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

Executive Directors	Alternate Executive Directors
W. B. Dale	J. S. Hooker
	Y. S. Patrón
P. L. Faber	L. Williams
	J. Aranko
J. González del Valle	A. Phillips O.
S. J. Handfield-Jones	P. M. Reid
A. Kafka	P. H. Pereira Lira
R. Larre	G. Teyssier
	H. M. H. A. van der Valk
B. K. Madan	A. K. Banerji
A. Nikoi	M. B. Alwie
	A. Mansour
	C. P. Caranicas
	D. W. G. Wass
J. O. Stone	A. M. de Villiers
H. Suzuki	E. Ozaki
B. Tann	
A. van Campenhout	
E. vom Hofe	
	L. M. Rajaobelina

W. L. Hebbard, Secretary

Also Present

African Department: M. Touré, Director; C. L. Merwin, Deputy Director. Asian Department: C. C. Liang. Central Banking Service: R. A. Young, Consultant. Exchange and Trade Relations Department: E. Sturc, Director; C. D. Finch, Deputy Director. Legal Department: J. Gold, General Counsel and Director; G. Nicoletopoulos, Deputy General Counsel; J. G. Evans, F. Hodel. Middle Eastern Department: M. M. Hassanein. Research and Statistics Department: J. J. Polak, Economic Counsellor and Director; M. Fleming, Deputy Director; H. Ezekiel, R. R. Rhomberg. Secretary's Department: A. Wright. Treasurer's Department: W. O. Habermeier, Deputy Treasurer; R. Kroc, Deputy Treasurer. Personal Assistant to the Managing Director: F. L. Hall. Technical Assistants to Executive Directors: P. D. Fells, G. M. Gill, B. M. F. Hazenberg, C. T. MacDonald, E. Schmidbauer, E. Stoffers, W. Stoop, T. Tanaka.

1. INTERNATIONAL LIQUIDITY - USE AND TRANSFER, MERGED OR SEPARATE RESOURCES, VOTING PROVISIONS

The Executive Board resumed in informal session the discussion of the staff paper on Deliberate Reserve Creation--Problems Related to Use and Transfer (SM/67/56, 5/5/67).

Mr. Faber clarified what he had said during the previous session (Informal Session 67/17, 5/24/67). He had not intended to imply that smaller countries were likely to have persistent or large deficits. The statistics published by the UNCTAD made it quite clear that the records of most of these developing countries had been quite acceptable. He had only been attempting to evaluate the theoretical impact on the liquidity of the scheme of possible imbalances or excessive use by smaller countries. Personally, he did not think this was likely to occur; recent developments in fact indicated that the opposite situation was more likely.

The Economic Counsellor replied to various points which had been raised. Referring to Mr. vom Hofe's remarks about reconstitution, he said that he was in basic agreement with most of these remarks, but that there were perhaps one or two areas which ought to be clarified. The staff had not intended to rule out the possibility of a repurchase mechanism, but a complete mechanism would be a considerable addition to the structure of the scheme, which would be more flexible and easier to operate without it. One possible solution would be to permit voluntary transactions between countries which wanted to reconstitute their positions and countries which held more than their original allocation, even though the latter did not have any need. This would be a slight addition to the scheme, but it would be far short of a complete repurchase mechanism.

Turning to Mr. Larre's comments about direct versus indirect transfers, the Economic Counsellor thought everyone was now agreed that this issue had been satisfactorily resolved. He expressed the view that it would not be particularly useful under a drawing rights scheme with separate resources to copy the Fund's mechanism so that a country making a drawing would have to pay an equal amount of its own currency. Such payment was a redundant recording device to indicate where a country stood. It would be much simpler to regard a country which drew as sacrificing an amount of its drawing rights in return for another member's currency.

The Economic Counsellor next replied to Mr. Lieftinck's question about whether a drawing rights scheme with separate resources would really be different from the present gold tranche and super gold tranche. He recalled that Mr. Hockin had asked a similar question during the recent Deputies' meeting in Paris. The Economic Counsellor thought the answer lay in the point Mr. Lieftinck himself had made two years earlier when he had said that the essential difference was that this was an exercise

in deliberate reserve creation. The essential difference was not that the form of reserve asset was different from what countries already had in the form of gold tranche or super gold tranche positions, but that it would be deliberately created and not be just as a by-product. Obviously, a drawing right was not a unit, and obviously any form of international automatic drawing right could not be very different from either the gold tranche or the super gold tranche. But this was not necessarily a bad thing. It had been recognized for some time that these were quite respectable assets. Moreover, some rather important differences were envisaged for the new asset, compared at least with the gold tranche. For example, the concept of reconstitution which was supported by the overwhelming majority at the recent Deputies' meeting fell far short of the repurchase commitment attached to gold tranche drawings in the Fund.

Referring to Mr. Faber's question about lines of credit, the Economic Counsellor pointed out that these had been provided for in the staff's illustrative drawing rights scheme because that had been based on merged resources. With separate resources, however, that concept was not a useful one. It was more convenient to think of positions under that scheme in terms of acceptance commitments. A country would start out with an initial allocation of drawing rights and would be committed to accept additional transfers equal to twice its initial allocation, the countervalue for which would be additional drawing rights. The Economic Counsellor indicated that this point was made in the footnote on page 2 of the paper which dealt with merged or separate resources (SM/67/58, 5/9/67).

The General Counsel said he wished to clarify two points which had probably arisen because the staff paper (SM/67/56, 5/5/67) had deliberately not been written at this stage with full legal precision. The first related to Mr. van Campenhout's objections to the language at the top of page 4. The only point the staff had been trying to make was that a country which had made net use of its new drawing rights or units would be in a position comparable to that of a country that was using the Fund's resources. For such a country, there were two categories of legal transactions by which it could get itself back into a normal position in the Fund, with the Fund holding 75 per cent of its currency. One was by the sale of its currency and the other was by repurchases. It was possible to have both types of operation in any new scheme. The second point the General Counsel wished to clarify was related to Mr. Faber's comment on the use of the word "implies" (ibid., p. 3). Under the heading "Obligation to Reconstitute," it was stated that, "The obligation to accept, which is an essential ingredient of any system of reserve assets, implies that a member must be prepared to reconstitute its position whenever this is necessary to meet the need of other members to make use of their reserve assets." The staff had not intended this to be a precise

legal principle. All that had been meant by the obligation to accept was that countries would, generally speaking, put themselves in a position to accept transfers. It did not mean that a country would have to accept transfers even if the situation was not an appropriate one.

Mr. Larre observed that the staff's thinking on reconstitution had been considerably modified since February. The illustrative drawing rights scheme (SM/67/25, 2/28/67) contained a provision (Section III.5) that said "The provisions of the Articles and policies with respect to repurchase in the basic gold tranche will apply to repurchase of drawings under the special facility." To his mind that solution was a good one and the staff ought to stick to it as far as drawing rights schemes were concerned. For a units scheme, rather more would probably be needed in the way of safeguards.

The Economic Counsellor observed that the staff had to be guided by the views expressed in the Executive Board, the Joint Meetings and the meetings of the Group of Ten Deputies. It was his impression that most delegations at the recent Deputies' meeting in Paris had favored a flexible approach under which the general guidance criteria would include provisions to achieve some form of reconstitution.

The discussion then turned to the staff's paper "The Choice Between Merged and Separate Recources for a New Reserve Facility" (SM/67/58, 5/9/67).

Mr. vom Hofe observed that the staff appeared to have come to the conclusion that pooled resources would not achieve as much economy as might have been expected at first glance. The liquidity needs of the Fund and of a future reserve scheme were very hard to appraise, and if the potential savings were overestimated, there might be a natural pressure to minimize commitments to a level insufficient to run the scheme. He thought it would be useful if the staff could provide a rough estimate of the order of magnitude of the financial economy that might be achieved from merged resources. He shared the staff's feeling that the disadvantages of merged resources were perhaps greater than their advantages, chiefly because pooling would deprive member countries of their right to decide the extent to which they would actually commit themselves to finance either of the two schemes, particularly if they intended to participate in only one of them. Moreover, with merged resources, the Fund's policy on drawings and repurchases would inevitably influence the financial performance of the new reserve scheme, perhaps to an extent that would make it impossible to apply more liberal transfer rules.

On more specific points, Mr. vom Hofe said he shared the view that the Fund's gold stock ought to be used to serve the purposes of the

Fund. However, he had some difficulty with the argument used in the first full paragraph on page 3 (ibid.). If the Fund's gold was used to obtain usable currencies, and if the new reserve asset could be used for exactly the same function, then it was hard to understand why gold and the new asset should not be interchangeable. If this was the case, how could the acquisition of the new asset for gold by the Fund undermine the Fund's liquidity. As Mr. Lieftinck had rightly said, the new asset was meant to represent an addition to, and not a detraction from, the liquidity of the world. Mr. vom Hofe thought the same point could be made in relation to the statement on page 4 that the acceptance of the new asset by the Fund could be seen as a transfer of Fund liquidity to the scheme's liquidity. If there was in fact such a difference of quality, there would be a danger of Gresham's Law coming into effect, which was something the individual member would have to fear as much as the Fund. On the question of whether there should be a separate department in the Fund or an affiliate, Mr. vom Hofe thought this was more a technical issue than something affecting the substance of the scheme.

Mr. Kafka supported the suggestion of Mr. vom Hofe and Mr. Siglienti that it would be useful if the staff could estimate the effects on the liquidity of either scheme on various hypotheses. Subject to the results that these estimates might yield, his own preference was certainly for separate rather than merged resources. He also favored a separate affiliate, particularly if it should emerge that the creation of additional liquidity was more weighted to the conditional than to the unconditional side. If, in such an event, it was worth proceeding with the exercise at all it would be preferable to have a separate institution, rather than subject the Fund to a lot of violent changes, in order to obtain what might prove to be a rather puny addition to liquidity.

Mr. Larre thought that the question of separate or joint accounts had to be viewed from at least three angles. The first one was the nature of the asset. He considered it would be best to try to streamline the assets to be provided by the Fund. The gold tranche, especially after it had been revised, would serve as a model and the operation should be carried out in the form of an exchange transaction, if only because participants would know what that would involve. The second aspect was the implications as far as liquidity was concerned. Whatever facility was created, financing would have to be provided which would mean that the new rights to be given to member countries would have to be backed up financially by new commitments. These would probably have to be in the form of lines of credit rather than quotas, although he did not think there was much difference between the contribution a member made in its own currency to the Fund and a line of credit in favor of the Fund.

Mr.Larre stressed that the Fund should not have to subsidize the new facility, at least not for an extensive period. Similarly, the new

facility should not be used to finance the Fund. He thought the latter could very well happen since the Fund was basically illiquid and if some countries wanted to take advantage of their drawing rights there could be serious problems. It was, therefore, important to ensure that the addition of the new facility did not change the liquidity of the Fund either one way or the other. Provided the facility was a self-supporting, self-liquidating one, however, there was no reason why its resources should not be managed jointly with those of the Fund. This was what happened in any bank or firm.

Mr. Larre then turned to the third aspect, the question of accounting. What was needed was not separate or joint accounts, but sophisticated accounting. This would be necessary in order to know where members stood with regard to drawing rights and to commitments to reconstitute or to repurchase, especially as these would be in the framework of a floating tranche. It would not exceed the ability of accountants to achieve this. A procedure similar to that followed in the Fund for keeping account of the commitments of members, would be necessary in order to maintain some balance between the commitments which were being activated. At the same time, it would be necessary to ensure that there was no extended or semi-permanent borrowing from the liquidity provided for the Fund's normal operations or vice versa.

Mr. van Campenhout agreed with Mr. Larre about the need for an accounting system which would distinguish clearly between the operations of the Fund and those of the new scheme. But this was essentially a matter of technique and it would not make much difference whether or not it was achieved through an affiliate. To his mind a much more important point was the need to have the same administrative system for both the Fund and the new scheme. Both would need to have the same guidance. The new scheme would not, for example, handle its policies on the selection of currencies in a way that was different from the Fund's. Moreover, it would have to be organized and administered in such a way as to ensure that the facilities it provided would not be of less quality than those of the Fund. If one system became less liquid than the other, there would be a danger that members would regard its assets less favorably and would try to have positions in one system rather than in the other. For these reasons, Mr. van Campenhout was opposed to the idea of an affiliate. For similar reasons, he thought it would also be important to ensure that the liquidation provisions of the new scheme were the same as the Fund's, as otherwise there would be a danger of members arbitraging their positions between the two systems.

Mr. Faber thought there were clear advantages in having separate resources administered by an affiliate. The staff had indicated that there were unlikely to be sizable economies as a result of merging resources. At the same time, with an affiliate there would be less need to modify the present Articles of Agreement of the IMF, and it would also be clear that the scheme was self-supporting.

Turning to the passage on page 4 of the staff paper which referred to the liquidity assistance involved in this technique as a one-way street, Mr. Faber said that, in his view, it might well become a two-way street. It was quite possible that there might be drawings from the Fund in units, and such drawings would provide some support for the liquidity of the Fund since they would reduce the need to draw on the Fund's holdings of usable currencies. In other words, there would be a process of give and take between the Fund and the new scheme and in his view this served to emphasize the advantages of having an affiliate.

Mr. Dale very largely agreed with what Mr. vom Hofe had said. In particular, he thought it was an important argument that there was a very real danger of overestimating the economy, if any, which could be gained in that way. The result might well be that countries would be strongly tempted to provide inadequate resources for the jointly financed scheme. Indeed, the further the two sets of resources could be separated the better. This was an argument in favor of having an affiliate rather than a separate department within the Fund. He pointed out that both the two papers he had distributed ("Outline of a Drawing Unit Reserve Asset /Dura/ Plan" and "Revision of the Fund Illustrative Reserve Unit Scheme") were based on the concept of an affiliate. With regard to the points made by Mr. van Campenhout about the need to have the same administrative and other provisions for the new scheme as for the Fund, Mr. Dale observed that the process of similarity ought not to be taken too far. If it was taken to extremes, nothing new would have been created at all.

Returning to the question of accounting, Mr. Larre thought that the only system which would satisfy Mr. vom Hofe, Mr. Dale, and himself would be one where drawings would be financed from special lines of credit which would be credited again when those drawings were repaid. Under this sort of system, the scheme would always be in balance without there being any need for an affiliate or a separate department, or even for separate accounts beyond what banks normally had to ensure that a given customer's account would not run up an overdraft. Everyone would know where they stood.

Mr. Wass thought that the question of direct versus indirect transfer was perhaps no longer such a live issue as it had been at the Third Joint Meeting. His preference was for a separation of resources, not least because of the desirability of keeping the two functions firmly separate. He had, however, one question of an institutional nature to ask. In the staff paper it was stated that, with separate resources but under the umbrella of the Fund, it would be possible for decisions on reserve creation to be taken only by those actually affected. Presumably, therefore, if a member had contracted out or had not participated in the reserve creating side of the Fund, it would have no voice

in the decisions. This was understandable, but the deliberative body which would consider the question of reserve creation, would have to be the Fund Board, and presumably it could arise that a member of the Board would be allowed to participate in the deliberations leading up to reserve creation even though he might be representing a country which had decided not to participate in the decision. For example, the United Kingdom might decide in a fit of conservatism not to be a party to a particular creation of reserves. As it did not have 15 per cent of the total votes, which was presumably still the minimum required for vetoing a decision, it would continue to be represented in the Board by its appointed Director, and would be able to participate in the discussion. Mr. Wass wondered whether this would be institutionally right and, if it was not judged right, would there be any institutional means of eliminating the contractor out, perhaps through a subcommittee of the Board.

Mr. Larre suggested that there could be procedural rules whereby Directors whose countries had decided not to participate would not take an active part in the discussions.

The Economic Counsellor replied to the question which Mr. vom Hofe and Mr. Kafka had asked, and which had been asked before by Mr. Siglienti, about making a rough estimate of the liquidity needs of the two schemes so as to show the economy in resources that would be achieved if they were run jointly. He did not think this would be a very profitable exercise. It was possible to imagine a situation in which one scheme ran short of dollars and the other short of deutsche mark. In such a situation, the liquidity of the two together would be rather better, of course. But the real liquidity crunch would arise if some very large countries were heavily using their resources under both schemes. In other words, it would be necessary to predict, for example, the reserve policy of the United States over a period of, say, 25 years ahead and assess its willingness to draw on the Fund or to use its separate drawing rights or units. In his view, the only conclusion that could be drawn was, as Mr. Larre had said, that each scheme must have adequate resources for its own functioning. It would be very difficult to estimate what these resources ought to be, and they would probably need to be buttressed by some arrangement which would make it possible to borrow additional resources. For example, if there were to be acceptance limits under the new scheme, it might be possible to extend these limits under certain circumstances. He thought it was better to aim at creating the best possible scheme rather than to speculate on ways in which its resources might be combined with those of the Fund.

Turning to the questions of the liquidity of the scheme, the quality of the asset, and the possibility of one of the two facilities holding claims on the other, the Economic Counsellor agreed that there was

always the argument which Mr. vom Hofe had mentioned. If the new assets were really made as good as gold, there was no reason why anyone should have any qualms in accepting them in unlimited amounts. There was no complete answer to this argument. It had been said all along, however, and perhaps most emphatically in the recent Joint Meeting by Mr. Emminger, that it was not politically possible to do without acceptance limits of some sort for the new asset. If there were such acceptance limits, then the new asset would not be a complete substitute for gold, even though in all other respects, objectively speaking, it would be. This then put some kind of a limitation on the extent to which the resources could be substituted or combined.

Referring to Mr. Larre's remarks, the Economic Counsellor suggested that part of the difficulty was perhaps a matter of terminology. Obviously the new scheme needed separate accounts just as, for example, the compensatory financing facility required separate records in the Fund to make it clear how much compensatory financing a country had obtained. The new scheme would need to have good accounts which would show what countries had drawn under the ordinary Fund facilities and under the new facilities. So far he was in agreement with Mr. Larre. He also had no difficulty with the emphasis Mr. Larre had put on the principle that the new facility should not subsidize the Fund and the Fund should not subsidize the new facility. This, to his mind, meant however, that there had to be two separate sets of resources. The Economic Counsellor did have difficulty in following the comparison Mr. Larre had then made with a bank. The Economic Counsellor observed that although a bank would generally try to maintain a relationship between its term loans and its savings deposits and between its short-term loans and its sight deposits, it did not separate its resources and one department of the bank might well subsidize another. In his opinion, if it was insisted, as Mr. Larre had suggested, that one department must not subsidize the other and that any drawings under the scheme must be debited to special facilities set up for this purpose, then it would be necessary to have two separate sets of resources, two separate flows of money.

On Mr. Faber's point about whether liquidity assistance from the Fund for the new scheme would be a one-way street, the Economic Counsellor pointed out that the Fund would not receive an initial allocation of units or drawing rights. It was, of course, true that, having obtained units or drawing rights from a member, the Fund could later on use them in its transactions or for obtaining currencies from members. In a sense, therefore, it could back out of the one-way street. But it could never go beyond that point. While liquidity could move from the Fund to the affiliate and then subsequently return, liquidity could not flow from the affiliate to the Fund.

The General Counsel replied to one or two institutional questions which had been raised. He began by saying that he was increasingly

convinced that there was nothing which could be achieved by way of an affiliate which could not equally well be achieved by way of amendment of the Articles of Agreement, although there might, of course, be certain preferences of a policy character. There was, however, one important legal difference between an affiliate and amendment of the Articles. Rules were already laid down in the Articles for amendment. In some cases unanimity was required and for all other amendments a majority of 80 per cent of the voting power and three fifths of the membership was laid down. The establishment of an affiliate would, however, require its own entry into force provisions which could be different from those for amending the Articles. Of course, if the Articles had to be amended anyway, any advantage of having different entry into force provisions for the affiliate would be lost.

Replying to Mr. Wass' question about the part which countries that had opted out would play in the decision-making process, the General Counsel said the options were entirely open. If the Articles were being amended, there was no legal limit on how decisions might be taken or the system of voting that might be used. It would, for example, be possible to regulate participation in the Board of the separate facility so that all Directors could join in the debate, but they could only cast the votes of the participants appointing or electing them; if none of their constituents had in fact become participants, they would have no votes. It was equally possible to say that, if they had no votes, they could not participate.

On Mr. van Campenhout's remarks about liquidation provisions, the General Counsel said this was a very complicated topic which he did not wish to go into in any detail. Of course, one was not compelled by law to have the same liquidation provisions for the new scheme as for the Fund, and in fact, all the illustrative schemes which the staff had prepared so far included liquidation provisions that were somewhat different from the present ones in the Fund. He felt that it was possible to have a rather better set of provisions if there was a new department and especially if there was an affiliate. He rather doubted whether the existence of differences would result in the sort of arbitraging to which Mr. van Campenhout had referred.

Mr. van Campenhout observed that although the possibility of actual liquidation was remote, the rules for liquidation did throw light on relative rights and obligations and on where members would stand. This was something they would need to know from the outset. He thought the rights and obligations would be very similar whether resources were separate or not and whether there was an affiliate or not. But whatever form of scheme was finally adopted, and he hoped it would not involve an affiliate, its liquidation provisions could turn out to be different from those of the Fund, and it was important to consider

the effect this might have on such questions as the distribution of the burden left over by the default of a member.

The General Counsel commented that there had been a great deal of discussion at an earlier stage about the backing of any scheme. This had resolved itself into the issue of how to distribute the risk of default in a liquidation system. This was certainly a crucial question, but here, too, the way in which it should be handled was open.

Mr. Larre returned to the point he had made earlier about accounting. To clarify it, he took as an example a French drawing under the new facility. If France drew, say, deutsche mark and guilders, its account in the new facility would be credited. (This account would be different from the French account of the Fund with the Bank of France.) The Fund would make sure that the amounts to be drawn would be met by an activation of the lines of credit with Germany and Holland. In this way, each operation would be balanced and there would be no question of the new scheme being subsidized by the Fund or vice versa.

The Economic Counsellor did not think there was any real difference between Mr. Larre's concept and the staff's. According to what Mr. Larre had suggested, if France wanted to draw deutsche mark under the new facility and, to use the same terminology as Mr. Larre, the German line of credit had been exhausted, the Fund's normal holdings of deutsche mark could not be used--they could only be used for ordinary drawings. This was the same thing as the staff meant by separate resources. In other words, the resources of one scheme were for it alone and would not be available for the other scheme.

Mr. Larre replied that the point he had been making was that this was essentially a technical problem of accounting, not a political issue. To achieve this sort of separation, there was no need for a new Board or a new structure; it was only a matter of adding a few Articles to the existing Fund Agreement.

The discussion then turned to the staff paper "Voting Provisions in Reserve Asset Schemes: Illustrative Examples" (SM/67/62, 5/16/67). Mr. Larre expressed surprise that this paper was to be discussed. He would have liked to have had earlier notification that it was to be on the agenda.

Mr. González del Valle remarked that during Informal Session 67/16 (5/10/67) the staff had mentioned that some illustrative examples of different voting procedures were being drawn up. He had expressed the hope that this paper would be ready in time for the Group of Ten Deputies to see at their Paris meeting how the various schemes would work and take care of the interests of the creditor countries. He thought the paper the

staff had produced was a useful one. It showed how the combined voting system, which he had supported at the Third Joint Meeting, would be a flexible system and would protect the interests of all countries concerned without introducing any discriminatory features into the voting system.

Mr. González del Valle was surprised and disappointed to learn from the Economic Counsellor's report on the Paris meeting of the Group of Ten (Informal Session 67/17, 5/24/67, a.m.) that, despite the fact that the Fund representatives had pointed out that perhaps not enough attention had been paid in the discussion of the voting percentages to the question of how the votes were to be made up, this very important point apparently had not been taken up. He found this regrettable because the idea of working on these illustrative examples had been to show how, within the normal rules of the Fund, something could be worked out which would be universally accepted. It was not only a technical problem, but also a very important political issue. He did not think anything would be gained by attempting to comment on the specific techniques the staff had described. Most members of the Board were already convinced that the present system was flexible enough and could be worked in such a way as to eliminate any undesirable features of discrimination.

Mr. González del Valle was also disappointed to learn from the Economic Counsellor's report that the intention of the Group of Ten Deputies was still to discuss specific points, the same points which had been under discussion from the beginning, without having a structural framework or an outline which would serve to indicate the direction in which participants were moving. That was why he had supported the suggestions that morning that there should be an Outline. He believed the only way to make real progress was to use the technical papers the staff prepared, not as the basis of further detailed discussion, but for guidance and to illustrate those subjects on which there was still some doubt. He said he would have supposed that by now the problems of use and transfer and of separation of resources had been sufficiently discussed and clarified. He felt that not enough progress was being made if something positive was to come out of the Fourth Joint Meeting.

Mr. Madan wondered what the nature of the staff paper on voting provisions really was. As an arithmetical exercise it was very useful. It would have been more complete, however, if, among the alternative components described under section (ii) on page 1, the results of having one additional vote for each 200,000 units of the reserve asset had also been illustrated. He hoped the exercise was not to be interpreted as indicating that any deviations from the present Fund voting systems could only be in the direction of a heavier weighting for creditor positions. Any organization set up for the purpose of deliberate reserve creation should be designed to provide an adequate financing mechanism for the expansion of trade and economic activity. It should not involve

the implication of a stigma attaching to creditor or debtor positions as such, although large creditor or debtor positions were not verydesirable. The voting procedures should be worked out in such a way that they were not unduly weighted in favor of the creditor countries. Concepts of that type were related to a different kind of financing mechanism, not to one established on a global basis for the purpose of financing trade and economic activity.

The Chairman pointed out that the staff paper was not intended as any kind of proposal for a system of voting. It was only a mathematical description of what would be the results of various formulae.

Mr. Faber referred to earlier comments on the rate of progress. He felt that the discussions were at a stage where any progress was going to be difficult and the important thing was to keep on discussing. He noted that the Economic Counsellor's report had referred to the possible need for a meeting of the Ministers and Governors of the Ten if certain major issues could not be resolved at the Third Joint Meeting. He considered that this was a clear indication that a decisive give-and-take process might take place at the Paris meeting. As Mr. Kafka had suggested, some over-all review by Ministers from the Group of Ten and also from the non-Ten countries would probably be necessary and agreement on some major issues could not be reached very quickly.

Mr. Faber thought the staff paper on voting provisions was very useful. From the table on page 7, he had the impression that a system based on twice the cumulative allocation would result in smaller differences between groups of countries than one based on three times the net cumulative allocation and might therefore be more acceptable. He also wondered whether the voting arrangements would apply to all financial matters or whether weighting for creditor positions would only be used in certain specific circumstances as under the Fund Articles of Agreement.

Mr. Dale also considered that the staff paper was useful and interesting. He then went on to make a few general comments on the suggestions on the nature of decision-making contained in the two papers he had circulated ("Outline of a Drawing Unit Reserve Asset /Dura/ Plan" and "Revision of the Fund Illustrative Reserve Unit Scheme"). First, both the papers proposed that the main voting on the proposal by the Managing Director would take place in the "Executive Body" which would, of course, be comparable to the Executive Board in the Fund. There would be, so to speak, a right of appeal to the Governors, but if a proposal to turn away the decision which had been made by the "Executive Body" was not submitted to Governors, the original decision would stand.

Mr. Dale's second point related to how the distribution of votes should be defined. The proposal contained in both papers was a version of the band proposal, but there was a specific suggestion that each

member should have the same number of votes as provided for in Article XII, Section 5(a) of the Fund Articles of Agreement. In other words, each member would have 250 basic votes, plus one vote for every $100,000 of its quota. The papers did not contain any proposal for adding votes for creditor positions or reducing votes for debtor positions. As Mr. Kafka had said at the Third Joint Meeting, if anybody was to get bonus votes, it ought to be countries which were neither in creditor nor in deficit positions, but who were in equilibrium.

Mr. Dale's third point was that, as the Economic Counsellor had pointed out in his statement, there was a need to define what the total votes would amount to so that it would be clear what was meant when a percentage for voting arrangements was prescribed. The U.S. proposal was that, during the initial period at least, total votes should mean the total of all Fund members' voting rights, as provided for in Article XII, Section 5(a). After the arrangement had been in force for five years, Governors could, if they wished, decide by an 80 per cent vote that the total votes would in future mean the total of the voting rights of those Fund members which had adhered to the agreement.

The Economic Counsellor replied first to Mr. Madan's question about why the staff had not included calculations using a lesser weight for creditor votes than those shown in the paper. He pointed out that the figures were, in a sense, already in the tables. The line in table 3 on page 7 where the holdings were equal to the cumulative allocation, also showed the votes that a country would have if there were no creditor votes. Therefore, it was possible to see how the voting system would change if creditor votes were decreased.

The Economic Counsellor said he shared the disappointment of Mr. González del Valle about the smallness of the impact that the staff paper had had in Paris. However, it had only been distributed just before the meeting and a number of Deputies had said that they wanted to study it more carefully and see to what extent different methods of providing additional votes for creditors might affect the percentages of total votes that were being considered. Although no conclusion had been reached, the staff's efforts had, he thought, caused a number of Deputies to become more aware of this possibility than they had been previously.

The Economic Counsellor said he also agreed with Mr. González del Valle that it was essential that the Joint Meetings should attempt to agree on an outline rather than merely having another round of discussions on general principles. Replying to Mr. Faber, the Economic Counsellor said the staff had intended that the provisions on the composition of votes would apply to all decisions, at least in the illustrative plans they had prepared so far. However, the majority required would be different depending on the subject. The general nature of the proposals was that decisions on reserve creation would require something in the

order of an 80 per cent majority, whereas all other decisions, whether they dealt with financial matters or not, would require an ordinary majority. This would, of course, have to be gone into in much greater detail in the final drafting of the agreement.

W. LAWRENCE HEBBARD
Secretary