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	E. Ozaki
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Roman L. Horne, Secretary
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Also Present

African Department: H. Merghani, Director; C. L. Merwin, Deputy Director; J. Waïtzenegger, Deputy Director; C. V. Callender*. Asian Department: H. C. Murphy, Deputy Director; J. Ahrensdorf, C. C. Liang, Tun Thin*. European Department: L. A. Whittome, Director; R. J. Familton*. Exchange and Trade Relations Department: E. Sturc*, Director; R. V. Anderson*, C. D. Finch, P. R. Valabregue*, W. J. R. Woodley. Fiscal Affairs Department: J. Saper, Deputy Director. Legal Department: J. Gold, General Counsel; A. S. Gerstein, Deputy General Counsel; G. Nicoletopoulos, Deputy General Counsel; J. G. Evans, F. Hodel*, P. R. Lachman**. Middle Eastern Department: P. H. Gommers. Research and Statistics Department: J. J. Polak, Director; O. L. Altman, Deputy Director; H. Ezekiel. Secretary's Department: W. L. Hebbard*, Deputy Secretary. Western Hemisphere Department: J. Del Canto, Director; E. W. Robichek, Deputy Director; U. Sacchetti*, C. F. Schwartz. Central Banking Service: J. V. Mládek*, Director; R. Tenconi*. Editorial Office: J. K. Horsefield*, Chief Editor. Information Office: N. K. Humphreys*. Office in Europe: A. Guetta. Personal Assistant to the Managing Director: A. L. Coleby. Technical Assistants to Executive Directors: G. M. Gill, W. K. Griffiths, J. S. H. Hunter*, R. G. Nayak, L. Plum, E. J. Schmidbauer, J. A. Sillem, E. Stoffers, T. Tanaka, J. R. Vallet.

* Attended A.M. Session only.
** Attended P.M. Session only.

1. CREATION OF ADDITIONAL RESERVES THROUGH THE INTERNATIONAL MONETARY FUND

The Executive Board resumed discussion in informal session of a staff paper on the Creation of Additional Reserves Through the International Monetary Fund (SM/66/30, 3/3/66), which had been discussed at Informal Sessions 66/6 and 66/7, March 16, 1966, and also considered a supplementary paper on the same subject (SM/66/30, Sup. 1, 3/29/66).

Mr. O'Donnell made the following statement:

As I have said on other occasions, I feel that the Fund should push on with its studies of the problem of international liquidity and that the Executive Board should continue its discussions of the question with the aim of trying to reach generally acceptable conclusions. But I cannot feel at all sure where the best efforts exerted within this institution are likely to take the question within the counsels that will prove most influential in the world at large.

The study of the problems of international liquidity is being carried on "in parallel" in the Group of Ten and in the Fund. Meanwhile, this subject is also being studied in UNCTAD. These several studies, however, appear to be heading along lines that are far from parallel. There is a real danger that, instead of an improved system of international co-operation in the monetary sphere, we shall finish up with sharp divisions between the nations on vital monetary issues. Paradoxically, it is not the points of difference among the Ten that are the chief danger in this respect but, rather, one point on which they all (or the majority) seem to agree, namely, that participation in reserve creation must be confined to a strictly limited group.

No one has questioned--and no one would be likely to question--the view that, in such a difficult and technical matter, intensive study can best be carried out in small expert groups. It is also quite evident that, to be effective, any new international monetary arrangements must be acceptable to the major industrial countries. The studies undertaken by the Deputies of the Ministers of the Group of Ten must therefore be regarded as a major and indispensable part of the process by which new international monetary arrangements might be evolved.

It is also plain enough that the effective functioning of reserve creating arrangements would depend heavily on the acceptance and observance of the essential rules of the system by the major industrial countries. Moreover, since the major industrial countries will have to provide the bulk of the real resources needed to satisfy the additional claims to which created reserves could give rise, it is understandable that they should wish to have a major role in decisions as to the amount of the reserves that should be created from time to time.

But none of these considerations--the need for expert study in a limited group, the need for agreement among the major industrial industrial countries, the major role that these countries would wish to have in decision making--leads logically to the view that participation in any arrangements evolved necessarily has to be limited to this small group or perhaps a slightly larger group made up of countries that could satisfy some criteria. Yet this is the view that is seemingly being taken for granted within the Ten (or by most of the Deputies). They seem to be convinced that international liquidity as such is of real concern to only a small group of countries and that the essential problems of the other countries are of a different character. So far as they provide for the participation of the other countries, then, they make it a subordinate arrangement--one that very clearly establishes a group of "second-class" participants.

One argument advanced to justify this distinction is that, if created reserve units are to be internationally accepted, they must have the backing of strong currencies and the support of countries capable of bearing the obligations involved. That is all true enough but it will not support the conclusions being drawn from it by those who are arguing for exclusive arrangements. If created reserve units have the support and backing of strong currency countries, then they obviously have it; and with it they will have the status that goes with that support. None of that is going to be weakened one iota if countries with not-so-strong currencies are given some share (and it would be a relatively small share) in the distribution of the units. The Fund and the Bank have the backing of strong currency countries and the effect of this on their standing in the international financial community is not destroyed by the fact that countries with not-so-strong currencies also have a share in the "capital" of both institutions. Indeed, in the Bank's earlier years, its strength in the capital markets (then limited to the United States) depended almost wholly on the uncalled obligations of the United States; and the fact that the greater part of the remainder of its capital stock was made up of subscriptions from countries whose currencies were then weak did not in the slightest diminish its creditworthiness. It simply does not follow, then, that full participation in reserve creating arrangements must be restricted to strong currency countries if the necessary degree of confidence in the created units is to be established and sustained.

But, it will be asked, can countries with not-so-strong currencies undertake the obligations that must go along with full participation? The answer to this question calls for some consideration of what the obligations really are. In most proposals for the creation of reserve units, the obligations formally take the shape of IOU's expressed in national currencies and it is envisaged that these IOU's would be "activated" only in exceptional and unlikely circumstances. The real obligation, however, comes down to a willingness to accept the created reserve units in settlement of claims. In other words, it is the acceptability of the units rather than the IOU's standing behind them that will be essential to the working of the arrangements. Provided the major industrial countries are prepared to accept these units under agreed conditions, that would undoubtedly make them generally acceptable; and it would take nothing away from their general acceptability if countries with inconvertible or not-so-strong currencies were permitted to have some share in the distribution. Rather (to take a literal view), that would actually expand the area of general acceptability.

This view, it will be asserted, overlooks the real obligation involved--the obligation to supply resources against payment in the created units--and this will fall almost wholly on the major industrial countries. This I have already acknowledged. It is, as I have also said, a ground on which it is argued that the major industrial countries should have the major voice in decisions on reserve creation. Given that they have this decisive role, however, they could, when reaching these decisions, take due account of the additional claims on resources likely to arise from a general, rather than a closely limited, distribution of reserve units.

What is more, given a general distribution proportionate to Fund quotas (or approximately so), the Ten (or the Ten-plus) would have the major share and other Fund members the minor one. Deliberately created additions to reserves, especially if cautiously calculated and distributed by installments, would not, therefore, give countries having the minor share any great scope for making large additional claims on resources if they were inclined to spend rather than hold the additions thus made to their reserves. But are there good grounds for assuming that they would spend rather than hold additions to their reserves?

It has been said that, so great is their need for development capital, developing countries cannot afford the "luxury" of holding reserves. It should first be observed that such a switch of attention from the position of the Ten to that of the developing countries leaves out of consideration the situation of many countries not in either group. These countries in the main have demonstrated in a practical way that they need to have reserves to hold and, generally, they have aimed at steadily strengthening them. But this is not true of these countries only; the countries classified as developing also have, on the whole, been holding on to their reserves, as SM/66/30 shows (p.9 and Tables 1 to 3) and, as the memorandum on international liquidity submitted by developing countries to the Third Session of the UNCTAD Trade and Development Board points out (p.4), "more than half of the developing countries for which data are available were actually building up their reserves" in the period 1960 to 1965.

The facts thus refute the suggestion that giving the non-Ten a direct share in created reserves would not serve its purpose because these countries could not be relied on to use the units as reserves but would spend them. Some of these countries would, possibly, be inclined to treat the units as "spending money" but experience suggests that these would be the exceptional rather than the most common cases. By and large, we could expect most of any distribution of reserves among non-Ten countries to be added to their reserves (or to serve to reduce the amount by which they otherwise might have declined).

It does not seem, then, that the major industrial countries need fear a dangerous increase in the demands on their resources to result from reserve creation that gave a direct share to non-Ten countries. It is true enough that marginal amounts can be significant for economies working at or near the limits of capacity. But there will always be some scope for adjustment. The industrial countries are all competing for export sales and to hold or penetrate external markets they usually offer credit terms of one kind or another. With the same end in view they tie their aid to developing countries. If some developing countries were to spend their reserve units and thereby add to the demand on the resources of the "strong currency" countries, the latter should not find it too difficult to offset this extra demand by not trying quite so hard to sell abroad on credit terms or by not tying their aid so tightly. But this is all pretty much theoretical and academic. In practice, the resultant difference in demand levels as between a general and a restricted distribution of reserve assets would, in all probability, pass unnoticed.

Another (and to my mind a rather curious) argument used against a general distribution of reserve assets is to the effect that, so far as they have to cope with swings in export earnings through fluctuations in commodity prices or varying seasonal conditions, developing countries have compensatory finance to turn to. Again it might be noticed that in this transfer of attention from the Ten to developing countries, a considerable number of countries not in either group and not candidates for compensatory finance just disappear from sight. But to those countries that have to turn to compensatory finance it must seem a strange inversion of the logic of the matter to suggest that, because they can obtain this kind of short-term conditional credit, they do not need owned reserves (or, anyway, any addition to them). These countries could retort that, on the contrary, they need compensatory finance simply because their owned reserves are not sufficient to see them through the rather violent fluctuations in external receipts to which they are subject. Make it possible for them to strengthen their reserves, they might well argue, and their need for compensatory finance would diminish accordingly.

These and other non-Ten countries will therefore find it difficult to appreciate the related argument that, whereas the balance of payments difficulties of non-Ten countries (or is it only the "developing" countries?) can best be met by <u>conditional</u> liquidity, the Ten (or is it the "major industrial countries" only?) need larger <u>owned</u> reserves because they can be called on from time to time to deal with highly disturbing capital movements. There is no doubt whatever about the disturbing effects of flights of capital, especially on the position of the reserve currency countries; and no one would deny that stronger reserves would strengthen confidence in currencies subject to the pressure of capital movements. But it is hard to see why this particular kind of pressure should be regarded as the only one that would justify created additions to owned reserves and why conditional liquidity should be thought appropriate (or good enough) for balance of payments difficulties arising from other causes. Indeed, it would seem most likely that, whether a system of owned reserve creation is established or not, countries feeling the pressure of heavy outflows of capital will still need conditional liquidity; and it could be argued that, especially since a country's economic policies can have no small influence on its capital account position, it is appropriate that credit extended to it to overcome difficulties arising from capital movements should be conditional rather than unconditional. Further, those who wish to press distinctions of this kind could contrast this kind of situation with that of countries suffering balance of payments difficulties for reasons beyond their control, such as slumping commodity prices in export markets or droughts or other natural disasters that heavily cut down export production. For these countries, the scope for adjustment of internal policies can be very limited indeed; and the scope for imposing conditions on credit given will be similarly limited.

Very properly, the Ten are concerned about financial discipline and wish to discourage the illusory idea that unconditional credit creation on a world-wide scale is the easy road to affluence for the world's poorer nations. None of us should find it hard to agree that anything smacking of easy money theories--and particularly any notion that the poorer countries' need for developmental capital can readily be met by unconditional reserve creation--should be firmly rejected. Nor would we deny that some Fund members are still having much difficulty in achieving economic stability. But we know, too, that the Fund, through technical assistance, stabilization programs and other means, is doing a lot to help members overcome their difficulties and, all things considered, is making steady and generally encouraging progress in this direction. More than that, however, it is far from true that all, or anything like all, Fund members outside the Group of Ten are weak on financial discipline; the economic performance of most of these members is, in fact, quite creditable. Certainly, no hard and fast distinctions can properly be drawn between Ten and non-Ten members in this regard.

Perhaps it is inevitable that a limited group making a prolonged and intensive effort to resolve differences among its own members will have little time to give to the problems of those outside the group; and that, concentrating on the group's own problems, it will come to regard the outcome of its work as "belonging" to that group and not to others--except possibly for a few others that might seem "qualified" for "nomination" to membership. This sense of "belonging" is understandable and is common enough in human affairs. But it would be most unfortunate to bring it into the sphere of international co-operation where it would introduce distinctions that would not only be essentially arbitrary and entirely unnecessary but a sure source of bad feeling and division among countries that should be given every encouragement to work together.

I would not wish to appear to imply that those working on the problem of international liquidity in the Group of Ten have given no thought to the position of countries outside the Ten. They have, it seems, agreed that some provision should be made for non-Ten countries in any arrangement for liquidity creation. But for the non-Ten (or almost all of them) they would provide no direct share in the distribution of any owned reserves that are to be created. Rather, the most that the Ten would seem ready to do for other Fund members (saving the few that might be allowed direct participation) would be to turn over to the Fund some part of the created addition to the reserves of the Ten and by this means strengthen the Fund's capacity to give members greater access to conditional liquidity. The last thing I would wish to do would be to cast any doubts on the sincerity of those who have proposed this method of doing something for the non-Ten. But I think that they have very badly misjudged the position of the non-Ten and have quite failed to appreciate how the non-Ten countries could be expected to feel about a proposal of this kind. For such a proposal not only draws invidious and unnecessary distinctions between countries but has a large element of condescension in it that is bound to be greatly resented by the non-Ten countries. What the Ten (or some of them) propose to do would look very much like a charitable donation for the benefit of the needy who require not only aid but correction.

The proposals the Fund has put forward do not suffer from this eleemosynary look. They make no arbitrary distinctions between members but include a "self-qualifying" feature that would, in the first instance, make unconditional reserves available only to those members that were not already using the Fund's conditional liquidity.

I have no doubt that the Fund's proposals are much to be preferred to those reported to have been under consideration within the Group of Ten. I believe also that the Fund's proposals would stand a good chance of gaining general support within the membership of the Fund whereas proposals that would limit direct participation in reserve creation to a small group would be certain to arouse strong and bitter opposition among the countries that would be permitted to participate only in a "second-class" way. I cannot possibly imagine the "excluded" countries being content with some increased access to conditional liquidity when the "strong currency" countries would have, as it would seem, "awarded" themselves a substantial increase in "owned" reserves.

I think the Group of Ten should be made to realize that they would not be at all well-advised to bring forward proposals that are likely to sow dissention among nations, evoke a very angry response at the Fund's Annual Meeting, and divide the Fund membership in an arbitrary way that would serve no really useful purpose.

What I am saying in this statement will not, I trust, embarrass Executive Directors representing the countries of the Ten; embarrassing them is as far from my intention as it could be, but I take it for granted that they will point out to their authorities that proposals involving distinctions between Fund members of the kind said to have been discussed in the Group of Ten could only have very serious repercussions in the Fund.

Mr. Ozaki made the following statement:

I have received some informal comments on the subject matter from the authorities of member countries which I am representing.

The comments by the Burmese authorities are as follows:

(i) The two proposed schemes represent a marked advance toward providing additional international liquidity through the Fund, and in which all members could participate.

(ii) While both schemes are basically similar, and might well have been implemented simultaneously, we think there are grounds for considering them as alternative approaches to reserve creation.

(iii) In view of the existence of certain limitations on transferability in the reserve unit proposal, our opinion is that in the interests of simplicity and familiarity a start should be made with the first proposal, namely, the introduction of quasi-automatic drawing rights. There would thus be time for further consideration to be given to a reserve unit scheme.

The informal comments by the Thai authorities are as follows:

The Part I Scheme sounds acceptable to us. We have a feeling that the Part II Scheme may have to be developed in parallel with the Part I Scheme. But we want to reserve our position on this matter until we have more information on participation, distribution and repayment terms. We consider that the Fund should retain the role of coordinator for granting conditional liquidity.

I have not yet received informal comments on the subject matter from the Japanese authorities. But, the features of the general way of thinking of the Japanese authorities are, from what I understand, among others: (i) to deny "gold link" in any sense, and (ii) to apply some rule similar to the Fund currency policy for the transferability of new reserve assets. These features are not far from the schemes presented now. However, I am sure that the Japanese authorities also want to reserve their position on this matter at the present time.

My own personal views are as follows:

(i) Universal Approach. Now we have before us two schemes to meet the need for reserves. Both are called "universal approach". I fully endorse the universal approach. The idea to limit participation was originated clearly in that proposal called "composite reserve unit scheme," which tried to compose the shares of responsibilities of some number of countries, currencies of which were believed to be strong, into one scheme to be backed by a number of countries instead of one. But the new responsibility cannot or should not be any more of convertibility into gold and the wording "to back" is also very ambiguous. We cannot deny the necessity of increasing reserves to some countries while some other countries enjoy the increase of reserves simply by sharing an ambiguous responsibility and ambiguously backing the system.

(ii) Two Schemes. The management and staff seem to take a position that the Part II Scheme might be more flexible in the long run and for that reason more suited to meet the need, but that the Part I Scheme is more convenient to start with. I prefer the Part I Scheme even in the long run, because the real nature of the matter is a mutual granting of short- and medium-term credits among nations, and we need not stick to the emotional flavor of owned reserve or of international new currency, attached to the Fund Unit Scheme. The difficulty of deliberately deciding the precisely appropriate amounts of increase of reserves, also seems to justify the preference of Part I Scheme, under which distributed facilities are probably more apt to be left unused if not necessary. Moreover, the idea to limit participation has been more closely connected with the unit scheme rather than the drawing right scheme. Anyway, as Mr. Anjaria pointed out, the Part I Scheme is on the line of modifying and refining the present system, whereas the Part II scheme is heterogeneous with the existing one in its working mechanism. The Fund should not take too much pragmatic attitude on this occasion. Accordingly, it seems to be worse if two plans were undertaken at the same time under the name of dual approach.

(iii) Semi-Floating Character. Despite the detailed explanation of the supplementary note, I still have doubts about the appropriateness of semi-floating (not fully "floating," according to the expression of supplementary note) character of the additional unconditional facilities. If members should have free choice to decide whether to use the new facilities before or after using any part of conditional facilities, members which are already making a conditional use of the Fund's resources seem to have to receive not an addition to their conditional facilities but to the unconditional facilities. Only when members have no choice of order in using facilities, in other words, unconditional facilities should always be used before conditional facilities, like in case of the quota increase, the features as proposed in (B) in Part I and (C) in Part II of SM/66/30 or qualification explained in (B) of supplementary note seem to be appropriate. So long as the special reserve facility should be distinguished from the quota increase or from the extension of the gold tranche into the credit tranche, the semi-floating character--not fully-floating character--or "self qualifying principle" in this context--sounds somewhat self-contradictory. This is a matter of logic. But I have a doubt whether the special drawing right of fully-floating character is more appropriate than the extension of gold tranche into credit tranche, although I admit the former is a convenient way to avoid the unnecessary dispute about the gold payments connected with other methods.

(iv) Adequacy of Line of Credits. The line of credits to be granted to the Fund is 100 per cent of the special reserve facility in the Part I Scheme. This figure is more than the calculated figures like 55 per cent or 60 per cent in staff paper DM/65/12 (Effect of Various Types of Fund Reserve Creation on Fund Liquidity) and the staff seems to believe that this would guarantee some safety margin. However, this could do so only under the guidance by the Fund on currencies to be drawn. But I have doubts as to this guidance and I believe it should be replaced as much as possible and as soon as possible by the system based on the free choice by the drawer. For that reason it seems to me more appropriate to have a line of credit of 300 per cent like creditors' limits in Part II Scheme. If I may insert a small technical question, I cannot understand why a 100 per cent line of credits could mean implicitly the creditors' limits of 200 per cent as mentioned by Mr. Polak and expressed on page 8 of the supplementary note. Does the increase of the special reserve facility have to be accompanied always by the quota increase which would necessitate the same amount of national currency subscription, so that 100 per cent line of credits could imply 200 per cent creditors' limits?

(v) Fund Currency Policy - Reserve Link - Harmonization Policy. Turning now again to the Fund currency policy for drawing, I cannot see much sense in the currency allocation policy, which is managed to make more or less uniform the ratio of the Fund position in reserves among many countries, in spite of the difference of meaning of reserves for different countries depending on the relative size of international liabilities of central authorities and the position of commercial banks of countries concerned.

To leave the choice of currency to be drawn to the drawer means to rely, kind of, on the market mechanism rather than on the guidance by the Fund, the criteria of which must be based on investigations of various invisible factors. The Fund currency policy seems to me something like to sell other goods to customers than wanted ones and to let customers exchange them with neighbors who keep other goods. This kind of transaction is only possible in a primitive society and we cannot expect much activity. Under this allocation policy, which was necessary when some countries were reluctant to draw from the Fund under any circumstances and which is not necessary when no country is reluctant to draw from the Fund, we cannot expect the very active utilization of the Fund function even after the introduction of special reserve facilities. If under the free drawing system, all members drew U.S. dollars, the U.S. Fund position could be improved very much and if the U.S. felt balance of payments difficulties due to other members'drawings, she should draw the necessary other currencies. Probably she knows at that time what currencies she needs much better than the Fund knows to which it should make allocation, and I do not think any particularly large shortage of any currency could happen for the Fund for this change of way. But, to grant a somewhat higher ratio of line of credits to the Fund by all members may be a prerequisite for removing the Fund currency policy. This seems to be the key point for the smooth functioning of the Fund facilities including new special reserve facilities. No country is a permanent creditor, so that to grant a somewhat higher ratio of credit line might not be harmful to any country from a long-term point of view. With regard to the Part II Scheme, an additional rule to be established aiming at the convergence of holdings of units broadly toward an equal percentage of total reserves must be similar to the Fund currency policy mentioned above. This policy should be called Reserve Link Policy. This must be better than gold link in any sense, but I have the same doubts as to the Fund currency policy. The above-mentioned idea leads naturally to deny the harmonization policy in the composition of reserves.

(vi) Distribution of Reserves. The universal approach accompanied by the distribution of reserve facilities to be made very much proportionately to quota may be much better than other limited distribution of competing plans. But if the new scheme is really planned for the future date, when the U.S. deficit would disappear, and if it is considered that the United States would still have other ways of financing its deficit as before, even this scheme cannot be regarded as the most lenient to developing countries.

Let us pay some attention to the Keynes' idea in 1933, when he, in his "Means to Prosperity--Gold Note-Issuing Plan," suggested to allocate newly created reserve assets to all countries proportionately to their gold holdings, but putting the maximum, so that the top seven countries (U.S., U.K., France, Germany, Spain, Argentina, and Japan) should have received the same amount ($450M). This scheme was relatively less lenient to rich, developed countries and exactly the opposite of the idea of the recent limited group, which would put the minimum, so that many less-developed countries would receive nothing. The world situation has completely changed. Now we have long-term investment to less developed countries on quite a different scale than in the 1930's. But there is still something to be carefully considered in this old days' idea. If we put the maximum now for some top countries, it might cause some trouble so long as the line of credits is only 100 per cent of newly-granted reserves, particularly when we don't want to have a Fund currency policy and other similar policies. To have a somewhat higher ratio of credit line may be necessary for such a case.

Mr. Ozaki added that he had received informal comments from Ceylon, which were in essence similar to those of Burma, i.e. "The Part I Scheme appears to be a useful mechanism for creation of additional international liquidity. This mechanism might be a useful starting point."

Mr. Handfield-Jones thanked Mr. O'Donnell for his statement, which focussed the anxieties of the non-Ten. However, he did not believe that the group of Ten were as fully agreed among themselves as Mr. O'Donnell suggested. The situation was more fluid, and thinking was still evolving. For example, he doubted whether the Group of Ten had in fact agreed, as Mr. O'Donnell suggested, that almost all the non-Ten would have no direct share in the distribution of any owned reserves that were created. Mr. O'Donnell had said that "Rather, the most that the Ten would seem ready to do for other Fund members...would be to turn over to the Fund some part of the created addition to the reserves of the Ten and by this means strengthen the Fund's capacity to give members greater access to conditional liquidity." Canada had not participated in any such agreement. Indeed, Mr. Handfield-Jones recalled that Mr. Hockin, of the Canadian Department of Finance, had made the following statement to a committee of the Canadian House of Commons when that Parliamentary committee was considering the bill to amend the Bretton Woods Act to provide for the increase in Canada's quota: "The Canadian authorities feel that all members of the IMF whether they contribute currency backing for the new unit or not should be entitled to hold and to use the new unit. ... The Canadian authorities are also of the view that action to create a new reserve unit should be accompanied by steps to help meet the liquidity needs of members of the International Monetary Fund other than those who participate in the creation of the new unit. They do not as yet have firm views as to how this could best be done. One possibility would be that countries not sharing in the creation of the new asset might share in its distribution either through the Fund or otherwise. Another possibility would be extensions of the drawing facilities of the Fund. A combination of these approaches would be feasible."

Mr. Handfield-Jones said this made it clear that as far as the Canadian authorities were concerned, and he believed that it was also true of the Group of Ten as a whole, decisions had not yet been reached about the distribution of any new unit to countries which did not participate in a limited group. Nor would he consider it appropriate for the Ten to attempt to make a judgment, on behalf of non-participants, as to the nature or form of any such distribution. This reflected a firmly held wish to avoid the appearance of condescension. Countries outside the Group of Ten had expressed views on this subject in a variety of forums, including the Fund. Moreover, the Canadian participants in the Group of Ten anticipated that all countries would have a further opportunity to express their views in the "second stage," which was mentioned in the original statement on the subject by the Secretary of the Treasury of the United States. Mr. Hockin had referred to this "second stage," in the statement already quoted from, as follows: "These are important matters and they will receive the attention of a much wider group of countries than those in the Group of Ten after this latter Group has completed its present round of discussions."

Mr. Handfield-Jones said the problem of acceptability of any new reserve unit was crucial and fundamental. The Canadian authorities felt that any new kind of money would be looked at with suspicious eyes by holders, at least until they were used to it. It was only reasonable that such holders might be concerned about questions of backing and control, at least until the new scheme was firmly established. He thought Mr. O'Donnell shared this view, as his statement stressed the importance of acceptability, and acknowledged the grounds for the major industrial countries having a major voice or even a decisive role. On this, Mr. Mr. Hocking had said: "Returning to the question of providing a reserve asset supplementary to the U.S. dollar and to gold, it is the Canadian view that the practical approach is to create a new reserve unit through the joint action of a group of countries which are able to contribute strong backing for the new unit and among which there is considerable experience of cooperation in international monetary matters." Mr. Hockin had stressed the problem of "choosing the combination of qualities which will render the new unit generally acceptable to monetary authorities for use by them in their transactions with each other." An arrangement in which a new kind of international money would have special features with regard to backing and control, but in which distribution might be widely open, had at times appeared to the Canadian authorities to be the greatest step forward which one could reasonably expect to be negotiated in the immediate future. The second Fund scheme had many attractive features, and undoubtedly would commend itself more fully to some countries than the sort of scheme which the Canadian authorities had been prepared to support. The question of how far away each of these schemes were from negotiability at the present time was a difficult practical judgment.

Mr. Handfield-Jones said that Mr. O'Donnell apparently felt that the Group of Ten were responsible for dividing nations into two groups. However, that was not how it had seemed, when all this began, with the first discussions by the Deputies of the Group of Ten. At that time many countries had felt strongly that they had special problems, and to many the problems of development had seemed so overwhelming that they had difficulty in focussing on other economic and financial problems. There was a tendency for developing countries to think about the international liquidity problem in ways which were closely related to the problem of aid. There had been numerous suggestions to harness the international monetary mechanism to the transfer of real resources from developed to developing countries. This concept of the international monetary system was firmly rejected by Mr. O'Donnell, as it had been by many others.

Mr. Handfield-Jones said views had changed since the early days of the Group of Ten. There was now a recognition that all countries needed increased liquidity in a growing world economy. The Fund staff had clearly demonstrated that all countries, developing and developed, would hold more reserves as their economies grew. Moreover, all countries had demonstrated an increasing interest in and concern about international monetary problems. He paid tribute to the statesmanship of the non-Ten, and in particular their support for making progress through the Fund. This had been a major influence on the discussions within the Group of Ten. There had been advances, both in analysis and of the nature of the problem and understanding of the views and concerns of other countries. There had been a growing process of cross fertilization of ideas and he hoped Mr. O'Donnell's statement would contribute to the evolution of thinking on this subject.

Mr. Larre said he could not make a very firm statement, in view of the forthcoming meeting of the Group of Ten in Washington. He welcomed the staff paper, which gave a useful comprehensive review of the ideas of the management which had been put forward in earlier papers over the last two years. He would limit his comments to the first scheme at this stage.

Mr. Larre compared the special reserve facility with the normal procedure of a general quota increase, and said it was more liberal and implied a lower degree of liquidity for the Fund. It was more liberal as regards drawing facilities. For members who were in the gold tranche, the special facility would provide unconditional drawing rights equal to the full amount of the increase; in a quota increase, the unconditional drawing rights would be only 25 per cent. This was true also for countries in the credit tranches, as the special facility would bring them back to lower tranches more quickly than would be the case if there were a quota increase of the same amount. It was also more liberal because there was no gold subscription, and countries could subscribe 100 per cent in their local currencies. As larger commitments by the Fund were offset by smaller resources provided by the countries, this raised questions about the degree of liquidity of the new scheme, and about the degree of liquidity of the Fund as a whole. The liquidity of the new scheme would be lower than the degree of liquidity of the normal operations of the

Fund, and because the liquidities of the Fund were not inexhaustible, the resources of the new scheme would be exhausted earlier than they would have been in the case of a quota increase. More importantly, it would affect the liquidity of the Fund as a whole, as there would be a pooling of the resources of the new scheme and the existing resources of the Fund. This meant that if the new scheme expanded, the moment might come when Fund members would not be able to use their normal drawing rights. This would happen even more rapidly if members with drawable currencies did not participate in the new scheme. This involved both financial and legal problems, because the special reserve facility would affect the liquidity of the Fund for all members, including those which did not participate in the new facility. He wondered whether it was possible for some Fund members to make an agreement among themselves which would curtail the rights or expectations of other members.

Comparing the special reserve facility with other schemes, Mr. Larre said it followed the traditional global approach, whereas most other schemes were selective in that a limited group of countries would share the burdens and benefits. However, the global approach was to some extent an illusion. First, as regards the resources of the scheme, some members would contribute lines of credit of currencies which would be drawn, others would contribute currencies which had been drawn and might be drawn, and still others would contribute currencies which could not be expected to be drawn in the foreseeable future. Second, concerning the use of the facility, although the same rights were given to all members they would exercise them differently; some would receive nearly automatic drawing rights, but these were the countries which were in the gold tranche and did not need to use this reserve. Others might need the reserve, but would receive less unconditional drawing rights. Still others, which were in the higher credit tranches, would receive highly conditional drawing rights. Thus there would be differences in the effective treatment of different members. The first Fund scheme was therefore half way between a fully global approach and the selective approach of other plans. He doubted whether it kept a proper balance between the responsibilities of various countries and their influence in the decision-making process, because countries contributing actual resources to the Fund would not be granted an equivalent control over their use. As regards the setting-up of the scheme, a majority of 75 per cent of the most interested countries could outvote the minority of countries which would contribute real resources: apparently even this liberal rule was considered too severe by some members. In its functioning, also, drawing rights would be either quasi-automatic, in which no one would have any say as to their use, or they would be granted in the framework of the normal voting rules of the Fund, which gave a weighted majority in favor of drawing countries. Perhaps this imbalance between the responsibilities and the powers granted to prospective contributors would prevent some of them from joining the scheme.

Concerning how the special reserve facility would contribute to reform of the international monetary system, Mr. Larre stressed that creation of additional liquidity had been considered as part of the more general problem of reform of the international monetary system. Some governments had been upset about the lasting payments deficits of reserve currency countries, and this viewpoint seemed to have gained support recently. Some had linked the lasting deficits of the reserve currency countries to the excessive role of the reserve currencies in the international monetary system. Of course, the first Fund scheme would not do anything to cure this situation, as the special reserve facility would be used side by side with the reserve currencies, and would not help to curtail the role of the currencies in international settlements. The scheme contained no provision for the balance of payments adjustment process, neither a link to gold, nor any substitute for gold as an incentive toward correcting balance of payments deficits. There was a provision in the scheme for control of the facility by the Fund, but this provision was quite ambiguous. On the one hand, countries that abused the facility might be declared ineligible, but on the other hand there would be no requirement of a declaration of intent to repurchase. This meant that there would not be much pressure on countries to repurchase. Some clarification of this would be helpful, and perhaps this provision could be redrafted to include some incentives toward adjustment.

Mr. Larre said the first Fund scheme was as good as any other as a means of providing additional liquidity, when and if the need arose. However, he had reservations about this need, because recent developments in the world situation did not point to any drastic change or any urgent need for additional liquidity. He did not think the scheme was better than most of them, as a way of improving the international monetary system.

Mr. Wass said the most interesting common feature of the two schemes was that they envisaged an initial and continuing distribution and participation to all members of the Fund, based broadly on quotas. When the Executive Board had discussed the distribution question, in Informal Session 66/3, January 12, 1966, there had been no clear conclusion, but no one who attended that meeting could be surprised by the fact that the staff paper now under discussion envisaged an initial distribution to all members, on the basis of quotas. This proposal obviously commanded strong support from certain members of the Board.

Mr. Wass thanked Mr. O'Donnell for his cogent and vigorous statement in support of the staff position. The case for a limited distribution had as yet received no spokesman on the Board. However, he noted that the present Chairman of the Deputies of the Group of Ten had presented a reasoned case for a limited distribution. He had communicated the text of Mr. O'Donnell's statement to his authorities.

Concerning the choice between Schemes I and II, Mr. Wass said the economic differences were negligible. At the previous discussion there had been a general preference expressed for the first scheme, largely because it would not involve an amendment of the Articles, and because it would rest upon well-tried and established techniques. It had been suggested that there might be no need for domestic legislation by members to participate in the first scheme. Further, it had been argued that it would be possible to proceed from Scheme I to Scheme II at some appropriate stage in the future. There was something for all these points, but they also had difficulties. First, he thought many countries would require domestic legislation. Second, he thought the second scheme would be more flexible in the longer run. Also, reserve units were presentationally better for most monetary authorities, as they could more easily be put "in the shop window" than could reserve positions in the Fund. Of course, he thought reserve positions in the Fund were equally good assets in purely economic terms. However, there was perhaps a lurking fear that drawings under the special reserve facility might be kept outstanding for a long time. Furthermore, as the special reserve facilities scheme developed, with annual accretions in the quotas allocated to members, it could make the Fund lopsided. If, for example, there was a 10 per cent increase in the special reserve facility every year, after 20 years the special reserve facilities of each member would approximate to 200 per cent of its quota. Even with quinquennial increases in quotas, at half that rate, which experience showed would be possible, the special reserve facility would begin to dwarf the normal Fund facility. Thus Fund drawing rights might eventually come to be regarded primarily as a source of the special reserve facility, and not as a source of conditional liquidity. This might not be desirable. There were considerable advantages to keeping unconditional liquidity rights and responsibilities separate, and Scheme II had advantages in this respect.

Mr. Wass doubted whehter it would be easy, in practice, to transfer from Scheme I to Scheme II at some suitable time in the future. Experience showed how difficult it was to make a radical transition in almost any human activity, unless the existing system was working badly. He suspected that whatever was decided at the outset would remain for a very long time.

Mr. Wass then took up points of detail in the two schemes. He had some doubts about the proposal in Scheme I to use absolute amounts rather than a percentage of quotas in the distribution. The use of absolute amounts might create difficulties which would be absent if fixed percentages were used. For instance, what would happen when a new member joined the Fund, sometime after the special reserve facility had been introduced, when existing members all enjoyed a special reserve facility of varying amounts, in different proportions to their quotas? The new member would automatically expect a special reserve facility, and its size might be difficult to negotiate. Again, if a country sought and obtained a special quota increase, there would be overwhelming pressure, if absolute amounts were used, for some pro tanto increase in the special reserve facility. This would follow automatically if the facility were a fixed percentage of the member's quota. Whichever system was adopted, the schemes would lead to countries seeking higher selective quota increases, not least because the gold tranche type of facility created through the special reserve facility would exceed the gold payments.

Mr. Wass noted that interest would be payable on the lines of credit extended to the Fund, presumably only when the lines of credit were drawn upon. He asked whether the lines of credit would be automatically available to the Fund, without the right of consultation or of veto by the creditor. If so, the provision was stricter, from the point of view of drawee countries, than was the present policy. He wondered what rate of interest the staff thought should be paid. The lines of credit would enjoy a gold value guarantee, and the claim would be of a gold tranche quality, which suggested that the interest paid should be low. This question would have to be looked at in the light of the Fund's charges generally, to avoid any problems arising from a distinction between the Fund's holdings of currency and the Fund's access to lines of credit. The supplementary paper suggested the possibility of paying a preferential dividend under the terms of Article XII, Section 6, to equalize the position on gold tranche and super gold tranches and on lines of credit. This was new ground, which should be approached with considerable care.

Turning to the repurchase provisions, Mr. Wass agreed with Mr. Larre about the problem of the Fund's liquidity. There were, he thought, advantages in the indefiniteness of the repurchase obligation. A possible solution might be to have the repurchase obligation on normal terms, and to rely on members having the overwhelming benefit of the doubt should they wish to redraw immediately after a repurchase. In any case, the anxieties expressed about the liquidity of the Fund underlined the need for participation in the scheme by as many countries with fully convertible currencies as possible. Mr. Larre had contrasted the liquidity of the Fund under a normal quota increase with the liquidity of the Fund under the new scheme, but Mr. Wass thought this involved an artificial distinction, as so many members were drawing on the Fund to pay their gold subscriptions, and indeed the Fund was obliged to sell gold in order to acquire gold under the quota increase. Of course, increases under the special reserve facility were fully unconditional, whereas under the quota increases only 25 per cent was unconditional; however, one should hope that the special reserve facility would become an asset as good as gold, and that members would let their positions rest with the Fund rather than exercise the right to draw them. Although this liquidity aspect was a problem, one should not exaggerate its difficulties.

On decision making, Mr. Wass sympathized with what Messrs. Tejera-Paris and Saad had said at the previous meeting. However, he thought the provisions in paragraph 6, of the first scheme, were intended to recognize that the scheme would only work if the convertible currencies of the major members were there to make it work.

Turning to the second scheme, Mr. Wass noted that "There could be provisions according to which by agreement between the IMF and IRF the allocation of units to a member on the occasion of a reserve increase could be deferred or withheld." This was somewhat puzzling. He presumed it would apply to a member which was willing to participate in the distribution but which was caught by what would be the equivalent of the ineligibility provision. In such a case, the allocation of units should be put in a suspended account, or an escrow account. This would not deny access for all time. He hoped that under Scheme II, members would be able to use units to make a repurchase to the Fund even if it involved amendment of the Articles. It would be unfortunate if the Fund did not accept a unit issued by an affiliate organization.

Mr. Wass said his earlier comments on the value maintenance guarantee and the interest payments on the special reserve facility applied also to the provisions of paragraph D of the second scheme. Presumably, so long as members held units equal to the IRF's holdings of its currency, no net interest would be payable either way.

On transferability, Mr. Wass was alarmed that the provisions of the scheme would allow members to use units to reduce their holdings only if they were in over-all balance of payments need. He had in mind the particular difficulties of the reserve currency centers; for example, he could envisage a situation in which the U.K. lost reserves, not as a result of balance of payments deficit, but because of liquidation of balances by traditional sterling holders. In such a situation, the reserve currency country should be able to use units. He asked how sub-paragraph (i) of paragraph E would be enforced. It was important that any reserve units scheme should not contain a provision which deterred a willing member from holding units in excess of its obligation. For this reason, he attached the utmost importance to the last sentence of sub-paragraph (ii), which provided that units held in excess of the obligatory limits would be transferable without regard to balance of payments need. He wondered whether there would be any provision for a member, which for any reason wished to liquidate its holdings in excess of its obligation, to get payment in some particular way rather than merely use it for settlement of a balance of payments deficit. The long-term aim should be to get the units accepted as the principle medium of international payments. Looking ahead 25 years, it was possible to imagine that the total of international liquidity would include holdings of reserve units which exceeded the total official holdings of gold and reserve currencies.

Concerning the rate of exchange to be used when units were transferred, Mr. Wass thought there might be some difficulty about the apparent discrimination between the treatment of the U.S. dollar and other currencies. He wondered what criteria the staff had in mind to use in determining the rate. They appeared determined to avoid mentioning the market rate. Using a different rate than parity, for non-dollar currencies, would introduce an important distinction from Scheme I, in which all dealings would be at par.

As regards the liquidation provisions of paragraph G, while he agreed on the need for equitable treatment, he wondered if more could be said at this stage. Presumably, members holding more units than they originally received would acquire claims against members having less. He asked if the staff envisaged provisions for such claims to be liquidated over a period of time, and whether the gold guarantee would continue after liquidation. He thought it should not.

Mr. Siglienti said Mr. O'Donnell's statement gave a good presentation of the case of the non-Ten. Like Mr. Handfield-Jones, he thought it was over-optimistic in the degree of agreement that it attributed to the Ten. Also, it was over-pessimistic in the way it described the object of such an agreement. There were various concepts of participation, and participation by the non-Ten in the distribution was contemplated in all plans submitted to the Ten. If a percentage of the newly created liquidity were given to the Fund, as was envisaged in one of the plans, it could be used under the normal Fund rules for drawings, or it could be used to enhance the compensatory financing facility, which, unlike Mr. O'Donnell, he thought was already largely unconditional and would possibly become more so.

Mr. Siglienti noted that Mr. O'Donnell argued that there was no reason why short-term capital movement should be financed with unconditional liquidity while fluctuations in export receipts should be financed by conditional liquidity. He thought the rationale for financing short-term capital movements with unconditional liquidity was still accepted, because the alternative would be either to control them or to adjust the other items of the balance of payments to these short-term movements. Present thinking was against both these courses. The financing of these movements by way of short-term unconditional liquidity was already in existence, through the network of swaps and other arrangements. Some of the schemes, in fact, would amount to a multilateralization of this existing bilateral assistance.

Mr. Siglienti thought Mr. O'Donnell's treatment of the obligations connected with the creation of new liquidity was rather narrow. The obligations would include broader concepts, including playing the rules of the game, bringing about a process of adjustment and self-discipline.

Some countries had shown more capability than others to bring about this process of adjustment and to follow such disciplines. He agreed with Mr. O'Donnell that one should not put too much emphasis on the idea that distribution to developing countries would mean that those reserves would be immediately spent, not so much because past statistics showed that many developing countries had been increasing their reserves, but because some developed countries would also spend the newly created reserves. He agreed that the Ten had tended to consider all the non-Ten together, and had neglected the in-between countries. He hoped this would be taken care of in the second stage, which was intended to broaden the discussion.

Mr. Siglienti welcomed Mr. O'Donnell's recognition of some of the arguments in favor of the way the Ten had been proceeding. For example, intensive study could best be done by small expert groups. Any new international monetary arrangements must be acceptable to the major industrial countries. Also, the effective functioning of reserve-creating arrangements would depend heavily on the acceptance and observance of the essential rules of the system by the major industrial countries. And because the industrial countries would have to provide the bulk of the real resources needed, they would wish to have a major role in decisions.

Mr. Siglienti said the Italian position on the Fund schemes would be explained at the forthcoming Group of Ten meeting. Speaking personally, he thought a choice between the two schemes was necessary. So far the Fund had been striving to demonstrate that whatever was feasible outside the Fund could also be done within the Fund. This had been helpful, but when the time of actual negotiation approached, it would be in the interests of the Fund to concentrate on only one plan. The Fund plan should be an alternative to some of the plans presented to the Ten, and especially if there were no agreement, it should be something which the Ten might find useful to come back to as a transitional solution, and in this respect the first scheme was preferable. One of the advantages of a unit scheme would be that it was something new, but if a transitional scheme was needed then it might be better to rely on something old, with which one had experience, such as drawing rights. Drawing rights were more flexible than units, and there was some feeling that the alleged rigidity of the unit scheme might result in an accumulation of units, with a potentially greater inflationary effect than would be the case with drawing rights.

Concerning creation and distribution under the first scheme, Mr. Siglienti said a formula based on the quota formula would provide a better criterion than the quota itself. On access to the facility, he noted that a country which had drawn the gold tranche, but perhaps did not have access to the credit tranches because its policies were unacceptable to the Fund, would receive unconditional liquidity. Paradoxically, a member which was in the first or second credit tranches, and which probably was following policies agreeable to the Fund, would receive conditional liquidity only.

On the provision of resources to the Fund, Mr. Siglienti said the first scheme would be improved if the resources were segregated as a matter of policy; for example, it should be clear that the lines of credit should be used only in connection with an activation of the drawing rights, and not for the ordinary Fund operations or for compensatory financing drawings. The reserve character of the drawing rights would be enhanced if it was clear that the credit lines would be used only to back those drawing rights. As regards transferability, he thought there would have to be a much more precise policy on currencies to be used in drawings and repurchases. The reserve-like quality of the drawing rights would be more clear if there were no repurchase requirement. His preoccupation here was to ensure that drawing rights were not exercised, and drawings kept outstanding, in order to change the composition of reserves. This might be taken care of by the policy on currencies to be drawn and repurchased, and to the extent that there was an effective harmonization of the composition of reserves. He hoped that, with experience, it would be feasible to make the drawing right a really reserve-like instrument, and as such not reimbursable by definition, although in fact it would be reimbursed through the drawing policy.

On the decision-making question, he would put the accent on the use of currencies, and possibly on the recent use, because really the only justification for giving more weight to certain countries was that they were making an actual contribution to the liquidity scheme. Of course, one should take care of the reserve currencies, by some provision, as in the Roosa Plan, which would include currencies which were used in the Fund or in international payments.

Mr. Lieftinck said the question of how the Fund's liquidity might be affected by the two schemes was still obscure. He hoped it would be clarified in further studies. In the first scheme, the need to safeguard the Fund liquidity was mentioned, by stating that "members will become entitled to participate in any increase in the special reserve facility allocated to them if they grant to the Fund a line of credit equal to the increase." In the supplementary paper, it was stated that "The additional resources provided to the Fund through the lines of credit should be adequate to meet the additional drawing rights even without taking into account the Fund's other resources." But, from Mr. Fleming's article on "Effects of Various Types of Fund Reserve Creation on Fund Liquidity" in Staff Papers of July 1965, it was clear that an extension of automatic drawing facilities would require provision of considerably larger additional currency resources than the increase in the automatic drawing rights. The Fund's liquidity might be seriously affected by heavy drawings, and he had the impression that the staff would contemplate relying on the General Arrangements to Borrow in such a situation. Without that additional source of liquidity, the scheme might run into great troubles. In that case, it should be made clear what the adoption of any of these schemes would mean in terms of the potential reliance on the General Arrangements to Borrow. This would be a matter for bilateral negotiations with the members of the General Arrangements to Borrow, and it might result in a weakening of the Fund's position in terms of the autonomy of its policies and practices. He hoped the staff would elaborate this point and explain the consequences of the two schemes for the Fund's liquidity and its dependence on the GAB.

Mr. Lieftinck said that personally he would prefer a general increase in quotas, or the second scheme, to the first scheme. The first scheme had considerable weaknesses, from the point of view of the functioning of the Fund and the continuation of sound policies. He would not exclude the implementation of this scheme as a temporary device, in order to win time for more fundamental solutions. He felt that a general increase of Fund quotas would involve less reliance on the General Arrangements to Borrow than would the first scheme. This also deserved further study. He wanted to stress that use of the Fund's resources was intended to meet temporary balance of payments disequilibria and facilitate their correction. The first scheme would introduce greater automaticity, which meant fewer safeguards on the use of the Fund's resources. It might weaken the temporary character of the Fund's assistance to members, and the revolving character of the Fund's resources, because of the weakening of the repurchase obligation. Under the second scheme also, there would be a weakening of the repurchase obligations in practice. Mr. Siglienti had even suggested that these repurchase obligations might be completely abolished. The General Counsel had observed that there would remain a certain rule of good behavior, and observance of the rules of the game with respect to repurchases, but Mr. Lieftinck did not consider that sufficient. The whole purpose of the exercise was to increase the amount of unconditional reserves. Although few countries, if any, had drawn the gold tranche merely in order to increase their owned liquid reserves, this might be because there did not yet exist a serious shortage of liquidity. If there arose a serious shortage of liquidity, then there would be a great temptation for many countries to utilize the enlarged Fund facilities under the special drawing scheme. It was intended to give these gold tranche facilities the character of owned reserves, but he saw dangers in adding another tranche of these, particularly because it would weaken the influence of the Fund over members drawing from the Fund. As he had said at previous meetings, he thought the need was more for conditional than unconditional reserves.

Mr. Lieftinck said that if and when additional unconditional liquidity was needed, the second scheme would have great advantages over the first. He would prefer the establishment of an affiliate for this purpose, as its function would be different from that of the Fund. Assuming responsibility for the creation of additional reserves, in addition to the Fund's present functions, might lead to dilution of the Fund, and particularly of the Fund's function of assisting countries in solving their balance of payments problems and promoting financial discipline. He hoped that under either scheme a solution could be found that came as close as possible to the global approach. He would exclude any compromise with the more restrictive view under Scheme I, as this would be detrimental to the Fund. Under Scheme II it would be easier to compromise with other proposals. Also, Scheme II had greater flexibility in the possible institutional arrangements.

Mr. Ghosh welcomed Mr. O'Donnell's statement and associated himself with his views. Referring to Mr. Handfield-Jones' statement about the identification by some developing countries of the liquidity problem with development questions, he said this might be related to the fact that some lending countries defined short-term export credits as development assistance. In comparison with such short-term tied credits, Fund assistance might well be deemed by some recipients as closer to development assistance. On the substantive question, he reiterated that while the purpose of reserve creation was not to transfer real resources, one should not shy away from an incidental transfer of resources if that occurred in the process of creating liquidity. Mr. Ghosh agreed that it was easier to study a difficult and technical matter in a small expert group. However, in this respect the Fund's Board was only a little larger than the Group of Ten, and, in any case, was meant to concern itself with these problems. He agreed that any new international monetary arrangement, to be effective, must be acceptable to the major industrial countries; indeed, this applied equally to the present functioning of the Fund. As there had to be an understanding between the Group of Ten countries, it was perhaps justified that the subject was being considered in the Group of Ten. However, any satisfactory solution of this problem would have to include all the members of the Fund.

Mr. Ghosh agreed with Mr. Lieftinck that Scheme II was more flexible in the long run than Scheme I, though the latter was more flexible in the short run. Mr. Wass had shown the possibility of distortions arising from Scheme I in the long run. This danger would, of course, arise only under the assumption of static quotas and expanding drawing rights under Scheme I. However, in the short run he thought the differences between the two schemes would be essentially technical. Scheme I should really be considered as a transitional scheme, from which one could move to Scheme II. Mr. Lieftinck's point about the liquidity of the Fund really hinged upon the usability of certain currencies, and he thought that in this regard also the two schemes were similar in the short run. He thought Mr. Siglienti's suggestion to use the recent use of currencies as a criterion for decision-making arrangements would raise grave difficulties, as the list obviously kept changing. Further, the suggestion, that countries in creditor position plus the reserve currency countries should be the only ones to be included, would create a club without any rational basis. In the Fund, decision making was a process of collective discussion, and in any case the Fund's voting arrangements made it impossible for any decision to be taken without the agreement of the main industrial countries.

Mr. Beelitz said Mr. O'Donnell had concentrated on the participation question, and it might have been useful to distinguish between the different kinds of participation. He was pleased that Mr. O'Donnell agreed that study was easier in a limited group, that there needed to be agreement among the major industrial countries, and that these countries would wish to have a major role in the decision making. However, these three arguments led him in a different direction from Mr. O'Donnell, at least as regards the creation of liquidity.

Mr. Beelitz said he would not at this time express a preference between the two schemes. Any scheme based on the Fund should not weaken the Fund's policies. It should strengthen the monetary discipline which the Fund had been trying to promote through its conditional drawing policies. He had doubts whether it would be possible under the schemes to give sufficient influence to the countries with strong currencies, which would have to carry the burden of the creation of liuqidity, in order to avoid too expansionary a tendency. Mr. O'Donnell had not given sufficient emphasis to the manifold burdens and special responsibilities attached to liquidity creation: the participating countries would have to be prepared to give access to their real resources, and also they would have to fulfill additional obligations as regards the adjustment process. Moreover, they might be prepared to take part actively in an intensification of multilateral surveillance.

Mr. Beelitz said Fund discipline might be endangered by weakened repurchase obligations for drawings in the gold tranche and drawings in the special tranche envisaged in Scheme I. Concerning paragraph D of Scheme I, he asked the staff to clarify whether the lines of GAB credit would be included in the pooling of all the Fund's resources which was envisaged. He wondered how it was intended to achieve the ratio of Fund units to other types of reserve assets in Scheme II. He agreed that the nature of imbalances should not determine whether liquidity would be made available on a conditional or unconditional basis. When deciding this question it should be taken into consideration whether existing or expected imbalances made it advisable to have stronger or weaker economic influence over countries. He wondered whether the staff felt that additional drawing rights should be covered fully by credit lines in convertible currencies. He thought the arguments justifying the different acceptance obligations should be clarified, since they were dealt with more from the point of view of the liquidity of the Fund than from the point of view of the creditor countries which would have to undertake the acceptance obligations. According to their judgment on the liquidity of the units their readiness to accept them might be considerably less than their readiness to accept a claim under Scheme I. This should not be overlooked in the process of creating the units and of fixing their terms. But he added that acceptability could simply not be regulated by the Scheme. Concerning transferability, he asked the staff to explain their view that the introduction of a gold link would have undesirable side effects.

Mr. Siglienti responded to Mr. Ghosh's point about using the recent use of currencies as a criterion, and observed that the importance of creditor positions was recognized in the Articles of Agreement, as regards the election or appointment of Executive Directors, Article XII, Section 3 (c), and also the voting arrangements, Article XII, Section 5(b).

Mr. Larre said he agreed with Mr. Wass on the consequences of the mitigation schemes for the liquidity of the Fund, but said that despite the mitigation, the quota increase process would eventually bring more usable currencies and gold to the Fund than would Scheme I.

Mr. Mansour expressed his general agreement with Mr. O'Donnell's statement especially his emphasis on the urgency of the problem and on adequate safeguards for the interest of the developing countries. While it was expected that a small group of experts discussing this problem would reach early agreement, the protracted discussions and the delay in reaching a conclusion caused widespread surprise, particularly among those who saw the danger that the concerns of the few would be different from the general character of the problem they were studying. He would emphasize the need for a global approach to the problem in the widest sense: participation, distribution, and policymaking. The high criteria set by the Fund's policy on the use of its resources had come to be accepted universally. The Articles of Agreement contained adequate voting provisions for policymaking decisions, which were appropriate for every aspect of the Fund's activity and there was no reason why this new venture should be different.

Mr. Mansour stressed the urgency of reaching a decision by the Board soon, if only to dispel the prevailing mood of frustration and insecurity in the international financial field. Many countries felt that other important matters which were pending, such as the question of improvements in the compensatory financing facility and the problem of the transfer of real resources, were equally important and were adversely affected by the delay.

Some speakers were opposed to weakening the repurchase provisions, and he would have no strong feelings against including a repurchase provision in any system which the Board would adopt, but he would oppose any discrimination in favor of a small group of countries in the policymaking decisions even if it were possible that by policy decisions the Board could amend the provisions on voting prescribed in the Articles of Agreement of the Fund.

Mr. Kiingi agreed broadly with Mr. O'Donnell's statement. He had expected that the discussion would be based on the assumption that there was a need for increased liquidity because of expanding world trade, that this would be done through the Fund, and that all members would participate in it. However, it was clear that some speakers still had reservations on whether there was a need for increasing international liquidity, and whether the Fund was the right organization to administer the increase. There were also doubts as to whether all Fund members should be associated with additional liquidity.

Mr. Kiingi believed that these doubts were based on the argument that the currencies of most developing countries were not usable in international transactions, on the feeling that the developing countries tended to follow expansionary policies, and that by the nature of their economies they had a high propensity to use up their reserves. However, experience showed that the schemes did not differ from the existing system as regards the currencies to be used. Moreover, by keeping their reserves in certain reserve currencies, rather than in gold, the developing countries were making a significant contribution to international liquidity.

Mr. Kiingi said there was no evidence to support the assumption that on the whole developing countries pursued expansionary policies; on the contrary, the limitations set by export prices forced many of them to follow unduly conservative policies. He noted that the outer franc zone as a whole, which consisted of developing countries, had a substantial surplus with France, as did the rest of the sterling area vis-à-vis the United Kingdom. He did not think these surpluses would have been accumulated if the policies had been expansionary and irresponsible. It was true that the pressures on developing countries to spend their reserves were great, because they wanted a higher rate of growth, had low incomes, and needed development capital. However, despite this they were trying to maintain stability. Individual developed and developing countries had balance of payments problems at given times and this was normal in the framework within which the international payments system was operating and was likely to remain so. Although the compensatory financing facility had not been used as extensively as was originally expected, many countries had suffered adverse terms of trade, and had depended on their reserves, and on tightening their belts. Some had not availed themselves of the special drawing rights in connection with the recent quota increase, and had preferred to pay the gold subscription. The indiscriminate granting of suppliers' credit, sometimes on costly terms, had contributed to the weakening of the foreign exchange position of a number of countries. This credit had been extended on the basis of the trust of the creditor nations that they would be repaid. Countries which were considered creditworthy for such credits could be regarded as responsible by the Fund which gave credit on reasonable terms. Any expenditure of foreign exchange by developing countries tended to increase the reserves of the developed countries, and was not likely to affect adversely the over-all liquidity position of the member countries. Even if all the developing countries used the maximum of their drawing rights, there would not be much effect on the total of international liquidity, because their total quotas were comparatively small.

Mr. Kiingi said association of the developing countries with any scheme for the creation of international liquidity would enhance and not hamper cooperation and the smooth running of the international payments system. The number of Article VIII countries was increasing, and the ultimate objective was to make more currencies convertible.

Concerning the balance between conditional and unconditional liquidity, Mr. Kiingi said the staff paper described provisions which would give full protection to the Fund. After exhausting the gold tranche and the special reserve facilities, further drawings would be conditional. Unless the size of the special reserve facility was too large, there would be no harmful effects. The staff papers had drawn attention to the undesirability of either excessive or inadequate liquidity. He doubted whether the hypothetical situation described by Mr. Wass would in fact occur, because the special reserve facility could be contracted. He thought a decision should be made soon.

Mr. Dale said he had little of substance to add. He appreciated Mr. Larre's contribution. With respect to the "lasting deficits" of the reserve currency countries, he thought one tended to be subject to a degree of myopia, and to be dominated by recent events; he recalled how, in the middle fifties, many U.S. officials had had a similar myopia about the deficits of some European countries.

Mr. Dale said he had transmitted Mr. O'Donnell's statement to the U.S. authorities. He thought Mr. O'Donnell had overestimated the extent of the agreement reached so far in the Ten; it was difficult, in this kind of matter, to know exactly how much agreement had in fact been reached until one started to draft the report. The U.S. submission to the Group of Ten included a dual approach, and would envisage two portions of reserve creation, at least one of which would be directly distributed to all Fund members. As to the transfer to the Fund of some resources relating to reserve creation, Mr. O'Donnell apparently believed that all the proposals would envisage conditional Fund drawing rights based on such transfer of resources to the Fund, but Mr. Dale understood that within the Group of Ten there had been little discussion of the particular techniques by which the Fund would use these resources. While some proposals envisaged conditional liquidity, the degree of conditionality and the particular arrangements involved had not yet been agreed. He stressed that the U.S. authorities placed great importance on the full exploration and use of a "second stage" of the discussions, in which the views and concerns of all Fund members could be authoritatively represented.

Mr. Dale noted the various comments to the effect that countries outside the Ten had increased their reserves in recent years. He noted in that respect that total world reserves, as defined in IFS, had increased by just over $1,300 million for the last quarter of 1965 over the last quarter of 1964. In that period, the reserves of the less developed areas had increased by $1,220 million, which was about $130 million more than the increase in the reserves of industrial Europe.

Mr. Dale said he would be interested to see more work done on the effect of the various schemes for the Fund's liquidity. It was a difficult question, statistically and conceptually, and the results would be greatly affected by the assumptions one made about the behavior of countries receiving newly created reserves. In this connection, he had recently examined the Fund's experience with members; among the Group of Ten countries, only Germany and Sweden had never drawn on their gold tranche. Among the other industrial countries, and what the Fund classified as other developed countries, only four out of fifteen had never drawn on their gold tranche. Out of the 81 less developed countries which had at any time been members of the Fund, 40 had never made a gold tranche drawing. Of course, a number of less developed countries had become members of the Fund quite recently, and also, many countries had not been in a very good position to draw before the pre-war value decision was adopted. Nonetheless, these were interesting and surprising figures, and they did not suggest that all the developing countries would be likely to draw in the early stages of the schemes.

Mr. Biron agreed with Mr. Beelitz about the special responsibilities of the countries which would have to give the Fund the necessary resources under the two schemes. Some credit lines would be used more intensively than others, at least in the near future. This was unfortunate, and he was sure that eventually it would change, but in the meantime allowance should be made for this factor. He shared Mr. Lieftinck's views regarding the liquidity of the Fund, and on the necessity to preserve what had been the main responsibility of the Fund so far. He also appreciated Mr. Larre's analysis. Mr. Biron said he could not yet pass a final judgment on the merits of the two schemes. From a technical point of view, he thought Scheme I was rather weak, because it was really an artificial attempt to transpose, in terms of the present framework of the Fund, something that was in reality much nearer to Scheme II. This could cause some difficulty. For example, he understood that a member making full use of its special facility, and drawing 50 per cent of its quota in the credit tranches, would find itself still within the limits of the second credit tranche, for the purposes of the Fund's policies. However, for the interest charges, and for the determination of when consultation under Article V, Section 7 would be required, it would be in the same situation as a country which had drawn the third credit tranche. He was also puzzled about the exact status of claims under the credit lines; apparently these claims could be realized in the same way as gold tranche positions or GAB claims, but the procedures to be followed in these two cases were different. Which would be applied in practice? Assuming that the gold tranche procedure was followed, would the member have to draw from the Fund, and if so, would he have to pay the service charges? Furthermore, if the status of the claims under credit lines was not exactly the same as that of the gold and super gold tranches, he thought it would be necessary to elaborate a set of rules to determine when a member should draw on its credit line rather than on its gold and super gold tranches, and as to when the Fund should repay the credit line. If the credit lines were reversible in the same way as under the GAB, he wondered whether there would be a direct link between repurchases by the debtor country and repayment by the Fund to the creditor country. If so, which currencies would be used?

Concerning transferability of the units, Mr. Biron had doubts about Scheme II. Apparently there would be certain rules of the game, not requiring prior approval by the IRF, but he wondered what would happen if the IRF decided that the rules of the game had been broken. He would be interested to know whether the rule of proportionality between units and the other reserves of countries would be consistent with the discretion left to the countries in the choice of the transferee. The problem of the rate of conversion was difficult, and he reserved his position on it.

Mr. Bicalho associated himself with Mr. O'Donnell. Developing countries were interested not only in joining in the distribution, but also in sharing the responsibilities. He would like to avoid the necessity of anything like the GAB. He welcomed Mr. Handfield-Jones' statement, and believed that the Canadian position would encourage others to keep the Fund as an institution in which the members had no differences other than those contained in the Articles of Agreement. He thought both schemes were acceptable.

Mr. Domenech welcomed the new informal round of discussions on international liquidity, especially because he knew that it was difficult to discuss this subject in formal sessions of the Executive Board. He wished to say a few words at this time, to put on record a Resolution which was adopted at the Fourth Annual Meeting of the Inter-American Economic and Social Council held during March 1966 in Buenos Aires, Argentina. Fundamentally, it was established that the reform of the international monetary system was a matter of importance for all countries, independently of their degree of economic and financial development. As a consequence, this reform should be the result of discussions in which all interested parties participated. The Fund would be the best forum for this purpose. As a contribution to this world-wide debate on the reform of the international monetary system, a group of four Latin American experts had put forward a document (CIES/892) which, although no resolution was passed on it, was being sent to this Institution, as well as to others for consideration. During the following week a meeting of the Presidents of the Central Banks of Latin America would be held in Jamaica, at which time an examination would be made of the principal suggestions put forward, concerning reform of the international system. At said meeting it was established that it would be desirable for the central banks of Latin America to act in such a way as to guarantee that the points of view of the Latin American countries were known and taken into account, through all the stages of discussions and in all international or intergovernmental meetings where the reform of the international monetary system was considered. A summary of the proceedings of this Inter-American meeting had been offered in a recent staff paper (SM/66/48, 4/14/66).

Mr. Larre took up Mr. Kiingi's point, and said he did not think that the balance of payments situation of the members of the French franc zone could be described by the change in their foreign exchange reserves, as their accounts with France were settled in francs.

Mr. O'Donnell said it was clear that there remained technical questions which unfortunately required more study. He did not think that his earlier statement did any injustice to the Group of Ten: he had not considered that none of the Ten was willing to make some provision for the rest of the world, but he still felt that if there was any consensus at all in the Ten it was that some distinction would be drawn between the limited group and the rest of the Fund membership. That would be a fatal flaw in any proposal that was put forward for general acceptance.

Mr. Ghosh returned to Mr. Siglienti's point about a criterion based on recent use of currencies, and said it was one thing to increase or decrease the voting power of members, depending on whether they were in creditor or debtor positions; it was quite another thing to include or exclude them altogether from voting on that basis.

The Director of the Research and Statistics Department, and the General Counsel, responded to points raised by Executive Directors.

The Director of the Research and Statistics Department referred to Mr. Ozaki's question about credit limits and creditor limits, and said that under the terminology of unit schemes, a 200 per cent creditor limit meant a willingness to absorb 100 per cent more than the original allocation, while a 100 per cent credit line meant a willingness to accept 100 per cent more. In response to Mr. Handfield-Jones, he said he doubted the economic meaning of a scheme in which the backing was provided by a limited group and distribution was made to a wider group. He could not understand the meaning of the central backing in such an arrangement. There were three possibilities. First, the units could be given to the outside countries in exchange for their own currencies. Second, if their currencies were not thought to be good enough to back the units, the units could be given to them without receiving anything in exchange. Third, the currencies of the outside countries could be placed in the Fund in exchange for claims on the Fund, which, if there was any doubt about the quality of the claims, would undermine the composition of the Fund's assets, and therefore it would impair the value of gold tranche, super gold tranche, and GAB claims on the Fund.

The Director of the Research and Statistics Department agreed with Mr. Larre that the two schemes were more liberal than a general quota increase. The purpose of a quota increase was not to create unconditional liquidity; some was indeed produced, but only as the counterpart of a gold subscription. He doubted whether the schemes would produce a balance of claims and assets which was less liquid than the present Fund. It would be less liquid if many creditor countries were not included, but that possibility was eliminated in the schemes. If Scheme I was, however, less liquid, then that could easily be remedied, by raising the required lines of credit from 100 per cent of drawing rights to some higher percentage. In this way one could assure that the scheme would not, on the average, rely on the other assets of the Fund. While the Fund did not have a gold link, it did require the statement of a need to purchase, and also there was an implied obligation to use half of a country's own resources against the resources obtained from the Fund. For some this meant using gold.

Turning to Mr. Wass' comments, the Director of the Research and Statistics Department said that the staff had preferred absolute amounts to a percentage of quotas, because it held the view that a country which joined the Fund some time in the future should not be entitled to its share of the unconditional liquidity which others had obtained in the meantime and that quota increases should necessarily involve an increase in unconditional liquidity. Interest would only be paid on credit lines which were used: in the unit scheme, it would only be paid on net positions. There was, therefore, no idea of an interest differential. As to the automaticity of credit lines, he said these were meant to be as accessible as existing holdings, with the same consultations mechanism. When the staff had said that the special reserve facility would be usable only in times of balance of payments need, that was meant to include all situations where a country's gross reserves decreased: that would cover the case of the reserve centers. He did not think the system should be policed, but nevertheless the institution would be watching developments in countries using their units. On the rate of exchange, the staff paper really meant the market rate against the U.S. dollar: the U.S. dollar was chosen simply to provide a single fixed point against which to measure other currencies. The purpose was to arrange a consistent set of rates in consonance with market rates. Fund transactions could be at par, since the direction of the transactions was controlled by the policy on currencies to be drawn.

The Director of the Research and Statistics Department said there were not many, if any, countries at the point Mr. Siglienti had described where they had drawn the gold tranche but were not eligible to make credit tranche drawings because of their unsuitable policies. He did not think it would be necessary to draft a more precise policy on currencies to be drawn if the special reserve facility were grafted on to the present Fund. At least in the early stages, the facility would be small by comparison with the Fund. The idea of relying on the sale of currencies as a measure to reverse drawings was attractive, but it would only apply to a limited number of currencies. On the question of the Fund's liquidity, which had also been raised by Mr. Lieftinck, he said this was a matter of judging the probabilities, as was the case with the present super gold tranche positions. When the Fund was created, it had seemed to have adequate resources on a probability basis, but when the possibility of U.S. drawings had emerged it was found that the Fund was not sufficiently liquid, and recourse was had to the Article VII possibility to borrow. It would not be difficult to arrange the new facility so that its resources would be adequate by itself on a probability basis. Of course, however it was funded on a probability basis, it might in certain circumstances prove to be insufficiently liquid. Presumably, the GAB would then be available. Alternatively, the question of the liquidity of the Fund could be met through rigid rules on the currencies to be drawn without an absolute upper limit for an individual country.

In response to Mr. Beelitz's questions, the Director of the Research and Statistics Department said the GAB credits would also be pooled. As to how one could assure that countries held fund units in the same proportion as their other reserves, he said it was similar to how the currencies to be drawn policy was used to achieve roughly that objective: once the proportionality was achieved, any additional units would be distributed in proportion to the units already held, or in proportion to reserves, and if there were important deviations from this proportionality, then the seller of units would sell them in the first instance to the country which was below its norm. In calculating the adequacy of the lines of credit, the staff had made allowance for the fact that some lines of credit would be in inconvertible currencies. Of course, if this were not considered adequate, it could be adjusted. He agreed with Mr. Beelitz that the question of the liquidity of the drawing rights should be regarded from two sides, from the point of view of the Fund and from the point of view of the country that acquired the claim on the Fund when its line of credit was drawn. However, he stressed that these two points of view were essentially coincidental. There had been a certain natural tendency to believe that the scheme could be improved, from the point of view of creditor countries, by making the lines of credit as small as possible: this was not true. The creditor countries would improve their own position to the extent that every other country's commitment was enlarged by accepting the rules and extending credit when it was in a surplus position.

The Director of the Research and Statistics Department said the link to gold in use could have undesirable effects because it would produce two kinds of gold, gold by itself, and half gold/half units, which might have separate prices. This would be very unsatisfactory for the holders of units, and this could then only be remedied if there were acceptance rules --which the gold link was intended to eliminate. Another difficulty was that it would necessitate a special facility for the United States, so that the United States would have the option to redeem dollars either in gold or in half gold/half units. This would undermine the status of the U.S. dollar. Third, it would induce countries to increase their gold holdings for use in matching packages of gold and units.

The Director of the Research and Statistics Department agreed with Mr. Dale that the effect of the schemes on the Fund's liquidity would depend on the behavior of the members. One difficulty was the very skewed distribution of Fund quotas, and therefore of the possible drawing rights that could be exercised against the Fund's liquidity. If drawings were made by the largest members, it was very hard to imagine any scheme that would have sufficient liquidity. In reply to Mr. Biron, he said claims under the lines of credit would be encashable by repayment rather than drawing, but he did not envisage the other characteristics of GAB repayment being applied to claims under Scheme I. As regards currencies, he had in mind a normal application of the currencies to be drawn policy. This question would have to be examined carefully, and in detail; the staff paper was only intended to give a general indication as to how the claims would be treated, i.e., with "the overwhelming benefit of the doubt."

The General Counsel responded to Mr. Larre's question about the validity of a group of countries agreeing among themselves and thereby bringing about some adaptation in Fund policy. This of course was not how the staff envisaged the working of Scheme I. The decision which gave effect to the special reserve facility would be taken by the Executive Board, with whatever conditions as to operative effect that the Board might wish to adopt. As to the position of a country which opted out of the scheme, it was true that its currency would continue to be sold by the Fund to other members. The basic question was whether the scheme itself was within the powers of the Fund. Reciprocity between drawer and drawee was certainly not a part of the Fund legal mechanism, and it was not a legal problem. For example, the compensatory financing facility might not be usable by all members of the Fund, and in the extreme case a member might be ineligible to use the Fund's resources but this did not affect the rights of other members to draw that currency.

Some Executive Directors had expressed concern in connection with the weakening of the repurchase commitments under Scheme I. The General Counsel wished to emphasize that it was not intended to establish a principle that any member could make a more than temporary use of the Fund's resources. It was not legally possible for any member to make more than a temporary use. The provision was an attempt to meet the views of those

Mr. Siglienti asked the General Counsel whether, on the question of segregation, he had in mind the situation in which the currency to be drawn according to the policy of the Fund was one of which the Fund's holdings were over 75 per cent of quota.

The General Counsel said that the 75 per cent holdings level was not the automatic and invariable rule for deciding whether a currency was a replenishable one. For example, one could take into account the absolute amount of the Fund's holdings of a currency and foreseeable needs.

Mr. Handfield-Jones said he had not intended to imply that he thought a scheme, in which there was a narrow backing and a wider distribution, was more or less negotiable than some other scheme. As to whether in fact such a scheme would work, he thought there was no logical impossibility in arrangements whereby countries acquired smaller amounts of rights than they incurred obligations.

The Director of the Research and Statistics Department said he only thought that the scheme described by Mr. Handfield-Jones would not achieve the very objective for which a narrow backing was advocated; he was not trying to say that it could not work.

Mr. Lieftinck thanked the staff for its explanation of the effects of the two schemes on the Fund's liquidity. He thought a special paper on the subject would be useful.

Mr. Ozaki said that he could feel in both schemes the intention of the Fund to strengthen its currency policy. He wondered whether the direction was right. He would prefer to give a free choice of currency for drawings and repurchases, even by having somewhat higher lines of credit. He would also prefer to take a similar attitude to the new facilities, and naturally he did not approve of the harmonization policy.

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members which would prefer to leave this duty on an implicit basis, but this would not change the character of the duty. Personally, he thought it might work out as follows: The Fund would say that members must make no more than a temporary use of the facility, and if the Fund did not change its understanding of "temporary" the limit would be five years; then if the member used the facility it would be implicitly agreeing to this. There were in fact quite useful sanctions for the special facility. Under Article V, Section 8(d), and Rule I-4(g), agreement on repurchase within five years was called for sometime after the drawing, and unless the Fund took a decision relaxing the five-year rule. It had not been intended to say that no legislation was necessary, but that it would be necessary in fewer countries than would be the case under a rule requiring 80 per cent participation. He agreed with Mr. Wass' point about the need for legislation. There would certainly be a need for such action in any country which needed parliamentary legislation in order to lend to the Fund. However, the GAB experience showed that not every country needed such legislation.

Turning to Mr. Siglienti's suggestion to segregate the new facility from the normal operations of the Fund, the General Counsel said one good legal reason for not doing this was that it would require an amendment of the Articles. With Mr. Siglienti's idea, there could develop a situation in which the Fund had to resort to a credit line although the level of the Fund's holdings of that particular currency would not justify a borrowing by the Fund under Article VIII, Section 2. With respect to liquidation, it had been thought premature to present ideas now, although much thinking had been devoted to it. The liquidation provisions in Schedule E of the Articles would provide some guidance. It was to be noted that they allowed for redemption over time. There was a special provision which provided for a gold value guarantee. Of course, one need not follow the ideas of Schedule E slavishly.

The General Counsel said Mr. Biron had attempted to show an unhappy inconsistency between a level of holdings approach, e.g., on the payment of charges, and the floating character of the facility. This did raise a number of questions, but they were technical and did not go to the heart of the schemes. The Fund had had much experience over the years in dealing with two disparate ideas, provisions dealing with levels of holdings and provisions dealing with parcels of holdings. It had been possible to solve these technical difficulties. Of course, similar questions would arise with the ideas for a floating compensatory financing facility. However, one should not assume that the levels approach would necessarily result in difficulty of the kind that Mr. Biron mentioned. For example, although it had not been proposed, it would be valid to have special charges for a floating facility.