

INTERNATIONAL MONETARY FUND

SEMINAR 72/8

11:15 a.m., March 20, 1972

P.-P. Schweitzer, Chairman
F. A. Southard, Deputy Managing Director

Executive Directors

L. B. Brand
E. Brofoss
R. Bryce
W. B. Dale

A. Kafka
B. Kharmawan
P. Lieftinck
C. Massad A.

F. Palamenghi-Crispi
P. S. N. Prasad
G. Schleiminger
H. Suzuki
L. Ugueto

M. Viénot
A. W. Yaméogo

Alternate Executive Directors

R. van S. Smit
S. Jónsson
D. O. Mills
C. R. Harley
M. Al-Atrash
N. H. Hanh
B. Martins
C. P. Caranicas
T. de Vries
R. H. Arriazu
R. H. Gilchrist
C. C. Ozumba, Temporary

S. S. Marathe
L. Fuenfgelt
K. Satow

H. G. Schneider
C. Beaurain

R. V. Anderson, Acting Secretary
P. F. Gourley, Assistant

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Also Present

African Department: M. Touré, Director; A. Bengur. Asian Department: C.-G. Chang. European Department: H. Ponsen. Exchange and Trade Relations Department: E. Sturc, Director; C. D. Finch, Deputy Director; S. Mookerjee. Fiscal Affairs Department: W. A. Beveridge. Legal Department: J. Gold, General Counsel and Director; G. Nicoletopoulos, Deputy General Counsel; P. R. Lachman. Middle Eastern Department: M. M. Hassanein. Research Department: J. J. Polak, Economic Counsellor and Director; J. M. Fleming, Deputy Director. Secretary's Department: J. W. Lang. Treasurer's Department: D. Williams. Western Hemisphere Department: J. Del Canto, Director; S. T. Beza. Office in Europe: J. P. Sallé, Director. Personal Assistant to Managing Director: L. F. T. Smith. Advisors to Executive Directors: F. K. Hussein, S. Nana-Sinkam. Technical Assistants to Executive Directors: V. Barattieri, C. J. Batliwalla, B. Brock, A. Doizé, B. P. Eap, F. García-Palacios, L. Halfmann, P. C. Hayward, K. Kjaer, R. W. Ley, H. Oyarzábal, A. Pipino, A. Seminario, E. W. Shann, N. Tsukagoshi, J. R. Vallet, M. A. Wasfy.

1. A SPECIAL COMMITTEE OF THE BOARD OF GOVERNORS - AN OUTLINE OF AN ILLUSTRATIVE PLAN

The Executive Directors continued from Seminar 72/5 (2/28/72) their discussion of a staff paper on an Advisory Committee of the Board of Governors - Outline of an Illustrative Plan (SM/72/21, 1/25/72). They also had before them a memorandum containing variants of the illustrative plan suggested at Seminars 72/4 and 72/5 (SM/72/21, Sup. 1, 3/8/72), and a memorandum dealing with legal aspects of a Special Committee of the Board of Governors (SM/72/62, 3/13/72).

Mr. Schneider said that, since the discussion was still being conducted on a rather informal basis, he wished to limit himself to some preliminary observations. With respect to the membership of a Special Committee of the Board of Governors, he remained in favor of the staff's original proposal that each constituency could appoint two ministers or governors of central banks as principals. In that connection, he wondered whether it would be necessary for those constituencies that appointed Executive Directors to have two principals. In view of the arguments presented in SM/72/62 about voting in the committee and divining the sense of the meeting, nothing would be lost by such an approach and it would open up the possibility of reducing the number of members below 40. He was, of course, aware of the fact that during the first round of informal discussions some Executive Directors had expressed a preference for a smaller group, more or less similar to the pattern of the existing Executive Board. If such a group were to be agreed upon, he would be in favor of having two deputies. Finally, he was opposed to the idea of limiting the membership of the Committee to ministers with financial responsibilities and excluding governors of central banks from the very beginning because he thought that such a decision could be most appropriately taken by the constituencies themselves.

Turning to the question of the way in which each group would select its chairman, Mr. Schneider said that he did not hold any firm views. On the one hand, to designate ex officio the Managing Director as a non-political chairman would certainly facilitate the task of coordination between the committee and the Executive Board, but on the other hand, it might prove difficult to prescribe in advance the procedure by which the chairman was designated and to deprive the committee of the right to select a chairman of its own choice. In that context, however, he hoped that the Executive Directors would be responsible for preparing studies and conducting preliminary exchanges of views to facilitate the work of the committee regardless of whether the committee met at the level of principals or at the level of deputies.

Addressing himself to the question of whether a committee should be established on an ad hoc basis or have a more permanent character, Mr. Schneider pointed out that it was rather difficult to foresee how

effective such a committee might be at the present stage, and stressed that more experience of its functioning would certainly be needed. He tended, therefore, to favor a committee that would consider the present issues of international monetary reform requiring amendments to the Articles of Agreement. That was the most urgent task and it was one that would necessitate far-reaching and certainly time-consuming negotiations. A committee with such terms of reference might become a rather permanent one, but he would prefer to leave that question to be decided by future developments.

Mr. Viénot stated that he was not yet in a position to enter into a very detailed discussion of the staff's proposals, but said that he wished to state briefly his present views on them. At the outset he wished to record that Mr. Giscard d'Estaing, at the end of his address to the Board of Governors at the 1971 Annual Meeting, had stressed the necessity of associating as closely as possible the developing countries in the forthcoming discussions on the reform of the international monetary system. In that connection, he had stated "an appropriate procedure has to be devised, not just to protect the interests of the developing countries but also to allow their voices to be heard in the search for final solutions." It was in that spirit that his authorities had warmly supported the idea of convening the joint meeting of the Deputies of the Group of Ten and the Executive Directors of the Fund, a formula which had proved to be useful but which did not fit into the type of exercise that the Fund was presently embarking upon. It would come as no surprise to Executive Directors, therefore, that his authorities were broadly in sympathy with the kind of ideas advanced by the staff. Their approach to the problem rested upon three basic principles: developing countries had to be represented in the forum which was to discuss reform; that forum should be set up within the framework of the Fund; and it should be so constructed as to be able to work efficiently. Those principles led his authorities to believe that the participation in a Committee of the Board of Governors should be restricted to 20 ministers of finance, each of them having the power to appoint a deputy, who might in turn participate in meetings at the deputy level.

Mr. Bryce expressed support for the proposal to establish a committee of the Board of Governors based on the same scheme of representation as existed for Executive Directors. At the same time, he differed from previous speakers on some of the details. First, he felt that the committee should have terms of reference and that they should be to consider and report on proposals for the reform of the international monetary system put forward by the Executive Board or by members of the committee. It seemed to him that Executive Directors should contemplate other proposals being submitted to the committee in addition to their own. The committee might, of course, also report on any other matters referred to it by the Board of Governors, but that question could be determined by future developments. He agreed that the committee should be composed of

20 representatives elected or appointed by the same Governors or groups of Governors that elected the Executive Directors. He believed, however, that it might prove necessary to have alternate representatives other than deputies, who would not be officials but who would be either ministers of finance or central bank governors, in order to reach an adequate agreement on the representation of groups. That would, in his view, be feasible as long as the alternates were permitted to attend meetings, and to speak in the absence of the representatives. He agreed with previous speakers that the Managing Director should be a member of the committee. He also believed that each representative or, in his absence, his alternate should be allowed to bring one or two advisors with him to the meetings. Those advisors should not be deputies with powers to act on their own or to meet on their own as a subcommittee. Efforts should be made to keep the meetings as small as possible and the possibility of restricting some sessions to representatives only should be contemplated. He did not agree that representatives should be restricted to finance ministers, as Mr. Vienot had suggested, because he understood that in some parts of the world governors of central banks were more important than ministers of finance. For the same reason, he believed that it might be appropriate to permit senior officials to be nominated as representatives.

Continuing, Mr. Bryce said that it should be understood that the purpose of the committee would be to permit an effective exchange of views at the highest level within the Fund and to seek agreement among member countries on important matters relating to the Fund. Consequently, he felt that the committee should not be expected to delegate matters to subcommittees, whether composed of alternate representatives or others, including deputies. Informal bilateral or group discussions among representatives or their advisors had to be expected and welcomed as a means of reconciling views before or during meetings, but he felt that formal discussions and reports should be restricted to the committee itself. Finally, he was opposed to the idea of establishing a committee of officials to consider the issues involved in the reform of the international monetary system. The purposes of a special committee could only be fulfilled if it met at a political level at which representatives from developing countries could be assured that they would be directly addressing those who were most concerned in making the decisions that would have to be taken.

Mr. Schleiminger expressed his support for the establishment of a Special Committee of the Board of Governors, not only in his personal capacity but also on behalf of his authorities. They had studied the idea carefully and were satisfied that a special committee would provide an important political impetus to the reform of the international monetary system. They were therefore, prepared to cooperate constructively in establishing such a committee and, although they had not reached a final position in the matter, they considered the original proposal contained

in SM/72/21 to be better in some respects than some of the alternatives that had subsequently been suggested. For example, they were still inclined to favor having 40 principals rather than 20. They did not believe that a membership of 40 would detract from the efficiency of the committee's operations because it would not be concerned with routine work but with policy matters of special importance which had been carefully prepared. Moreover, he did not believe that a reduction in the number of committee members from 40 to 35, as Mr. Schneider had suggested, would improve the efficiency of the committee's operations.

Turning to the question of the level of meetings, Mr. Schleiminger said that his authorities believed that the preparation of meetings should always be the responsibility of the Executive Board and of the Executive Board only. However, the possibility of holding meetings at the level of deputies for other reasons should not be excluded. As far as a selection of a chairman was concerned, his authorities' preference was for the Managing Director to be designated chairman ex officio. Such an approach would best serve the interests of the Fund and be most appropriate in view of the role which the committee would be expected to fulfill. As for the mode of establishment, his authorities favored establishment by way of a resolution of the Board of Governors. As suggested in SM/72/21, the full "charter" of the committee could be set forth in a by-law of the Board of Governors. If experience warranted it, the committee could be transformed into a standing committee at a later date by, for example, amending the Articles of Agreement. He had no comments to make on the remaining features of the illustrative plan because, as he had observed at the outset, his authorities favored the original proposals outlined in SM/72/21 over the alternatives suggested in the supplement to that paper.

Addressing himself to SM/72/62, Mr. Schleiminger stated that he did not believe that the actual power of a special committee would be very much influenced by its legal status. If experience proved him to be wrong, the appropriate consequences would have to be drawn and the Articles amended. That question could, however, be left to the future. At present, Executive Directors should concentrate their energies on establishing a committee and getting it to function as soon as possible.

Mr. Palamenghi-Crispi commented on the various alternatives outlined in SM/72/21, Supplement 1. As far as membership was concerned, he favored the second alternative which provided for one principal and one alternate but no deputies. He would, however, hope that provision would be made for temporary alternates who could in some cases be experts in nonfinancial matters. The principals of the committee should, in his view, be limited to ministers with financial responsibilities. He had no comments to make on the mode of appointment except to say that he hoped members would be appointed with all possible speed. Having indicated a preference for the second alternative concerning membership,

he would naturally be prepared to support the first alternative with respect to the level of meetings. He believed that Executive Directors should be responsible for the preparation of studies and that they should conduct the preliminary exchange of views without which a committee of the Board of Governors could not function effectively.

Turning to the question of the way in which a chairman should be selected, Mr. Palamenghi-Crispi said that he was not convinced by the merits of either of the alternative proposals suggested in SM/72/21, Supplement 1. He understood the advantage of having the Managing Director as chairman ex officio, but he would still prefer the committee itself to select its own chairman. The second alternative, namely, to have the Chairman of the Board of Governors as chairman of the special committee, did not appeal to him because the chairmanship of the Board of Governors was largely a ceremonial position, with the result that it did not really matter who was elected to fill the position. On the other hand, the position of chairman of the special committee would be extremely important and it would, therefore, be most appropriate for the committee itself to select a chairman. An additional consideration that should be borne in mind was that the Chairman of the Board of Governors would not necessarily be a principal of the committee. With respect to the proposal that the Managing Director should be a member of the committee, he noted that no mention had been made of the important matter of having an alternate to the Managing Director. It was his belief that such a position should be filled by the Deputy Managing Director. Since provision could be made for appointing temporary alternates, no problem would arise if the Deputy Managing Director was unable to attend a meeting. The question of the way in which the committee should be established was undoubtedly the most difficult one to resolve. His own feeling was that initially a committee should be established to consider the issues of reform of the monetary system. In time, if experience justified it, the committee could be transformed into a permanent committee and the Articles of Agreement could be amended to establish the committee as an organ of the Fund. The question of the committee's terms of reference was related to some extent to its mode of establishment. Perhaps the best approach would be to provide the committee with reasonably wide terms of reference so as not to place it in a straitjacket.

Like Mr. Schleiminger, Mr. Palamenghi-Crispi did not consider the legal aspects of the problem to be particularly important at the present stage of the discussion. He did, however, have some preliminary comments to make on SM/72/62. He was not convinced by the argument contained therein that there should not be formal voting in the committee and that if there was it would be on a nonweighted basis. First, as the Articles now stood, the committee would not be an organ of the Fund; whether the principals of the committee were Governors of the Fund or not, would, therefore, be rather immaterial. Second, and for the same

reason, the fact that there was no express provision in the Articles empowering a Governor to cast a number of votes in excess of those of the member that appointed him was also rather immaterial. Third, he could not understand the importance attached to the fact that an equal number of nonquota votes was given to all members of the Fund, because a weighted system of voting was used in both the Executive Board and the Board of Governors. Until the Articles were amended, the special committee would really be a club, the status of which could be determined rather freely. Furthermore, and over and above the legal argument, he believed that a one-man, one-vote provision could create disastrous consequences. He had in mind, for example, the sort of situation in which 19 principals, but not the U.S. principal, were in favor of a certain committee report and in which an 85 per cent majority was required for the report to be adopted by the Board of Governors. There were, of course, many other combinations of members that could reject a committee report at the Board of Governors level. In his view, it would make little sense to establish a committee whose reports would not necessarily be acceptable to the Board of Governors. Consequently, he was convinced that the members of a special committee should cast their votes on a weighted basis. Naturally, similar results could be achieved by requiring the chairman of the special committee to ascertain the sense of the meeting in lieu of a formal vote. In summary, his position was that to ignore the voting power of the principals of the special committee was not required by the law and would be unwise from a practical point of view.

Mr. Kafka recalled that he had made most of the points that he had wished to make at the previous Seminars on the subject and said that he had no comments to make on the staff paper dealing with some of the legal aspects of the question. As far as SM/72/21, Supplement 1 was concerned, he could in principle support almost any form that the committee took, particularly since, in the beginning at least, it would be established by a resolution and possibly by a by-law of the Board of Governors and would, therefore, have an extremely flexible existence. The mode of its initial establishment was probably not of much consequence because the nature of the committee would undoubtedly have to be changed over time. With respect to membership, it would not in his view, make much difference whether the committee was composed of two principals or a principal and an alternate. There might, perhaps, be some advantage in having only 20 participants actually sitting at the table with another 20 sitting behind them. He would hope that one of the participants from each constituency would be a minister of finance and that the other would be a central bank governor. He did not believe, however, that such a formula should be prescribed; constituencies should be left to decide the matter for themselves. In addition to the two principals, or the principal and alternate, who would participate in the highest level meetings, he felt that provision should be made for appointing

deputies, simply because the need would arise to take semitechnical, semipolitical decisions which many members would be disinclined to entrust to their Executive Directors.

Continuing, Mr. Kafka said that he had no strong feelings about the way in which a chairman should be selected. The chairman could be the Managing Director or the Chairman of the Board of Governors. In a committee whose membership had to be restricted to preserve its efficiency, he would support the chairman being a member of the committee, but he would be prepared to provide additional seats to allow the Managing Director, the Chairman of the Board of Governors, and possibly others to attend. He did not, however, consider the matter to be of great importance. With respect to establishment, he would prefer not to establish the committee by an amendment of the Articles of Agreement until perhaps very much later in the future, because of the need to gain experience before freezing the nature of the committee. If the committee was not established by an amendment to the Articles and was of an informal nature, it would derive its authority from the preparedness of participating members to cooperate rather than from statute. That on the whole would in his view be preferable. He did not believe that the committee should have terms of reference; it should be free to discuss whatever it wished to discuss. As he had said before, he saw absolutely no danger that it would attempt to usurp the authority of the Executive Board. Finally, he noted that the problem of the relationship between the committee of the Board of Governors and the staff had only been dealt with in a rather brief and indirect way in paragraph (d)(1) of the paper. He would be inclined to go a little further than the staff and consider it wholly appropriate if the committee dealt with the staff only through the Executive Directors, who should be considered its advisors.

Mr. Yaméogo recalled that he had strongly supported the idea of establishing a Special Committee of the Board of Governors since 1969. The establishment of such a committee would both permit all members of the Fund to cooperate in the reform of the international monetary system and make the Group of Ten more aware of the need to take account of the interests of the developing and primary producing countries of the world. That being the case, the chairmanship of the committee should be held by the Managing Director, who would represent the interests of all the members of the international monetary community and the Deputy Managing Director should be appointed as his alternate. Finally, he understood that the Secretary of the U.S. Treasury had recently made a speech about the sorts of forums the United States would be willing to participate in to achieve a reform of the international monetary system. It would be appreciated if Mr. Dale could summarize the present views of his authorities on the subject.

Mr. Brofoss stated that one of the Nordic countries did not approve of the proposal to establish a new body within the Fund. The other four

Nordic countries, however, gave their full support to the idea. They welcomed the prospect of returning to a more democratic system than the oligarchic one that had developed de facto in recent years. It was necessary to establish a new body that could resolve political issues and it was imperative that it be composed in such a manner as to uphold the principle of representative government. The success or failure of a Special Committee of the Board of Governors would depend upon what the Economic Counsellor's paper had so aptly called "attitudes." The main industrial countries should adopt an attitude which precluded them from engaging in the type of extra-legal activities that had undermined the authority of the Fund in the past. His authorities were skeptical of a "troika" system, whereby three sets of talks would take place simultaneously: one among the Group of Ten; one in the Special Committee of the Board of Governors presently under consideration; and one in a new group representing major power blocs--an approach which, according to press reports had recently been suggested by the Secretary of the U.S. Treasury. A fragmentation of the decision-making process should be avoided and the principle of "one world" should be endorsed.

Turning to the specific questions raised in the supplement to SM/72/21, Mr. Brofoss said that his authorities would favor the third variant of membership; namely, a committee of ministers with alternates, but with no deputies, since their functions could be performed by the Executive Directors. The fourth and fifth alternatives, which he had proposed when SM/72/21 had first been discussed, had received no support and could, therefore, be dropped. As far as the level of meetings was concerned, his authorities supported the first alternative, which provided for meetings at one level only. Since the committee would be quite large, some kind of steering committee might be needed, but that question should be settled in the light of experience and no formal provision, such as that referred to in the second alternative, was called for. With respect to the question of the way in which the chairman of the committee should be selected, his authorities believed that it would serve to strengthen the authority of the Fund as a neutral agency if the Managing Director was designated as chairman ex officio. They would, however, not oppose the second alternative.

Regular meetings should be held once a year for tour d'horizon, Mr. Brofoss thought, and at other times when the chairman felt the need for consultation at a political level. With respect to the question of meetings between deputies and Executive Directors, his authorities favored the first alternative. The suggestion that any recommendations or views of the committee should be adopted by the sense of the meeting was considered to be the best approach by his authorities. As far as the establishment of the committee was concerned, they felt that it should be effected initially on the basis of a resolution of the Board of Governors, but with a view to transforming the committee later into a

permanent organ of the Fund through an amendment of the Articles of Agreement. As for the terms of reference, the committee should make a tour d'horizon once a year and be authorized to discuss and report on all issues related to the legal framework and the functioning of the system. In other words, his authorities preferred the seventh variant. Although they understood the rationale behind the sixth variant, they felt that it might complicate matters too much. Personally, he believed that the committee should have the authority contemplated in the eighth variant. However, it might be better to defer discussion of that alternative until Executive Directors came to consider the proper procedures for improving the adjustment process in general.

Mr. Brand said that his authorities were quite willing to consider the idea of a committee of the Board of Governors, but at least two of them had not yet been convinced that such a committee would in practice be an improvement on the existing arrangements. The main objective of such a committee would presumably be to increase the role of the Fund in the discussion of international monetary issues and to permit a wider range of countries to participate in the decision-making process. There was a danger, however, that an inner group could emerge in the committee of the Board of Governors, resulting in effect in a legalization of the Group of Ten, or even of some smaller group within the Fund structure. He doubted whether his authorities would favor the establishment of any small steering committee within a committee of the Board of Governors, because such a small group would defeat some of the purposes for which a special committee was being proposed.

One question which was of obvious importance, Mr. Brand went on, was whether 20 or 40 ministers who were elected on the same basis as the present Executive Board could in fact represent ministers from other countries in their constituencies. It was possible for Executive Directors, who could develop some independence from and contact with their various electors, to represent a number of countries and indeed to express personal views. He wondered, however, how many countries left out of the Group of 20 or the Group of 40 in the committee would feel that they were adequately represented at the political level. Another practical question that deserved consideration was whether it would be easy to arrange meetings of a committee of 40 senior people from 30 or more separate countries. It would undoubtedly be more difficult than arranging a Group of Ten meeting, all the participants who lived north of the equator and some of whom lived in neighboring countries. His own feeling was that it would prove extremely difficult to get representatives from 30 or 40 countries, some of whom were 30 hours flying time away from each other, together quickly. By comparison, it was relatively easy to get representatives of 120 countries to an Annual Meeting, because the date was predetermined. The same consideration applied to meetings of the various development banks--the dates were known well in advance and finance ministers had been able to adjust

their schedules accordingly. They might, however, find it rather onerous to attend in addition to those meetings two regular meetings, for example, of the Special Committee of the Board of Governors. Moreover, if such meetings were held at regular intervals in order to allow ministers to make provision for them in their schedules, that might defeat the objective which was presumably to be able to meet at short notice in emergencies. On the other hand, as he had pointed out, if the committee only met on an ad hoc basis it would be difficult to arrange such meetings quickly.

One method of ensuring that ministers had something to discuss at their meetings would be to arrange meetings of deputies beforehand, Mr. Brand observed. In that connection, he believed that the Executive Directors could well fulfill the role of deputies. A recent article in the press had described the Executive Directors as a Board of lesser bureaucrats. Although the people who would be nominated as deputies might be slightly more important bureaucrats than Executive Directors, the difference would be very marginal and they would still be officials rather than politicians--and generally from the same institutions. The Executive Directors could therefore, in his view, adequately fulfill the role of deputies.

His Australian authorities, in particular, Mr. Brand said, were strongly opposed to any weakening of the role of the Executive Board and they were inclined to the view that the establishment of a committee of Governors would have that effect.

Finally, Mr. Brand asked the General Counsel what subjects a committee of the Board of Governors could formally discuss within the legal framework of the Articles of Agreement. He noted that the Secretary of the U.S. Treasury had expressed a preference for working within a forum that could discuss matters which went rather beyond international monetary problems. Would Article I(i) and, in particular, Article I(ii), which gave as one of the Fund's purposes the facilitation of the expansion and balanced growth of international trade, allow a committee of the Board of Governors to discuss trade and other issues impinging on international monetary cooperation?

Mr. Prasad said that although he was not yet in a position to speak for his authorities, he wished to state that he was willing to support the proposal to establish a committee of the Board of Governors. That was the only way to halt the tendency toward an increasing fragmentation of the Fund's decision-making process into groups of countries with different economic interests. The more that kind of fragmentation could be avoided, the better it would be for the efficiency of the Fund's future operations. He favored a small rather than a large committee and felt that 20 members representing the 20 constituencies of the present Executive Board would be most conducive to rapid and effective meetings and decisions. The 20 principals should have alternates, but they should be selected by

the principals themselves and they should be free to speak on behalf of the principals in meetings. He had no particular suggestions to make about the mode of appointment, but felt that the committee should be specifically established to deliberate on the reform of the international monetary system and to make suggestions to the Fund on the subject; it should, therefore, remain in existence for as long as the reform of the international monetary system was under consideration, no matter how long that might be. As far as the question of the chairmanship was concerned, he believed that there was much to be said for a group of ministers being able to elect its own chairman. However, in a composite group in which countries with different interests would be meeting, a neutral chairman would be most welcome. It would, therefore, be most acceptable if the principals themselves could agree at their first meeting to appoint the Managing Director as ex officio chairman. His appointment would have considerable advantages from the point of view of arranging and servicing the meetings.

Turning to procedures, administration and reports, Mr. Prasad said that he was in broad agreement with SM/72/62 on some of the legal aspects of establishing a committee. Such a committee should operate on a fairly flexible basis; it should not be tied down to rigid terms of reference or systems of weighted voting. The Fund, like the United States, had a rigid written constitution, which had its own merits, but which made evolution and adaptation to changing circumstances rather difficult. It might, therefore, be desirable to graft onto the Fund's constitution some of the elements of an unwritten constitution such as that of the United Kingdom, which functioned with considerable effectiveness and efficiency. The most appropriate way of doing that would seem to be to establish the committee of the Board of Governors on a relatively flexible basis. The committee should be permitted to discuss what it wished and the Executive Board could then be guided by its views and take action within the terms of the Fund's constitution. Finally, he expressed the hope that such a committee could be established as quickly as possible, and in any event no later than the next Annual Meeting.

Mr. Hanh recalled that he had already expressed the views of his authorities on the subject of a special committee of the Board of Governors, but said that he had been directed to emphasize certain particular points. With respect to membership, his authorities would prefer a one-level committee, because they believed that it would best be able to achieve a greater degree of coordination with the existing organs of the Fund. Therefore, they preferred alternative (a)(2) (SM/72/21, Sup. 1), which provided for one principal and alternate, but no deputy. In view of their preference on membership, they naturally favored alternative (d)(1) for the level of meetings. They believed that there should be one general purpose standing committee rather than several ad hoc committees. As far as the program of work was concerned, they believed that the committee should meet once a year to review the international monetary situation

and on additional special occasions whenever that was warranted by developments in the world economy. In any case, they tended to feel that the committee would have plenty to do at the present stage if it was convened. They would prefer to leave the terms of reference rather vague in order to permit the organization of the Fund to be adapted to future rapid changes in the world economic structure. Finally, they had no strong preferences on the other questions raised in SM/72/21, Supplement 1.

Mr. Dale said, in response to Mr. Yaméogo's request, that he had intended to summarize the recent speech made by the Secretary of the U.S. Treasury because it was indicative of his authorities' present thinking. The Secretary of the Treasury had made a number of points, of which the following appeared to be the most pertinent to the present discussion. First, he had stated that "discussions of changes bearing on the interests of all nations must be broadly representative." Second, he had drawn attention to the desirability of linking the forums involved to the Fund in particular, but in doing so he had stated that "they should be linked to the relevant institutions, particularly the International Monetary Fund." It should be noted that the word "institutions" was plural. The third point that he had made was that there was a critical point in the size of a group capable of conducting manageable and effective negotiations without becoming merely an academic seminar. Fourth, in commenting on the Group of Ten, he had made two subpoints. One was that it was limited to industrial and wealthy nations, which reflected his view that a suitable group should be broadly representative. The other was that it provided no link to trade and other aspects of the problem. Fifth, he had stated that "the representational pattern of the IMF Executive Board provides one possible approach," but he had gone on to say that "in concept some new grouping could be devised." Finally, he had stated "I have no settled answer to this question of the forum. I do feel that we should work to solve the question promptly and then proceed to more substantive issues. To that end, I have asked Under-Secretary Paul A. Volcker to begin conferring with officials of other countries to explore possible solutions to this and other problems." It was quite clear that the U.S. authorities had no settled view on the matter. They recognized perfectly well, in considerable measure because of the discussions which had been taking place in the Executive Board and because of the staff papers which had been made available, that a solution based on the constituencies of the Executive Board was very much one of the possibilities that ought to be considered closely.

Turning to SM/72/21, Supplement 1, Mr. Dale said that he wished to express some personal preferences. He stressed that they were personal because, as he had said before, he was strongly in favor of establishing a Special Committee of the Board of Governors and had taken that view within the U.S. Administration as well as in the Executive Board. With respect to membership, 20 ministers or governors, whichever the constituency in question wished to appoint, would be preferable to a committee of 40

principals. However, the question in itself was not of very much importance. He believed that such a committee structure would have to have a deputies level, although he did not feel that that would necessarily preclude Executive Directors being elected by their respective constituencies as deputies. He was not in favor of establishing a formal steering committee. If any move toward a steering committee of any kind were to come, it would certainly only come after some experience had been gained, and then, he would hope, on an informal basis. He was strongly in favor of permitting committee members to work matters out informally as the need arose. As far as the chairmanship of the committee was concerned, it would be preferable for the members of the committee to select their own chairman once a year.

Addressing himself to the question of the establishment of the committee, Mr. Dale said that his preference would be for a combination of options (1), (4), and (5). That was to say, a committee should be constituted initially to consider the issues of reform of the monetary system, but it could be transformed into a standing committee at a later date if experience justified that course of action. His expectation was that experience would justify such a transformation. He agreed with other Executive Directors that the terms of reference of the committee should be fairly broad. In any event, it would be rather difficult to prevent ministers from talking about what they wished in such a committee. He favored, therefore, the original terms of reference proposed by the staff, perhaps together with some reference to the matters mentioned in alternative (m)(6). In that connection, he would be most interested to hear what the General Counsel had to say in response to Mr. Brand's question about the jurisdictional implications of Article I. Finally, on the question of voting, he was inclined to agree with the view expressed by Mr. Palamenghi-Crispi on the matter. He was not fully convinced by any means that voting was absolutely ruled out by the arguments advanced in SM/72/62. Even if those arguments were accepted, the committee would, as Mr. Palamenghi-Crispi had convincingly argued, have to take account of the practical voting possibilities in the Board of Governors and perhaps elsewhere in reaching conclusions.

Mr. Yaméogo asked Mr. Dale for some clarification of the Secretary of the Treasury's statement that "some new grouping could be devised."

Mr. Dale recalled that the Secretary of the Treasury had prefixed that statement with the expression "in concept." In "theory," one could envisage a group of countries, for example, those belonging to the Fund, agreeing among themselves to establish a group of representatives, differing in number from the number of constituencies from which Executive Directors were elected or appointed, and dealing with a different and perhaps wider subject matter that might include, for example, trade and other matters. That was certainly one of the possibilities that the U.S. authorities were currently considering.

Mr. Liefertinck stated that he was not yet in a position to speak on behalf of his authorities, but added that he wished to express some personal preferences. He favored a committee limited to ministers with financial responsibilities, but felt that they should have alternates and the possibility of appointing temporary alternates. He was doubtful about the wisdom of institutionalizing a level of deputies. If committee members felt the need for higher officials to consult among themselves, that should be up to them, but the committee itself should consist of principals and alternates, who should be represented by temporary alternates when necessary. With respect to the level of meetings, he fully supported the view that "the Executive Directors would be responsible for the preparation of studies and conduct the preliminary exchange of views to facilitate the work of the committee." In that connection, there might be cases in which it would be useful to arrange meetings between Executive Directors and deputies to prepare the ground for committee meetings themselves. He was very much in favor of a nonpolitical chairman and felt that such a position could be most appropriately filled by the Managing Director of the Fund.

The terms of reference of the committee would be of great importance, Mr. Liefertinck remarked. His preference was for the committee to be constituted specifically to consider amendments to the Articles of Agreement rather than to consider the more general subject of the international monetary system as a whole. He would not, however, preclude the Board of Governors from referring additional specific issues to the committee for its consideration and recommendations. He would not be in favor of making the committee a standing committee. Initially, it should be established as an ad hoc committee, and the question of whether or not to transform it into a standing committee could be considered at a later date. The committee's views should, in his opinion, be established by the chairman's assessment of the sense of the meeting and not by voting. His preference for specific terms of reference was based on the view that broad terms of reference could do more harm than good to the structure of the Fund and, in particular, could undermine the position of the Executive Board. He also felt that it would be extremely difficult for a committee of the Fund to deal with such matters as those referred to in paragraph (m)(6) of SM/72/21, Supplement 1. A committee of the Fund could not be expected to deal with such broad questions, and if the need arose to discuss them, the debate should be held outside the Fund.

Mr. Suzuki said that preliminary communications from his authorities indicated that they were basically in favor of some form of special committee as a forum in which to conduct the forthcoming discussions on the long-term reform of the international monetary system. Indeed, in order to start such discussions, the first problem to be solved was certainly that of establishing an appropriate forum in which to hold them. In that connection, his authorities welcomed the United States' initiative referred to by the Secretary of the U.S. Treasury in his

recent speech. His authorities were still at the stage of finalizing their views on the details listed in the supplement to SM/72/21 and his remarks would, therefore, be of a personal nature only. However, many of the issues listed in the staff paper could be left open for the time being and decided by the committee itself. It would, in his view, be advisable to distinguish between those issues which had to be decided upon before the committee could be established, and those which could be left to the committee to determine for itself.

Turning to the issues set forth in SM/72/21, Supplement 1, Mr. Suzuki expressed a preference for a committee composed of one principal from each constituency, together with an alternate and one or two deputies. Most of the principals of the committee would inevitably be ministers with financial responsibilities, but he felt that constituencies ought to be permitted to select central bank governors if they so wished. In considering the appropriate level of meetings, one had to consider the difficult question of the relationship between deputies and the Executive Directors. While there were arguments in favor of the committee meeting only at the level of principals, he could not totally deny the practical advantages of convening deputies' meetings. Essentially, it was a question of whether the principals could place more faith in their deputies or in the Executive Directors and the matter should be left up to them to decide. The resolution establishing the committee should, therefore, authorize the members of the committee to convene meetings of deputies if they so wished. It did not seem necessary to decide at the present stage such matters as the role to be played by such meetings. Like Mr. Dale, he believed that the resolution should provide for flexibility in the selection of deputies; if a constituency considered it appropriate to nominate an Executive Director as its deputy it should be permitted to do so. He favored the idea of a small steering committee, formal or informal, being established within the committee, but noted that no provision need necessarily be made for that in the resolution establishing the committee.

Regarding the chairmanship of the committee, Mr. Suzuki recalled that he had expressed a preference for the first alternative at the previous seminar. However, the matter could be decided by the committee itself. The Managing Director could be a member of the committee as a principal and, if the committee was empowered to select its own chairman, it could select the Managing Director if it considered that to be appropriate. As far as the establishment and terms of reference of the committee were concerned, he would favor the establishment of a committee on an ad hoc basis to consider only the present issues of reform of the monetary system. Perhaps the committee should be permitted to add other related items to its agenda. Whether or not it should become a permanent committee should be discussed within the context of the future monetary system. Finally, he was in broad agreement with the arguments advanced by the staff in SM/72/62 with respect to voting powers in the committee.

Of course, from the practical point of view, the chairman would have to take into account the background voting strength which each representative's constituency could command in the Board of Governors, when ascertaining the sense of the meeting. If he failed to pay due regard to the implicit voting strength of each member, it was quite likely that recommendations made by the special committee would be rejected by the Board of Governors.

Mr. Kharmawan stated that he had not yet been able to assess the formal views of all his authorities; on the whole they seemed to be sympathetic toward the idea of establishing a committee of the Board of Governors. That was not so much because they considered it to be an ideal solution to the present predicament confronting the international community, but because they were not well disposed to a situation in which a group of prosperous countries could impose its will on the community of nations. The developing countries were attempting to create a counterbalance to the Group of 10 by establishing a Group of 24, but that itself was leading to a further fragmentation of the decision-making process. A situation in which the world was divided between two such groups between which there was little or no communication or dialogue did not recommend itself to the developing countries. The preference of his authorities would be for the Executive Board to be entrusted to settle all the matters at issue, but since that did not seem to be practical under the present circumstances, he felt that his authorities would welcome the idea of a committee of the Board of Governors as the most pragmatic and appropriate solution. It would, at least, provide a forum in which the developed and developing countries could exchange views on the question of international monetary reform.

Turning to the issues set forth in the supplement to SM/72/21, Mr. Kharmawan said that he had some personal preferences to express. He had no strong feelings about whether there ought to be two principals or one, but tended to favor the idea of having one principal and one alternate, and possibly a temporary alternate. On the matter of deputies, he held divided views. On the one hand, Executive Directors could function perfectly adequately as deputies for the principals. On the other hand, those countries belonging to the larger constituencies might favor the idea of deputies because it would increase their chances of being represented at the meetings. As to the chairman of the committee, he was inclined to favor the idea of a nonpolitical chairman; it would perhaps be appropriate to designate the Managing Director ex officio chairman. Like Mr. Kafka, he believed that the committee should be established by a resolution of the Board of Governors rather than by an amendment to the Articles of Agreement.

Concerning the terms of reference, Mr. Kharmawan understood that the primary objective of a special committee of the Board of Governors would be to deal with the issues of international monetary reform. Such should

be the committee's terms of reference, which should not be too restrictive. He also agreed with Mr. Kafka that the committee should deal with the staff through the Executive Board. While he could see, from the point of view of expediency, the merits of a steering committee, he was not in favor of the idea because it could restrict the forum in which the important issues of international monetary reform would be discussed. Finally, he was opposed to the idea of voting in a committee of the Board of Governors.

Mr. Gilchrist recalled that, at a previous Seminar, he had expressed some concern about the need to establish a committee, the size of which would be conducive to its efficient functioning. He was gratified to note that a consensus appeared to be emerging in favor of reducing the size of the committee to 21 participants. Such a committee would still preserve the balance of representation that existed in the Executive Board and might well be more efficient and less time consuming than a committee composed of two principals from each constituency. He was not particularly concerned about the question of voting and had found SM/72/62 rather reassuring in that respect. He saw no reason why decisions should be taken by a vote; the committee's effectiveness would depend less on rules than on a collective determination on the part of the participants to make it work. There appeared to be some risk that the committee could diminish the role of the Executive Board. It should, therefore, be made clear at some stage that the committee was not intended to take over any of the functions of the Executive Board. Indeed, it might well be that the committee would meet very rarely once the Fund was running smoothly again within the context of a reformed monetary system. He had an open mind as to whether the committee should continue to exist after several years; if it did, it would only wish to meet very rarely. He had found SM/72/62 rather reassuring with respect to the question of how much power would be lost by the Executive Board as a result of the establishment of a special committee; in practice, none, it would seem. At the same time, however, he saw some need for meetings of deputies. He recognized that Executive Directors might consider deputies to represent a greater threat to their authority, but he had the impression that his authorities attached some importance to providing for deputies. Mr. Suzuki had suggested that it was a question of the extent to which ministers could trust deputies to meet. He would be inclined to argue in the opposite direction and to say that the officials who would become deputies would be reluctant to put a number of matters to their authorities without careful prior preparation at the deputy level. Recent experience, he thought, perhaps supported that view.

His position on the other variants set forth in the supplement to SM/72/21, Mr. Gilchrist went on, was certainly very flexible. He had no strong views on the question of the chairmanship, but was inclined to think that it would be more appropriate for the committee itself to select its own chairman. Similarly, on the terms of reference, he had an

open mind. On the one hand, as Mr. Lieftinck had stressed, specific terms of reference would tend to safeguard the position of the Executive Board more effectively. On the other hand, he suspected that rather vague terms of reference might well be the only way of accommodating the position of the United States. Finally, he wished to confirm that his authorities were keenly interested in the idea of establishing a Special Committee of the Board of Governors. At least one of the reasons for their interest, was their belief that it would prove extremely difficult to establish an appropriate forum on any basis other than that on which the Executive Board of the Fund was selected. It could take several years of negotiation to agree upon a different method of distributing the seats of a committee and it would, therefore, seem preferable to work from the existing system of representation in the Fund rather than attempt to start afresh. Moreover, his authorities were anxious to see some tangible process made on the matter. Perhaps more progress could be made in that direction if future discussions on the subject were held in formal sessions rather than in seminars.

Mr. Al-Atrash recalled that at a previous meeting he had expressed doubts about the question of establishing a Special Committee of the Board of Governors. That was because he felt that the realities of economic power were such that, even with the establishment of such a committee, decisions on certain substantive matters would still be taken within the framework of a smaller group of rich nations. It was that expectation that had caused him to express doubts, and only doubts, about the desirability of establishing a committee of Governors. In that connection, he recalled a statement by the Deputy Managing Director, with which he fully agreed, to the effect that if the Group of 10 and 24 continued to exist after the establishment of a committee of the Board of Governors, there would be very little enthusiasm for the latter.

On the assumption that that committee was to be established, Mr. Al-Atrash turned to the alternatives outlined in SM/72/21, Supplement 1. He would prefer the second variant for membership, on the understanding that the principal to be appointed or elected should be a Governor of the Fund. As far as the level of meetings was concerned, he favored the first alternative. With respect to the chairmanship of the committee he had a preference for a nonpolitical chairman. On the question of the Managing Director's membership of the committee, he assumed that the Deputy Managing Director would act as his alternate; if that was not understood to be the case, he felt that it should be clarified. As far as the question of meetings between deputies and Executive Directors was concerned, his preference would be for the first alternative. As for the establishment of the committee, he felt that it ought to be established by a resolution of the Board of Governors and, like Mr. Dale, he favored a combination of variants (1), (4), and (5). He had a slight preference for restrictive terms of reference and would favor variant (m)(1). Finally, with respect to the question of voting, he agreed with the views expressed in SM/72/62.

The Executive Directors agreed to resume their discussion of the Special Committee of the Board of Governors in seminar on March 22.

ROGER V. ANDERSON
Acting Secretary