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

Executive Directors

W. B. Dale
A. C. Diz

T. Friis

S. J. Handfield-Jones
A. Kafka
R. Larre
P. Lieftinck
B. K. Madan
A. Nikoi
A. Z. Saad

J. M. Stevens
J. O. Stone
H. Suzuki
B. Tann

E. vom Hofe
A. .W Yaméogo

Alternate Executive Directors

J. S. Hooker

I. Simba, Temporary

A. Phillips O.
P. M. Reid
P. H. Pereira Lira
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H. M. H. A. van der Valk
A. K. Banerji

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D. W. G. Wass
A. M. de Villiers
E. Ozaki
C. L. Chow
H. Biron
H. Ungerer
L. M. Rajaobelina

W. Lawrence Hebbard, Secretary
A. Wright, Assistant

Also Present:
African Department: C. L. Merwin, Deputy Director; J. Waïtzenegger, Deputy Director. Asian Department: W. J. R. Woodley, Deputy Director; C. C. Liang. Central Banking Service: R. Tenconi. European Department: P. Høst-Madsen, Deputy Director; R. Evensen. Exchange and Trade Relations Department: E. Sturc, Director; C. D. Finch, Deputy Director. Fiscal Affairs Department: H. C. Murphy. The IMF Institute: P. Walter, Deputy Director. Legal Department: J. Gold, General Counsel and Director; A. S. Gerstein, Deputy General Counsel, G. P. Nicoletopoulos, Deputy General Counsel; J. G. Evans, Jr., F. Hodel. Middle Eastern Department: J. W. Gunter, Acting Director; G. R. Moghadam. Research and Statistics Department: J. J. Polak, Economic Counsellor and Director; C. Schwartz, Deputy Director; H. Ezekiel, R. R. Rhomberg. Secretary's Department: R. V. Anderson, Assistant Secretary, A. Mountford. Treasurer's Department: O. L. Altman, Treasurer; W. O. Habermeier, Deputy Treasurer. Western Hemisphere Department: J. Del Canto. Information Office: Jay Reid, Chief Information Officer. Personal Assistant to the Managing Director: F. L. Hall. Technical Assistants to Executive Directors: R. H. Arriazu, W. Y. Hui, C. T. MacDonald, R. G. Nayak, B. Nowzad, E. Schmidbauer, J. A. Sillem, W. Stoop, T. Tanaka, J. R. Vallet.

1. EXECUTIVE DIRECTOR

The Chairman welcomed Mr. Madan, Executive Director, to the Executive Board.

2. COMMENTS ON SECOND JOINT MEETING WITH DEPUTIES OF THE GROUP OF TEN AND PLANS FOR THE FUTURE

The Executive Board discussed in informal session the Second Joint Meeting with the Deputies of the Group of Ten and considered the future program of work on international liquidity.

The following statement by the staff had been circulated prior to the meeting:

> It may assist the Executive Directors in their discussion of the implications of the London Joint Meeting to have the following résumé of the staff's impressions before them. This note is not intended to cover all aspects of the discussions in London or to reflect all shades of opinion, but rather to assemble certain salient features under the following three headings:
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> (a) Topics on which there appears to be a growing convergence of opinion.
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> (b) Topics on which there remains a more marked difference of opinion.
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> (c) New ideas discussed for the first time.
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> In addition, this note will go on to suggest the future course that the study of reserve creation might take.
>
> (a) Topics on which there appears to be a growing convergence of opinion
>
> 1. Organization. Although the question of organization was not discussed in any detail, there appeared to be no dissent from the concept that if reserve creation took the form of a unit scheme it would be operated through an affiliate of the Fund, with the Managing Director of the Fund acting *ex officio* as Managing Director of the affiliate as well.
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> 2. Activation. There was broad agreement that the conditions for activation that have been mentioned in the past cannot be defined

with precision either in quantitative or qualitative terms. It was also felt that certain aspects of these conditions needed further study. Some participants thought that an adequate voting requirement for activation could be a sufficient safeguard against premature activation. There was a general view that any conditions for activation should not be cast in the form of legal conditions in the legal document establishing the scheme. It was thought that the conditions might be set forth in an exposé des motifs, for example in a report accompanying the legal document, or, as a possible alternative, in the preamble of the legal document.

3. Decision making. No support was expressed for a bicameral procedure for taking decisions, and, in this connection, the Managing Director pointed out that he did not regard the GAB, which involved a decision to lend and a decision to borrow, as relevant. The decisions would therefore be taken in a single body, which presumably would be the Executive Directors or the Board of Governors of the affiliate. There was some support for the same majority for both activation and subsequent decisions on reserve creation. The voting percentages that were mentioned did not exceed 80 per cent, and some participants expressed a preference for lower percentages. Notwithstanding the growing convergence on the points already mentioned, some speakers strongly advocated a system of decision making under which voting would be both on a weighted basis and on a so-called unit basis. The purpose of this proposal was to ensure that decisions would take effect only if the prescribed majority based on weighted votes included the votes of certain specified members. There was no elucidation of the composition of the special participation.

4. Consultation. General agreement appeared to exist on the proposition that satisfactory consultation by the Managing Director of the affiliate before making proposals for reserve creation would go far to resolve the difficulties involved in decision making. It was felt that he should consult as broadly as he thought fit, and that he should do this in sufficient time to enable members or groups of members to consult among themselves. Apart perhaps from this time aspect, there was a widespread agreement that the procedures for consultation should not be formalized in the legal document.

(b) Topics on which there remain a more marked difference of opinion

1. Adjustment of votes. Although there was uniform agreement with the idea of weighted voting, there were differences of opinion on the adjustment of votes for creditor or debtor positions. A number of speakers favored adjustment, but some of them would confine adjustment to an increase in the voting power of members in a creditor position (i.e., for members holding more units than those distributed to them).

2. Opting out. There was support by some speakers for the ideas on opting out that were presented in the staff's paper, but some speakers opposed those ideas, although for varying reasons. One view was that there should be no provision for opting out at all. In contrast to this, the view was expressed that there should be provision for opting out even during the initial reserve creation for which the staff had proposed no opting out privileges.

3. Modification of decisions. The staff paper had included certain ideas with respect to the modification of decisions already taken on reserve creation. Although there was no intensive discussion of this topic, some participants questioned whether these decisions should be subject to revision except in situations in which the original assumptions turned out quite clearly to have been unfounded.

4. Units in the Fund. There was not a lengthy discussion of this topic, in part perhaps because it was felt to be extremely technical and deserved further exploration in the Fund. A number of suggestions were made with respect to the scope of such further study.

(c) New ideas discussed for the first time

1. "Band" proposal. One participant proposed that the provisions of the scheme should allow for its entry into force automatically when a specified maximum percentage was reached but also if a lower specified percentage was attained. Thus, if there was undue delay in reaching the maximum percentage, the scheme would enter into force by agreement among those that had ratified, provided that they amounted to the lower percentage. There was no discussion of the way in which any such formula might be employed for activation or subsequent decisions.

2. Parliamentary action. At various stages of the discussions, mention was made of the necessity for and the type of parliamentary action that would be required. The issues referred to here relate not to the features of the scheme that would be necessary in order to win legislative approval but to the type of legislation that would be needed in order to enable a member to affirm that it had taken the necessary action to perform its obligations. One aspect of this problem would relate to the need for authorizing and appropriating legislation. In this connection, parliaments would presumably place limits on the extent to which executives could agree to reserve creation in connection with the quotas assigned to members under the scheme.

The staff is working on an illustrative scheme to be submitted to the Executive Directors, which would attempt to fit together the various aspects of reserve creation that have hitherto been studied separately. It is thought that this would enable the discussions to be carried forward in a more effective way. The preparation of such a plan would be without prejudice to the preparation of other memoranda on such topics as might require further study. The illustrative scheme which is being prepared would, of course, be based on all of the work which has been done in the Fund and by the Deputies, and would take into account the discussions at the Joint Meetings.

The Economic Counsellor added three brief points in amplification of the reference in the last paragraph of the staff's statement to an illustrative scheme which the staff was preparing. First, he pointed out that the illustrative scheme was not intended to be a new proposal for reserve creation, but essentially a working document for the Third Joint Meeting. It was intended to show in an articulated way how the various elements of a scheme for reserve creation which had already been discussed would fit together into a consistent whole. Second, in line with what had been done so far and with the Managing Director's proposals of last year, the paper would cover both a unit scheme and a drawing right scheme. The staff were working on the unit scheme first and would not hold up circulation of that portion until the drawing rights scheme was ready, but there would not be too much of an interval between the issue of the two parts of the document. Third, the Executive Board would certainly want to have the document in good time before the Third Joint Meeting, but the Deputies needed it with somewhat more urgency because the only meeting that they were scheduled to have before the next Joint Meeting was on the first of March. Mr. Emminger had asked whether, if the staff did produce a document of this type, the Deputies could have it somewhat before the first of March, so that they could devote their meeting to it. The staff would try to comply with this request.

Mr. Larre then made the following statement:

Meetings such as the one we have been attending in London should be a source of inspiration and guidance for our future discussions in the Board just as they are, I am sure, for the members of the Group of Ten. But, we have first to reach agreement as to what has been going on in London. This is, I assume, the purpose of our present discussion.

I will limit myself to a few comments on the two following points: (a) what are the highlights of the last Joint Meeting; (b) what should be their impact on our future work.

1. The first observation is that we have now completed the first round of discussions on the creation of a new reserve asset.

I will not dwell on the reasons why this topic had been singled out for the last two Meetings and I will not try to evaluate the results to be expected from these discussions. It is a fact that a certain amount of consensus has emerged on the various points listed on the agenda. We may be aware, however, that different people had in mind different things as they were speaking on such crucial issues as: the type of unit to be created; the preconditions to be met before implementing a scheme; the role of the various parties in the decision-making process. The impression of agreement that the London correspondents seem to have gathered from the press conference should not delude us into thinking that the main hurdles have been overcome.

2. My second observation has to do with the position of the French delegation. It is true that Mr. Pérouse has stressed that discussions on the creation of a new reserve asset should not have an undue priority over other approaches such as an increase in the price of gold and a thorough exploration of credit facilities. But the French delegation made it clear at the same time that it was not seeking or even suggesting an increase in the price of gold, so long as the need for additional liquidities was not felt or threatening: a situation which, admittedly, is not the case at the present time and will not occur in the foreseeable future.

As far as credit facilities are concerned, my delegation stated its readiness to start studies without delay. This position is in line with the resolution adopted by the Ministers of the European Economic Community at their meeting in The Hague on January 17.

3. This brings me to my third observation: Even if it did not actually happen in London, the decision of the six Finance Ministers seems to me to be the most important event of the last few weeks. Those Ministers who are fully aware of the long history of our discussions, came out with a joint decision that the next order of business should be a full and thorough exploration of the credit facilities to be obtained in the framework of the Fund. To be sure, this study has been entrusted, in the first place, to the Monetary Committee of the EEC. This being the case, we could disregard this matter and choose to go on, unilaterally, with our discussions on the reserve asset. This is a possible course of action, but I would not recommend it since we have to accept some guidance from the six governments which are expected to play an extensive role in the implementation of any scheme and to bear the heaviest burden in any agreement.

In addition, as it is the view of these countries that a solution should or could be achieved through the machinery of the IMF, it would be a seeming paradox that such study be undertaken and carried out entirely outside of the IMF. In this connection, I would confess that, as a member of the Board, I feel rather ashamed that we are so little prepared to deal with this matter. As a matter of fact, there was a basic study prepared by Mr. Fleming at the end of December 1963 which laid out the main directions in which we could proceed. This was a very preliminary study indeed and a lot more reflection would have to be given to this matter before we know where we stand and where we can go.

Some of our colleagues, Mr. Lieftinck for one, have insisted, more than once, that the scope for conditional liquidity should be more thoroughly studied before we move along the venturesome path of artificial money creation. The same Director, with support from other members of the Board, has further suggested that the impact of any reform on the liquidity of the Fund would deserve a close examination. Up to now, the staff has turned a deaf ear to such requests.

Another of our colleagues, Mr. van Campenhout, has circulated a very interesting paper on the automaticity of the gold tranche, which is the starting point for the creation of unconditional liquidity within the Fund. This paper has been buried. No study from the staff has been forthcoming; no discussion has taken place or even been scheduled for the Board. Had the staff wanted to sweep such topics under the rug they would not have proceeded otherwise.

Accordingly, there might be some truth in the suspicion that the Fund, afraid of being overtaken by the Group of Ten, has rushed to the study of a new reserve unit without giving equal consideration to the facilities to be provided within the framework of its own organization.

Admittedly, we cannot accept to see our future, so to speak, taken out of our hands. Whether we like it or not, we have to mind our business and to make up for the time we have been wasting. This leads me to the second point I had in mind: What should be our plans for the future?

The communiqué of the Six is very plain: it reads as follows:

> The Ministers and Governors, ... decided ... to have their experts, meeting in the EEC Monetary Committee, make a study starting almost immediately of the ways of improving international credit methods.

In my view, this language covers three topics: (a) one is the size of the quota increase that the six countries may be seeking and the way in which this operation can be carried out. There does not seem to be any basic difficulty with this move. If the Fund is to carry out larger responsibilities, in one way or another, it seems to me that a better balance has to be struck between the various countries or group of countries who are members. Suggestions to this effect were made, a few years ago, by Mr. Dillon and the last public statement of Mr. McChesney Martin in London can be interpreted as an endorsement. It seems as if the United States agrees that the continental countries of Europe are entitled to have a say in line with their financial responsibilities in the Fund. However, legitimate as it may be, this move has to be made at the initiative of the interested countries and not at the initiative of the Fund. We have to wait until the Governments have made up their minds on what they want to do and how they want it to be done. I appreciate that the IMF is not an open-end investment fund in which one is entitled to buy as much as one wishes. On the contrary, we have certain criteria, flexible as they are, and any request for a quota increase has to be screened against such requirements; (b) more immediate can be our contribution to the studies to be developed in the field of conditional liquidity. In the study by Mr. Fleming, document DM/63/63 on "The Role of the IMF in the Provision of International Liquidity" there are sections which are relevant to our future discussions. This is the case with "changes in drawing (tranche) policies: extension of outside limits on drawings, greater flexibility in drawing policies." However, this was a preliminary work now three years old. It may need some refurbishing as well as a new section on financing and the consequences for the liquidity of the Fund. As the Board may prefer, we can either start a discussion on the basis of the paper, as it is, or grant some time to the staff in order to get an up-to-date version; (c) the third topic for consideration might be the unconditional liquidity to be provided by the Fund. This is a major subject cutting across many of the policies we are following at the present time. Mr. Emminger told me in London that the Belgian proposal would mean a thorough reshuffling of the Fund's structure and activities. Even if Mr. Emminger was trying to frighten me away there may be some truth in his observation. But we know that the staff and some members of the Board are not afraid of bold innovations and this one should not disturb them any more than the ones we have been exploring together during the past months.

Anyway, we have, on this matter, a Belgian proposal, and this would be enough to deserve our consideration. It is my suggestion that we take it off the shelf and that we discuss it with whatever assistance the management and the staff will be willing to supply us with on this occasion. This topic is linked with SM/66/131 "Distribution of Net Income" so that we could take up both papers at the same time and give them a hard look as soon as the Board and the staff are ready. I could add that, when the staff started working on the unit scheme, it did not wait for any formal request from the Ten or the Six to do so.

These would be my suggestions as to our forthcoming tasks, between now and the next Joint Meeting. For once, we should tend our own backyard instead of wandering on foreign premises. If we do so, we may be able to take an active and constructive part in future discussions when the main topic--whether we like it or not--will be the International Monetary Fund. It may be hard for us to admit that we are not ready for discussing this matter yet. Happily enough, we have still some time to do our homework and be prepared for the next confrontation.

Mr. Nikoi asked whether, in view of the importance of Mr. Larre's statement and the many interesting suggestions it contained, copies of it could be circulated. Mr. Larre agreed.

Mr. Lieftinck said he was most grateful to the staff for the statement on the London Joint Meeting. As tended to be the case with most papers of this character, it was, in his opinion, somewhat optimistic, but perhaps that was the right view for the staff to take, and he hoped that this optimism would prove to be well founded. Mr. Lieftinck noted that the topics on which there remained a more marked difference of opinion had been listed here under four headings. He thought that the fundamental point of difference was the one mentioned under No. 4, "Units in the Fund." The whole problem of drawing rights versus a unit scheme was a matter which he considered to be still very controversial. Perhaps the staff had particularly in mind the differences of opinion expressed on their own paper on units in the Fund; certainly the discussion in the Fund Board had not revealed complete unanimity among its members. He felt, however, that one of the more fundamental differences that still existed was whether the main efforts of the Fund and of the Group of Ten Deputies should be directed toward the creation of new units or toward the creation of a drawing rights scheme.

Mr. Lieftinck had had the impression when discussions began in November that the case in favor of a unit scheme was a very strong one in that there was little support left for the drawing rights scheme. In the course of the discussions, however, he had observed a certain tendency to look more favorably upon a drawing rights scheme than perhaps originally was the case. He had, therefore, noted with satisfaction that Mr. Polak, in commenting on the staff statement, had indicated that the illustrative scheme under preparation would not only be an illustration of how a unit scheme could be set up, but also of how a drawing rights scheme could be devised. He welcomed this. He personally had tended toward the unit scheme solution, but that did not mean that he had completely closed his eyes to the advantages connected with the drawing rights scheme. The drawing rights scheme had the advantage of coming nearer to the heart of the Fund, while the unit scheme could perhaps more easily drift away from the Fund. It was his hope that a solution for this international problem would be found within the Fund. His greatest difficulty with the drawing rights scheme was that he feared that it would lead to a dilution of the Fund's drawing principles. It was to be expected that under such a scheme a set of rules would evolve for drawings to increase liquidity which would be different from those for drawings under normal procedures, and this might become confusing.

Mr. Lieftinck emphasized that this difficult problem of deciding between units and drawing rights had still to be resolved. As Mr. Larre had pointed out, it had been given a new background as a result of the decision and Communiqué of the Ministers and Governors of the Six, which had come as a surprise to him and perhaps also to some of the participants at the conference itself. Mr. Lieftinck agreed with Mr. Larre that the decision of the EEC Ministers was a very important new element in the whole picture. As long as the countries of the Common Market were going to pay a great deal of attention to considering structural changes in the functioning of the Fund side by side with a unit scheme, the field would be wide open for solutions which up until then had appeared unlikely. As Mr. Larre had rightly indicated, the Fund should not fall behind other groups in studying the various solutions to the problem.

Mr. Lieftinck thought that Mr. Larre might also have been right in arguing that the Fund, instead of following a logical course of action of its own, had rather tended to follow the lead of the Deputies. Mr. Lieftinck said that, although this was probably unavoidable to some extent, he had repeatedly urged that the Fund should follow a line of its own. He had also put much stress on what he considered to be a solution which the Fund should explore to the fullest extent, namely, to increase the availability of conditional liquidity, and perhaps also use the creation of reserve units as a means of solving some of the problems connected with gold payments for quota increases. It might be possible to build on this foundation so that solutions involving the creation of units would be adopted at times when, in addition to increases in conditional liquidity, there was also a need for more unconditional liquidity.

Mr. Lieftinck noted that Mr. Larre had indicated three fields in which he hoped that the staff would do some additional work, namely, the problems of quota increases, conditional liquidity, and unconditional liquidity provided by the Fund. These were matters which had received some attention from the staff and in the Board's deliberations; nevertheless, he felt Executive Directors should be fully prepared to discuss these matters in the next Joint Meeting, on the assumption that the Deputies, at least of the Six, would have made some progress in their own thinking on these subjects. Mr. Lieftinck said that he was, therefore, prepared to endorse the substance of Mr. Larre's suggestion that, pari passu with the preparation of the two illustrative schemes, the staff should be invited to explore more fully what could be done to improve the "Méthods du crédit international" mentioned in the decision of the EEC Ministers. In particular, they should consider what might be done with respect to the structure and functioning of the International Monetary Fund. In that connection, Mr. Lieftinck thought that the Belgian proposal for improving the automaticity of the gold tranche certainly deserved more attention by the Board than it had been given so far. Mr. Lieftinck believed that it had become urgent for the staff to undertake these studies.

Mr. Stevens asked for clarification on exactly what had been decided at The Hague. His impression was that there had been an agreement by Ministers of the Six to ask officials to make a certain study, but that there had been no commitment at all by those Ministers that they would adopt the findings and that no time schedule had been set out. He thought it was unlikely that this study would be completed and accepted not only by the Six but also by the Ten in time for the Joint Meeting at the end of April. He suggested that it might be preferable for the Fund to continue with its program of work and, meantime, watch developments. When and if these developments came nearer to some conclusions would be the time to consider what should be done.

Mr. vom Hofe supported Mr. Larre's proposal to study again, seriously, whether or not the objectives of the exercise could also be achieved through the more familiar ways and means of the IMF, especially as it had become apparent that other solutions would involve substantial difficulties. In the course of continuous discussions, individual views were often subject to change. In London, for instance, he had been struck by the fact that while at the First Joint Meeting there seemed to be an overwhelming majority in favor of a unit scheme, this time several speakers thought it might be preferable to reconsider, at least for the initial steps of liquidity creation, a use of the more familiar drawing rights. He was pleased to hear that the staff was preparing a document that would cover these ideas. Mr. vom Hofe said he had felt that the atmosphere of the Second Joint Meeting had been somewhat different from that of the first one. One remarkable result of the First Joint Meeting had been the discovery that the other group also consisted of quite reasonable and open-minded people, whereas the Second Meeting might rather be characterized as a sort of family party.

Mr. vom Hofe then referred to the high-spirited remarks which Mr. Gilbert had made on the first day of the London Meeting because, except for a short reply by Mr. Emminger, nobody had answered him. Mr. Gilbert thought that the need for reserves was obvious and had asked what other reason there could have been for creating a network of swaps and the GAB, for instance. Mr. vom Hofe thought Mr. Gilbert would have been right if a distinction did not have to be made between a global and an individual need for reserves. The GAB had been brought into existence and, indeed, applied, in order to meet quite specific cases of individual need. He reminded the Board of what Mr. Blessing had said at the last Annual Meeting to the effect that when a boat, even a very big one, runs ashore it was not advisable to raise the level of the waters of the entire ocean to refloat it. It was better to help individually and that was what actually had been done by such international actions as Mr. Gilbert had described.

Mr. vom Hofe observed that another, and indeed much more important, item in the discussions had been the problem of decision making. It had been generally felt that, for the reasons mentioned by Mr. Kashiwagi, it was necessary to make a clear distinction between the establishment of a contingency plan and its activation. In an excellent statement, Mr. van Lennep explained why the parliaments of countries would look to see whether their interests were adequately reflected. This applied in particular to the parliaments of countries which, as a result of their currency having been used in the Fund, in the GAB, and in swap arrangements, had enabled the international monetary system to function. There had been no opposition to what he had said; but on the other hand there also had not been much progress toward a solution of the problem of how to meet the legitimate interests of such countries. In London, the only thing that had been realized was that a two-stage procedure was not wanted.

Mr. vom Hofe recalled that Mr. van Lennep had taken up the earlier proposal made by the Managing Director that a specified majority of the 12 countries with the largest quotas should be contained in the over-all majority required for an activation. But nobody else had come back to this proposal. Several speakers had suggested that the interests of particular countries should be safeguarded through the preliminary consultations that would be held with the Managing Director rather than through legal requirements. Mr. vom Hofe said that, personally, he had been very much in agreement with what Mr. Nikoi had said about the desirability of unanimous consensus of the kind that was customary in the Fund. In this context, Mr. vom Hofe asked the General Counsel whether he thought it might be legally possible to stipulate that only the Managing Director should have the right to bring forward proposals for an activation. Would no Executive Director nor Governor be authorized to make such proposals?

Mr. vom Hofe did not believe that the problem of decision making could be solved in a simple way. He was pretty sure that the German parliament would demand more specific safeguards against the possibility of excessive reserve creation before being ready to make up its mind on whether to approve such a far-reaching scheme as the deliberate creation of international liquidity. He went on to explain this in more detail: When John Law "invented" paper money, it was one of the most remarkable ideas in monetary history, and everyone was still making use of this invention every day. But the misuse of that idea through the excessive creation of paper money by the government finally led to default. Even today quite a number of governments were more willing to put up with inflation than to deprive themselves of the convenience of generous money creation. Germany had suffered from such experiences. After the great depression of the early 1930's, Dr. Schacht for the first time financed governmental deficit spending on a large scale by issuing MEFO-bills. But when the last unemployed had disappeared from the streets and Dr. Schacht demanded that a stop be put to this process, the Government had come to like this simple and effortless sort of financing so much that it refused to do so, and Dr. Schacht had to leave his post. Twice in a lifetime Germany had experienced total inflation. That was why they were so sensitive in this respect. In Germany a panel of experts consisting of five professors prepared annually a report to advise the Government on economic matters. In their last report the experts had suggested to the Government that to counteract the imported inflation which, as a country with a large volume of foreign trade, Germany could hardly escape, the deutsche mark should be revalued at regular intervals. This indicated how serious Germans were in trying to counteract any chance of a deterioration in the value of money.

Mr. vom Hofe considered that, although the creation of international liquidity for exclusive use among central banks would not have direct inflationary effects, the increase of demand which it was likely to induce would finally have a result similar to that of domestic money printing. Under these circumstances he thought it would be impossible to obtain the consent of the German parliament to the deliberate creation of liquidity without providing adequate safeguards against too generous activations of the liquidity scheme. Opting out would make it possible to exclude oneself from participation in reserve creation but not to escape from its economic consequences. The results of a world-wide increase of demand would be felt by everyone whether he had participated in reserve creation or not.

Mr. vom Hofe was sure that the governments of some other industrialized countries held the same view. This had to be taken into account as a fact of life. It did not matter how this fact of life was referred to--whether it was recognized that these countries had a special responsibility for the functioning of the international monetary system, or whether it was agreed that they were supposed to provide the financial backing for every increase in liquidity, or that they would have to carry the burden, whenever such a burden would have to be carried. Mr. Martin (Chairman of the Federal Reserve Board) in his recent London speech had made the same point when he said that it was only natural that the countries of Western Europe should seek to have the strength of their economies reflected in a corresponding influence on international monetary affairs.

Mr. vom Hofe thought that a solution to this problem might perhaps be found in the direction at which Mr. Joge and Mr. Pereira Lira had hinted when stating that it would be necessary that the mechanism of decision making should be such that the opinion of important groups of countries would not be overruled. In practice this could for instance mean that the majority of 85 per cent for the adoption of the plan to which the staff had referred should also be applied in every case of activation. But it was possible to think of other modifications. In his opinion, it was necessary to concentrate attention on this question. He was personally convinced that real progress could only be made when agreement was reached on this obviously difficult question.

Mr. Friis found the staff statement useful. Although very brief, it gave, in his opinion, a rather clear indication as to where things stood, provided that participants kept to the point and did not try to go beyond the framework of the exercise. The main impression he had received in London was that there was movement, thought it was difficult to indicate exactly in what direction. He thought it might not be absolutely inappropriate to compare the participants in the Joint Meeting with Noah and his traveling companions in the ark, floating on the waves, with the distinction, however, that the participants did have the satisfaction of all being on board. They only had to hope for the dove with the olive branch.

Mr. Friis welcomed the fact that the staff was working on an illustrative scheme. He thought this could be extremely useful for subsequent deliberations. He was also glad that the scheme would keep a door open for any contingencies.

Mr. Handfield-Jones had been reassured by the fact that progress had continued to be made at the London Meeting. He thought that they had not been unsuccessful. He also expressed his appreciation to his British colleagues for providing such splendid surroundings for the meetings. He shared Mr. vom Hofe's view that there had been some change in the atmosphere between the First Meeting in Washington and the Second Meeting in London. The First Meeting had been like a honeymoon, and the second more like ordinary married life. As in the First Meeting much had been owed to the part the Managing Director had played in chairing the Meeting, so in London much had been owed to the contribution which Mr. Emminger had made as the presiding Co-Chairman. Mr. Handfield-Jones hoped an indication of his appreciation could be passed on to Mr. Emminger.

Mr. Handfield-Jones believed that every effort had to be made to continue to move forward. He welcomed the staff's intention to prepare an illustrative scheme which would attempt to fit together the various aspects of reserve creation that had hitherto been studied separately. He felt sure that this would be most helpful in maintaining the momentum of the work. Indeed, it was essential. Time and again discussion of particular aspects of the over-all problem had had to be qualified by saying that much would depend on what happened in a number of other fields. With the completion of the first round of exploratory talks, it was necessary to come back to a more articulated system in which the intimate relations between the various parts of the whole could be traced more explicitly than had been possible in the past.

Mr. Handfield-Jones hoped that the illustrative scheme would enable further progress to be made in one particular area in which he was very conscious that there was still a long way to go to a full understanding. This was the question of the way in which units would be transferred between parties and the various arrangements which would be necessary with regard to the obligations to accept and hold such units. The Board discussion on units in the Fund had been relevant, but more work was needed on that aspect and it ought to be carried out in the context of the transfer question as a whole. The paper prepared by the Group of Ten working party chaired by Mr. Ossola would be helpful in providing an occasion for a further and more exhaustive discussion of the transfer question.

Mr. Handfield-Jones believed that if further progress could be made on the transfer question, it would be somewhat easier to move ahead on other fronts. One such front would no doubt be the question of decision making. While, of course, both the staff and Mr. Emminger in the press conference after the London Meeting had made it clear that the threshold of any agreement on this question had still not been reached, he considered that some progress had been made. In this respect, he thought that Mr. vom Hofe was, to a large extent, pushing on an open door. He believed that every participant in the discussions was as fully convinced as Mr. vom Hofe of the necessity to build appropriate safeguards into a scheme as powerful and novel as a scheme for the deliberate creation of reserves. For all the reaons that Mr. vom Hofe himself had so eloquently put forward, no participant had ever suggested that the decisions on the deliberate creation of reserves were the sort of decisions which should be made by simple, unweighted majorities. He could assure Mr. vom Hofe that everyone shared his concern and agreed with the importance which he attached to the building in of proper safeguards.

Reverting to the last paragraph of the staff statement and to the Economic Counsellor's introductory comments, Mr. Handfield-Jones agreed that it was appropriate and indeed necessary to keep open at this time the option between units and drawing rights. His preference and that of his authorities remained quite clearly marked, but Mr. Lieftinck was, of course, right in stressing that this was a difficult and highly controversial question and that the two alternatives must be elaborated so that the choice between them might finally be made in the fullest light of understanding.

Mr. Handfield-Jones said that he had listened with a great deal of interest to Mr. Larre's statement. He hoped he had not misinterpreted it, but he had the impression that Mr. Larre was overstating the preference that had been given to discussion of a unit scheme. A lot of time had been spent talking about a unit scheme, but there was a good and not a sinister reason for this. The unit scheme was the newest and the most different proposal, and therefore, for logical and intellectual reasons, thorough exploration of it had been absolutely crucial if there was to be an exhaustive study of the entire problem. Other aspects of the entire system had not been neglected, however. He had the impression that discussions in the Fund had revealed very clearly that the provision of conditional liquidity was considered as having just as crucial a part to play in the future workings of the international monetary system as the provision of unconditional liquidity. They were not substitutes; they were supplements. Each had a role to play and they had to be developed together. That was why it had been agreed that any decision on reserve creation should take into account the totality of liquidity and the means of making international payments as a whole. Moreover, thanks to Mr. Lieftinck's contribution to this subject, some specific technical possibilities had been discussed for ensuring that the provision of unconditional liquidity went hand in hand with the provision of conditional liquidity.

In this connection, Mr. Handfield-Jones recalled that, in the course of the quinquennial review of quotas, there had been extremely exhaustive discussion of the role of conditional liquidity and the possibilities of increasing it. At that time, the Canadian authorities pressed very hard for a substantially larger reliance on an increase in quotas, and thus on the provision of enlarged conditional liquidity through the Fund. They had not been successful in this endeavor, and this was perhaps one of the reasons why more time had been spent in the period since then on the discussion of unconditional liquidity.

Mr. Handfield-Jones noted Mr. Larre's reference to the Belgian proposals. Mr. Handfield-Jones said he had always thought that these proposals for an improvement in the quality of the gold tranche would have to play an important, indeed crucial, part in the package that was put together at the end of the day. Therefore, he had absolutely no difficulty with, and would support with pleasure, Mr. Larre's suggestion that the Executive Board should turn as early as possible to a study of the Belgian proposals. He had been very interested in Mr. Larre's suggestion that those proposals could be discussed at the same time as the question of the distribution of the Fund's net income. His own thoughts had been moving in much the same direction and he looked forward to a discussion of the payment of dividends in a rather broad context which would embrace the entire question of the role and qualities of the gold tranche in the international payments system as a whole. He supported what Mr. Larre had said in pressing for a rather early discussion of this subject.

Mr. Handfield-Jones concluded by saying that, if there were other questions regarding the international credit mechanism which could be discussed usefully and if others were prepared to put forward constructive proposals as the Belgians had done, it would be incumbent upon the Executive Board to give very high priority to an examination of those questions. In an area as complicated and as interrelated as the improvement of the international monetary system, it was not useful to think in terms of dichotomies. He was prepared to walk down any street which he was invited to explore and at the end of which some helpful light might be found.

Mr. Biron considered that the Second Joint Meeting had been very useful. It had permitted a further exploration of some difficult problems, especially the very intricate matter of decision making. It had been intended as an exploratory meeting and no decisions were to be taken. Nevertheless, it had brought about a better mutual understanding and had also contributed, in a limited way, to a narrowing of the differences. For all its merits, the formula of exploratory meetings had obvious limitations, however. The exchanges of views had been most interesting. They had helped to establish between the participants a climate of comprehension and appreciation. Nevertheless, something more would be needed if a start was to be made on solving the problems and progressing toward more elaborate proposals.

Mr. Biron observed that, as anticipated, the decision-making process had proved to be one of the most difficult issues. Marked differences of opinion remained in this field. The Directors of the Fund had a natural inclination, which he shared, to favor a solution which would follow the lines of the present voting provisions of the Articles of Agreement and would not establish any discrimination between member countries. This held true, however, only to the extent that the creation of reserves took place along the traditional lines of the Fund's policies. If a reserve unit scheme were adopted which would mark a radical departure from existing practices, there would seem to be less reason for countries to feel themselves bound by the voting provisions which had been adopted in the Fund. There was clearly a group of countries, most of them rather important creditor members, which felt that the creation of reserve units might become excessive. The more radical the approach taken, the greater their fears and their need for guarantees. An important participant at the Second Joint Meeting had drawn attention to the fact that, if no adequate solution was found for the decision-making process, it would be necessary to limit the whole exercise to the creation of conditional liquidity.

Mr. Biron pointed out that most of the schemes on which participants had been working so far had been of a more radical variety. A reserve unit scheme raised by its very nature a whole set of questions which it was impossible to ignore. It was, for instance, interesting to read on page 6 of the working paper, which the working party chaired by Mr. Ossola had prepared on the provisions to ensure acceptability of a new reserve asset and which had been distributed in London, that, in the opinion of some members, it had to be tacitly assumed that gold would be ultimately demonetized. On page 16 of the same document, it was stated that there was an inherent contradiction between gold and the new instrument, i.e., reserve units. These remarks were very challenging. Whether it was wise to raise these problems for the moment was, however, open to doubt.

Mr. Biron also pointed out that the different schemes contemplated so far did not have a time limit. Neither did they set any limit to the amount of new reserve units which it would be possible to create. These schemes were not meant to deal only with the difficulties the world community might encounter during the next five or ten years. They were intended to become a permanent feature of the international monetary system and, moreover, the most important feature of the system. Whether such an approach was the most practical was also open to doubt. There was no general agreement on how to assess a possible shortage of reserves nor on the symptoms which would indicate that such a shortage was evolving. Nor was there any previous experience on which to rely in assessing the impact of a free distribution of reserves on the world economy or on the behavior of the various member countries. Some countries might therefore have the impression that to agree in such conditions to the creation of whatever amount of reserves would be judged necessary was a "salto mortale" they would rather avoid. They would probably insist, if this was to be the case, on very high majorities, if not on near unanimity.

Mr. Biron suggested that the time had come to explore more fully some alternative ways of coping with the problem. While continuing to study a reserve unit scheme, attention should at the same time be directed toward the two following fields:

1. Whether and to what extent the need for reserves, if and when it arose, could be dealt with by the provision of conditional liquidity through the Fund. As stated in the 1965 Annual Report, "ideally countries' need for additional reserves can be met by adequate increases in conditional liquidity." This remark had been quoted again by the Managing Director in the introductory remarks he submitted to the Board in March 1966. As Mr. Lieftinck had time and again emphasized, the possibilities inherent in the creation of conditional liquidity had not been fully explored and too much attention seemed to have been devoted to the creation of unconditional reserves. Mr. Biron felt that the moment had come for a thorough study of this problem. In his opinion this study should focus on four main points:

(a) To what extent could the need of reserves be met by the provision of additional conditional liquidity?

(b) To what extent would the dangers and difficulties inherent in any plan involving the creation of unconditional liquidity still be present in a scheme which would limit itself to the creation of conditional reserves?

(c) In what ways could the Fund provide conditional liquidity? Different possibilities should be carefully examined; for example, a modification of existing tranche policies, the creation of additional credit tranches, a general increase in quotas, etc.

(d) What dispositions should be taken in order to protect the liquidity of the Fund in the event that additional conditional liquidity were to be provided along the lines he had just mentioned?

2. The time had also come to examine very closely the different proposals which had been made to the Executive Board in order to improve the status of gold tranche and super gold tranche positions. A study had already been prepared on the payment of interest on super gold tranche positions. Mr. Biron assumed that before long a complete study of the proposals which had been made in order to give to the Fund creditor's position the full status of good and unquestionable reserve assets would be issued. He was sure that this study would be constructive and that the staff would not feel limited by the present Articles of Agreement and would not hesitate to examine whatever amendments might be needed.

Mr. Biron said that he would especially appreciate a very close study of whether, through an appropriate combination of the provision of additional conditional liquidity and the improvement in the status of the creditor's position in the Fund, it would be possible to devise an over-all solution which would take care of most of the problems that were being discussed. Such a solution should, in his opinion, go along the following lines:

(a) It should be gradual. There was no need to cope with all the problems at the same time and it was unnecessary to worry unduly about what was going to happen in twenty years' time. Policies might be evolved progressively in order to cope with the needs as and when they arose.

(b) The solution should respect the general framework of the present international monetary system as it currently existed and functioned. Whatever criticisms might be made of this system, Mr. Biron felt that it had served the world community well and the possibilities it offered were far from having been exhausted.

Mr. Biron welcomed the staff's proposal to submit to the Board what had been described as an illustrative scheme. He was very happy to learn that two schemes would be submitted to the Board, a reserve unit scheme and a drawing right scheme, although he was not sure that the drawing rights the staff was thinking of were the same as those he would personally favor. Like Mr. Friis, he felt that the Executive Board should remain open to all suggestions and close no door. The study of alternative solutions was most urgent since some of them were to be examined in an outside body in which important members of the Fund were represented.

Finally, Mr. Biron made two comments on the staff's statement. First, it might be true that, on the subject of decision making, nobody had mentioned a higher voting percentage than 80 per cent. It would be a mistake, however, to draw any conclusions from this absence of comments. Many participants must have felt that at the present stage of the deliberations it was somewhat premature to express an opinion on such a delicate matter. Second, the staff's statement failed to mention one important observation made on the "opting out" proposal. It was that no country would be able to "opt out" of the considerable economic and monetary consequences which would be the result of an excessive reserve creation. Therefore, the guarantee offered by this procedure would be of limited value.

Mr. Dale agreed that the London Joint Meeting had been quite a successful one. It had been anticipated that the initial discussion of decision making might well be a delicate and difficult operation. The fact that at least some progress had been made was an accomplishment in which some very real pride could be taken. He did not think the staff's statement had been unduly optimistic. The staff had been rather careful in suggesting the areas in which some convergence of views appeared to be growing. While it was never possible to be certain until a definite scheme had been drawn up whether what appeared to be a convergence was in fact going to be maintained, he too had been encouraged by the comments that had been made in London.

Mr. Dale said he very much welcomed the fact that the staff was planning to come forward with illustrative schemes. Like others, he felt that it was not yet possible to decide whether participants would ultimately move toward units or toward drawing rights, particularly in view of the results of the recent meeting of Ministers and Governors of the Six. Consequently, he thought that the staff was quite right to plan to come forward with illustrative schemes in both fields.

Mr. Dale observed that Mr. Larre, Mr. Lieftinck, Mr. vom Hofe, and Mr. Biron had suggested a number of studies to which the Fund staff might give its attention. He very much shared the feeling that it would be quite worthwhile to undertake all of the studies that had been suggested. It was necessary to remember, however, that there was some time pressure. All of the doors should perhaps be left open at the present time, but they could not be left open indefinitely. It would be necessary to get on with decision making ultimately and, while doors should be left open as long as it was reasonably possible to do so, there were some doors which at some stage would have to be closed, even if only tentatively, in order to get on with solving the problem which was ultimately the objective of the exercise. Therefore, in reply to Mr. Larre's comments, Mr. Dale thought that, although useful studies could be made of a number of elements on which the last word had probably not yet been spoken, a good deal of elucidation was very likely to result from the illustrative schemes themselves. If in addition to that there was need for further work of the kind Mr. Larre had suggested, the Fund could then consider those items.

Mr. Dale thought that one of the questions raised by Mr. Larre's comments was whether a very high priority should be given in the period before the end of April to a very profound study of the Fund itself, and of the possibilities for extending drawing rights and conditional liquidity. To the extent that other factors would allow, that certainly would be desirable. However, Mr. van Lennep had indicated at the London Meeting that, in his judgment, it was unlikely that a formally sponsored joint proposal by the Governments of the Six would be submitted until, at the earliest, just before the April Joint Meeting. Mr. Dale wondered, therefore, whether the joint proposal would in fact come forward quickly enough for both the Executive Directors and the Deputies of the Group of Ten to prepare themselves adequately in ways which might not be possible prior to the submission of the proposal, so that it could be put on the agenda and discussed at the April Meeting if it seemed appropriate to do so.

Finally, Mr. Dale thought it would not be possible or helpful for him to try to expand very much on the band proposal which Mr. Deming had made in London. The essence of the band proposal was, however, addressed to a particular problem which might exist in the decision-making field. The problem was that one possibility in the decision-making field, whether applied to entry into force or to initial activation or to later decisions for reserve creation, would be to have a very high, weighted majority. This majority would be so high that it might perhaps raise embarrassing and difficult questions about small groups of countries, or even a single country, being able to prevent a decision being made. Consequently, the band proposal was aimed at providing for a decision to go into force in the event that if there was a lower proportion of votes in favor, the countries which were favorably disposed to the decision could agree that a sufficient number of countries able to support the financial consequences of reserve creation had in principle decided to go ahead and therefore the decision could be activated. Mr. Dale hoped that he would be able to make more detailed comments on this band proposal in the not too distant future.

The Chairman thought that there had been two categories of observations made by Executive Directors during the discussion. Some observations had been addressed to the discussions which had taken place in London and to the various proposals for the creation of new reserve assets which had been under study. Other remarks had covered a wider field and had been addressed to some other possible activities of the Fund, or some other possible lines of thought. He thought it might clarify the discussion if these two categories of remarks were considered separately.

The Economic Counsellor, commenting on the first category of remarks, referred first to the point which Mr. Lieftinck had made about units versus drawing rights. The staff paper, "The Use of Reserve Units in Fund Transactions" (SM/67/3, 1/11/67), had been intended to deal with the rather narrow question of how the Fund would use units and that had in fact been the only aspect which had been discussed in London. The relative merits of drawing rights and units had not been discussed much. That question was intended to be wide open, and that was why the staff intended to put forward two illustrative schemes so that there might be a better discussion on the relative merits of the two approaches.

In reply to Mr. Stevens' question about the timetable of the Six, the Economic Counsellor said that, although a few comments had been made about this in the Joint Meeting, particularly by Mr. Emminger and by Mr. van Lennep, a little more had been said about it at the meeting of the Deputies which had preceded the Joint Meeting. At the Deputies' meeting, a great deal of time had been spent clarifying what The Hague decision meant. Mr. Emminger had made a rather long statement in which he had explained that the meaning of the Communiqué had been rather confused by inaccurate press reports. He had stressed that there would be no interruption of the continuing discussion of proposals for reserve creation in the Group of Ten and the Joint Meetings. That point had been explicitly mentioned in the Communiqué. Mr. Emminger had also made it clear at the press conference after the Second Joint Meeting that the Monetary Committee of the Six was not going to take any initiative, but would wait for French proposals to be submitted and he had no idea what those proposals might be.

The Economic Counsellor pointed out that there had been no firm commitment at the meeting of the Deputies that such proposals would come forward in time for the mid-February meeting of the Monetary Committee. If proposals were put forward then, the Monetary Committee would consider them and see whether they could come to a common view. They had not promised in advance to do so. If the Monetary Committee came to an agreement, the proposals would then go to the Ministers of the Six, who would be meeting in early April. According to what had been said at the Deputies' meeting, the proposals would not then come to the Fund, but would be submitted to the Group of Ten. The Group of Ten had not planned any meeting prior to the April meeting, except the one scheduled for March 1. The Economic Counsellor thought that this was the reason why Mr. van Lennep had expressed the view that it was really quite unlikely that the April Joint Meeting would have any proposals to discuss as a result of the meetings of the Monetary Committee.

On Mr. Handfield-Jones' comments about the transfer question, the Economic Counsellor considered that more discussion of this subject was clearly needed. The Ossola working party was meeting again to discuss it and a new or revised report, which perhaps would edit out some of the remarks to which Mr. Biron had referred, was likely to come forward reasonably soon. However, it might be best to discuss the transfer question in connection with the illustrative schemes which the staff was preparing and in which, of course, the transfer question would be spelled out in considerable detail.

With reference to Mr. Biron's remarks, the Economic Counsellor said that the staff statement on the London Meeting had noted the fact that no one had mentioned percentages above 80 per cent because the staff believed this to be a rather significant development. At the informal Board discussion prior to the London Meeting, quite a lot of higher percentages had been mentioned. In London, a number of participants, both in and out of the Meeting, had expressed the view that 80 per cent might be too high for some of the reasons to which Mr. Dale had just alluded.

On the question of opting out, the Economic Counsellor thought it had to be admitted that there was no consensus as a result of the London Meeting. The point to which Mr. Biron had referred, that opting out was an unsatisfactory solution because it would not enable countries to avoid the economic consequences of reserve creation, had been made a number of times. It was interesting that a number of Executive Directors now seemed to share this view.

The General Counsel, replying to Mr. vom Hofe's question about whether it would be possible to empower the Managing Director alone to make proposals for activation of reserve creation, said that he assumed Mr. vom Hofe had used the word "activation" as applying not only to the first reserve creation but also to all subsequent decisions. As a purely legal matter, devoid of policy implications, the General Counsel saw no difficulty in this. If a new charter was being drafted, as presumably it would be for a unit scheme, then, of course, all possibilities would be open. If a drawing rights scheme which did not involve amendment of the Articles was being dealt with, then, of course, it would be normal practice for the Managing Director alone to have the power to make proposals of this kind. He thought it was worth recalling that, under the GAB, it was the sole responsibility of the Managing Director to make proposals for loans to the Fund. This had greater relevance than might at first appear because, in the course of negotiations on the GAB, it had been suggested that perhaps some participants should take the initiative in making these proposals.

Mr. Larre said he was pleased that nobody had suggested that his proposals had not been within the framework of the terms of reference of the Fund. He was glad that a debate on procedure could be avoided. Clearly, various means of providing additional liquidities, if liquidity should become scarce, had to be considered. No one way of providing such liquidity should be regarded as better than another and no method should be considered as excluded, provided it was thought to be technically adequate and politically feasible. The proposal from the Six was technically valid and it had political backing so it could not be disregarded or forgotten.

Mr. Larre observed, however, that although the question of procedure had not been raised, the question of timing had. This was the other resort which people used when they were not very eager to do something in international negotiations. The closest friend of the Common Market had implied that the Common Market could not be ready in due time. It was not certain that the Common Market would be ready with a fully fledged proposal by February 28, so as to leave two months for considering it, but this was a possibility. The French proposal would be submitted on February 15. As it had been possible to agree on the Communiqué in five minutes, it might be possible to agree on the proposal in a few weeks. But even if this were not the case, it could not be said that the nature of these proposals was unknown.

Mr. Larre maintained that if credit possibilities in the Fund were to be explored, there were in effect only three types of proposal which could be made. One was the Lieftinck approach, another was the van Campenhout approach and there was also the question of changes in voting powers, quotas, and the general structure of the Fund. It could not be claimed that nothing was known about these proposals. The Fund had to be ready to discuss them. The Fund had not argued that, before it could discuss reserve assets, there would have to be a study by the Six on which the Six would have to report to the Ten and then the Ten to the Fund. When he had said earlier in the meeting that there were proposals which the Fund should be ready to discuss, he had been supported by five or six of his colleagues and this could not be ignored. He suggested therefore that, before the April Joint Meeting, Executive Directors should be ready to discuss, side by side, reserve units, drawing rights, and credit facilities in the Fund. If they again went to a Joint Meeting prepared to discuss only reserve units, despite the fact that six countries had presented other proposals, an enormous political problem would be created. The Six would be faced with the necessity of either taking part in the discussion of reserve units and keeping for the next time, if there was one, their own proposal, or insisting that discussion of their own proposals should begin at once. It was a question not only of political pride, but also of judgment, whether proposals which were within the framework of the Fund and dealt with the problem at issue could be disregarded. To do so would put the Six in a position they would not like and which other members would not like either.

Mr. Caranicas said that he hesitated to speak because Italy was the main partner in his group of countries and he had not had an opportunity to speak to the Italian authorities about their opinions of the London Meeting. However, his views were similar to those expressed by the Directors from the Common Market countries. He thought that what Mr. Larre had just said was extremely reasonable. The discussions on liquidity could be compared with a pendulum. During the past few months the pendulum had been swinging mainly in the direction of a unit scheme; now it was shifting back toward a drawing rights scheme. It was only reasonable to expect that, because of the new element introduced by the Communiqué of the Six concerning the improvement of international monetary facilities, the Fund would again put more emphasis on conditional liquidity and, at the same time, study the question of unconditional liquidity. In other words, although there were also political factors, as Mr. Larre had indicated, it was obvious that there was now a new element and, in view of this, one ought perhaps to be flexible and proceed along the lines suggested by Mr. Larre. Mr. Caranicas said that he fully realized that this new emphasis in the studies of the Fund might influence the provisional agenda for the next round of discussions.

Mr. Nikoi asked Mr. Larre whether, if the French proposals on the improvement of credit facilities were ready by February 15, it would be possible for the Fund Board to be given some indication of what they contained and, if so, how soon?

Mr. Larre thought he would not be able to inform the Board officially before the Six had reached agreement, but, as a matter of courtesy, he would be glad to inform privately those of his colleagues who were interested in the contents of the proposals as soon as these had been sent to the EEC.

Mr. Biron thought that the meeting in The Hague had been a very important event, and that its consequences should be considered by the Fund. He wished, however, to stress two points. First, the Monetary Committee of the EEC probably would not examine only French proposals; any member of the EEC would be free to submit any proposals it thought fit. There was likely to be a general discussion with every country making its contribution to whatever solution might ultimately evolve. Second, the Fund Board should not look at the problem only on a political basis. It was very important that the EEC countries had taken a decision, but it was more important that the Fund should consider all possible ways of solving the problem it was supposed to solve. Whatever the EEC countries might decide, it was a fact that the reserve unit scheme was not the only possible way to solve the problem. It was not necessary to wait for what the EEC countries were going to decide. The problems of which Mr. Larre, Mr. Lieftinck, Mr. vom Hofe, and he, himself, had spoken were already on the agenda. More time should be devoted to the question of conditional liquidity and to the problem of gold tranche and super gold tranche positions. The Fund was not bound in any way by the timetable of the Six or of the Ten. It had to find a solution of the liquidity problem and all the possible avenues should be explored and no doors closed.

Referring to the broader question, which Mr. Larre had raised, of the general scope of the future course the Fund's studies and efforts should take, the Chairman said he presumed that Mr. Larre's criticisms had been chiefly addressed to the management and the staff. In his view, the management and staff had followed the lines of action which had been indicated both in the successive Annual Reports of the Executive Board and in the various official and informal discussions which had been devoted not only to the technical points concerning the creation of new reserve assets, but also to the permanent study of the functioning of the Fund. As had already been stressed, in pursuing the present line of action, equal importance had been given to studies on the creation of reserve units and on the establishment of drawing rights.

With regard to drawing rights, the Chairman pointed out that full account was being taken of the Belgian proposal for improving the gold tranche. One reason why a specific paper on that proposal had not yet been produced was that it had been felt that it should be studied not only as a technical improvement of the gold tranche as it currently existed, but also in the broader perspective of a drawing right system. The Chairman believed that the Belgian authorities agreed that this was the proper approach to their suggestion. He was quite willing to discuss in the same context the paper on the distribution of net income.

The Chairman also pointed out that there had already been several discussions of the policy on drawing rights and of the question of how far conditional liquidity could go in solving present needs. These subjects could certainly be discussed again, and what had come to be known as Mr. Lieftinck's proposal would also have to be studied as providing a possible link between conditional liquidity and the creation of some kind of asset, more specifically units. He did not feel that the management or staff had been delinquent in considering any of these aspects and they were certainly prepared to continue exploring all these subjects with all deliberate speed.

The Chairman then turned to Mr. Larre's remarks regarding the recent Communiqué of the Six. Two aspects of the Communiqué had been presented. One was the technical interest of the proposals which might emerge and the other was the political aspect which would be necessarily inherent in a joint proposal by the Six. He did not wish to comment on the second aspect. If there was a joint proposal, it certainly would carry its due weight without even having to consider all its possible political implications. He did not yet know either what the French proposals to which Mr. Larre had referred would be, or, a priori, what might come out of the deliberations of the Six. It was clearly understood that there would be a first stage during which there would be a technical discussion in the Monetary Committee, and then a second stage when the Ministers would take a decision.

The Chairman observed that Mr. Larre had also mentioned a few specific points. One had been the question of quota increases and the general size of quotas in the Fund. It was not necessary to have an outstanding memory to remember the discussions which had taken place at the time when the general quota increase and possible special quota increases were being discussed. Nevertheless, Mr. Larre was perfectly right in saying that it was necessary to wait until there was an initiative. With regard to what had been called structural changes in the IMF, the Chairman said that he was at a loss to know exactly what this meant. The Fund would certainly continue with the study of all the problems he had already mentioned, but it would be helpful to know what was being considered in the EEC. The decision of the EEC to study these questions was, indeed, a most important event, as Mr. Larre had said.

On the question of the timetable, the Chairman pointed out that a number of factors had to be considered. Things had to succeed one another on a given calendar, but, of course, thought could be devoted to various questions in the meantime. It was also necessary to recognize the difference between studying a subject in various separate bodies, such as the Six or the Ten or the Fund, and studying it in a joint Meeting. Before an item was ripe to be put on the agenda of a Joint Meeting, it was obviously necessary for both groups of participants to have had an opportunity to explore it fully. He did not think Joint Meetings were a proper forum into which to toss new ideas for a wide-open discussion, especially when the problems had not been studied before by the bodies which they mainly concerned.

In concluding, the Chairman said that Mr. Larre's introductory statement would be studied with great care and perhaps the Board might wish to have another discussion after Executive Directors had had an opportunity to consider it more fully.

W. LAWRENCE HEBBARD
Secretary