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POLITICAL ASPECTS OF MANAGING THE INTERNATIONAL MONETARY SYSTEM*

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I HAVE been asked to talk about the political aspects of the management of the international monetary system. I will not, however, be talking about political problems as such, but only about how one can try to handle them. What we call the international monetary system is of course the monetary relationships between those countries which have accepted multinational obligations and responsibilities, which means in fact the members of the International Monetary Fund.

The problems involved are of course of a highly political nature. The balance of payments and exchange rates affect the whole economic and social life of a country. The domestic policies which have to be pursued in order to achieve certain objectives are at the core of each country's political life, and I might add that in my experience there is no field where governments at present attach so much importance to sovereignty as the monetary field, be it only because of its economic and social repercussions. In my opinion, it is easier to belong to Nato and to fulfil one's obligations to Nato than to belong to the IMF and fulfil one's obligations to the IMF, because it affects people much more directly.

Therefore the question is: How can the Fund exercise its jurisdictional and regulatory powers and decide about access to its resources—which is sometimes quite important—without running into insuperable political difficulties? On the other hand, how can countries co-operate within and with the Fund without feeling that they have to give up too many of their sovereign rights?

We must first look at the problem *within* the Fund—how it manages to operate; and then from the point of view of the Fund's relations with outside bodies—how it can manage the negotiations and discussions which will, one hopes, lead to a reform of the international monetary system. First, within the Fund. In my opinion it is nothing short of a miracle that 127 countries, of all sizes, at all possible stages of development, with different political and social regimes and philosophies, can co-operate. Of course, in order to carry out or to implement policies, the Fund itself has to stay out of politics. But there is still the problem of how to accommodate the individual members.

* The text of the 24th Stevenson Lecture, given at Chatham House on Oct. 21, 1975.

The Fund is helped by two facts. The first is its organisation. It is a real institution, not just a conglomeration of national delegations served by a Secretariat General. When I tried to make propaganda for the IMF in business circles in the United States, I explained that the Fund looked like an efficiently run private American financial corporation. It was organised in that way, it was efficient, and usually it even made a profit. One should not of course overdo this comparison. But still, it is fair to say that there is an Annual Shareholders' Meeting, where each of the 127 member countries is represented by the Governor whom it has itself appointed. They transact the little business that has to be transacted at annual meetings; everything is prepared in advance, everything they have to vote on is ready, and they devote most of their time to policy speeches. It is an amazing feature of Joint Bank and Fund meetings, compared with those of other organisations, that they can get through all their business in five mornings. We have had the most surprising experiences. Traditionally, the twenty Latin American Spanish-speaking countries make one single policy speech on behalf of all of them. Nowadays about thirty African members also make one single speech for Black Africa. I think that in itself is a major achievement. Moreover, these speeches are as little political as they can be, and they of course carry more weight than several speeches delivered on behalf of individual countries.

The Fund has a chief executive officer, that is, the Managing Director, and a staff. In my humble opinion, the Fund's staff is, intellectually, the best possible staff you could find, and what is specially remarkable is that all of them live up to their commitment, that is to say, they give their whole loyalty to the institution they are serving. I have, in all my time in the Fund, come across no exceptions. The most striking thing in the Fund, compared to other institutions, is its main organ, consisting of the Executive Directors, which would correspond to the board of a corporation. Some of them have other jobs as well, like being financial or economic ministers in their Embassy, but they are in continuous session, which means they are always available to the Fund. They know one another, they practically live together, they are all of high quality. They include a fantastic proportion of former or future ministers or governors of central banks. The five major shareholders appoint their Directors. In the case of the British, it is a collection of lords and past and future knights! And they have all evolved a kind of feeling of solidarity for the Fund. Of course, the appointed Directors usually have instructions from their governments, but they helped to draft these instructions, and all of them carry them out, if I may say so, wholeheartedly, courteously and in a spirit of co-operation. So here you have this continuing body. There is no governing council which meets every other month or every year or so, but a continuous organ, which in fact

runs the Fund. It is chaired by the Managing Director, who very wisely has no voting rights, so he can devote all his energies to trying to lead his flock—to preach, to pray, to nudge, and so on, which is certainly the best role for him. So, you see, the organisation is really geared to work efficiently as an institution.

The second fact that helps the Fund (and I hesitate to say it in public, but it is relevant) is that its present membership does not include the Soviet Union. I think it is perhaps regrettable, because it damages the Fund's claim to universality. But it does simplify life! The same is true of China, which is still represented in the Fund by the authorities of Taiwan. This simplifies life because there are no major ideological confrontations. Naturally, although all political and economic regimes are represented amongst the 127 members, this is not the same as having all the major powers within the organisation.

But in spite of these two facts, which make things easier for the Fund, it is still a miracle that it should function so well, especially since it is a financial institution which, from the decision-making point of view, cannot possibly be run otherwise than by weighted voting. A financial institution (here I come back to the comparison with a corporation) has to be run by weighted voting; you cannot take twenty small countries or a hundred small countries and pass resolutions or take decisions of a financial nature which would be binding on the large members. *Ca n'existe pas, ce n'est pas possible*, it is a fact of life. This fact of life is generally admitted and its principle has never been questioned. A corollary of the fact that the size of the quotas, as well as of the rights and obligations, differs widely is that the nature of the rights and the obligations is the same for all members, in other words, there is a principle of uniformity. When I was in the Fund, I made a joke—which was true—that I had devoted as much time to Costa Rica as to the United Kingdom. The only country which to some extent escapes the jurisdiction of the Fund is the United States.

To show how widely quotas and voting rights differ, I will quote some figures. The extreme, on the one hand, is the United States, with a quota equivalent to 6,700 million Special Drawing Rights, which is nearly equal to \$8,000 million, and which carries more than 20 per cent. of the vote. The most recent and smallest member is the charming island of Grenada. Its quota is two million Special Drawing Rights, *i.e.*, 3,350 times less than the United States, and its voting right is 0.08 per cent. In between there is a wide range. The United Kingdom has a relatively very high quota, for historical reasons, of 2,800 million which carries 8.73 per cent. of the votes. The next is Germany with 1,600 million, then come France, Japan and so on. The largest developing country is India, with a quota of 940 million, about one-third of the United

Kingdom's despite its population, and this carries a little less than 3 per cent. of the vote. The largest OPEC country is Indonesia with a quota of 260 million, which carries 0.88 per cent. of the vote. If you put it another way, out of the 127 members, 108 have less than 1 per cent. of the votes each, and 75 have less than one-half per cent. of the votes. According to still another way of putting it (and I think it is important to have this in mind because it explains a great deal), the industrialised countries have 63 per cent. of the quotas. The developing countries altogether have slightly more than 25 per cent. Nevertheless, everybody is reasonably happy—and it works. That is where I come back to my 'miracle'.

Now let us see how these voting rights are determined. The equality of states is acknowledged in the provision that each member has a basic vote of 250, and one additional vote for each *tranche* of its quota of 100,000. So of course there are discussions on the size of the quotas. For the original members this is laid down in the Bretton Woods Agreement. It was negotiated and can be related to some kind of formula. For new members it has to be decided in each separate case by the application of the same kind of formula plus or minus a grain of salt. It has worked in such a way that the explosion in the number of countries has not substantially affected the voting relationship within the Fund. Most of these newer members each have about 0.1 per cent. of the vote, so the entry of Germany and Japan compensated for the entry of 30 or more smaller countries. When quotas are discussed, the small countries are favoured beyond the formula and the bigger countries do not use all their rights, because the other side of the coin is that prospective debtors are interested in having a large quota, so as to have access to a greater amount of financing, whilst prospective creditors have a tendency to accept smaller quotas so that their contributions in consequence will be smaller. But on top of this there are considerations of prestige. Thus whenever the quotas are revised, there are complicated negotiations reflecting all these considerations. But members enjoy great protection too. A quota cannot be changed without the member's agreement and quotas have to be approved by a large qualified majority.

One thing, I think, which has attracted attention recently is the exercise now being carried out to revise the quotas. It has been agreed to increase the Fund from 29 billion to 39 billion. In order to allow the share of the major oil producers (OPEC) to be doubled (from five to ten per cent.) without reducing the share of the other developing countries (it will remain slightly above 20 per cent.), the share of the industrialised countries has to be reduced. It is easy to imagine the haggling which has arisen out of this need to reduce the relative share of the industrialised countries and then apportion it! In addition, there was the special problem of the United States. Twenty per cent. of the votes

entitles a member to a veto on amendments of the Charter, which meant that the United States was not prepared to go below twenty, although obviously its quota had to be reduced. So the only way out was to reduce the amount of votes needed to have a veto!

Achieving consensus with minimum fuss

Normally the Fund operates with a majority of the votes cast, which is of course the most effective way of despatching business, because you are always sure to get a majority one way or another. But one of the consequences of weighted voting is that normally no voting takes place. My guess is that since the inception of the Fund, except when votes had to be counted for formal reasons, there have been no more than twenty votes, and then mostly on administrative matters. It is even written in the bye-laws and regulations of the Fund that the first duty of the Managing Director is to take the 'sense' of the meeting and achieve a consensus without any kind of formal voting. Thus the Fund always works towards a compromise. The political reality is that on a major issue you cannot outvote any given group of members, the United States being a group in itself. You cannot outvote the United States, or the Common Market, or the developing countries as a whole. So the major role for the Managing Director is to achieve a consensus; and this also allows decisions to be taken with the minimum of fuss.

I now come again to another political problem, namely the relations of the Fund with its members when they want financial assistance. You are well aware of these problems, because as far as sovereignty, pride, even *susceptibilité* goes, the United Kingdom is quite in the lead! The negotiation of a standby agreement is in fact carried out by the staff and the Managing Director, the staff writing their own terms of reference which are approved by the Managing Director. The negotiations are conducted at the highest level with the maximum of privacy and discretion. The standby is then endorsed by the Managing Director who takes full responsibility for it. Then when it comes before the Executive Directors of the Fund for their approval, they always take their decision without a dissenting vote, or rather without any vote at all. Thus at no time are political problems raised; and that remained true when the Fund was supporting at the same time Israel and Egypt, Pakistan and India. I think that is quite impressive.

Another example of how the Fund operates is the way in which it drafts its Annual Report. In my opinion this report is worth reading. It really expresses views, talks about policies, passes judgment. In other institutions the report is the work of the staff. But the Fund's report is the report of its twenty Executive Directors. I do not claim that an hour is never spent discussing whether one should say 'could' or

'would' or 'might' or 'may' or 'should'. But eventually a report emerges which is the collective work of twenty Executive Directors with no dissenting footnotes and no individual opinions in an annexe. That is how the Fund operates at its best.

It is not always like that. There are cases where, to some extent for the protection of the members, it is necessary to have qualified majorities on top of weighted voting. It all depends on whom you want to protect. Until the last amendment to the Charter, the main case where a qualified majority was required was to authorise amendments to enter into force. That was done in a good way. There was a double protection. The amendments had to be approved by 80 per cent. of the voting power. That protected the industrialised countries. One cannot arrive at 80 per cent. of the voting power without the major industrialised countries agreeing, and I have mentioned in passing the special situation of the United States. But on the other hand, it also required acceptance by 60 per cent. of the members. In order to reach this 60 per cent. one had to enlist a high proportion of the developing countries. That is what I call a 'balanced' protection.

In addition, in some cases unanimity is required to change the Charter. That is the ultimate protection even for the smallest member. Unanimity is necessary to amend the provision that no change can be made in the par value of a member except on the proposal of that member—the purpose being to respect its sovereignty in the monetary field—or to amend the provision that a member has to agree to the changing of its quota. And, amazingly, unanimity is necessary to change the provision that a member can withdraw from the Fund at any time and that the withdrawal takes effect the day the written notice is received in the Fund. The right to withdraw is sacrosanct.

I would just make another incidental remark on membership. There were the original members, but no country has a *right* to join the Fund. Membership has to be approved by the Board of Governors, if only because a country has to undertake to carry out its obligations, and a quota has to be agreed. But in no case has an application been turned down. Once a country is in the Fund, it is fully protected. It has a right to withdraw, and this right has been used three times: by Poland, which was disenchanted; by Cuba, which for understandable reasons did not want to carry out its obligations concerning the provision of information to the Fund; and temporarily by Indonesia which came back as soon as there was a change of government. There is something called 'compulsory withdrawal' (a euphemism). It can happen only if a member has consistently failed to fulfil its obligations, and only after a very protracted procedure. There has been only one victim, Czechoslovakia, during the height of the cold war.

Another relevant fact is that at Annual Meetings there has never been a problem of credentials. The system is that each member country appoints its Governor, who attends the Meeting, and there has never been any questioning of an appointment, or any limitation on the right of any member to speak or to vote. To give an example of how things were handled at the last Annual Meeting of Governors, the chair of Vietnam was occupied by a representative designated by the present authorities, and nobody wasted a minute on the problem. This is an important point, because it also helps the political atmosphere.

This ideal system has taken a small turn for the worse. When the amendments establishing the Special Drawing Rights were voted, one price that had to be paid was to make a lot of decisions subject to an 85 per cent. majority. This was calculated in order to give the Common Market (at that time the Six) a veto. However much I agree that decisions should be practically unanimous, I still consider it very regrettable to have this kind of requirement in the spirit of veto. Moreover, when any group knows that it can have a veto, it makes a consensus more difficult to reach. But that is the way it is. It is more excusable in the case of the proposed reform; according to the current discussions on this, there will also be 85 per cent. majority requirements, but they will be in a different spirit. The SDRs were laid down in all possible detail and the Fund has had very little leeway. I hope that in the future reform the freedom of action of the Fund will be much less limited, that it will have much more permissive authority. So it is understandable that one should want to make sure that the use of this increased freedom for the Fund reflects a very wide consensus. All depends on *the spirit* in which voting rights are exercised and so far it has worked reasonably well—to a large extent of course because the Fund has increasingly cared for its smaller and developing members.

I said the rights of each member were uniform. But some of these rights were worded in such a way that they benefited only the poor; for example, the technique called 'compensatory financing' for export shortfalls, which benefits only primary producing countries, and which is probably a major way in which the Fund will in the future help its poorer members. An extended drawing facility is available to poorer members, as well as interest subsidies when they use the oil facility, and in the future a trust fund.

The ways in which the Fund has operated have therefore, gained much of goodwill for it amongst its developing members. This has helped it considerably in its relations with other bodies in the outside world. With the United Nations we have never had any problems. The Fund, with weighted voting, has never had a conflict with the United

Nations, nor with the Economic and Social Council, where the voting is one vote per country. Our relations have always been perfectly courteous and pleasant. We have enjoyed the unanimous support in difficult times of the UN Conference on Trade and Development (UNCTAD) which passed a resolution stating that 'the Fund is *the* institution in which we have confidence and which we support'.

There has been one permanent problem, that is, the relationship with the so-called Group of Ten, which those developing countries which did not like it called the 'Self-Appointed Security Council'. It had a modest origin, being composed of ten members who agreed to lend money to the Fund in case of need. But being buddies, they formed the habit of meeting, first, on the occasion of the Annual Meeting, and then afterwards more often, to discuss the international monetary situation, to exchange views and to reach a common position. It was all right as long as there were only ten Ministers plus ten Governors of Central Banks, but their Deputies, who were the most brilliant technicians in each of their countries, got involved in technical discussions which were by definition the business of the Fund and the Executive Directors. It is not that I do not like and highly respect these Deputies. All of them were my friends and the majority of them were former or future Executive Directors.

When the Group of Ten went too far

This came to something of a crisis during the discussions on international liquidity which eventually led to the establishment of Special Drawing Rights in addition to quotas. There was a time when the Ten were concerned about this problem, and so, as they were the major actors in the international monetary system who—as they said—'carried the major responsibilities', they envisaged creating international liquidity amongst themselves and for themselves, with the provision that maybe part of it could be handed to the developing countries. That was going rather far and they had to be reminded that international liquidity was the business of the Fund, and that a system of equal but separate facilities, which did not work in the United States for racial problems, could not be expected to work internationally amongst sovereign countries. The Fund co-operated with the Ten on these problems with goodwill and in good faith. One good method was used on four occasions, when all the Deputies and Executive Directors met and they went along quite well on the basis of mutual esteem and respect. But it has to be admitted that eventually the final decisions were taken within the Group of Ten, which carries by itself a majority in the Fund. They were reached in rather trying circumstances at a meeting in Stockholm where the Common Market made a great effort

to placate the French, who at that time were disenchanted with the Fund and hostile to the whole idea of Special Drawing Rights as compared with sacrosanct gold. The result was of course that the whole system of SDRs became much more restrictive than planned. But most of the limitations which were imposed are going to be removed in the next reform. It was also on that occasion that the requirement of an 85 per cent. majority for certain decisions was established.

A considerable amount of bad will was created amongst those outside the Group of Ten who then formed (I must say with my whole-hearted support) a competing group, called the Group of Twenty-Four, which was an emanation of the so-called Seventy-Seven (who are, as you know, more than one hundred!). They were twenty-four because three continents were represented by eight members each. They became very active and they took their job very, very seriously. They created a special degree of co-operation between the nine Executive Directors who represent the developing countries, with the final result that in the Fund there is now much more unanimity of views between these nine Directors than amongst those who represent the Group of Ten, including the Common Market! I always told the Common Market members that one of my dreams was that one day they would manage to carry out their decision to speak with a single voice. I told them that that would be my happiest day as Chairman of the Board of Executive Directors, because it would take away more than half of the discussions and probably all the really acrimonious debates. But I am sorry to say that it did not happen in my time.

There was one case where the Ten played a useful role, when they were the only ones who could play it, and that was their famous performance in December 1971 which has gone down to posterity under the name of the 'Smithsonian Meeting', and which, according to Mr. Nixon, was the greatest monetary event since the invention of money. It is a fact that these ten countries had to be shut up in a room, with all the doors closed, to negotiate amongst themselves their relative rates of exchange. There was no other way to achieve this. They had to be under pressure; they had to be threatened by Secretary Connally who told them that he had given them lunch, but he would be damned if he gave them dinner! But I think that was the peak of the role of the Ten.

Now, to look at the future, how are we to handle the political problems connected with the discussion and negotiation of the reform of the international monetary system? Since 1971 there has been a general and urgent cry for reform. This has coincided with the period during which the United States authorities became disenchanted with

the Group of Ten and displayed some kind of disaffection towards the Fund. So a lot of time was wasted on something called the choice of the 'forum', meaning whether the discussions should be conducted within or outside the Fund. If outside the Fund, then it would have had to be a special group with special membership and special procedures. At that time the Fund benefited from the strong support of practically the whole membership and specially of the developing countries. So eventually it was agreed that the forum would be *within* the Fund. But still to some extent it was an alien body. The political problem was solved by setting up a Committee of Twenty, the composition of which reflected the composition of the Executive Directors. Each of the twenty members of that Committee had the same constituency as his corresponding member in the Executive Directors. So that satisfied all members who were equally represented. But there was a flaw. In imitation of the Group of Ten, the Committee of Twenty set up its own Deputies, who, on behalf of the Committee, did most of the technical work, which was normally the business of the staff and Executive Directors. And there was a tendency, especially at the beginning when there was no political will to achieve reform, to ask more and more technical work from the Deputies or, whenever there was a question on which Ministers were not willing to take a position, to appoint a working group, which is an old and well-tried technique. It nevertheless functioned satisfactorily because the Chairman of these Deputies was Sir Jeremy Morse, who handled things perfectly, and there never was, I believe, any incident or deep resentment. The Executive Directors participated very actively in all the work of the Deputies. But I stick to my belief that the principle was wrong.

Now a great improvement has occurred recently because to the ad hoc Committee on reform has succeeded another body which is called the Interim Committee. It has the same composition, so it is politically all right, but it has a broader competence. It is competent to supervise the management and adaptation of the system, and to consider the Executive Directors' proposals to amend the Charter of the Fund. It is also competent to deal with sudden disturbances that might threaten the system. These broad terms of reference are quite satisfactory.

The Interim Committee has no Deputies and relies wholly on the work of the Executive Directors and the Fund's staff. This philosophy, with which I fully agree, was described perfectly by Mr. John Turner when he was the Committee's Chairman and Canadian Minister of Finance. He said, 'The agenda of the Interim Committee must not be clouded with a long list of technical issues. These are issues that the Executive Directors must resolve. The Committee was intended to be composed of people with political responsibility. Therefore, the issues

that are referred to it must be issues that do involve political considerations'. I think that is the right way to put into a proper relationship the handling, on the one hand, of political aspects and, on the other, of the technical discussions. It is really *the* way for dealing with these issues in the future. That means that I am not even upset by the fact that in December [1975] six Heads of Government are due to meet to discuss the state of the world including monetary problems, because they will be talking at the highest political level and maybe they will provide the will to reform which so far has been lacking.

There may be one further step. So far we have had committees which have no decision-making powers. The ultimate achievement should be to have a real Executive Council, a Council of Governors, which will become an organ of the Fund and which will have delegated powers to handle the issues for which at present the Interim Committee is competent. Then one will come back to an idea of Lord Keynes—that monetary problems, being so important and belonging to such a high political level, should preferably always be dealt with at that level. Once that is done, I think the Fund will be fully equipped to handle the political aspects of its future and expanding role. This role will include doing more and more for developing countries, especially now that the Fund has once again received the blessing of the United Nations, at its Special Meeting in the autumn [of 1975], and also has again been given the full support of the United States authorities in that respect. The Fund will also be able to provide and regulate international liquidity and, last but not least, control and police the functioning of the international monetary system and achieve the return to, and maintenance of, a reasonable degree of law and order.