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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 72/108

10:00 a.m., August 16, 1972

P.-P. Schweitzer, Chairman

Executive Directors	Alternate Executive Directors
L. B. Brand	R. van S. Smit
E. Brofoss	S. Jónsson
R. Bryce	D. O. Mills
W. B. Dale	C. R. Harley
	M. Al-Atrash
A. Kafka	B. Martins
	C. P. Caranicas
	T. de Vries
P. L. Mapa	N. H. Hanh
	A. Pipino, Temporary
	P. J. Bull
M. P. Omwony	
	V. Barattieri, Temporary
P. S. N. Prasad	S. S. Marathe
	L. Fuenfgelt
H. Suzuki	K. Satow
L. Ugueto	G. González
	H. G. Schneider
M. Viénot	C. Beaurain
A. W. Yaméogo	

W. L. Hebbard, Secretary
P. Honohan, Assistant

Also Present

Asian Department: I. Otani. European Department: A. Pfeifer, Deputy Director; P. C. Hole. Exchange and Trade Relations Department: E. Sturc, Director. Legal Department: J. Gold, General Counsel and Director; A. S. Gerstein, Deputy General Counsel; G. Nicoletopoulos, Deputy General Counsel; P. R. Lachman, S. A. Silard. Middle Eastern Department: M. M. Hassanein. Research Department: J. J. Polak, Economic Counsellor and Director; J. M. Fleming, Deputy Director; G. Taplin, D. A. Walker. Secretary's Department: N. K. Humphreys. Western Hemisphere Department: S. T. Beza. Information Office: J. H. Reid, Director; D. Armour, P. de Fontnouvelle. Personal Assistant to the Managing Director: A. D. Crockett. Advisor to Executive Director: J. B. Zulu. Technical Assistants to Executive Directors: C. J. Batliwalla, B. Brock, J. C. Coleman, J. A. Crosby, J. A. H. de Beaufort Wijnholds, B. P. Eap, L. Halfmann, E. Leung, R. W. Ley, H. Oyarzábal, C. C. Ozumba, I. Plenderleith, E. W. Shann, A. Takahashi, J. R. Vallet, M. A. Wasfy.

1. UNITED KINGDOM - CERTAIN NONMETROPOLITAN AREAS - EXCHANGE SYSTEMS

The Executive Directors considered a staff memorandum relating to the exchange systems of certain nonmetropolitan areas of the United Kingdom together with a proposed decision (EBS/72/264, 8/15/72).

The Executive Directors turned to the proposed decision, which they approved.

The decision was:

1. The Government of the United Kingdom has informed the Fund that the following nonmetropolitan territories, in respect of which it has accepted the Articles of Agreement in accordance with Article XX, Section 2(g), have decided that, for the time being, the relationship between their currencies and the pound sterling is to be maintained:

Antigua
Dominica
Gibraltar
Grenada
Montserrat
St. Christopher-Nevis-Anguilla
St. Lucia
St. Vincent

As a result, the currencies of these territories are being allowed to float with sterling.

2. The Government of the United Kingdom has further informed the Fund that the following nonmetropolitan territories use the currencies indicated, which are being allowed to float temporarily vis-à-vis other currencies:

British Indian Ocean Territory	(Mauritius rupee)
St. Helena and Dependencies	(pound sterling)
Turks and Caicos Islands	(Jamaican dollar)

3. The Fund has been advised by the Government of the United Kingdom that, as soon as circumstances permit, it is intended to return to the observance of margins around the parities of these currencies consistent with decisions of the Fund. The Government of the United Kingdom has expressed its willingness to collaborate with the Fund under Article IV, Section 4(a).

4. The Fund notes the circumstances that have led to the actions described in paragraphs 1 and 2 above. The Fund welcomes the intention of the Government of the United Kingdom, which has accepted the Articles of Agreement in respect of these territories, to collaborate with the Fund under the Articles of Agreement and the intention that margins around parity consistent with the decisions of the Fund will be resumed as soon as circumstances permit. In the consultations with the authorities of the United Kingdom with respect to sterling (Executive Board Decision No. 3696-(72/65), adopted June 30, 1972), the Fund will also consult, in respect of these territories, on the resumption of observance of margins that are consistent with the decisions of the Fund.

Decision No. 3748-(72/108), adopted
August 16, 1972

2. REFORM OF THE INTERNATIONAL MONETARY SYSTEM

The Executive Directors had before them revised drafts of Chapter VI, and section 2 of Chapter IV of the draft Report of the Executive Directors to the Board of Governors on Reform of the International Monetary System (SM/72/119, Sup. 12, 8/9/72, and Sup. 21, 8/15/72).

The Executive Directors began with a paragraph-by-paragraph consideration of section 2 of Chapter IV.

Chapter IV, Section 2

Mr. Dale suggested the replacement of the sentence beginning on line 9 of page IV.6b by "They consider that recent movements in the private gold price have been importantly influenced by market uncertainty regarding the official price, and some believe that a medium for which private demand is relatively large and highly speculative has a disadvantage for use as a major reserve asset." The existing footnote could then be placed on the word "general" at the end of line 9.

Mr. Yaméogo proposed the insertion of the word "still" in the first line of page IV.6b, "gold is still a major reserve asset," to make it clear that its role was a declining one. He also remarked that, even if gold held by a monetary authority was not the liability of another monetary institution, as stated on line 18 of page IV.6b, it often had a corresponding liability in the balance sheet of the monetary authority holding it.

The Chairman thought that Mr. Yaméogo's suggested change would not meet with general support.

Mr. Dale suggested that the sentence which he had introduced beginning on line 6 of page IV.6c could be removed from its present position at the end of the paragraph discussing the tendencies toward nonuse of gold and gold-related assets to a position at the end of line 17 or even after the sentence ending on line 20. He would also propose supplementing it with the words "or even for gold to be eliminated from reserves" after the words "official reserves."

Mr. Viénot said he did not think the sentence should be moved from its present position to a paragraph which was essentially neutral and factual at present.

Mr. Bryce agreed that the sentence appeared to be logically located at present.

Turning to the suggested arrangement for swapping gold against special drawing rights in the paragraph beginning in line 9 on page IV.6c, Mr. Bryce wondered whether it was envisaged that gold and SDRs would differ significantly in value in the eyes of members in the future, and whether the Fund would under such circumstances connive in speculation on the price of gold.

The Economic Counsellor agreed that Mr. Bryce's interpretation could be read into the paragraph. However, it had been proposed as a means of utilizing the common belief that there were differences between special drawing rights and gold. There might not be as much public dismay if a country's special drawing rights stock declined as there would be if its gold stock did.

Mr. Barattieri recalled that Mr. Palamenghi-Crispi had suggested the inclusion of the sentence beginning on line 9, and agreed that there was no intention of suggesting a medium for speculation in and out of gold and special drawing rights. It was intended that the price would remain the same so that the transaction would be a mere swap. As the staff had remarked, a myth existed in some countries regarding reductions in the gold stock which did not exist in respect of the special drawing rights stock.

Mr. Dale suggested a minor wording change on line 9 of page IV.6c. He went on to question the adequacy of the expression "present undervaluation of monetary gold" on lines 20 and 21, and suggested the wording "what they considered to be the present undervaluation of monetary gold."

Mr. Brand remarked that he favored the expression as it stood. He believed that the section had been well balanced but now feared that with certain alterations in the present reading the arguments that he had been putting forward had been made to seem less and less important. He hoped that they could be set out clearly even if they had to be attributed.

Mr. Bryce suggested the alteration of the word "the" to "a" in line 20 to meet the point raised by Mr. Dale.

Mr. Viénot thought it unnecessary to qualify further a sentence which began "One view... ."

Mr. Brand said he would be happy to accept Mr. Dale's formulation.

Mr. Dale suggested that at least a mild indication should be given that the opposing views on the price of gold were not held by groups of equal size. That could be accomplished by introducing line 5 on page IV.6d by some such words as "the more widely held view, however, is to" in place of "others, however." He also suggested the insertion of a new sentence after the sentence ending on line 8, as follows: "Moreover they believe that any such price increase would tend to become self-perpetuating by stimulating expectations of further change while clear action to preclude it would eliminate this factor and tend to narrow the existing differential."

Mr. Viénot felt that Mr. Dale's proposed addition would upset the balance of the section. He was strongly opposed to the suggestion that an indication be given that opposing views on the price of gold were not held by groups of equal size. In the first place, the question of whether to indicate the relative importance of dissenting groups had been discussed already and he saw no reason why the discussion should be reopened. Second, the presentation of various views in the present chapter already favored those who were opposed to a rise in the price of gold, in that the arguments of those who favored such a rise had been split up and given much less space. Furthermore, to maintain consistency, it would be necessary, if Mr. Dale had his way, to explain which were the minority and which the majority views throughout the Report. Such a practice would be an innovation and not a very helpful one. It would also lead to difficulties, as, while most Executive Directors were probably opposed to an increase in the price of gold, few would go along with Mr. Dale in calling for a sale of officially held gold to lower the free market price. Would each view have to be qualified by a description of the support it had received?

Miss Fuenfgelt said that, while she acknowledged the substantive point put forward by Mr. Dale, Mr. Viénot was right in saying that if a distinction was to be made between majority and minority views in the present instance, it would have to be done throughout the Report. For that reason, she hoped Mr. Dale would withdraw his request.

Mr. de Vries observed that the present section was a special case in that it referred to the price of a commodity actively traded in the market place. While discussion of, say, the introduction of an asset settlement scheme would have no great impact on the market, any suggestion that the Executive Directors were in favor of a change in the price of gold would be less than fair to private transactors, unless it was made clear that the view was not widely held and that no change could be expected to come about in the near future. However, Mr. Viénot was probably right in supposing that the whole of the paragraph could not be completely ascribed to the more widely held view.

Mr. Barattieri endorsed the views expressed by Mr. de Vries.

Mr. Brand said he shared the views of Mr. Viénot and felt that Mr. Dale would not be wise to press his suggestion. To do so would be to leave open the possibility that the entire Report would be subject to revision to show which were majority and which minority views. The present section had been very evenly balanced, but more and more arguments were being added to the "more widely held" view. It would be clear to the reader where the weight of opinion lay. Furthermore, not all the views contained in the paragraph in question were held by all those who opposed a rise in the price of gold.

Mr. Prasad thought it important from a practical point of view to let the market know just how the balance of opinion on the subject lay. If the Report did not do that, the present uneasy situation in the gold market would continue. While he sympathized with Mr. Viénot's point of view, a distinction must be made between matters of practical significance and those which would not affect the market place.

Mr. Bull was not very sympathetic to the view that the correct signal must be given for the market. He thought it was for the Executive Directors to conduct their business in such a way as not to influence the market at all. He was, however, concerned lest the balance which had been so carefully established in the section be upset by Mr. Dale's proposed alteration which, desirable though it might otherwise be, might necessitate much consequent redrafting. The point was not of such importance as to warrant a delay in the completion of the Report.

Mr. Suzuki shared the views of Miss Fuenfgelt and Mr. Bull. While his substantive position was with that of Mr. Dale, the proposed alteration would involve too much redrafting of the entire Report.

Mr. Bryce observed that even in the event of the market being misled as to which was the more widely held view, it would not be so for long. It was not, therefore, operationally important whether or not Mr. Dale's suggestion was incorporated. Perhaps the inclusion of the word "many" would satisfy Mr. Dale.

The Chairman said he shared the views of Miss Fuenfgelt. In the first place, the Report, which contained nothing that had not been discussed widely and at length, was unlikely to influence the market heavily. It would be easy to judge, particularly in the light of the footnote on page IV.6b, whether or not a change in the price of gold was likely. The proponents of certain views should be satisfied to rest on the strength of their arguments. Finally, if Mr. Dale's proposed alteration were adopted, a case could be advanced for making clear where the majority lay at several other points in the Report, and that could compromise efforts to reach a consensus on the text.

Mr. Dale said that if the adoption of his proposal necessitated the addition of further nuances into the remainder of the paragraph, he had no objection. He doubted that there were many other sections of the Report in which a clear majority emerged one way or the other. However, he would not object to saying that a majority was in favor of an asset settlement system, and there might be other cases to which he could also agree. The Report was unlikely to fall apart in such circumstances.

Mr. Al-Atrash thought on balance that Mr. Dale's descriptively accurate insertion should be included. He would be prepared to accept any corresponding proposals coming from Mr. Viénot.

Mr. Viénot recalled that he had not proposed the inclusion of majority and minority views so identified. All he had said was that, if Mr. Dale's proposal were adopted, equivalent insertions would then have to be made throughout the Report. As far as the question of market signals was concerned, he doubted both that the Report would significantly influence the market and that to try to influence the market by means of such a Report was worthwhile.

Mr. Kafka said that on balance he felt the market deserved some sort of signal, especially in view of "leaks" in the past. He acknowledged that corresponding alterations would have to be made throughout the text if Mr. Dale's proposal were adopted, and suggested that "a widely held view" could replace Mr. Dale's wording to allay the fears of market operators, while not clearly stating the majority.

Mr. Brand remarked that the balance of views among Executive Directors would become well known whether or not it was stated in the Report.

Mr. Dale indicated that he could just accept Mr. Kafka's suggestion. While Mr. Brand's argument was a valid one, he could not see why there should be any hesitation to state in the Report where the majority lay.

Mr. Viénot said he could not accept Mr. Kafka's suggestion. If there was to be any indication of where the balance lay, it might as well be done with Mr. Dale's wording.

Mr. Bryce thought Mr. Kafka's suggestion useful as an indication that the position was not confined to one country, while not making it clear that it was a majority view.

Mr. Viénot did not agree that the use of the expression "a widely held view," given the wording of the remainder of the Report, failed to make it clear that the majority view was in question.

Mr. Barattieri also supported Mr. Kafka's suggestion.

The Chairman suggested the following wording for the beginning of the sentence in question: "An approach based on an increase in the official price of gold is, however, strongly opposed by all those who argue that it would undo... ."

The Economic Counsellor then turned to the other suggestion Mr. Dale had made on the paragraph beginning on line 5 of page IV.6d. He thought "moreover, they believe that any such price increase would tend to stimulate expectations of further changes" would convey Mr. Dale's meaning unambiguously.

The Chairman commented that Mr. Dale's proposed addition could come after the sentence ending on line 10 rather than on line 8, in order to preserve the sequence of the first two sentences.

Mr. Kafka wondered whether Mr. Dale's intention was to suggest that a moderate increase in the price of gold would stimulate expectations that other increases would follow.

Mr. Dale said that, in addition to the idea Mr. Kafka had described, he had in mind that even with very large increases in the price of gold the price of an important monetary asset could remain in the hands of the gold market if every increase in the market price had to be validated by monetary authorities. As far as the reference to "clear action to preclude it" was concerned, he had in mind, not only such interim steps as selling gold in the market, but the development of a system which would make an increase in the official price of gold unnecessary and unlikely. Such action would cause the speculative factors to fall away sooner or later.

Mr. Kafka thought that a very large increase in the price of gold would calm the gold market for as long as it was necessary to consider. While that was by no means an argument in favor of such an increase, Mr. Dale's sentence should be introduced with a clause expressing that point of view: "Unless the gold price increase were of a size that would greatly exacerbate these consequences."

Mr. Suzuki agreed with Mr. Kafka, and thought that the case of those who held the majority view might be weakened by the inclusion of too many arguments against an increase in the price of gold. It might be misunderstood as a suggestion that the future system was to be a dollar standard once more.

Mr. Al-Atrash supported Mr. Dale's proposed insertion, believing that it contained one of the most formidable arguments against a rise in the price of gold. The danger certainty existed that such a rise would create expectations of further rise in future, leading to increased hoarding instead of an increase in the supply of gold for monetary uses. He was, however, unsure as to what the "clear action to preclude it" would entail.

Miss Fuenfgelt did not share Mr. Suzuki's anxiety and had no objection to Mr. Dale's proposed insertion perhaps as amended by the staff. She had no objection either to the vagueness of the second part of the sentence.

Mr. Bryce agreed that Mr. Dale's proposed insertion should come in line 10, and thought that, if both points were to be made, that should be done in two separate sentences. The first one along the lines the staff had suggested, and the second remarking that a successful reform of the system, without an increase in the official price of gold, would clam the market and permit it to develop on the basis of nonmonetary demand.

Mr. Barattieri supported Mr. Dale's proposed amendment with Mr. Kafka's introductory clause, which he thought of some value. Another point which might be made in the paragraph was that an increase in the price of gold would lead to a waste of real resources. However, that idea might already be implicit in line 7: "an increase...would undo the progress made so far toward a rational monetary system."

Mr. Prasad said he had no difficulty in accepting Mr. Dale's proposed insertion. He did not share Mr. Suzuki's fears that the case of those who opposed an increase in the price of gold might be weakened. Every effort must be made to eliminate speculation in the gold market.

Mr. Dale had no objection to having his insertion placed in line 10. He welcomed Mr. Bryce's suggestion which would clarify what he had in mind. While Mr. Kafka's point was analytically correct, he did not like talking about a massive increase in the price of gold and would oppose it on those grounds.

Mr. Suzuki commented that he could accept the insertion as revised by Mr. Bryce, but he would oppose the suggestion of Mr. Kafka which might be misunderstood as a suggestion that a very large increase in the price of gold could be a satisfactory solution.

The Chairman agreed that to introduce Mr. Kafka's point would complicate the argument and might be counterproductive in that context.

The Economic Counsellor thought that clear action in the context of reform should be distinguished from narrowing the existing differential. One related to the long term while the other could be undertaken at any moment.

Mr. Dale explained that what was intended in the sentence was that, if reform of the system could be accomplished without an increase in the monetary price of gold, over the long term that should lead to a reduction in speculative activity; in the meantime, such speculation could be contained by the sales suggested in the lower part of the paragraph. He would be content to drop the reference to narrowing existing differentials in that particular sentence. There were, however, complicated interactions between long-term reform and market activity influenced by the reform discussions. To enter into that area would involve a lengthy digression.

Mr. Yaméogo suggested that special drawing rights could one day become the intervention medium. In such circumstances the Fund might intervene not only as a seller of gold to official and private markets, but also as a buyer. Perhaps some reference to that possibility should be included in the present section.

The Economic Counsellor thought the point raised by Mr. Yaméogo more appropriate to Chapter III, where it had been discussed. Executive Directors had decided to remove a reference to Fund purchases of gold which had been in an earlier draft of the paragraph beginning on line 5 of page IV.6d.

Mr. Kafka suggested a minor wording change in the paragraph beginning on line 22 of page IV.6d.

Mr. Kharmawan remarked that the word "some" on line 22 of page IV.6d might indicate a minority.

The Economic Counsellor observed that, while few Executive Directors had envisaged the sale of gold by countries in exchange for currencies, many could see the possibility of such sales against gold-guranteed special drawing rights.

After some discussion the Economic Counsellor proposed the wording "though perhaps remote."

The Executive Directors concluded their third reading of section 2 of Chapter IV. They then turned to a paragraph-by-paragraph consideration of Chapter VI.

Chapter VI

Mr. Omwony proposed the replacement of lines 6 to 11 on page VI.1 by the words "The share in world trade of these countries has declined while that of the developed countries has risen. The developing countries in general have also not achieved their objectives in the development of their resources. While these unsatisfactory circumstances could be attributable to basic economic and other factors, they have been compounded by balance of payments difficulties and an inadequate flow of capital to developing areas." He feared that "fallen behind" did not reflect the fact that developed and developing countries had not started from the same level, nor were they competing for the same objectives.

Mr. Prasad welcomed Mr. Omwony's redraft as a definite improvement. In addition, Mr. Prasad suggested the inclusion of a paragraph outlining why the monetary system should be involved in proposals for a link with development finance. No answer to that question was to be found in the chapter as it stood, and he thought it should be stated that a sound monetary system ought to be able to play a positive role in bringing about an expansion of world trade and the development of resources. That view was already to be found in the writings of Keynes and had been enshrined in the Articles of Agreement. It would be well to include it before the second paragraph of the present chapter.

Mr. Beaurain concurred with Mr. Omwony's proposal, even though the second sentence seemed a little ambitious. His only hesitation was that balance of payments difficulties and an inadequate flow of capital were themselves basic economic factors.

The Economic Counsellor suggested that Mr. Beaurain's point could be met by saying "basic economic and other factors in these countries."

Mr. Al-Atrash supported the substance of Mr. Omwony's proposal regarding it as an improvement for the reason he had indicated. He had some difficulty, however, with the second sentence and suggested new wording as follows: "The rate of growth of these countries is still inadequate to help narrow the gap between them and the more developed countries. Moreover, their share in world trade has declined while the share of developed countries has risen." By reversing the first two sentences in that way, the new first sentence could echo the reference in the previous sentence to development.

Mr. Omwony indicated that he had no objection to the amendment proposed by Mr. Al-Atrash.

Mr. Yaméogo began by expressing the hope that the staff would continue to devote more attention to the problems of developing countries and attempt to surmount the difficulties posed by the lack of basic statistics and other information. Recalling Article I (ii), he endorsed the view put forward by Mr. Prasad. Since Bretton Woods, balanced growth had been achieved in the developed world, but not by the developing countries, and the Fund should actively promote such growth. He also supported the general thrust of Mr. Omwony's suggestion.

Mr. Bull supported Mr. Omwony's proposal as revised by Mr. Al-Atrash. It might, however, be tactful to insert the word "partially" before the word "attributable." He had no objection to Mr. Prasad's suggestion, subject, of course, to examining the wording of the proposed paragraph.

Mr. Mapa supported Mr. Prasad's suggestion. The entire chapter should be based on a stronger and more positive foundation which could be provided by a paragraph along the lines suggested by Mr. Prasad.

Mr. González feared that to say "basic economic and other factors in these countries" would be to place too much responsibility on the countries concerned, thus removing it from the rest of the world.

The Economic Counsellor agreed that the basic economic factors in question included such influences as inelastic demand for the products of developing countries. The staff would attempt another redraft of the sentence to meet Mr. González' point.

Mr. Dale said he was prepared to go along with the general thurst of Mr. Omwony's redraft. He suggested a minor wording change in it and also remarked that to substitute the revision suggested by Mr. Al-Atrash might be to make the sentence even more ambitious than Mr. Omwony's original draft. It might well be that, if developing countries in general had achieved objectives as presently established they might not have succeeded in narrowing the gap.

Mr. Al-Atrash noted that various pronouncements on the subject of the United Nations development strategy as well as the resolution adopted within the framework of the United Nations called for a narrowing of the gap.

Mr. Yaméogo welcomed the remarks of Mr. González and Mr. Al-Atrash, and hoped that an improved draft could be prepared. He thought the words "fallen behind" could be retained or even strengthened to read "fallen well behind." Mr. Omwony's wording might weaken the sentence.

Mr. Omwony stressed that the expression "fallen behind" had largely prompted his proposed revision. As he had said, the expression "fallen behind" indicated that the various contestants started from the same level and at the same time. Such an interpretation should not be drawn from the paragraph.

Mr. Prasad suggested the addition of the words "and uncertainties" after "problems" on line 25 of page VI.1 and of "terms of trade prospects" after "policy" on line 1 of page VI.1a.

Mr. Dale wondered whether the addition of the words "within the established framework" after the word "matters" on line 20 of page VI.1 would clarify the intention of the sentence.

The Chairman agreed that the sentence beginning on line 17 of page VI.1 appeared harsh as it now stood.

Mr. Bull thought the sentence introduced a degree of pessimism about the way cooperation had functioned which went far beyond the sort of view that should be expressed in the present document.

The Chairman suggested the omission of the words after "smoothly" on line 19 of page VI.1.

Mr. de Vries suggested a minor wording change on page VI.1a.

Mr. Prasad questioned the validity of the first phrase on line 6 of page VI.1a. He himself doubted that the difficulties had been overcome, and hoped that the clause could be deleted. He also thought the second assertion in that sentence unproven and would prefer the wording "the renewed expansion...and similar developments...are likely to improve export position... ." While he agreed that the developing countries had much to gain from a more even growth in the industrial countries, he thought that view should be balanced by a remark to the effect that they also had much to lose through any deceleration in their own growth.

Mr. Omwony supported Mr. Prasad's proposal. He himself had had doubts regarding the sentences Mr. Prasad had suggested changing. He would also like to see the sentence beginning on line 8 changed to read, "but the experience underlines the interest of the developing countries in the sustained economic expansion of the industrial countries... ."

Mr. Yaméogo endorsed Mr. Prasad's proposal regarding lines 7 and 8 on page IV.1a. Once more, however, he felt Mr. Omwony's proposed substitution of "interest" for "dependence" a weakening of the sentence.

Mr. Dale suggested that a better balance between optimist and pessimist could be achieved by replacing the word "position" in line 8 of the existing page IV.1a by the word "prospects." The sentence as it stood was probably true, but prospects had certainly improved.

Mr. Yaméogo agreed to Mr. Dale's proposal. He noted that the prospects of developing countries would certainly be improved with a change in the U.S. position at the UNCTAD.

The Economic Counsellor recalled that a recent staff study supported the conclusion of the first sentence beginning in line 6 of page VI.1a. However, to replace "position" by "prospects" was unacceptable. Mr. Omwony's proposed change was a definite improvement, and if the word "interest" was regarded as weak, it could be qualified by some adjective as "strong." The thought that Mr. Prasad wished to introduce in line 11, however, seemed alien to the paragraph in question. While the proposition was a true one, it was irrelevant to considerations relating to developments in the industrial countries.

Mr. Prasad said he would not insist on his proposal for line 11.

Mr. Omwony suggested that the words "would have much to gain" could be replaced by the words "could greatly benefit."

The Economic Counsellor thought that Mr. Omwony's suggestion would weaken the sentence.

Mr. Prasad suggested the addition of the words "and restraints on imports from developing countries remain a serious handicap to the expansion of their trade prospects" to the sentence ending on line 9 of page VI.2.

The Chairman suggested that, as the sentence ending on line 9 of page VI.2 related exclusively to primary products, Mr. Prasad's addition might come better as a separate sentence.

Mr. Beaurain thought that the proposition contained in the sentence running from lines 1 to 4 of page VI.2 was not true in respect of all countries. Several countries, although naturally preoccupied with their own domestic problems, had actually increased aid. Perhaps a slight redraft might be in order.

Mr. Yaméogo remarked that the sentence referred to by Mr. Beaurain had not mentioned the political reasons for stimulating or restraining capital flows to the developing countries. Political willingness, even in the face of adverse economic conditions, could ensure a satisfactory flow of aid. On the other hand, recent experience had shown that purely political considerations could cause an abrupt reduction in the quantity of foreign aid.

The Chairman suggested that it might be better to avoid political references in the Report.

Mr. Bryce suggested a minor wording change on page VI.2.

Miss Fuenfgelt thought the word "disappointing" in line 9 of page VI.2 should be replaced by the word "slow." Whether or not progress had been disappointing depended on the usefulness of commodity agreements on which views differed.

Mr. Dale supported Miss Fuenfgelt's suggested substitution. He would also be satisfied with Mr. Beaurain's proposal, if it amounted to no more than adding the word "overall" before "flow" in line 2 of page VI.2. In general, he now found the sentence running from lines 1 to 4 satisfactory. Regarding Mr. Yaméogo's suggestion, it was worth noting that political pressures often emanated from outside of government. Perhaps "as well as other factors" could be added to the list of causes.

Mr. Yaméogo proposed the wording "as well as noneconomic factors."

Mr. Kharmawan suggested the deletion of the word "private" in the addition to line 1 on page VI.2. It would be unwise to suggest private capital and short-term debt were substitutes. The matter should be left vague. He also agreed with Miss Fuenfgelt's suggestion for the sentence at the end of that paragraph.

The Chairman wondered whether Mr. Yaméogo would be satisfied with the present wording which, he noted, included the qualifying words "in part."

Mr. Yaméogo stressed that the problem of political motives for aid was a serious one for the developing countries. He would have to insist that the word "noneconomic" was included.

Mr. Kafka suggested the rewording of the sentence beginning in line 10 on page VI.2 to read, "the vital interest of developing countries... required their substantive participation in formulation and negotiations of any proposals to reform it... ."

Mr. Omwony supported Mr. Kafka, but he believed that the sentence should begin with the words "the developing countries are vitally interested in the smooth [or proper, or efficient] functioning of the international monetary system and in their substantive participation... ." He also proposed the replacement of the sentence beginning in line 15 by the words "it is also reflected in their support for the creation of the Committee of the Board of Governors which is to concern itself with reform." The clause beginning on line 17 seemed an unnecessary and obvious appendage.

The Economic Counsellor thought Mr. Omwony's proposal for the sentence beginning in line 10 less logical than the existing text. The preceding pages had made clear the interest of developing countries in the functioning of the international monetary system. The present sentence was in the nature of a conclusion stating that that interest required participation. As far as Mr. Omwony's suggestion for the last sentence in the paragraph was concerned, it seemed a matter of taste as to whether one stressed the composition of the Committee or the fact that developing countries were in favor of the Committee.

Mr. Omwony maintained that to leave the sentence beginning in line 15 as it stood would not bring out the interest of developing countries in participating in the reform.

The Chairman suggested that the word "establishment" might be preferable to "composition."

Mr. Kharmawan thought that the reference to the Committee of the Board of Governors should appear before the sentence mentioning the Group of Twenty-four and the UNCTAD. That order was more appropriate to a Fund document. He also supported Mr. Omwony's suggestion relating to the sentence conerning the Committee of the Board of Governors.

Mr. Dale feared that Mr. Kafka's suggested wording might be taken too literally. It surely did not mean that each developing country should participate in the negotiations. Perhaps the sentence could be reworded to begin, "The vital interest...requires that they be represented substantively in... ." Furthermore, the word "international" should be inserted before "formulation and negotiation."

Mr. Kafka said that, if the purpose of Mr. Dale's remarks was to exclude nonmembers, he was in full agreement with it. In fact he would go further and include the words "member countries." However, if his purpose had been to limit participation of developing member countries in any way, he could not go along with it.

Mr. Dale explained that his intention was to eliminate the suggestion that all of the developing countries should directly participate in the negotiations. Such a proposal would go far beyond the competence of the Committee of Governors.

Mr. Prasad said he had no difficulty in accepting Mr. Dale's point.

Mr. Bryce suggested the word "required the substantive participation of their representatives... ."

Mr. Al-Atrash proposed insertion of the word "freer" before the word "access" on line 21 of page VI.2.

Mr. Beaurain remarked that, in view of Miss Fuenfgelt's proposal for line 9 of page VI.2, the only mention of international commodity agreements in the Report had now become a purely factual one. He continued to be surprised that his was the only chair which believed that international commodity agreements were among the most important of the aspects of the world trading and monetary system for the interests of the developing countries.

Mr. Bryce thought "constitute" a better verb than "provide" for the sentence beginning in line 3 of page VI.2a.

Mr. Prasad noted that the paragraph beginning in line 1 of page VI.2a was intended to illustrate the interest that developed countries had in their relationship with developing countries. It balanced a corresponding paragraph relating to the developing countries' interests in the policies of the industrial countries. However, the present paragraph seemed to understate the nature of the relationship. He would like a stronger statement emphasizing that, if the developing countries did not grow, then neither would their imports, and the stability of the monetary system would be endangered by the resulting disturbance in the relationship between developed and developing countries. He suggested the addition of a sentence to the end of the paragraph as follows: "unless trading relations of the developing and developed world continued to grow over a period of time, the stability of the monetary system will be endangered."

Mr. Kafka agreed that the sentence beginning on line 3 of page VI.2a added little to the substance of the paragraph. The second part of it described the developing countries as the dumping ground for surpluses of industrial countries. He would prefer its deletion. On the other hand, he shared Mr. Prasad's apprehension that the relationship between the developing and developed countries and its implications for the world monetary system had been understated. His objection was only against the old-fashioned statement about developing countries being merely market places.

Mr. Yaméogo agreed that the paragraph needed improvement to underline the interdependence of developed and developing countries. If the sentence beginning in line 3 was to be retained, the words "current and potential" should be included after "important" in line 3. Furthermore, he wondered whether the staff had statistical evidence to indicate that the current account deficit for the developing countries had been financed primarily out of flows of aid and capital.

Mr. Kharmawan had no strong feelings regarding whether the sentence beginning in line 3 should be retained. If it was to be retained, however, some rewording would be necessary to eliminate its mercantilist flavor.

Mr. Omwony shared Mr. Prasad's view regarding the paragraph beginning in line 1. The interrelationship between developed and developing countries should be elaborated without leaving the stigma that Mr. Kafka had mentioned. Perhaps the point could be made by making some factual statements regarding the volume and growth of trade between industrial and developing countries in recent years. In that way the point could be made without the inclusion of possibly misleading sentences.

Mr. Al-Atrash felt that the sentence beginning in line 3, as amended by Mr. Bryce, and possibly redrafted in a manner that would accommodate Mr. Prasad, would be valuable.

Mr. de Vries said that, if the paragraph were to be retained, some other reasons for the direct economic interest between the developed and developing countries would have to be brought out in the second sentence. It would, however, be important to retain a reference to the trading relationships and not limit the paragraph to monetary matters.

The Chairman remarked that it might not, at the present late date, be possible to do justice to all the points that had been made in respect of the paragraph beginning on line 1 of page VI.2a.

Mr. Prasad thought it would be possible to redraft the sentence in order to eliminate its colonial flavor. He would undertake such a redraft.

Turning to the reference to frequent downward adjustments in exchange rates in line 10 of page VI.3, Mr. Prasad commented that not all of the countries that had made such downward adjustments had regarded them as beneficial. He suggested the deletion of the words after "currencies" in line 10.

Mr. Beaurain endorsed Mr. Prasad's view. Another solution might be to add the words "for themselves" at the end of line 11.

Mr. Kafka supported Mr. Prasad's proposal.

Mr. de Vries preferred the retention of the words after "currencies." After all, the qualifying expression "on the whole" had been included. If the phrase were deleted, it might be taken as an indication that such downward adjustments were not beneficial.

Mr. Mapa thought it clear that the beneficial effects mentioned in the text were intended to be seen from the standpoint of developing countries. He had no difficulty therefore with Mr. Prasad's suggestion to delete the phrase. If some Executive Directors felt that their countries had benefited from such downward adjustments the phrase in question could be replaced by the words "with beneficial effect in some cases."

Mr. Dale remarked that his impression was that the phrase in question reflected, on the whole, the truth of the matter. If it was to be dropped, he would suggest the insertion of the word "adverse" before the word "internal" in line 9. He had always presumed that beneficial effect meant avoiding the internal and external effects of acting otherwise. He also suggested the deletion of the word "potential" and the second "the" in line 4.

Mr. Al-Atrash supported Mr. Prasad's suggestion. He doubted that the "beneficial effect" on the whole had been empirically proven.

Mr. Yaméogo indicated that he too was unhappy about the words "beneficial effect."

Mr. Kharmawan remarked that some developing countries had resorted to devaluation precisely because they would like to achieve stability. However, the text indicated that only those countries that were unable to control domestic inflation had resorted to devaluation. Perhaps some wording could be found to cover both cases.

Mr. González recalled his unease at an earlier meeting regarding the sentence ending on line 11. After all, if the downward adjustments were undertaken frequently, that in itself was an indication that their effects were not beneficial.

The Economic Counsellor suggested the following reorganization of the sentence: "Others, less able to control domestic inflation, at least in the short run, have made frequent downward adjustments in the external value of their currencies to avoid as far as possible the internal and external distorting effects of domestic instability."

The Executive Directors agreed to resume their discussion of Chapter VI that afternoon.

DECISIONS TAKEN SINCE PREVIOUS BOARD MEETING

The following decisions were adopted by the Executive Directors without meeting in the period between EBM/72/107 (8/15/72) and EBM/72/108 (8/16/72).

3. EXECUTIVE DIRECTOR - TECHNICAL ASSISTANT

The Executive Board approves the appointment set forth in EBAP/72/181 (8/8/72).

Adopted August 15, 1972

4. EXECUTIVE BOARD TRAVEL

Travel by an Executive Director as set forth in EBAP/72/189 (8/14/72) is approved.

APPROVED BY THE EXECUTIVE BOARD:
Meeting 72/135, November 10, 1972

FRANK A. SOUTHARD, JR.
Acting Chairman

W. LAWRENCE HEBBARD
Secretary