term capital, the developing countries will need in the same period increased reserve capacity, which should be made available at easier terms and in another form than is done today. We think that this important field is still open for more activity by the IMF

NIGERIA (Governor Okotie-Eboh)

May I suggest that conditions should be established to make it possible for the Fund, like the Bank, to use part of its large reserves to augment the resources of the International Development Association, which makes nonconventional loans to the developing nations. Increased lending by IDA will assist in lessening the burden of debt servicing, which, as the Managing Director noted, is getting unbearable. I feel that this practical aid to IDA is preferable to assistance in rescheduling of debt maturities--even though I welcome this service. I would also suggest that the Fund should invest in the bonds of the Governments of the developing member countries just as it has invested in the obligations of the United States Government. By providing such assistance the Fund would be furthering one of the primary objectives of its own existence--the promotion of worldwide economic development and full employment.

PHILIPPINES (Governor Castillo)

. . . the Fund should play a greater role in improving the financial framework necessary to the growth in world trade. In this connection, I would like to suggest an area where the Fund can possibly lend effective assistance--the area pertaining to imbalances engendered by capital movements, especially short-term capital.

Several factors are responsible for the flow of capital internationally. A primary one which we generally encounter in developing countries is speculation on changes in the internal foreign exchange market, i.e., on changes in exchange control measures or in the exchange rate. In this case, the Fund can help developing countries by instilling confidence in the balance of payments position of any particular country to stem the outflow of speculative capital.

Since stand-by arrangements are oftentimes taken as a sign of weakness, which may add fuel to speculative fever, and to the crisis of confidence in developing countries, some other measure which can generally be regarded as an indication of confidence is therefore required. It may thus be worthwhile to explore the possibility of the Fund's investing in developing countries as a suitable measure to accomplish this end.

B. United Nations Conference on Trade and Development

JAPAN (Governor Tanaka)

The United Nations Conference on Trade and Development held in Geneva some months ago adopted various resolutions concerning ways and means to enable developing countries to promote their trade and development. In this connection, active cooperation on the part of the Fund and the Bank group is much desired. I earnestly hope that these international financial organizations, established as specialized agencies of the United Nations in the field of international finance, will find proper ways to meet the demands of today in the light of the purposes for which they were established.

MALAYSIA (Governor Sin)

It was unfortunate that the Geneva Conference on Trade and Development held earlier this year bore so little fruit from the point of view of the developing countries. This Conference was held under the aegis of the United Nations where political considerations could override purely economic ones. I wonder if the chances of success would not be better if the World Bank and/or the IMF were to sponsor further discussions on the same subject. Under such circumstances, economic considerations would come to the fore and it might be easier to arrive at mutually acceptable solutions.

VENEZUELA (Governor Losada)

It is likewise necessary to mention the most important fact in the field of international economics of this and many previous years: the World Conference on Trade and Development. As was hoped, in the course of the discussions, monetary problems directly related to international trade were brought forward and subsequently were included among the recommendations addressed to the International Monetary Fund. We are sure that these recommendations will be studied with great interest by that organization.

YUGOSLAVIA (Governor Miljanic)

Several recommendations of the Conference have a bearing on the future work of the Fund. We are, therefore, looking forward with great expectations to the Fund's contribution to the work initiated by the Conference, and we expect such contribution to be of great importance. We appreciate Mr. Schweitzer's interest in the deliberations of the Conference. From our own experience, we know how familiar the Fund is with the problems which a developing country faces in its monetary and foreign exchange policies in the context of efforts aimed at accelerated growth of production and investment. The wide scope of the Fund's knowledge should assist in arriving at new insights into this difficult and critically important area.

C. Tied Aid

KENYA (Governor Gichuru)

. . . I hope that the Fund will be able to give consideration to the support of schemes which will enable donor countries to give more untied aid without incurring artificial restraints on aid-giving through balance of payments pressures. One of the most ingenious suggestions which I have seen recently for extending the volume of untied aid has, rather appropriately in view of this meeting, been devised by a Japanese economist, Professor Kiyoshi Kojima. The essence of Professor Kojima's idea is that a proportion of aid should be partially untied and spendable in several donor countries instead of just the donor country. At the same time it will not be convertible to gold and thus aggravate balance of payments pressures on the donor. . . .

SUDAN (Governor Mirghani)

The Fund's Report goes on to say that "in order that aid can be utilized as effectively as possible this limitation--tied loans--should not be resorted to unless there are compelling justifications for it." Heavy pressure on the balance of payments may often provide a justification to the donor country to tie its aid. The trouble is that such pressures will continue to make themselves felt in one way or another until the problem of international liquidity is solved. In the meantime, it seems to me possible to take development aid out of this balance of payments constraint. Many schemes and proposals have been advanced for the purpose of removing this constraint but no serious consideration had so far been given to them. I sincerely hope that these proposals will be examined, for it is not beyond the ingenuity of mankind to devise a solution which will be internationally acceptable. . . .

SWEDEN (Governor Wickman)

. . . Tied aid is generally less effective from a development point of view than untied aid. Tying of aid also represents a step backward in regard to the efforts to create a freer exchange of goods and services which we are working for in other international organizations. All of us here representing the industrialized countries should also carefully consider what the Managing Director of the Fund said in this context in his opening statement. He there stressed the importance that the industrial countries, in providing publicly guaranteed credits to the developing countries, should be sensible of the welfare of the country to which credit is extended and not merely of the commercial interests of their own exporters. This desire to tie assistance to short-term commercial interests seems to be growing in many industrialized countries. This means that the scarce resources of the developing countries may be allocated in a more and more irrational way. From the donor country's point of view this practice has the same kind of negative effect on the long-term competitiveness of its own industry as prohibitive custom tariffs.

TRINIDAD AND TOBAGO (Governor Robinson)

. . . On the other hand, the quantum of both multilateral and bilateral aid is severely limited on the basis of balance of payments problems, either real or anticipated, which are also being used increasingly to justify tied aid.

It is not possible to extend the facilities of the Fund to accommodate still further the needs of developing countries by reducing the foreign exchange risk in aid transactions? I suggest some such arrangement as this:

The Fund or one of its sister institutions could be used as a means through which aid funds and repayments might be channeled after tentative agreement has been arrived at between the donor and receiving country. At this stage, the Fund would inspect the agreement and would be in a position, not only to supply the receiving country with technical advice, but also to exercise its position of moral influence and authority on both donor and receiving country.

It is anticipated that with the multiplicity of aid transactions taking place, the Fund will, in time, be handling a multiplicity of currencies. Adjustments could then be made in such a way as to reduce the necessity of funds being made available to the receiving country in the currency of the donor country, or of repayments being made in the currency of the donor country. Such an arrangement could conceivably alleviate the balance of payments problem all round. To the extent that the balance of payments problem is taken out of aid transactions, there should be an increase in the flow of aid.

UNITED REPUBLIC OF TANGANYIKA AND ZANZIBAR (Governor Bomani)

. . . I would wish to take this opportunity for warmly endorsing the Managing Director's statement, and of congratulating the Fund on a similar reference in its Report, where it points out that much official loan finance and aid continues to be tied to purchases in countries providing them. In order that aid can be utilized as effectively as possible, it is suggested in the Report that this limitation should not be resorted to unless there are compelling justifications for it. It is my view that the tying of aid in this way represents a serious restriction on the free movement of funds and that this problem requires immediate examination by the IMF. I consider that the Fund, together with the Bank and the OECD, should take the initiative in pressing for the removal of this type of monetary restriction which is so detrimental to the interests of the developing countries, and particularly to those with the lowest level of personal income.

SUGGESTED STUDIESAUSTRALIA (Governor Holt)

I do wish, however, to dwell on one topic which, having regard to its importance, has been given inadequate attention in the Reports both of the Fund and of The Ten. That is the question of gold. Perhaps it is thought that its relationship to the international monetary system is so well known as to require little elaboration. But the Fund Report covers the first thoroughgoing review of the functions of the international monetary system made after twenty years of operation. This review remains incomplete without a full analysis of the place of gold in the system. In any discussion on international liquidity, the place of gold, the price of gold, and the adequacy of supply of gold should all receive attention appropriate to their importance.

. . . We clearly need a comprehensive and up-to-date study by the Fund of the causes of the decline in gold production in so many countries, and an examination of methods whereby the supply of a metal fundamental to the liquidity of the international monetary system can be substantially augmented. I would hope that by the time of our next meeting, such studies would not only have been put in hand, but their results made available to us early enough for a more searching discussion then.

BELGIUM (Governor De Strycker)

. . . Heretofore, in the Fund, attention has been centered almost solely on members' drawings. No attention has been paid to the counterpart of these operations, i.e., the accumulation of claims on the Fund by the countries whose currencies are utilized. In order that the Fund may play its monetary role correctly, both sides of its activity should be equally satisfactory. In other words, the assistance given by the Fund to its members should be well adapted to their needs; but the assistance granted to the Fund by other members should be well adapted to their situation as creditors. To this end, a creditor position in the Fund should be regarded as a good monetary reserve that can be used whenever there is need. To arrive at this result, the status of the gold tranche should be improved. This question must be studied more thoroughly and may require new decisions and even, if need be, a modification of the Fund Agreement. The improvement of the status of the credit position in the Fund should be considered not only from the point of view of the creditor country, but also from the point of view of the Fund; the more this status is improved, the easier it will be for the Fund to obtain resources from its members and thus to organize the mutual assistance which is its essential function. Moreover, by improving the status of creditor position, the Fund will aggravate its own liabilities. It will therefore have to avoid tying itself up in credits which are too long or irreversible. Up to the present time, the Fund has not fallen into this error. But it would worsen its situation if it allowed itself to be induced to use its resources for purposes other than covering temporary needs.

GUATEMALA (Governor Perez-Galliano)

. . . We are also confident that the Fund will lend its full support to secure the successful outcome of the studies on international monetary questions relating to trade and development that were assigned to a group of experts at the Conference recently held in Geneva.

JAMAICA (Governor Sangster)

It is recognized that an external investor needs some incentive above the earnings he would enjoy at home. Local capital also has to be encouraged away from the safer investment fields of mortgages and the distributive trade into industry and modern agriculture. Some concession therefore is probably justified in these cases, but the extravagant tax free periods ranging in some countries up to 15 and 20 years, which the administrations concerned have been obliged to grant, are self defeating. The tax base is subverted and the budget is deprived of the normal growth of revenue which might be expected from an expansion in the private sector.

The Bank and the Fund are, I believe, aware of this problem but it is clear that there can be no unilateral solution. One country cannot take action unless its competitors are prepared to agree to an acceptable policy. My proposal is that the Bank or Fund should take the lead in getting countries together, probably on a regional basis, to see whether they cannot work out some coordination of their policies in this matter. I would go further and propose that any agreement reached should be recognized by the Bank and other international institutions.

MOROCCO (Governor Slaoui)

. . . in the search for world economic equilibrium, it is indispensable for us to find a rapid solution to these problems.

An international guarantee mechanism would enable the developing countries to have easier and less costly access to the capital markets of the economically developed countries.

An interest equalization fund might alleviate the burdens on the borrowing countries which threaten to compromise or at least to hold back their growth.

SIERRA LEONE (Governor King)

In fact, we in the developing countries would prefer that compensatory financing or supplementary financing, whichever is adopted, should take the form of a grant or a contingent loan to be written off in the event of a failure of export proceeds to recover sufficiently. In other words, whether compensatory or supplementary financing is eventually adopted, it should be

a separate category of aid. I am therefore particularly glad that the Fund is taking very keen interest in this matter as I am confident that it will evolve a scheme that takes into account the basic weakness inherent in developing countries' financial situations.

YUGOSLAVIA (Governor Miljanic)

Another problem which I think the Fund should examine concerns new approaches to the existing systems of exchange rates in the light of the needs of the economies engaged in the process of accelerated growth. Rapid growth is accompanied by swift changes in internal relations in the cost and price structure and in the distribution of income. Because of that, existing systems of exchange rates often cease to reflect such changes, on the one hand, and, on the other, they cease to be a link between domestic and world economy, or even more, they could become a brake on further accelerated growth. What is really needed is a system of exchange rates which would better perform its functions and which could, accordingly, be adjusted smoothly to internal changes. It is obvious that it is difficult to invent a system applicable to all possible situations and that specific solutions for individual cases are needed. Exploration of such approaches by the Fund, would, I believe, contribute substantially to finding better solutions and new mechanisms more appropriate to the requirements of the developing countries.

September 17, 1964

Dear Eddie:

I had an opportunity yesterday afternoon, after you had left, to speak to the economic merits of the collective reserve system and in that connection I made some comments on the observations you had made during the morning. Since you were no longer there during the afternoon, let me put down rather in extenso why I think that the principle of the collective reserve unit is open to grave criticism from a purely economic point of view.

The general objection against the CRU system, from the economic point of view, seems to me to lie in the fact that it distributes the new reserves to the Ten richest countries only. In his speech in Tokyo, Dr. Holtrop stated, quite correctly, that until now all reserves had had to be earned but that the CRU system provided a way to create reserves out of nothing. To limit to the Ten largest countries the distribution of the seigniorage arising from the international creation of liquidity seems to me a proposition that will never stand up to world public opinion. If half of the world's countries have low reserves this is no doubt mostly due to the fact that it is more difficult for these countries to earn and to keep reserves than it is for the rich industrial countries. How could one then defend the proposition that if these poorer countries want additional reserves they should have to earn them, while the Ten will make arrangements to help themselves to the necessary reserves by effortless bookkeeping entries?

I don't see that this could be justified by the proposition that only the Ten hold reserves, even if that were the case. In addition, that proposition is not true. You mentioned that "only a handful of countries" hold reserves on a significant scale and even fewer have large gold reserves. That is not an accurate description of the reserve policies of the countries of the world. Quite a large number of countries outside of the Ten hold reserves that are either substantial in absolute amount or are at least comparable in scale proportionally (e.g., in terms of imports) to the reserves held by most countries of the Ten. In Europe these include at least Austria, Spain and Portugal; outside of Europe, without trying to be complete: Australia and South Africa, Mexico and Venezuela, most of the Central American countries, Israel, Saudi Arabia, Malaysia and Thailand. Other countries, such as Taiwan, may be moving into this group. By the criterion provided by the Articles of Agreement, we found that about half the Fund's members have monetary reserves in excess of their quota, and most of these have, in fact, reserves in excess of a number of times their quota. The proposition, therefore, that the world can be divided into ten countries that are thrifty enough to accumulate reserves and ninety countries that are not is not in accordance with the facts.

It is true that most of the non-Ten countries hold relatively little gold, although there are one or two exceptions there too. I cannot see, however, why this should be a reason to exclude these countries from the benefits of the creation of new reserves. It seems to me only an accident, and not a particularly fortunate one, of the composite reserve idea that the holdings of this new unit are tied to a country's holdings of gold rather than to, for example, its total holdings of gold and foreign exchange. This opens the proposal to the criticism that it constitutes an implied increase of the price of gold among participants and it also (if distributions of the units are made in proportion to gold holdings) amounts to instituting a rate of interest on official gold holdings.

You mentioned that the benefits of swaps are also limited to the Ten. I would say that this is unfair enough from a world point of view, but that at least swaps are short-term repayable credits, so that the discrimination involved in this is relatively small. Moreover, the U.S. does give somewhat comparable assistance in its Stabilization Fund agreements with certain Latin American countries.

I cannot agree with your suggestion that the liquidity needs of the countries other than the Ten can adequately be met by quota increases and increased compensatory financing facilities. The Fund has always taken the position that it was worthwhile for all countries to try and accumulate adequate reserves and we have been gratified by the relatively large number of underdeveloped countries that have taken our advice and made the effort, as well as by the few that have resisted the temptation to spend quickly the reserves they had inherited from Colonial regimes. Like the Ten, countries other than the Ten are well advised not to put themselves in a position where they would have to rely exclusively on credit facilities in the Fund, even if these facilities were available on a fully automatic and unlimited basis to deal with export fluctuations. Export fluctuations are not the predominant cause of balance of payments difficulties in underdeveloped countries, as has been abundantly evident from the Fund's experience over the last 15 years, and if anything too much emphasis is now being put on compensatory financing facilities for these countries, in contrast to their more general need for reserves and credit facilities.

These are the central reasons why all of us who have given thought to these questions in the Fund have come to the conclusion that the collective reserve unit is not a suitable answer to the need for additional unconditional

liquidity or, if you prefer the term, the need for additional owned reserves, and have felt that better and more equitable solutions could be found through the instrumentality of the Fund. This would imply giving to the Fund functions that were not originally foreseen for it; but if there is now a need for such new international functions at all, I can see no ground why these new powers should not be lodged in that particular component of existing international machinery where they most logically belong.

Yours ever,



J. J. Polak

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J. J. "POLAK"

TRANSCRIPT OF NEWS CONFERENCE BY
U.S. SECRETARY OF THE TREASURY, DOUGLAS DILLON,
TOKYO, SEPTEMBER 11, 1964, DURING ANNUAL MEETING OF
THE INTERNATIONAL MONETARY FUND AND WORLD BANK

Ladies and Gentlemen, I would like to introduce
Mr. Dixon Donnelley, Assistant to Secretary Dillon. He is in
charge of the Secretary's public affairs. Mr. Donnelley.

(Mr. Donnelley) We are very pleased to welcome you here
this afternoon. This press conference is, of course, on the
record. Please feel free to quote Secretary Dillon by name. The
conference will be conducted in both English and Japanese, and
we'd like to allow sufficient time for the question to be put in
both languages first and then the answer, of course, subsequently
in both languages.

(More)

(The Secretary) Gentlemen, I want to say before I start that I think we have had a most fruitful conference here and I have been particularly impressed by the extent of the coverage of this conference in the Japanese press and also by the understanding and thoroughness with which the Japanese press treats economic matters of importance. I imagine there is no place in the world where these sort of questions get such important treatment in the press, so I'm glad to be here with you today. I will be glad to answer your questions.

(Question) First, I would like to express my appreciation for those fine words you gave to the Japanese press and now in order for us to have something from you, Mr. Secretary, that we can really write about in our articles in the press, I hope you will answer the following questions in as much detail as possible. (Laughter) The first question I would like to put to you, sir, is in relation to Japanese-American relations, especially in the field of the Equalization Tax which came up as a subject last year, and at that time it was indicated by the Japanese Government that they would want to have either exemption or some kind of alleviating measure if that law should go into effect, and a great deal of representation was made to the American Government on that score. And the Finance Minister, Tanaka, when he met you here at this time for a number of conversations, I understand, received the reply from you that when you returned to the United States you would speak

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to the President about this. So in relation to this I would like to ask the following questions: When you said that you would go back to the United States to speak about this matter to the President, did this indicate that there was some change that has taken place in your thinking about this matter as a result of your conversations with Finance Minister Tanaka, or was this merely a diplomatic gesture on your part? (Laughter)

(The Secretary) That's a very good question, and I think to answer it we better go back a little bit in time to last year. When the tax was proposed, there was great concern in Japan that it would cause serious difficulties and serious damage to the Japanese economy. There was a feeling that because of the tax Japan would be unable to obtain in the United States the long term capital that Japan might require to keep her growing moving ahead. We in the United States did not feel that this would be the economic result of the tax, and in our conversations with the Japanese Government at that time we made clear that our markets would stay open and that when the tax was in effect we felt that Japan could continue to obtain funds, even though they would cost them about one per cent more in interest than they had before. But this cost would still be much cheaper than the cost of borrowing money here in Japan where the interest rates are much heavier. And we explained that we had to put the tax in effect as suggested in order to protect the stability of the dollar, which is used in trade all over the world and whose stability

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is important to all trading nations, including Japan. A year has now passed and the tax has now become law. During that year the Japanese economy has not suffered and has continued to expand and this despite the fact, because of the uncertainty as to whether this proposal would become law or not, the Japanese business and people from other countries were naturally reluctant to make use of our markets and they made no use of them. Now that the law is in effect, the markets are open and we would assume that the Japanese firms if they need money would make use of our markets. I explained these matters to Minister Tanaka and he, I think, understood. I think there is a greater understanding now in Japan among business men and others that this tax will not have any basic effect on the Japanese economy since they can still raise such funds as are necessary in the New York market. However, he in talking about the interest tax with me mentioned a great many other matters, both economic and political, having to do with the overall relationship of the United States and Japan, and I agreed with him that this tax had to be looked at in the overall framework of our relations which it was important that there be benefits from those relations on both sides. I pointed out to him that the United States contributed substantially to the Japanese balance of payments in something like 350 million dollars a year alone as a result of payments for defense purposes here in Japan,

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and also the United States bought more from Japan, goods, than any other country and would continue to do so, helping Japanese trade to expand, and then I told him that since he had raised a number of other matters in connection with the tax which did not directly -- not directly connected with my Department, I would naturally report the whole matter to my fellow Cabinet members when I returned to Washington, also to the President. I don't think that that meant it would necessarily be any change in the Interest Equalization Tax; I did not intend it to mean that, because I pointed out to Mr. Tanaka the great legal difficulties we would have in making a partial exemption for Japan. Our law provides an exemption can only be given in a situation where the stability of the international payment system is involved, and it is clear from what has happened so far, and certainly in the present situation, that there is no such danger as far as Japan is concerned and we are glad because we would like to see Japan moving ahead. We have also said that should such a danger arise we would, of course, be glad to consider the matter anew with Japan. What I did mean was that I would talk with my compatriots in Washington and we would have a further review of all aspects of our economic relations of the type which we have every year when we have our joint cabinet meetings. Mr. Tanaka gave me a broad list of items and I will go back and discuss all of them when I am in Washington.

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(Question) Mr. Secretary ...

(Mr. Nishiyama) Excuse me, there are two more questions in addition to the questions the gentleman asked that are related here. The second question is: We understand that at present the law on the equalization tax is to terminate next year. Would this mean that once that is terminated, does this mean, first, that since you have already said that the balance of payments picture for the United States is moving in a favorable direction very rapidly and you expressed confidence in the restoration of the balance, does this mean that you would expect the equalization tax law to be terminated next year and that by that time your balance of payments will have been -- will put into balance? What is the outlook on this matter? That is the next question.

(The Secretary) Most certainly.

(Mr. Nishiyama) The third one, which is relatively simple. This amendment that was put in the bill, the Gore Amendment, authorizing the President to use his discretionary power on bank loans, what is the outlook on whether that will be invoked; what are the possibilities that will be invoked?

(The Secretary) As to when the tax will come to an end, certainly it is our intention that as soon as our balance of payments reaches a situation where we no longer need this tax, we would not ask for it to be continued. Under the law at present it would end on December 31, 1965, and a decision will have to be taken sometime next spring as to whether or not the President

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will feel it necessary to ask the Congress to extend this law. We would hope that that would not be necessary, but it's not possible to predict now. That will depend on developments over the next six months or so.

As to the third question, about the Gore Amendment on banks, we had not originally felt this was necessary. This is not something that the Treasury Department had asked for. The Congress of the United States decided to add that to the law to give the President this extra power, and it certainly would only be used -- and the Congress made clear this was their intention -- if it becomes clear that lending through banks is being used to circumvent the intent of the tax. So far we have not seen that that is the case. We have had close records kept of our bank lending and it seems to be relatively normal in character, although it was larger than before and larger than we expected, but it did not seem to be circumventing the tax.

(Question) Mr. Secretary, will the French statement on liquidity at this meeting advance, fail to advance or retard the achievement of a formula for supplementing the liquidity?

(The Secretary) We have been discussing the question of liquidity for a year within the International Monetary Fund and also within the Group of 10. The discussions within the Group of 10 have been private and the details of the positions put forward by various countries have not been on the public record. I think it is a constructive and helpful thing that the French Minister outlined the basic French position publicly because I think that will advance

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the general discussion of the problem. We have a very basic and important difference of view on matters of substance with the French position, but I do think that it is useful to have the French position on the public record so that we can now proceed with a more informed discussion on a world-wide basis regarding the best solution to the problem.

(Question) Mr. Secretary, would you please be willing to spell out the American difference particularly in reference to the currency rate of the unit of the Monetary Fund?

(The Secretary) I would be glad to spell out our differences with the French proposals which are far more fundamental than the details of a composite unit. I think our basic differences can be summed up in four categories. In the first place, we believe strongly in the multilateral framework for handling problems of world liquidity. We believe that the Group of 10 countries was an important and is an important group for discussion to advance the final decision, but it is not, and we have never considered it an action group to take decisions regarding a matter that is as important for the rest of the world as the value of international liquidity. We think these decisions should be taken within the Fund and they should be multilateral. The French position looks clearly to the establishment of a small group of presumably the 10 to take these decisions

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and to decide for the rest of the world how much liquidity they should have. We strongly reject that thesis since we believe that this is a matter of interest to all the countries of the world and we very strongly support the position taken by the Managing Director of the Fund, Mr. Schweitzer, in this regard. That's our first basic objection.

Our second point is that the French proposal is basically designed to be restrictive in nature and to limit the amount of additional liquidity that may be available. We do not think that that is the problem. We do agree with the French view -- I think everybody agrees with this too -- that the world should not be dependent solely on deficits, payment deficits in the reserve currency countries for the supply of liquidity. Some additional means will probably have to be found in the future to make an adequate supply of liquidity available as world trade grows and we think that the problem is to find in adequate time a new way and a new source of making additional liquidity available to the world as the U. S. balance of payments deficits comes to an end. And this is quite contrary to the basic French thesis.

Third, we disagree with the diagnosis in the French thesis as to what may be wrong with the present system. They apparently feel that because a few industrialized countries in Western Europe, including France, are having troubles with inflation that this is not their own problem but is due primarily

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to the continuance of deficits in the balance of payments of the reserve countries and they talk of this as "imported inflation". We do not feel that we are to blame here. We do not feel that there is general inflation in the world. There is certainly no inflation in the United States, so we have no inflation to export. I was glad to see that Mr. Schweitzer this morning clearly agreed with our thesis and said that he did not believe that there was much substance to this idea of "imported inflation". Certainly there have been inflationary problems in some of the countries of Western Europe because they have grown very rapidly and the demands for goods have been greater than what they could supply. But it is very easy for them, if they wish, to handle this problem by removing some of the many trade restrictions which they still maintain in spite of the fact that they are in heavy surplus, particularly in the agricultural field, where the countries of the European Economic Community are highly restrictionists. They could solve the whole problem of their inflation by removing some of these restrictions and, secondly, in the question of capital flows, they could greatly ease any inflationary problem they have by -- for example -- traditional method of handling a serious long term excess of demand by sending some of their capital abroad. This is what the United Kingdom did in the 19th Century. This is what the United States did after the First World War and again after the Second World War. An example of how quickly action in

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the capital field can change a situation was shown in Germany this year when they had a very large surplus in the early months of the year which was embarrassing to them and it was caused by an inflow of capital into Germany which was entirely unnecessary at this time. So they changed -- they made some new legal proposals which would reduce the incentive for outside capital to come into Germany, increased the incentive for German capital to go abroad, and now for the last few months their payments are in balance. So it is our feeling that the problems of the European countries with inflation, the surplus countries of Europe, are their own problems, that they can be solved by corrective action largely in Europe. We intend to end our deficit; we are moving to end it; we will end it, but it is not responsible for their inflation and certainly because they happen to have inflationary problems is no reason to deprive the rest of the world of liquidity which they may need.

On the final point, and a short one, we believe that we should build on the system we presently have, which everyone recognized has worked well, rather than try to develop a new and substitute system just because there are some theoretical difficulties that lie ahead with our present system. As for the specific suggestions that the French may have, the French Minister did not make any such suggestions. We do look forward with interest to a detailed development of the French position which we expect will take place in discussions that are scheduled to continue through the next year in the Group of 10.

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As to the idea of a composite currency reserve, we are glad to explore such an idea in detail. It may be possible that it can be found to be useful, provided that it is used as a way of adding to what we now have and of creating additional liquidity when that is necessary rather than being used as a means to restrict what we now have, which we understand is the basic thrust of the French position. But we look forward open-mindedly to discuss all these questions in detail, subject to the broad considerations which I have outlined earlier.

(Question) Mr. Secretary, do you agree with the views expressed here this week by Mr. Maudling that there is nothing unusual in the recent arrangements made by the United Kingdom to ship a fiber plant to Russia under a 15-year credit guarantee?

(The Secretary) We do not think that a credit guarantee by a government, in this case the British Government, for as long as 15 years can be considered normal commercial practice. To us it seems to partake of aid and we think it not appropriate to give aid to the Soviet Union. We regret the British action. They apparently feel that this is a normal British practice, but we are sorry that they feel that way. We do not think it is a good contribution to our general relations with the Soviet Union because by making credit for these necessary peaceful purchases available on this long term as 15 years we allow the Soviet Union to divert other resources to military and unpeaceful purposes, and we do not think that that is a wise course to pursue.

(more)

(Question) I base this question on the tenor and tone of the remarks about the French position. Do you think the U.S. intends to press actively in the months ahead for new ways of creating expanding international liquidity, presumably through the Fund, or otherwise?

(The Secretary) My answer to that, certainly the U.S. believes, as does the International Monetary Fund and other students of the problem, that international liquidity, as of now, is adequate -- fully adequate. We hope that the important step which has been taken here in Tokyo to agree to an increase in quotas of the IMF will take care of any problem that we can foresee in the next few years -- 2, 3, 4 years. We do foresee, however, the possibility, maybe the likelihood, that as U.S. balance of payments comes into balance and the deficit disappears, that there will be a need of some additional method of creating reserve assets to back up expanding world trade. Therefore, we hope that we have a space of time now where we can look at this problem, not in an atmosphere of crises, but in an atmosphere of calm, but that does not mean we did not move ahead. We would like to look ahead and come to some conclusions which would strengthen the monetary system of the world in the long run. This does not mean that we feel it necessary to install such a new system in the next few months.

(Question) In relation to the other question about your remarks on the 15-year credit Great Britain has given to the Soviet Union, which you regard as aid, I would like to ask a general question on trade with the Communist

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countries. About what period of time, or what type of standard, would you consider appropriate standard in relation to trade with Communist countries? Also, in relation to this, in the same press conference that Mr. Maudling held, he said that Great Britain made no discrimination between trade with the Soviet Union and Communist China as far as trade in terms of non-strategic goods is concerned. I would like to get your views on the matter.

(The Secretary) We feel that in the trade with Communist countries, we should follow normal trade practices which mean a normal time for credit, depending on the type of item involved, but in no case extending beyond five years, which has generally been the accepted standard of medium term credit that was set in Europe by the Berne Union to which we belong, and we feel anything beyond that begins to partake the characteristics of aid and the farther you go beyond that, the more likely aid it becomes. As to trade with Communist China by the U.S., as you know, does not trade with Communist China because they refuse to give up a policy of armed aggression and they have never agreed to make peace in Korea and, therefore, we do not trade with them. Some other countries do and that naturally is for them to determine. They may have different relations and different problems.

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(Question) Is the French proposal to pay the gold portion of the quota increases in two stages satisfactory to the U. S. or would you prefer to pay in five stages?

(The Secretary) I think that this is a question, in detail, that should be decided by the Executive Directors of the Fund. I would only recall the last time there was a quota increase there was a provision for countries that found it desirable to pay in five stages. I would think that this time the Fund would not want to make it. I do not think such a proposal or a staging of the payments would adequately answer the entire problem of payments in gold. I think other stages are needed but these are technical matters that can and should be discussed and determined by the Board of Directors of the IMF.

(Question) In the Japanese newspapers here recently it has been said that in the light of Japan's recent economic growth, there is a case for Japan replacing India as a permanent executive of the Fund. Can you tell us your view on this?

(The Secretary) I haven't heard of any such suggestion. I have heard that Japan would like to have a special increase over and above the 25% general increase, and I think that, in the light of Japan's progress, means that such an increase is heartily deserved. I have not seen what the size of that special increase that Japan might wish to ask for, but I do not

(more)

understand that it would necessarily involve any replacement of India as the country having the fifth largest quota in the Fund.

(Question) Mr. Secretary, may I ask a question on multilateral surveillance? The French have made it understood on several occasions that they consider surveillance as a sort of factor to introduce all sorts of discussions on the coverage of deficits through assets in reserve currencies ... as a playground for discussion on gold policy of a certain country or on the composite of reserves. How far would you draw this code of these discussions? As I gathered from your speech which you made yesterday, I have the impression that your understanding of this code of surveillance is severely more restricted.

(The Secretary) I do not understand the French position to be : particularly different from our own on this matter. We look on multilateral surveillance as a decision by the countries -- industrial countries -- whose capital is subject to rapid flows, one way or the other, to exchange information among each other on a regular basis regarding means of financing any surpluses or deficits they may have. Certainly from what the French Minister said in his statement here to the IMF Conference, nothing else was involved. Of course, when one does report methods of finance, you would expect that there would be discussion of these methods and we would expect that.

(more)

However, what multilateral surveillance does not mean was very clearly spelled out by the British Chancellor of the Exchequer when he quite clearly reported that it does not give any veto to any individual countries or any group veto on the actions that any two countries might take on a bilateral basis.

(Question) Could you say something about techniques which might be used to prevent a drain of gold reserves from the U. S. and U. K. as a result of the increase in quotas?

(The Secretary) This particular problem can be handled in a number of ways. In the first place, many more countries now have very substantial gold reserves of their own and such countries could very well pay, out of their own gold assets without replenishing them from the U. S. or U. K. Secondly, there could be negotiations of one sort or another between the International Monetary Fund and the two reserve currency centers which could help to offset purchases of gold as might be necessary from those countries which do not have supplies of gold of their own on hand. Third, there is a question which was raised in the Fund Report regarding the use of -- to some extent -- of gold certificates rather than actual gold in payment of 25% gold quotas. I cite these as illustrations because this is a technical matter and there are a series of ways in which this strain on the reserve currency from a gold payment could be mitigated.

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(Question) Mr. Secretary, in April of this year, Japan moved into an Article 8 nation status in the IMF. On the basis of this Japan has greatly reduced restrictions on long term investments from abroad. Is this, in your mind, satisfactory in the way that Japan has done -- is that adequate? Whether you foresee a considerable increase in capital investments from the U. S. in Japan?

(The Secretary) I think the achievement of Article 8 status by Japan is a big step forward and is a concret example of the very great economic progress that Japan has made and is continuing to make. I think that the relation of various restrictions which were involved in achieving Article 8 status is a move in the right direction and I am sure that movement will continue still further as the Japanese economy and balance of payments strengthens further. I feel that as far as investments in Japan -- direct investment by the U. S. is concerned -- that there is an interest by our business people in the possibility of investment here and I think that such investment will increase provided it is welcomed here freely by the Japanese Government and I would hope that would be the case increasingly as the years go by because that would tighten economic relations between our countries and contribute to rapid economic growth of Japan by making this capital available from the outside.

ADDRESS BY PRIME MINISTER HAROLD MACMILLAN OF GREAT BRITAIN
MASSACHUSETTS INSTITUTE OF TECHNOLOGY APRIL 7, 1961

TO BE RELEASED AFTER 8.20 P.M.
EST APRIL 7, 1961

PART I. 1.

King William IV once received a deputation with these words:

"If my love for you equalled my ignorance of everything concerning you, it would be unbounded!"

But I'm afraid your international reputation is too wide for me to be able to advance a similar claim.

Indeed the Centenary of the Massachusetts Institute of Technology is an awe-inspiring event. You were founded to teach "the fundamental principles of positive science, with their leading applications to the industrial arts!"

At that time no one could have foreseen the pre-eminent position which the Institute was destined to hold, not only in America but throughout the world. I am therefore all the more grateful for the great honour that you have done to my country; first by awarding the Atoms for Peace Prize to one of the most notable figures in British science, Sir John Cockcroft, and secondly by asking me to speak on this occasion. When you founded the Institute 100 years ago both your method and your timing were right.

In these years the application of scientific techniques to the methods of production, distribution, transport, and the communication of ideas has set the whole human race on the march. This process will go on until it has revolutionised the whole conduct of Human life upon this planet and no doubt beyond.

You follow the scientific method - by the ruthless logic of experiment. For you - as Thomas Huxley once said - the only tragedy is a hypothesis killed by a fact.

We politicians must seem to your trained and professional minds hopelessly amateur. Sometimes we may have a success - more by good luck than by good management. Thus, occasionally, by pure chance, we may, if I may use the expression, swing for the bleachers and collect a homer. Yet, for all your natural impatience of our shortcomings you must feel a deep desire for your efforts to be matched by some comparable developments in social organisation and political thought. That is the link between your work and that of those who hold high political office. I therefore make no apology for talking to you tonight on a political theme. For if your achievements are not matched by the thoughts and deeds of political leaders, your work will be in vain - it will seep away into the sand.

If the world is to progress the unity which science helps to promote must in due course be matched by harmony in international relations. Meanwhile we must face facts as they are. We must first achieve some real unity of political purpose and method in the Western Alliance.

Let us start with our two countries. Three years ago after a visit to Washington I spoke at Johns Hopkins University. I will only quote one phrase that I used. I said - "Whether we like it or not - and I do like it - the destinies of the English-speaking world are inextricably intertwined!"

At that time I was speaking in the presence of your President - my old friend and comrade President Eisenhower - whose life for twenty years was

/ devoted to

devoted to the joint purposes of your country and mine.

Before coming to Johns Hopkins I had spoken also at the De Pauw University in my mother's State of Indiana. There I declared my belief that if the progress of humanity was to continue this word "interdependence" must be the keynote of the second half of the twentieth century.

And I want tonight to consider with you what this belief means and how we can translate it into effective action. No easy task - for it calls for something even more rare than intelligence - it calls for decision and resolution.

Now I have come to the United States to meet and take counsel with a new President at the beginning of his term of office. In his inaugural address the President used these words:-

"My fellow citizens of the world, ask not what America will do for you but what together we can do for the freedom of men!"

This noble phrase certainly matched the level of events, and it has set the pattern for our talks together.

In the same spirit let us look - realistically and objectively - at the state of the Free World today. How have we been getting on since 1950 or 1955, or 1958. To be frank, we have been doing fairly well but not well enough. The vital centre of the Free World's resistance, our Western Alliance, is no better organised, whether in the field of defense, economics or political relations.

If we have broadly held our own we have gained no ground. When I speak of the Free World I mean the whole non-Communist world. There are, of course, many groupings of nations outside the Sino-Soviet bloc. Some of these are economic; some political; some cultural; and some defensive. But the core of the Free World is our Western Alliance, primarily the Atlantic Community. On its strength and vitality all depends. For if we can organise ourselves in imaginative partnership at the centre, then the effects of our unity will spread through all the world.

Three years ago President Eisenhower and I declared for interdependence. Today I say interdependence is not enough. We need unity - a wider unity, transcending traditional barriers; unity of purpose, of method, and of organisation.

END OF PART I.

PART II

First,

Defence. Our Alliance will only be united if it is secure against aggression. Otherwise it can have no life or strength. There are two roads to security. The best, the cheapest, and the most sensible and the only one by which political man could match the successes of scientific man, is disarmament -- comprehensive and effective: the only sure guarantee of peace.

I do not speak of course of some paper treaty not commanding real confidence. I mean genuine disarmament, secured by effective controls -- not a sham but a reality. Some day we may reach this goal which, up to now, like a mirage in the desert, always seems to recede the nearer we approach it. Certainly we shall persevere, for the prize is supreme. It is the banishment of fear. Even if we did not want disarmament on moral grounds, we certainly need it on economic grounds.

The cost of defence is a specially heavy burden for Britain and America -- whether we think of it in terms of men, money or resources. It weighs upon both our economies partly by our huge internal expenditures and partly by the direct cost in foreign exchange. All this puts a serious strain on our balance of payments. We in Britain spend overseas on defence about \$620 millions a year. Of this \$210 millions goes across the Exchanges in NATO. The rest we use in the cause of peace throughout the world. The United States are faced with the same problem at home and abroad. Meanwhile - until disarmament comes - the Free World must be secure and united.

Nor, in this age of missiles, must we overlook our conventional forces. Our task is to keep them mobile, hard-hitting, and up to date. Our military alliances all round the world are not offensive or aggressive. Their purpose is to see that little wars or adventures do not turn into great disasters. We must maintain these Alliances. They are permanent facts in modern life. But since unity is as important as security we must try to share the burden more efficiently. Surely it is illogical that our teams of military planners, scientists and technicians, should waste any of their efforts on duplicating work and projects. Of course co-operation is not easy. Everyone is in favour of it in principle. In practice they find it rather a nuisance. And all the vested interests work the other way.

Nevertheless, this is a technical and not a political problem, which it should be in our power to solve. Standing behind - ranged behind - these conventional forces is the great weight of the Western deterrent power - the nuclear power. This guarantees our security. But here the implications of unity are more obscure and controversial. The first essential is that the deterrent should deter; that is evident and overriding.

Secondly, an effective deterrent should not be wasteful. Of course in recent years the relative advantage of the West has greatly diminished. We cannot afford to be too weak either in weapons or in means of delivery. All the same it is almost as important not to try to be too strong. The calculation is not an easy one to make. For as the armament of democracy will never be used aggressively, it may need to be larger than that of a potential aggressor. The very size of the area which we have to protect dictates some dispersal and perhaps some duplication. And yet we cannot afford waste.

Moreover, we must take care lest by building up our own security we perpetuate and encourage a nuclear arms race. That is one reason why I so earnestly hope for a successful outcome in the present negotiations in Geneva.

/ The United States...

The United States and Britain will do all we can to make this agreement with Russia to end the nuclear tests.

But of course a tests ban in itself will not give us nuclear disarmament. And meanwhile, the balance of priorities must be carefully weighed. The nuclear deterrent must take account of our necessarily defensive strategy. It must be effective, and not wasteful.

If then our Western deterrent is both credible and efficient, what more do we need? I would suggest to you that there is a third element; although the nuclear deterrent gives us security, it is not yet so organised as to contribute fully to our unity.

All of us know here that America and Britain, who at present control the Western deterrent, regard themselves as trustees for the Free World. I think sometimes we are a little smug about this. It is rather like the trustees of a private fortune, of whom the beneficiary once observed:-

"They may be my trustees, but I am not sure whether they trust me!"

Why was it that after the war in my country, under successive Governments, Labour and Conservative, we spent so many millions of pounds on a nuclear capacity? I will tell you. Although we in Britain have been accustomed for centuries to fighting our battles as part of an alliance, we have always been ready in the last resort to fight alone. There have been times when the world has not regretted our courage, even if they have judged it desperate.

Sometimes people doubted our determination. It was so in 1914 and again in 1940. And I am not altogether surprised because it is very easy to misunderstand our national character. Look at the record and draw the moral. So our determination to make our own nuclear contribution was in a sense instinctive. Perhaps, with the Atlantic Ocean between us, it has been no bad thing for the people of Europe to see that at least one European member of NATO shares the nuclear power with you. Besides, because of our geographical position and the advantages of increased dispersal, our British nuclear force contributes far more to the total Western deterrent than its size alone would imply. At any rate, this is a matter of history.

Now let us turn to the position of our allies.

When Sir Winston Churchill made his famous speech at Westminster College, Fulton, in 1946, he coined a memorable phrase. "The awful ruin of Europe with all its vanished glories glares into our eyes!"

How different is the scene today. Thanks largely to American help, poured out from the Marshall Plan and other ways, the economy of Western Europe is buoyant -- even booming. Above all, the spirit of her peoples is alive again.

And it is natural then that there should now be some in Europe who feel unhappy that their nuclear defence should be left purely in Anglo-American hands. There are some no doubt who think that you and we might unleash the deterrent rashly; there are others who fear just the opposite-- that we might be too vacillating to use it at all until it was too late. Some fear our fingers on the trigger -- others fear our thumbs on the safety catch.

So there is today and we may as well face it, a certain unease in the NATO alliance.

/ What are we

What are we to do about it? We do not want, naturally, to alarm and perhaps endanger the world by appearing gratuitously to encourage the uncontrolled spread of nuclear weapons from country to country. We want a ban - if we can get it - on nuclear tests. We do not want our allies to feel it essential to their honour or their safety to pour out their money in wasteful duplication.

Perhaps, indeed probably, the West as a whole does not need an increase in total nuclear power. Nevertheless this is a real problem; and we cannot just ignore it. We must find a way of meeting the legitimate feelings of our European allies.

Naturally, every extension of trusteeship, every increase in the concept of partnership, has its dangers. But the health of our whole NATO alliance depends on finding a way of building a partnership in the nuclear as well as in the conventional field. The prize of this would be great. And a double one.

The prevention of uncontrolled extension of nuclear manufacture and, secondly, the sense of real unity which would follow a new agreement with our allies.

In attacking all these problems in the field of defence we have the advantage of the new and fertile mind of a young and forceful President. In the spirit of partnership we must review the burdens and the responsibilities. Some of these are uneven.

This could be tolerated in the early years after the war with a shattered Europe to protect. But now, in the 1960s, we must look again at our system, if it is to endure. And in the same way, the question of nuclear power is fundamental. Its organisation is an issue on which the unity of the Atlantic Community may stand or fall. These questions in my view cannot be evaded; they must be faced.

END OF PART II.

C ECONOMIC

But I have so far spoken of unity in the context of our military alliances. Is this enough? Surely not - and for this simple reason. Happily the present struggle in the world is not primarily a military one. The real test will be not on the battlefield but in the market place.

It is now almost 15 years since the main structure of our present system for world trade and payments was designed. That of course was in the heyday of the East/West war alliance. And the founders of G.A.T.T., the signatories of Bretton Woods and all the architects of our post-war system could not foresee the full economic effects of the great divide.

World economic unity would have been hard enough to achieve in a world of 19th century nation states; it became impossible as the full effect of the Sino-Soviet system manifested itself. And at the same time a new economic force has appeared in the world. The second Industrial Revolution has already swept through our developed economies. It is still only in its early stages, and I am sorry to have to tell this audience that it is largely your fault. For this revolution is of a scientific and technological character.

And these technical developments overleap narrow national frontiers. They require, for their effective exploitation, ever larger economic units.

I readily admit that in spite of these new factors our international trading and financial arrangements have somehow or other managed to carry a great increase in world production and trade. But no wonder they are now beginning to creak and groan. For they are really an old model. And sooner or later they will have to be traded in.

There are now three main problems to be resolved. The first is how to maximise world trade. This is essential to the prosperity of developed and undeveloped countries alike. Secondly, how to organise assistance and capital to build up the less developed countries. Our common humanity cries out to us to help here, and our economic interest in new markets encourages us and finally political necessity compels us.

And lastly, how to finance an ever increasing volume of trade and aid. If our monetary arrangements are bad, or outmoded, we shall not succeed. We shall stagnate instead of expand. And Capitalism must expand or perish. Even Marx knew that.

First, how to organise world trade. Are the present international trading arrangements and institutions, evolved fifteen years ago in quite different conditions, really appropriate to the circumstances of the sixties? We all still think too cautiously, too parochially.

We need to think not so much nationally or even in terms of greater economic cooperation between nations but in terms of wider groupings. For the advantages of size, of large areas transcending national boundaries where capital and labour and goods can move without impediment - these are surely more manifest to us year by year.

In Britain we are already at the centre of two important trading groups - the Commonwealth and the European Free Trade Association. The Commonwealth trading structure came into being during the great depression between the wars. It is based on a preferential system between the partners, with free entry into the United Kingdom.

But the new developments in Europe are of a different order. The six Common Market countries are successfully forming a full Customs Union which bids fair to be as great in population and strength as that of the United States itself. The Seven - now, with Finland, the Eight - have constituted the European Free Trade Association.

/ Elsewhere

Elsewhere in the world similar groupings are in prospect. What then are we to do? There are, of course, the pessimists - who observe progress, and deplore it; these who think it always better to travel despondently than to arrive. These people, no doubt, would try to reverse these trends: or they would ignore them and pretend that nothing has happened.

Surely what we have to do is to use these new developments for the benefit of the whole free world.

I have no doubt of what our aim should be. We ought to try to work for the largest area of free trade that we can create.

Free trade for a Free World! That may still be a vision. It may be a long time before it can take practical shape. Yet many new and vital ideas are now being discussed by practical men which a few years ago would have been dismissed as impractical dreams.

Some of these policies and plans would be quite revolutionary in their effects. Others are more in the nature of palliatives. There are naturally widely different views and cross-currents. But there is a new spirit abroad in the world - you can feel it everywhere. The young are intoxicated by it, and the old happily re-invigorated. It is the spirit of enterprise and adventure, moving into the second half of the 20th century, and soon to knock on the doors of the 21st.

For us in Europe the urgent need is that of bringing together the Six and the Seven - or the Six and the Eight. I believe that we must and can do this without detriment to our domestic interests or to our Commonwealth association and without injury to any other nation or group of nations.

A comprehensive arrangement in Western Europe; not highly protective; looking outwards and not inwards; building up its own strength but ready to help others; it would be a real benefit to the whole Free World, both politically and economically. Economically it would take us nearer to a still bigger area of free trade. It would prevent much duplication of investment.

It would stimulate trade and demand. Nor do I believe that a comprehensive European group would harm the United States. United States industry has in the past always maintained its full share of expanding trade.

The pattern varies across the great range of industry; but the broad picture remains. A European settlement will bring great economic benefits -- the political gains will be even more significant.

The consequences of the economic division of Western Europe are only just beginning to make themselves felt in the political field. Yet, if this economic division persists, the political rift will inevitably widen and deepen. This must sooner or later, affect our military coherence and strength. It will be a canker gnawing at the very core of the Western alliance. If new and extended patterns of trade are vital for us and our future, they are equally important for the less industrialized countries. These countries have two material needs from us. They want more aid and they want more trade. In my view, trade is really better than aid, both with nations and with individuals. An intelligent and energetic man should be able to earn more money than he will ever be able to beg or borrow from his friends and relations.

Expanding trade brings the healthiest economic growth. But trade cannot be confined to primary products important as these are. Of course there are difficulties for the industrialised countries in accepting increased imports of manufactured goods from developing countries.

There is a possibility that sudden and unrestrained increases over a / limited range

limited range of products can cause too great a disruption to our own producers. We must try to deal with these cases by means of friendly agreement with the country concerned.

You have done this with Japan, we have done it with Hong Kong. But the broad rule should be to admit goods as freely as possible subject only to the special modifications which are essential to prevent disruption to our own producers.

All the same, primary products are still the life-blood of many less industrialised and less developed countries, so expanding trade by the industrialised countries is often the best way to help. For such expanding trade stimulates the demand for primary products. Between 1950 and 1951 commodity prices went up over 20%. That was during the Korean boom. By 1960 they had fallen again below the 1950 level. It would certainly not help the primary producers to try to push prices artificially high.

There are many schemes for particular commodities which have helped to iron out violent fluctuations in the short term and to give some stability to prices. We must study these problems - and urgently.

In its various aspects trade then is of paramount importance. But trade does need supplementing by aid. And in this, up to now, the record of the West compares favourably - more than favourably - with that of the Communists. In my speech to the General Assembly of the United Nations last September, I gave the figures, they are startling and unanswerable. Yet I am not sure that the West always gets full credit for what we do. For much of our help is provided through such bodies as the World Bank and now the International Development Association. But although these are within the framework of the United Nations they are in fact boycotted by the Communist countries. I do not see why we should be content to hide our light under this bushel. That is why I welcome our new - and entirely Free World - machinery, the newly constituted O.E.C.D. - now under American suggestion, to be supplemented by a revised and strengthened D.A.G. - strange initials, under whose frigid exterior is concealed a rare warmth of kindness and imagination.

Trade and aid are very important. But the medium for both must be money - enough money. Now, of course, economists are apt to make heavy weather about money.

Naturally - for it's their mystery. But it is really quite simple. Just as each individual country painfully acquired a central banking system, so there ought - ideally - to be a central banking system for all the countries of the Free World. We are still a long way from that although, with the various international institutions which have come into being since the war and with the ever closer co-operation of Central Banks, we are groping our way forward. The present system is certainly not perfect.

As technicians you wouldn't tolerate it in your sphere. First there is the imbalance of payments. If you will forgive a rather frivolous comparison our monetary system in the world today is rather like a children's game when the family sit round at Christmas to play rummy, or cooncan, or poker, or whatever it may be, and one child gets all the chips and another has not enough to go on, something must be done.

Either more chips must come from the Bank (which Father keeps) or the winning children must hand over some of theirs to the others. Otherwise the game stops.

And so in the modern world, if one country were to accumulate a large part of the reserves and lock them up, our system could not go on. I do not suggest blame to any particular countries for the present imbalance of world payments and reserves. This imbalance is in a sense only the external result

/of policies

of policies arising from often contradictory fears of different countries.

In the United Kingdom for instance we have a horror of mass unemployment. That dates back to the years between the Wars. Now we have full employment -- in many parts of the country more jobs than men to fill them.

On the other hand we have to worry about the dangers of inflation and balance of payments difficulties.

In Germany they have different priorities; they worry more about inflation than anything else. That too is for historical reasons -- because of their double experience of inflation when, in Voltaire's vivid phrase, paper was reduced to its intrinsic value. All these different national anxieties - different in France, Italy, Japan - have all created international difficulties. So much for imbalance. But then there is the volume of money. For imbalance of payments is only one aspect of the problem of money. Imbalance deals with who has got the chips -- or the money -- at any given moment. But is there enough money? World trade has expanded four times in terms of money since before the last war. Yet the Free World credit base is only twice as big. No wonder some people argue that we have not got enough reserves in total and must create more so as to finance expanding trade.

All sorts of remedies are being suggested. The main difficulty, I think, about many of these is what I might call the mental hurdles which they present.

It is normal to think of money as something painfully acquired; a dollar represents so many drops of sweat or so many ulcers. There seems to be something immoral in increasing the credit base by mutual agreement. It is done often enough in our internal economies; but the extension of the international field is hard to swallow. All the same, I repeat, expanding trade needs expanding money.

So there are three elements in the economic problem of the free world -- trade, development and finance. They are closely linked.

The needs of our time demand a new attitude to all of them. An old fashioned or doctrinaire approach is not good enough. We must use the energy and abundance of our free enterprise system to transform our economic life. And above all, we must try to jump - even the old ones amongst us - these mental hurdles.

If the political leaders in the great countries of the world have but the will, the experts will doubtless find the way -- or rather several ways -- for us to choose from. But we must have the will.

I would sum up, therefore. We must be ready first to welcome the progressive development of new trading arrangements and to see in them a means of moving towards a wider system of unfettered trade throughout the free world as a whole.

Secondly, the industrialised nations must accept their responsibility for raising living standards in the less developed countries, both by trade and aid.

Thirdly, we must ensure that the credit system in the free world is adjusted to these needs and that money comes the servant and not the master of man's needs. This complex therefore of economic questions - I have dealt with military and defence - is the second great problem whose issue may be decisive to our way of life. Ladies and Gentlemen, I will not detain you much longer. I have the clock and the television all worked out, and I will try to come to my final theme.

/I remember

I remember one of our great judges remonstrating with a somewhat prolix barrister, pleading in his court, with these words: He said, "There is in chemistry what is called saturation point -- I have reached it".

Nevertheless, at the risk of earning from you a similar rebuke, I must repeat -- my theme is Unity.

In certain spheres, at least, we must reach out beyond interdependence to united action. I have tried to show how we might do this in the military and economic fields. Should we also attempt to consider a greater political unity or even union? We must try, of course, to agree on our policies and to unite in pursuing them. But if the West were to become as monolithic as the Soviet bloc we should lose the very independence of spirit in which we believe.

In any case diverse national traditions are strong and fruitful, and it would be folly to tamper with the loyalties for which men strive and sacrifice. So when we call for unity in the Free World we should not -- at any rate at this moment of history -- think in terms of a politically federated or unitary State.

World Government seems far away, even a Free World Government only a distant dream. Nevertheless the nature of the struggle for the hearts and minds of men is such that no country, not even the greatest, can stand alone.

The first lesson therefore for us to accept, is that our political ideas must never be nationalistic in the narrow sense. It is no longer right to consider policies exclusively in relation let us say to the United States or Britain; even Europe or the Americas or the Commonwealth are not big enough. And that means a revolution in our thought.

We in Europe will no longer be able to indulge in dreams of self-sufficiency -- let alone the wilder chimera of being a Third Force between the United States and the Soviet bloc. You in America will have to resist the temptation to think of Europe as a cross between a beer-garden and an Old Curiosity Shop with certain undoubted tourist attractions. Nor must we forget that the Free World is far larger than any military alliances. There are many nations who would not wish to join us in these groupings but who are nevertheless at one with us in their determination to preserve their independence and their own way of life.

A few weeks ago a meeting of the Prime Ministers of the Commonwealth was held in London. Twenty years ago this body consisted of only five countries, all of European stock. Now there are more than double, including members in Asia and Africa. The Commonwealth therefore represents the triumphant evolution of our colonial policy. We have given these countries the twin benefits of freedom and order. Nowadays the Commonwealth includes some of the most important non-communist countries, not ranged with us militarily, but spiritually and ideally our partners.

This recent meeting, as you may have heard, had its melancholy side. But the decision of South Africa to leave us -- I hope only temporarily -- has at least under-lined the essential characteristic in the Commonwealth today. It is an association of different races and peoples. It is dedicated to the ideal that all peoples, of whatever race, colour or creed, should have full equality of opportunity in their own countries and in the world.

To sum up:

You and we believe that individual peoples and individual nations should be free to pursue their own ideals, and that this is compatible with widely different cultures and traditions.

The Communists, on the other hand, have an ideology which insists that it alone is right. And inspired by this rigid creed, Communism seeks to impose its own system on the world. Our unity, therefore, cannot be enforced. It must develop freely -- not as a result of external conquests, like some of the great empires of the past, but through an organic and conscious growth.

If then we reach out towards unity in our defence, in our trading policies, in our economic life and our political thought, shall we in the West have won the world struggle? At least, I would say, we shall have put ourselves in a position not to lose.

This whole generation are taking part in a great and dramatic debate - conducted, not just by words or thoughts, but with all the formidable apparatus of power. Its result will be judged by the harsh tests of practical success. Nevertheless the struggle between what we call the Communist bloc and the Free World is fundamentally an attempt to decide between two concepts of humanity - the idealist and the materialist.

Will man's destiny be fulfilled when once all men can satisfy their
/ material

material needs? Or is there some deeper purpose, some higher power of which our bodies are only the transient manifestation? This great debate - I say - goes on across the world. It is not daunted by frontiers nor shut out by censorship. Sooner or later if not already men and women in the Communist world will seek once more the answer to the eternal questions.

Why are we here:

what is life's purpose;
is there right and wrong;
is there God?

Our Faith tells us that they will ask these questions and that in due course they will find themselves forced to answer them in the idealist sense. And then the great struggle on which we are now engaged may suddenly seem irrelevant and become a mere disagreement about the best forms of social organisation. It is against that day that we must prepare and until that day that we must hold on and hold together. That does not mean that we should abandon our efforts to use the United Nations Organisation to the full. For it does at least stand among all nations for the principle of international law, as the basis for international life.

Nevertheless, it would be foolish to disregard the pressures now being exercised and the attempts of the Communists to turn the United Nations Organisation, not into a forum for negotiation but into an arena for propaganda. Therefore, while we must struggle on to make the United Nations a success, we in the Free World must strengthen rather than weaken our own unity. These measures which I have suggested, and others which will become necessary, are the essential framework to buttress our endurance. But if these things are not done, then our Western free idealist way will fall apart, and our disunity and weakness will discourage those very elements in the Communist world which otherwise in time will, under Providence, work its salvation and our release.

There is always change and movement in our lives. History does not stand still. Unless we work for greater unity now we shall slide into division. The time is short. Let there be no delay.