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

Executive Director	Alternate Executive Director
J. J. Anjaria	A. K. Banerji
W. B. Dale	J. S. Hooker
A. C. Diz	Y. S. Patrón
P. L. Faber	L. Williams
T. Friis	
J. González del Valle	A. Phillips O.
S. J. Handfield-Jones	P. M. Reid
A. Kafka	P. H. Pereira Lira
R. Larre	G. Teyssier
P. Lieftinck	H. M. H. A. van der Valk
A. Nikoi	
M. W. O'Donnell	A. M. de Villiers
	A. Mansour
S. Siglienti	C. P. Caranicas
J. M. Stevens	D. W. G. Wass
	E. Ozaki
*B. Tann	C. L. Chow
*A. van Campenhout	H. Biron
	H. Ungerer
	L. M. Rajaobelina

W. L. Hebbard, Secretary
A. Wright, Assistant

* A.M. Session

Informal Session No. 67/1

Also Present

African Department: C. Merwin, Acting Director; U Tun Wai. Asian Department: W. J. R. Woodley, Deputy Director; A. Abadjis, C. C. Liang. European Department: P. Høst-Madsen, Deputy Director; H. Ponsen, M. Wyczalkowski. Exchange and Trade Relations Department: E. Sturc, Director; B. Nowzad, P. A. Simonet. Fiscal Affairs Department: R. Goode, Director; J. Saper, Deputy Director; H. C. Murphy. Legal Department: J. Gold, General Counsel and Director; A. S. Gerstein, Deputy General Counsel; G. P. Nicoletopoulos, Deputy General Counsel; J. G. Evans, F. Hodel. Middle Eastern Department: S. H. Hitti. Research and Statistics Department: J. J. Polak, Economic Counsellor and Director; J. M. Fleming, Deputy Director; H. Ezekiel, F. G. Hirsch, R. R. Rhomberg. Secretary's Department: A. Mountford. Treasurer's Department: W. O. Habermeier, Deputy Treasurer; R. Kroc, Deputy Treasurer. Western Hemisphere Department: P. J. Brand. Information Office: J.H. Reid, Chief Information Officer. Personal Assistant to the Managing Director: A. L. Coleby. Technical Assistants to Executive Directors: P. D. Fells, G. M. Gill, W. Y. Hui, C. T. MacDonald, E. Schmidbauer, J. A. Sillem, E. Stoffers, W. Stoop, T. Tanaka, J. R. Vallet.

Informal Session No. 67/2

Also Present

African Department: U Tun Wai. Asian Department: C. C. Liang. European Department: H. Ponsen. Exchange and Trade Relations Department: E. Sturc, Director, P. A. Simonet. Legal Department: J. Gold, General Counsel and Director; A. S. Gerstein, Deputy General Counsel; G. P. Nicoletopoulos, Deputy General Counsel; J. G. Evans, F. Hodel. Middle Eastern Department: S. H. Hitti. Research and Statistics Department: J. J. Polak, Economic Counsellor and Director; J. M. Fleming, Deputy Director; F. G. Hirsch, R. R. Rhomberg. Secretary's Department: A. Mountford. Personal Assistant to the Managing Director: A. L. Coleby. Technical Assistants to Executive Directors: P. D. Fells, G. M. Gill, W. Y. Hui, C. T. MacDonald, R. G. Nayak, E. Schmidbauer, J. A. Sillem, E. Stoffers, W. Stoop, T. Tanaka, J. R. Vallet.

1. AGENDA FOR SECOND JOINT MEETING WITH DEPUTIES OF THE GROUP OF TEN

The Executive Board met in informal session to discuss the draft agenda (Secretary's Circular 67/11, 1/12/67) for the Second Joint Meeting with the Group of Ten Deputies.

The Chairman opened the discussion by asking whether there were any questions or comments on the proposed agenda. He pointed out that under Item IV (Issues under Items I to IV of the First Joint Meeting that Need to be Further Considered) some items had been added which had been suggested by Mr. Emminger at the request of some of his colleagues. It was intended that the items on the agenda would be taken up in the order in which they were listed. The Chairman understood that Mr. Emminger would be proposing the same agenda to his colleagues.

Mr. Larre intervened to say that the fact that he had no comments should not be construed as agreement on the part of his authorities.

The Chairman observed that the agenda for subsequent meetings would have to be arranged in the light of the discussion at the London meeting. As he had mentioned to the Board previously, the Third Joint Meeting scheduled for April was expected to be of a rather different character from the purely exploratory discussions which were to be resumed in London; they might be aimed more directly at trying to reach some understanding on some major issues.

The Chairman then recalled that it had been suggested at an earlier session that discussion should now concentrate on decision making and related aspects of deliberate reserve creation.

The following introductory statement by the staff had already been circulated:

> The purpose of these introductory observations is not to put forward precise proposals on decision making but to survey the main issues that arise in this field and to explore certain solutions for them.
>
> The discussion that follows is limited for convenience to a unit scheme run by a Fund affiliate. Approximately similar provisions could, however, also be worked out for a drawing rights scheme in the Fund.
>
> It may be helpful at first to indicate the scope of the observations that will follow. The discussion will not cover all aspects of decision making of any organization charged with the task of deliberate reserve creation, but will be limited to its main decision,

that on the amount and the timing of reserve creation. The affiliate may have to decide on many other matters, such as rules for members on the acceptance of units, the application of guidance principles, the rate of interest to be paid and charged, etc. The provisions applicable to decision making on these matters, the basic principles of which will no doubt have been settled in the document establishing the affiliate, are not likely to present major problems.

It may be expected that a body of knowledge on the need for reserves will be developed from further analysis and from experience so that at all times proposals made by the Managing Director of the affiliate will reflect an increasingly common body of thought as to what amount of reserve creation would, in the light of all the circumstances, be most conducive toward achieving the objectives of deliberate reserve creation. It would also be anticipated that the Managing Director would keep himself fully informed about the views on these matters held by different member countries in order to be able to evaluate, as well as possible, the effects that could be expected to result from alternative amounts of reserve creation. This would help him in formulating his proposals. Although, therefore, the amount and timing of reserve creation is not solely a question of voting, in the end a particular amount of reserve creation will have to be decided for a certain period and the rules that will guide this decision will constitute one of the most important components of any plan for reserve creation.

Voting under provisions applicable to amounts and timing would not be the only way in which members could express their views and affect decisions. There are at least two other actions by members that could have similar effects. The first would be in connection with ratification of the plan for reserve creation, since the entry into force of the Agreement will no doubt depend on sufficient participation having been obtained in the form of countries' ratifications. The second would be "opting out," which is the exercise by a country of its right, assuming the Agreement provides for this, not to accept its share in a particular distribution, with all the consequences that could follow from this. In the background, there would be the right of countries to withdraw from the organization, and the influence that the possibility of this might exert.

Entry into Force

It may be convenient to discuss first the question of entry into force. It has often been stressed that at least some beneficial effects in terms of confidence could be obtained from the fact itself that countries had accepted a scheme for deliberate reserve creation. A scheme of this kind could be agreed, e.g., at a special meeting of

the Governors of the Fund. Such an agreement would then have to pass through parliamentary action in individual countries and the agreement could not enter into force until it had been ratified by a specified majority. Only after that stage could the question of a specific proposal for reserve creation come up. The conditions for entry into force will thus be a major milestone on the road toward a first decision on reserve creation. The process of ratification is likely to take a considerable period of time and to involve in many countries a new and searching appraisal of the merits and demerits of deliberate reserve creation.

In view of this, it would appear advisable to make sure that entry into force of the agreement would be a meaningful event which would give world-wide assurance that the establishment of the affiliate coincided with sufficient participation to permit the affiliate to become operative as and when its members, by a decision on activation, decided to begin reserve creation. It would follow from this that entry into force should depend on the adherence to the agreement by Fund members having a proportion of total Fund quotas sufficiently high to ensure the membership of most of the larger potential surplus countries as well as a large proportion of members in general. This objective can probably best be achieved by a simple requirement of adherence in terms of members accounting for a high proportion of total Fund quotas. For this purpose, a participation requirement as high as 85 per cent of total Fund quotas would not seem unreasonable.

The alternative possibility of a double participation requirement in terms of (a) a certain (lower) percentage of Fund quotas, and (b) the participation of all or almost all of certain specified Fund members, was suggested in SM/66/30. It is doubtful, however, that this alternative would find broad support among member countries; it would in any event raise many problems in the specification of countries under (b). These problems can be avoided, and the same objective of very wide participation ensured, by the stipulation of a sufficiently high participation requirement for entry into force.

Organs of the Affiliate and Voting

Once the affiliate had been established, any decisions would, of course, be taken by the organs of that body. It is necessary, therefore, to make certain assumptions with respect to these organs although for present purposes these assumptions can be left in broad outline only, the detailed spelling out of the full organization structure being reserved until a later stage. It is assumed here that the affiliate would have a legal structure similar to that of the Fund

with a Board of Governors and a Board of Executive Directors, Governors and Directors having the votes of the members that appointed or elected them. The right to decide on the amount and timing of reserve creation could be exercised either by the Governors or by the Executive Directors. Such decisions in this area would no doubt be made on the basis of proposals by the Managing Director of the affiliate--who would presumably be the Managing Director of the Fund--after appropriate consultation.

In the structure envisaged it would be logical for each member that joined to have a quota in the affiliate that was proportional to and might well be equal to its quota in the Fund. A member's quota in the affiliate could serve as the basis of (a) the distribution of reserve assets, (b) the limits, if any, on the obligations to accept a transfer of assets from other members, and (c) voting. Assuming, however, that the scheme allows for opting out after a certain initial period--a question discussed below--this would be one major reason why a country's proportionate share in the total of acceptance obligations could deviate from its share in quotas and it would be reasonable to stipulate that voting strength would then follow cumulative acceptance obligations rather than quotas. Thus while voting strength should initially, when the divergence mentioned has not yet developed and when in any event there is no reasonable alternative, be based on quotas, it should be based on the cumulative distribution of reserves allocated to a country and accepted by it once distributions began from which members could opt out.

In any event, following the precedent in the Fund and other international financial institutions, a member's voting strength should not depend exclusively on the magnitude of its financial participation, but a certain number of basic votes should be allocated equally to all countries.

Decision Making - Basic Rules

In the discussion on decision making in the Report of the Deputies and in the Communiqué of the Ministers and Governors of the Ten important differences have been made between the first decision to create reserves (so-called "activation") and the decisions relative to all subsequent acts of reserve creation. For purposes of clarity it seems more convenient to begin by discussing decision making in general and then to return to the first decision in order to determine what, if any, additional safeguards with respect to that decision would appear appropriate.

The function of these decisions would be to fix the magnitude of reserves that would be created and distributed for say a 5-year period ahead on a periodic, e.g., quarterly, basis within that period. These amounts would be open to change by a later decision, a question to which we shall turn further on.

It is believed that a high qualified majority is necessary for the decision to create reserve units in order to ensure that, in the long run, the operations of the affiliate are conducted so as to produce the broad consensus necessary for their success. It would seem reasonable to envisage that this high qualified majority would be expressed in terms of 80 per cent of total voting power. While it is, of course, difficult to justify any precise percentage, it is doubtful whether a majority significantly below 80 per cent would adequately reflect the economic and political content of the decision to distribute or to recall a certain amount of reserve units. The 80 per cent requirement is, of course, also familiar to Fund members since it corresponds to the majority applicable to a somewhat comparable decision in the Fund Agreement, namely, the decision to change quotas under Article III, Section 2. A majority of 80 per cent provides a sufficient margin to make it likely that reserve creation will in most circumstances have the support, not only of members in general, but also of the majority of countries in payments surplus, and that a decision to recall reserves that had been previously created will have the support, not only of members in general, but also of the majority of members in payments deficit. Such broad support in individual decisions may be regarded as necessary to ensure continued support of the affiliate by all of its members in the longer run.

In conjunction with the choice of the precise percentage majority required, consideration may also be given to two techniques that could have the effect of enhancing the influence that would be exercised by the countries that were at any time creditors under the scheme.

Adjusted Weighted Voting

One technique would be that of adjusted weighted voting, perhaps in a way similar to that provided for in Article XII, Section 5(b) of the Fund Agreement, but other formulas can be imagined. Voting in the affiliate could be adjusted for example on the basis of the difference between countries' actual holdings of reserve units and their cumulative allocations. Such adjustments could be made both for holdings greater than allocations and for holdings less than allocations. Alternatively, adjustments could be limited to cases in which holdings were greater than allocations. Any determination of the advisability of adopting this technique would have to take other relevant factors into account.

"Opting Out"

It would seem clear that if decisions to create reserves are at the same time to give the assurance of sufficiently broad acceptance obligations, then countries giving their vote to a particular decision should in no event be allowed to opt out from their share in the corresponding distribution. But countries dissenting from a decision to create reserves could be given the right to opt out. The repeated exercise of the right to opt out by a substantial dissenting minority of countries would, however, begin to affect the smooth working of the scheme as a whole. This or the fear of this would tend to exercise some influence toward decisions for lower reserve creation.

While opting out is certainly not an attractive feature of any collective plan for the provision of reserves for the world economy, it should be noted that it is a milder measure of dissent than withdrawal, which presumably will always be open to any member. By opting out a country excludes itself only from additional future acceptance obligations; by withdrawing it eliminates also (over such time period as the withdrawal provisions may specify) its past acceptance of units. One would hope that neither the right to opt out nor the right to withdraw would ever be used by members. But it may be necessary to make a provision in the structure of the affiliate for the less disruptive of these two forms of dissent, opting out, rather than risk withdrawal by members that have become seriously dissatisfied by repeated majority decisions.

While it may thus be necessary to allow a provision for opting out, such a provision should presumably not apply to a certain minimum creation of reserves. It would be undesirable to make it possible for a country to join the affiliate, to vote against the initial proposals on reserve creation, and then immediately to opt out from those decisions, assuming they carried nevertheless. There would be merit, therefore, in specifying an amount of cumulative global reserve creation, say $5-10 billion, below which opting out would not be permitted. Each country joining the organization would then be committed, up to the amount of its distributive share in this global amount, to accept reserve units from the affiliate if and when they were distributed. Beyond this amount no obligation to accept additionally created reserve units would exist. Consequently, there would also be an absolute upper limit to the obligation to accept reserve units from other members (assuming that this acceptance limit is a multiple of the cumulative amount distributed to each member). It has been argued that opting out is parallel to the provision in the Fund Agreement which enables a country to decline an increase in its quota. Denial

of the right to opt out for an initial amount would then be equivalent to the fact that a country that joins the Fund must subscribe at least an amount equal to its initial quota. The obligation to accept distributions of reserve units during the initial period would ensure for the scheme the benefit of a proper "trial run" for a substantial number of years, on the basis of which its merits can then be evaluated by the international community.

Changes in the Rate of Reserve Creation

Although the amount of quarterly reserve creation would be decided for a period of, say, 5 years there must be provisions for alteration of this amount in the course of that period. A decision to raise the quarterly amount should require the same majority as the initial decision. It would seem plausible, however, that a decision to lower the quarterly amount, or to stop further distribution of reserve units completely for the remainder of the period, should be capable of being taken by a simple majority of voting strength. It would be difficult to imagine that the affiliate could be bound to create reserves, quarter after quarter, while a majority of voting power had come to the view that such creations were excessive, simply because the majority was less than 80 per cent or whatever majority was required for decisions to distribute.

Activation

After this discussion of decision making in general we can return to the first decision on reserve creation. This decision might in principle be provided for in three different ways: (1) the amount and the date of the distribution during an initial period may be stated in the Agreement, the date being expressed, e.g., in terms of so many months after the entry into force of the Agreement; (2) the first distribution may be made under the normal decision-making process provided in the Agreement; (3) the first decision may be made under more stringent provisions than apply to subsequent decisions, which may involve (i) more restrictive voting provisions, or (ii) the requirement that certain economic conditions be considered to be fulfilled, or (iii) the combination of (i) and (ii).

The first of these possibilities has not been given consideration so far, and while it would introduce additional problems in the negotiation of the Agreement, it would eliminate "activation" as a problem for the affiliate once the latter had been set up. As regards the differences between the second and the third possibility, it may be observed that the advantages and disadvantages of stipulating certain "activation conditions" are to be discussed under another agenda item. We may limit ourselves here, therefore, to comment on the size of the

qualified majority that would be necessary to bring about a decision on the first reserve creation. The voting majority suggested for subsequent decisions is already a high one (80 per cent) and it may be questioned whether an even more stringent voting requirement would not leave the question of reserve creation to be controlled by too narrow a group of countries and could thus invalidate the psychological value of the Agreement, namely, the assurance to the world that additional reserves could be created as and when a need had been established. The high majority of Fund members that would be necessary for the entry into force of the Agreement would also act as a guarantee to countries in this connection. It may be assumed that countries that ratified the Agreement were satisfied that some amount of deliberate reserve creation would be justified at some time in the reasonably near future. The nature of the opting out provisions discussed above would imply that, upon joining the affiliate, countries had committed themselves up to a certain maximum participation, although, of course, without a specification as to the time when this amount of reserves might come into being.

Mr. Handfield-Jones then made the following statement:

Since the subject of decision making is to be a principal item on the agenda for the London meetings of Executive Directors and Deputies of the Group of Ten, it is useful to have this informal discussion of the subject in the Executive Board beforehand. Similar informal discussions proved very valuable before the first of the Joint Meetings. I am grateful to the staff for their statement which was made available to us in advance and will help to focus our discussions.

It seems to be rather generally believed that the discussion of procedures for reaching decisions on the timing and amount of deliberate reserve creation will raise the most difficult and sensitive issues in the entire debate. We should not be intimidated by these issues, however, and thereby fail to analyze them carefully or to consider the alternative possibilities which present themselves. At the very least, we can expect that some aspects of the problem are less difficult than others, and we can hope to identify the areas of greatest difficulty.

The nature of the decision-making procedure will tend to differ in different types of reserve-creating schemes. I will follow the staff in considering the problem in the context of a unit scheme run by a Fund affiliate. Such an arrangement has the advantage of enabling Fund members to abstain from membership in the new activity if they wish to do so, although I would agree that some minimum participation will be required before any new scheme comes into operation.

Even if a new institution is established, we can expect that the present Articles of Agreement of the Fund will have to be amended in some respects; I do not think they should be regarded in this context as immutable. At the same time, there are great advantages in staying as close to existing ground as possible, and in employing present practices and precedents where there are no strong reasons for departing from them. I have found it helpful to start from the procedures laid down in the Articles of Agreement for adjusting quotas, since of all the kinds of things that the Fund does, it seems to me that the general increase of quotas resembles most closely the deliberate creation of reserves.

It will be recalled that, in the course of the Fourth Quinquennial Review, the Executive Board appointed a Committee of the Whole under the chairmanship of the Managing Director on October 16, 1964. This Committee studied the quota question with the assistance of the staff, and submitted a draft report to the Executive Board on February 24, 1965. The Executive Board adopted this report and submitted it together with draft resolutions to the Board of Governors on February 26. The resolutions provided inter alia for a 25 per cent general increase in quotas to take effect when countries with 66 2/3 per cent of total quotas had consented. As of noon on March 29, 1965, sufficient affirmative votes had been received from Governors to reach the required 80 per cent majority. Thereafter, member countries continued to seek the necessary authority, usually of a legislative character, to consent to the increases in their own quotas, and on February 23, 1966, the Executive Board determined that countries having 66 2/3 per cent of total quotas had consented.

Mr. Lieftinck has proposed that reserve units should be used for the payment of the gold subscription in connection with general quota increases. The creation and distribution of the requisite quantity of reserve units could then become part of the quota exercise and thus be decided in accordance with its procedures. This possibility should by no means be ruled out. But we may not wish to confine ourselves to creating reserves only on the occasion of general quota increases and in such required amounts. A number of possible ways in which the procedure for creating reserves may differ from the procedure for increasing quotas can therefore be considered.

In the case of quota changes, the provisions of Article XII, Section 5(a), apply, i.e., each country has 250 votes plus one additional vote for each part of its quota equivalent to US$100,000. Decisions on reserve creation could be based on the same voting structure, or on a different one.

(1) One possibility would be to change the 250 basic allotment. This would of course change the relative voting position of countries of different size.

(2) A second possibility would be to replace Fund quotas with Fund quotas plus GAB commitments or with the underlying results of the Bretton Woods formulae, if these are used as the criteria for distributing units.

(3) A third possibility would be to base votes on the accumulated distribution which a country has received rather than the current distribution pattern.

(4) Finally, it would also be possible to weight votes in accordance with creditor and debtor positions in a manner analogous to Article XII, Section 5(b). Suitable weights could be given to creditor and debtor positions in the unit scheme, and perhaps also to net sales or purchases in the Fund.

For purely illustrative purposes, I have calculated some of the alternative distributions of votes, and these will be found in the table which has been circulated. None of these variants may appear satisfactory as they stand, but they give some idea of the magnitude of the shifts which would be involved.

The table is also helpful in considering what size of a majority may be required for the approval of a proposal on the creation of reserves. There are, of course, two opposing principles involved here. On the one hand, deliberate creation of reserves is a sufficiently important and serious matter to require a large measure of international agreement; one would wish to avoid imposing unpalatable decisions upon important groups of countries. On the other hand, one would not wish to paralyze the ability of the international community to act by giving a veto to every individual member or to an unduly small aggregate of the votes. These opposing principles leave only a limited range of compromise. I suspect that 80 per cent will be regarded as the minimum, and I would doubt whether any figure above 85 per cent is likely to find any degree of widespread acceptability, even if agreement is reached on exceeding the 80 per cent now required by the Articles for quota increases.

The staff have suggested an 85 per cent majority for the coming into force of the scheme and 80 per cent for subsequent reserve creations. Under the present voting structure, this would give the EEC countries, for example, a veto in the beginning but not subsequently. However, a veto could be exercised at the 80 per cent level if the number of votes which could be cast were adjusted by such means as quota increases or weighting of creditor positions.

The procedure for increasing quotas is somewhat cumbersome and time consuming, and some may feel that a simpler and quicker procedure would be desirable in the case of reserve creation.

The Board of Governors might delegate to the Executive Board the authority to decide upon proposals for reserve creation. This encounters some difficulty, however, insofar as Directors are bound by the clause of Article XII, Section 3(i), which lays down that, "All the votes which a director is entitled to cast shall be cast as a unit." In a matter which affects individual member countries so directly, they will undoubtedly wish to have their own individual votes cast--especially where a high majority is required for approval. If Directors were to vote, they would have to be permitted to cast the votes of their countries separately, and presumably on explicit instruction. Unless the rate of reserve creation is to be adjusted very frequently, such a procedure would possess only a marginal advantage over a Board of Governors' vote which does not normally require an excessive amount of time; in 1965 the Board of Governors' affirmative vote was obtained only a little over a month after the submission of the resolutions.

A much longer delay, amounting to nearly 11 months, arose from the consent provisions in the last quinquennial review of quotas. What can be done here depends upon the legislative requirements which will be established in each member country. If governments secured in advance the necessary legislative authority to consent to participation in reserve creation, there need be no distinction between affirmative votes and consents. Any such advance authorizations, however, are likely to be quite circumscribed.

We need to consider in this context the timing and frequency of reserve creation. I would agree with the staff that the situation should be reviewed at regular intervals, and there would be advantages in deciding upon reserve creation at the same five-year intervals as quota increases. In the case of deliberate reserve creation, even more than in the case of quota increases, it would be desirable to implement the decisions in annual if not more frequent installments. Moreover, it should be possible for variations in the rate of reserve creation within the quinquennium to be proposed if circumstances change. Legislative authority could be sought at the time of the quinquennial reviews for consenting to the agreed annual installments and to variations within some specified range which may be agreed upon prior to the next review.

Even if some advance authorization of the type is generally provided for, it may not be desirable to identify the act of voting

and the act of consenting. While it is probably the case that a country voting in favour of a reserve-creating resolution should be expected to participate in the distribution, it is less clear that a country voting against it should be precluded from participation. In such cases, there should perhaps be an option to participate or not. I think that the staff suggestions on "opting out" deserve careful study.

Whatever provisions are made for consent, I hope a minimum number of consents will not be required before the decision becomes effective. This can introduce a needless delay. This requirement has never been a statutory one in the case of quota increases, and has been based on arguments about the liquidity of the Fund which have less force now than they once had. They seem even less applicable in the case of reserve creation, especially if this occurs annually rather than in quinquennial lumps.

While important safeguards can be provided to a minority group by the provisions governing formal voting, the exercise of a veto by a minority is bound to be unwelcome. Once a proposal is on the table, there will be great pressures on all countries to support it whatever their own best judgment may suggest. We are entitled by the historical record to assume that formal votes will tend to be unanimous or nearly unanimous. While this does not deprive the formal voting arrangements of their importance, it does suggest that a very great deal of attention must be given to the way in which proposals for reserve creation will be formulated.

In the case of quota increases, the proposal emerges from the Executive Board in the form of the report drafted by the Committee as required by Rule D-3. Some such procedure may be followed in connection with the deliberate creation of reserves. It seems to be assumed, however, that the proposal will be made in the first instance by the Managing Director. It will presumably be justified by reference to the appropriate preambular statement of the objectives to be sought by deliberate reserve creation.

In practice, there will undoubtedly be a great deal of discussion and consultation before any proposal is made. The question is, however, what requirements can be formally imposed upon the Managing Director in advance. The suggestion that he must obtain the prior approval of an outside group such as the Group of Ten before submitting a proposal to the Executive Board is unlikely to be accepted. The Managing Director may, however, be required to consult with members. He could be required to consult with particular groups of members such as the Group of Ten or the members with the ten or twelve largest quotas. Alternatively, the requirement could be

phrased less specifically, either placing upon the Managing Director the duty of ensuring a sufficient measure of support for his proposal or giving to any group of members with sufficient voting power to defeat a proposal the right to consultations with the Managing Director. In paragraph 6 of the GAB, there is an obligation to consult, but there is no specification of the nature of such consultations.

I do not think I need to stress the importance of this question of "proposal-making," and I am even less confident here than elsewhere that I have mentioned all the important alternative possibilities.

Alternative Distributions of Votes

(Percentages: Based on November 30, 1966 data)

	Article XII, Section 5(a) - Based on:			Art.XII,Sec. 5(b) Based on:
	Existing Quotas	Quotas plus GAB Commitments	Bretton Woods Formula[1]	Existing Quotas
United States	22.3	24.6	24.5	21.9
United Kingdom	10.6	11.8	7.3	8.6
Belgium	1.9	2.0	2.7	2.3
France	4.3	5.3	5.2	5.4
Germany	5.3	7.6	7.2	6.5
Italy	2.8	4.1	3.0	3.3
Netherlands	2.3	2.6	2.4	2.7
Total EEC	16.6	21.6	20.5	20.2
Canada	3.3	3.3	4.2	3.6
Japan	3.2	3.4	3.4	3.4
Sweden	1.1	1.2	1.9	1.2
Total G-10	57.1	65.9	61.8	58.9
Other Developed	10.3	8.2	10.2	10.3
Less Developed	32.6	25.9	28.0	30.8
Total	100.0	100.0	100.0	100.0

1/ Scheme M4, Appendix V, EB/CQuota/64/3.

Mr. van Campenhout said that he wished to make two comments on the staff's introductory statement. Firstly, although a decision to accept, in principle, a contingency plan and a decision to activate that plan were separate in time, they were not different in character. Therefore, he did not think there was any reason for not basing the two decisions on the same voting power. It did not make sense to activate the system on the basis of a smaller voting majority than was required for agreeing to it in principle. The decision on activation was the more important one. Secondly, the same considerations led him to doubt whether it was wise to refuse countries which had accepted the contingency plan the right to drop out at the activation stage. If the procedure proposed in the staff statement were adopted, a country would be faced not with the choice of whether to opt out at the activation stage, but with having to withdraw altogether. This would create a much more serious question for them at the time they were deciding whether to accept the system in principle. He did not see any advantage in that provision.

In concluding, Mr. van Campenhout said that he did not dispute any other points in the staff's statement. He considered these to be largely matters of detail and, in any case, he did not think it was possible to have a final or detailed view on the decision-making process before it was known what system would be adopted.

Mr. Nikoi said that he found himself in substantial agreement with Mr. Handfield-Jones' survey of the crucial question of decision making. He believed that it would be preferable to stay as closely as possible to the Fund's existing practices of decision making. He also agreed fully with what had been described as the two opposing principles underlying any approach to the question, namely, on the one hand, to avoid giving an undue veto power to any small group of countries, and, on the other hand, to ensure that there was as near to unanimous support as possible for any decisions that were taken.

Amplifying his views on this point, Mr. Nikoi said that while he was in full agreement with the idea that no small group of countries should have an undue power of veto and so be able to paralyze the will of the great majority, he did not think that too much emphasis should be put on this problem. As far as possible, preoccupation with mechanical majorities or minorities and with reserving this or that right to this or that group of countries should be avoided. It was necessary to think broadly in terms of the methods of consultation that would permit as near a unanimous decision as possible on this matter. In practical terms, there could be regrettable consequences if, in pursuit of safeguarding the interests of this or that group of countries, undue faith was placed in the power of a prescribed mechanical majority.

Mr. Nikoi considered that what Mr. Handfield-Jones had described as the "proposal-making" process was of crucial importance. He thought that the best policy to adopt for the informal and formal consultations which would precede any formal proposal would be the one suggested in the staff's introductory statement, namely, that decisions should be made "on the basis of proposals by the Managing Director of the affiliate--who presumably would be the Managing Director of the Fund--after appropriate consultation." The key word was "appropriate." The staff was right to be deliberately vague for this was not an area in which one could presume to issue any precise or firm instructions as to what the nature of these appropriate consultations should be. The only guide was past experience and, as Mr. Handfield-Jones had pointed out, there was nothing to go by except previous experience of quota increases. He did not wish to belittle the legal requirements as to prescribed majorities, which guided decision making in the Fund, but he believed that, in the last analysis, it was the process of consultation, whether formal or informal, that would, to a large extent, determine whether the international community would be prepared to agree on a contingency plan.

Mr. Nikoi thought that the logical conclusion from what he had been saying was that it would be advisable to build on the Fund's traditional procedures for consultation and decision making. These had served the whole international community very well. He was fully aware that a group of countries which claimed to have special responsibilities in the international community might very well think that the Fund's traditional methods of doing business did not adequately safeguard their interests, but he did not share that view.

Mr. Ungerer said that he had read with great interest the introductory statement which the staff had prepared. He was also very grateful to Mr. Handfield-Jones for his statement which filled in some gaps left in the staff's statement. He wished to comment first on the conditions and circumstances of activation of a contingency plan. In paragraph 48 of the report of the Deputies of the Group of Ten two criteria had been mentioned: first, the attainment of a better balance of payments equilibrium between members, and second, the likelihood of a better working of the adjustment process in the future. There had already been some discussion of the first criterion. It had been argued that this criterion had lost its relevance because the U.S. deficit had not added to aggregate world liquidity since the beginning of 1965.

In Mr. Ungerer's opinion this was not the only question which arose in this context. Another reason why a better balance of payments equilibrium between countries was considered desirable, or even necessary, was that the starting point for the liquidity discussions had been the idea that, as a result of the attainment of equilibrium in the U.S. balance of payments, a scarcity of international liquidity could develop.

However, the fact that, as a result of conversion of dollars into gold, the U.S. deficit had not added to the volume of international liquidity for some time did not reflect a genuine scarcity of international liquidity but rather pointed to the fact that the rest of the world considered the creation of international liquidity through the American deficit as too high. In addition, further U.S. deficits would increase the already prevalent danger of uncontrollable elimination of liquidity by conversions into gold. This might endanger the stability of the international monetary system as a result of the continuous build-up of dollar holdings. These problems could not be tackled by simply creating additional liquidity, but only by eliminating situations of disequilibrium in the world. The question whether any conceivable U.S. deficits that might reappear in the more distant future could again be financed by additional dollar holdings would, of course, depend on the circumstances then prevailing.

With regard to the likelihood of a better working of the adjustment process, Mr. Ungerer thought it had to be admitted that it was rather difficult to define exact criteria in this field. In order to reach a conclusion on whether this prerequisite had been met at a given time, there would need to be wide agreement within the IMF and Working Party 3 of the OECD as the two main institutions dealing with the adjustment process. It might be helpful if some studies were undertaken in order to develop a basis for common judgment.

Turning to the question of the decision-making process, Mr. Ungerer said that he wished to clarify some of the terms used in the Group of Ten Report because he believed that this would help to achieve a better understanding of what was being discussed. When talking about the special responsibilities or burdens which should be taken into account in any decision-making procedure it was not, as Mr. Kafka had pointed out at the First Joint Meeting, only the economic size of countries which counted. There were other differences between countries which had to be recognized. The existence of these differences might lead to the conclusion that it was necessary to make a differentiation between countries or groups of countries not mainly in order to serve the interests of those countries, but because a certain differentiation might be indispensable for the proper functioning of a future reserve system. This could not be called discrimination.

In this context, Mr. Ungerer pointed out that there were undoubtedly some countries which played, or were most likely to play in the near future, a special role in the international economic community. Several countries were bound to act as centers for international capital and money transactions. The currencies of certain countries were being used as international currencies. Global liquidity could influence adversely

the economies of countries which had these special international roles, even if nothing abnormal happened in their domestic economies. There were also countries whose economic structure was especially sensitive to world-wide business cycles. Thus, any world-wide boom inevitably caused a disproportionately high external demand for their goods, i.e., for investment goods. These countries would normally already have full employment and would suffer more than others from overemployment which would lead to wage developments which could be called wage explosions. This would result in price increases spreading all over the economy and would cause the authorities great difficulties with regard to the management of the economy. The same held true for countries where foreign trade amounted to a very high percentage of GNP. Their economies also reacted very strongly to international overexpansion which might, inter alia, be fostered by too large a creation of liquidity. These countries would have to bear more of the consequences of what very often--though not entirely precisely--had been referred to as imported inflation. Some European countries had had to deal with this unpleasant experience in the past. It caused them considerable problems which had at times been very difficult, if not impossible, to deal with.

Mr. Ungerer considered that it also had to be recognized that there were countries which had good reasons to request some safeguards against what they might consider an excessive creation of liquidity. This was not because they were--as one might think--extremely stability-minded rather than growth-minded. Indeed, they also had a great deal of interest in the achievement of high growth rates and in a sufficient expansion of world trade. They were well aware that the problems of the international community as a whole, as well as their own domestic problems, could only be tackled in a growing economy. But they strongly held the view that this growth should have a sound basis and that it should be better balanced over the longer run. They believed that a minimum degree of stability, both world-wide and within individual countries, was an indispensable prerequisite of this balanced growth.

Mr. Ungerer said that he could not see how international economic cooperation could work properly in the interest of world-wide progress and development without full and active support from these countries. But how could they be expected to make appropriate contributions to international cooperation, if their efforts to create an atmosphere of growth in stability were again and again counteracted by destabilizing influences from abroad? Any system of reserve creation and financing would only have a chance to operate efficiently if those countries, whose foreign trade and capital transactions accounted for the major part of the world's trade and capital movements, were ready to accept and to hold newly created reserves in case of surpluses.

Mr. Ungerer believed that the statements by Mr. Handfield-Jones and the staff had shown many ways of dealing with these questions. He felt sure that there were other possibilities which had not yet been mentioned. Although these statements had touched upon a number of useful alternatives, he did not think that they could be regarded as a complete list of all conceivable ideas. For instance, he thought it would be a good idea if the Managing Director of the Fund were required, before submitting a proposal on reserve creation, to consult with a group of countries the support of which would be indispensable for the realization of the proposal. Such a group, the composition of which remained to be defined, need not necessarily be limited to the Group of Ten countries. But it seemed clear to him, in the light of what he had already said, that the Group of Ten countries would have to be an essential component of such a group.

Mr. Ungerer then turned to more detailed points raised by the staff's statement. His first comment related to what had been called the proposal-making procedure. He agreed that, if an affiliate was created, it should have the same Managing Director as the Fund. The Executive Board probably should also be the same because otherwise there was liable to be a kind of competition which would not necessarily work out for the benefit of all countries concerned. If the Managing Director was to have the responsibility of making proposals, it would probably be a good idea if he also consulted with other international experts outside the Fund, for instance, with the General Manager of the Bank for International Settlements and the Secretary General of the OECD. In this respect, Mr. Ungerer said that he could not agree with Mr. Nikoi. He believed that the rights and duties of the Managing Director should be clearly defined. In his opinion, it did not make good sense to argue that there ought not to be certain rules defining the proposal-making procedures.

Referring to the section of the staff statement entitled "Entry into Force," Mr. Ungerer observed that the staff had taken the view that the possibility of a double participation requirement was unlikely to find broad support among member countries. He did not think that this possibility should be regarded as already extinct. It had not been discussed in detail and it should be kept in mind as one of the possibilities which might lead to agreement.

With regard to the distribution of votes and voting procedures, Mr. Ungerer thought that consideration should be given to whether GAB commitments should be included in addition to Fund quotas. He noted that Mr. Handfield-Jones had mentioned this as one possibility. He also noted that in the introductory statement, the staff had spoken of a majority of 80 per cent of total voting power as providing a sufficient margin to make it likely that reserve creation would, in most circumstances, have the support not only of members in general, but also of the

majority of countries in payment surplus, and that a decision to recall the reserves that had been previously created would have the support not only of members in general, but also of the majority of members in payments deficits. Mr. Ungerer was not sure whether this 80 per cent requirement would really ensure the two majorities mentioned. He said that he would be grateful if the staff could comment on how it had reached this conclusion.

On the question of opting out, Mr. Ungerer said that, like Mr. Handfield-Jones, he had been very impressed with the staff's suggestions. There would be advantages in considering this possiblity, although some difficulties would also be involved. There was something to be said for the idea of opting out not being allowed immediately, but this was an aspect which had still to be examined and he was not happy to see specific figures mentioned in that connection at this stage.

Mr. Ungerer then turned to the section of the staff's statement which dealt with activation. He thought there were objections to the first possibility that had been mentioned, namely, that the amount and the date of the distribution of created reserves might be stated in the Agreement. Ratification of any eventual agreement on reserve creation would take some time and it would be premature to fix a set date and amount so far in advance. Nor did he favor the second possibility, namely, that the first distribution should be made uner the normal decision-making process provided in the Agreement. In his opinion, the deliberate creation of additional liquidity was such an important matter, a more important one than the normal review of quotas, that special provisions for decision making were needed. Under the third possibility the staff had mentioned that certain economic conditions might be required to be fulfilled. This was exactly the sort of requirement which had been envisaged in the Group of Ten Report and to which he had referred earlier. There were differing views on how to define exactly when a better working of the adjustment process was reached and it would probably be impossible to establish criteria which did not need a long discussion each time a decision had to be taken. Nevertheless, he felt that the problem of how to reach decisions on activation could probably best be solved by combining the possibilities 3(i) and 3(ii) which the staff had mentioned.

In concluding, Mr. Ungerer stated that in order to make any new system work, the support of all the countries concerned would be needed. It was necessary to find solutions which would be acceptable to all and which would at the same time create a system that would be workable.

Mr. Kafka said he was very much in agreement with the general line taken by Mr. Handfield-Jones. On the question of the voting majority

required for decision making other than in connection with activation, he said that he was fully aware of the importance of the arguments which Mr. Nikoi had used against an excessively high percentage, but, in deciding to create international reserves, the international community would be embarking on something so revolutionary that he was quite prepared to sympathize with a requirement for a high majority.

Mr. Kafka thought that the constitution of the EEC provided a political precedent of some importance as regards voting requirements. In that case, an impasse had been solved by providing that decision making should, during a certain period of years, require unanimous consent but that the required majority should later drop to two thirds and, he believed, ultimately fall to a simple majority. He did not wish to suggest unanimity, but he would not be at all shocked if a percentage as high as 85 or even 87 1/2 was agreed for a period of years after any agreement came into force.

Mr. Kafka said that he was glad that Mr. Handfield-Jones--and, in a more indirect fashion, the staff--had finally drawn attention explicitly to the very important distinction between decision making and proposal making. He was not sure, however, that he fully understood all the motives behind the importance which was beginning to be attributed to proposal making. He believed there was an apparently obvious reason why it was considered to be so important to avoid making any proposal which might not later be accepted by the requisite majority of the decision-making body. It was that there would be a danger that if a proposal was made, pressures would be brought to bear on the decision-making body to vote it into effect. He thought that this was the reason why some countries, which were less expansionist in their attitude toward reserve creation than others, would like to have a two-tiered machinery which would enable them to nip in the bud any proposal which might seem to them excessively expansionary. He was convinced that a two-tier approach would never be given widespread support, but, even if it were, he had the impression that it would not guarantee that the very understandable objective of the less expansionary-minded countries could be achieved. Clearly any group of countries which had the right to be consulted preferentially on a proposal would always comprise countries which were more, as well as countries which were less, expansionary minded. It would always be open to the more expansionary-minded countries to come out into the open with their own views on the amount of reserves which might have to be created and thereby mobilize world public opinion in support of their proposal.

Mr. Kafka considered that the discussion at the First Joint Meeting had shown that there was a very high degree of conservatism in regard to reserve creation among all the countries represented in the Fund. He did not believe, therefore, that there was any real danger of solutions that were too expansionary being adopted. However, those who feared

such a danger could not really protect themselves effectively by a two-tier system. Nor could they protect themselves effectively by means of a small committee of international civil servants to advise the Managing Director. Moreover, it seemed impossible to him to set up a two-tier arrangement that would not involve unjustified differentiation. All members of the Fund accepted the differentiation involved in varying quota sizes. This reflected the obvious fact that different countries had different economic sizes. But it was impossible to go beyond that and say this country should participate because it was going to be a sensible country and would have surpluses in the future, while that country should not participate because it was going to have deficits.

Mr. Kafka thought that it was also impossible to select a small committee consisting of the countries with the largest quotas because the purpose of this predecision-making consultation was to avoid, as far as possible, a difference between the proposal and the final decision. Clearly there would always be groups of countries which could bar a proposal as long as a relatively high proportion of the total voting power was required for a decision. Even if the preferential group consisted of the ten or twelve largest countries, he was not at all sure that a group of 15 or 16 countries could not still be found which could block a proposal.

Mr. Kafka, therefore, came to the same conclusion as Mr. Nikoi, namely, that, in the last analysis, it would be necessary to rely on the good sense of the Managing Director of the affiliate--he thought that this should be the same person as the Managing Director of the Fund--to consult not necessarily only with his Directors, but perhaps also, in some cases, directly with their governments before he made a proposal.

Mr. Kafka then turned to the problem of activation. He noted that Mr. Ungerer had advocated that there should be a better balance in international payments before any scheme for reserve creation was activated, even though it was true that the U.S. deficit was no longer generating liquidity. Mr. Kafka said that he would agree wholeheartedly if Mr. Ungerer was merely stating that the fact that dollar deficits did not generate liquidity any more did not of itself mean that reserves should be created. However, it was possible that a reserve shortage might appear even while nonliquidity-generating deficits on the part of the United States and other countries persisted. Therefore, it was not practical to insist absolutely on a better balance as a precondition of reserve creation.

Mr. Kafka said that he could agree more heartily with Mr. Ungerer that the third solution described in the last section of the staff's statement was the best method for making decisions on activation. He did not think it was possible to avoid specifying some conditions

which might characterize liquidity shortage. In this connection, he thought that the symptoms described in paragraph 10 of the Ossola Study Group's report would be a useful guide when it came to the time for making decisions.

Finally, Mr. Kafka asked Mr. van Campenhout to amplify his comments on the need to have a voting majority in respect of activation that was not less than the majority required for ratification of the contingency plan.

Mr. van Campenhout explained that he only had in mind that the majority required for both stages should be the same because activation was at least as important as ratification. He did not think that any provisions for opting out affected such a requirement.

Mr. Faber thought that the staff statement deserved a great deal of attention. He proposed to comment in some detail on his reactions to it. He noted first that the staff had limited its remarks to the main areas of decision making, namely, the amount and timing of reserve creation. He was pleased to see, however, that it had been recognized that there were also several other important aspects on which decisions would have to be taken.

Mr. Faber then referred to the statement that the Managing Director of the affiliate would take into account the views of different members in order to be able to evaluate, as well as possible, the effects that could be expected to result from alternative amounts of reserve creation. He thought that the views expressed by member countries, and possibly by nonmembers as well, would not always be based on statistical data and could not necessarily be compared with one another on a numerical basis. Moreover, allowances would have to be made for variations and delays in economic trends. Therefore, he thought that this procedure might not help too much in determining the right amount of reserves to be created.

Turning to the question of opting out provisions, Mr. Faber asked for clarification of the staff's views. As he understood it, the staff were suggesting that a country could opt out of a particular distribution of created reserves but could then decide to take its share of any future allocation. He asked whether this was what the staff had in mind.

On the question of the voting majority that should be required for the entry into force of any agreement, Mr. Faber said that in certain circumstances he might be willing to see a figure of more than 80 per cent. (He referred at this point to the possibility of Switzerland joining any new affiliate.) However, he did not see why there should be a lower ratio for activation than for entry into force. The practice

adopted with other international agreements showed that frequently the majority required for entry into force was lower than for activation. The recently ratified Convention on the Settlement of Investment Disputes was a case in point. In that case entry into force followed ratification by only 20 countries out of 105 members. He thought that, on the whole, a majority of 80 per cent, both for entry into force and for activation, ought to be the maximum required. A higher figure would tend to delay agreement and encourage delaying tactics.

In this context Mr. Faber referred to the table setting out possible voting distributions which Mr. Handfield-Jones had circulated in connection with his statement. Mr. Faber considered that existing Fund quotas provided the only basis of distribution acceptable to the Fund membership at large. On the basis of this distribution, the Group of Ten countries would have 57.1 per cent of the voting power. It would be necessary, therefore, for a large number of developing countries to give their support if an 80 per cent majority was to be achieved. He thought that this would ensure that there would be adequate safeguards for those members of the Group of Ten who felt that they were at the moment in a special position.

Mr. Faber noted that references had been made to an 85 per cent majority causing difficulties because Executive Directors had to cast, as one block, the votes of all the countries they represented. He did not think that this was a new problem or that it would cause undue difficulty.

With regard to the reference in the staff's statement to quarterly distributions, Mr. Faber said that he assumed that this was not intended to mean that decisions on the global need for reserves would be taken every quarter. His understanding was that there should be an over-all decision relating to a period five years ahead but with the possibility of adjustments on a yearly basis.

Turning to the passage in the staff's statement which discussed whether quotas in any affiliate should be equal to or proportionate to existing Fund quotas, Mr. Faber thought that there should not be any specific allowance for GAB commitments and that the distribution of created reserves as well as of voting rights should be proportionate to quotas. He asked, however, for clarification of the staff's suggestion that ultimately voting strength should be based on the cumulative distribution of reserves allocated to a country and accepted by it.

On the question of minimum voting rights, Mr. Faber agreed with the comments made by Mr. Handfield-Jones about Article XII, Section 5(a) of the Articles of Agreement of the Fund. He thought that the minimum voting right should be even higher than that which prevailed in the Fund,

since this was a matter where it was necessary to take into account, not only the economic size of the countries concerned, but also their overall need for reserves.

Mr. Faber then asked for clarification on what the staff meant by adjusted weighted voting and why it was considered necessary. On the staff's proposal that there should be an initial acceptance obligation, Mr. Faber thought that this should not be binding. It might be necessary for countries to agree to accept a certain total number of units, the allocation being based, of course, on due consideration of its economic size, but he did not think that, by doing so, a country should be committed to accepting those units during a specific five-year period. If the reserve asset to be created was attractive, there would be no need for such a provision which might be interpreted as a lack of confidence. If a country was prepared to participate in the first allocation, it might be necessary to refuse to allow it to opt out of the first yearly distribution. But this did not imply that a country should have an obligation to participate in subsequent yearly distributions. To insist on this would make the scheme less attractive and infer that a large number of members would not find the new assets suitable. The alternative would be to have a very small initial distribution of reserves. To his mind, the important thing was to establish the right attitude so that, from a small beginning, countries would be willing to accept a larger distribution. This would be more helpful than committing them for a five-year period because there was a risk that they might prefer to withdraw. The more limited the commitment of a country the better, since each member would then feel free to contribute to making a collective decision on the need for reserves and the adequacy of its participation in any distribution.

On the subject of activation, Mr. Faber thought that it might be possible to deal with the amount and date of the initial distribution, or at least its possible size, in the Agreement and on the same decision-making basis as for the entry into force. However, it was essential to achieve a common view on any activation and this would not be possible without taking account of whether certain economic conditions had been fulfilled. He, therefore, thought it probable that decisions on activation would need to be made under the more stringent provisions suggested in the staff's proposal 3(iii).

Mr. Faber said the he fully shared the views of the staff that the Managing Director of the affiliate should be the same person as the Managing Director of the Fund. This would make for smooth operation of the scheme and would make it easier to consult with the appropriate people. Like Mr. Kafka, he thought that there would be great difficulties in attempting to specify who should be consulted. Arrangements should be as flexible as possible and, as Mr. Nikoi had said, it would be best to leave the matter to the Managing Director.

Mr. Siglienti said that he had found the staff's introductory statement very useful. He had also been very grateful for Mr. Handfield-Jones' statement and he hoped that it would be possible to have it circulated on a personal basis as it had contained many interesting technical observations, especially those on the possibility of applying the present Articles of Agreement to any new scheme. He had been impressed by the fact that while Mr. Handfield-Jones had emphasized the desirability of having the present Articles of Agreement applied as far as possible to the decision-making process, he had also pointed out a number of instances in which this was just not feasible and where the Articles of Agreement would have to be applied in a different way.

Mr. Siglienti agreed with those who advocated drawing on the experience already gained in the Fund on the subject of decision making. But, while he agreed that it would be wise to build on tradition and that the present Articles of Agreement had served well, this had probably been largely because the biggest shareholders had shown restraint and a sense of reality. There had never been a vote on a major issue and no country, or group of countries, had attempted to impose decisions upon the minority as they could have done. If they had done so, it would have been possible, in theory, for the Executive Board to be dominated by debtor countries. In other words, the system had, in a sense, worked well because it had not been used.

Mr. Siglienti considered that, as the creation of contingent liquidity was different from anything which the Fund had done before, it was necessary to have a system which was better related to the economic power of different countries and different groups of countries, and more consistent with the particular nature of the task. For example, more account would have to be taken of trade and reserves and less of national income.

Mr. Siglienti said that, although he had favored discussing decision making as early as possible, he was painfully aware of the limitations to any discussion in the Fund. Firstly, this was clearly a subject which would be eventually decided upon by negotiations at the national level and the Fund could offer only limited advice. Secondly, this was one aspect of the exercise which could not be dealt with in isolation from the other aspects. This was true to some extent of all the elements of the scheme, but it was much more true for decision making. For example, there was a very clear correlation between decision making and the provisions for the use and transfer of any asset and the safeguards to the holder of the asset. If it seemed likely that the scheme would provide relatively little protection for the country which anticipated accumulating units, it would seek protection through the decision-making process. Conversely, if the prospective transferees were given safeguards through

the provision of quantitative limits or transfer ratios, those countries might take a more liberal attitude to decision making.

Mr. Siglienti thought that, in general, the countries which had accumulated units should have more voice than others in the decision-making process. This could clearly be done only after the first distribution. Such a possibility had been envisaged by the staff in the section of the introductory statement headed "Adjusted Weighted Voting." This was an aspect which deserved further study. His first reaction was to prefer an arrangement under which adjustment would be limited to cases where holdings were greater than allocations. He did not think that the countries which transferred the units should lose votes, but that adjustments should be limited to increasing the votes of creditors.

Mr. Siglienti also felt that, in general, there would be merit in a scheme which would be rather difficult to initiate. (He explained that he included in the term "initiate" both ratification and activation.) There should be a very high voting majority at least until after the stage of initial activation because one of the main purposes of the exercise was to restore confidence and the world would have more confidence in something which had been approved and activated by an overwhelming majority. It might be possible at a later stage for the scheme to operate smoothly with a smaller majority.

In this connection, Mr. Siglienti supported the suggestion that it should be easier to reduce the rate of reserve creation than to increase it. He also supported Mr. Kafka's suggestion that the EEC provided a useful example of how a very high majority might be required when an agreement was first put into effect, but the decision-making process could subsequently be made progressively easier.

Mr. Siglienti said that he also favored the inclusion of provisions for opting out. This would be a very good tactical provision which would fit the present situation very well, although intellectually it was not really consistent with a majority scheme. He would not, however, make it too easy to opt in and out.

With regard to the distribution of votes, Mr. Siglienti recalled that Mr. Colombo (Governor of the Fund for Italy) had said that it was not possible to have a scheme which allowed an important group of countries to be overruled. Mr. Siglienti understood that he had had the EEC countries in mind. As Mr. Handfield-Jones' table indicated, if votes were distributed on the basis of existing quotas and the majority was 80 per cent, this requirement would not be satisfied. Under the other methods of distribution which Mr. Handfield-Jones had suggested, however, an 80 per cent majority would be sufficient. In this connection, Mr. Siglienti thought it would be useful to add a further column to

Mr. Handfield-Jones' table in order to show the effect of all actual sales of currency to the Fund, including use of the GAB and borrowing. This would give a clearer picture than using Article XII, Section 5(b) because that Article put a limit on the sales that could be included.

On the consultation to be carried out by the Managing Director prior to the submission of any proposal, Mr. Siglienti said that even though it might facilitate the actual decision making if very formal rules were established for how and with whom he should consult, he would favor giving large discretionary powers to the Managing Director and then requiring a high majority. In fact, if the Managing Director had ample power and discretion in preparing the ground, many of the difficulties inherent in a high majority decision would be overcome while, at the same time, member countries would feel more protected. Mr. Siglienti said that he would prefer that type of arrangement to making the consultation procedure too formal.

In concluding, Mr. Siglienti noted that previous speakers had referred to prior conditions. At an earlier meeting he had expressed his personal and unauthorized opinion that a lot of difficulties would be caused by trying to establish preconditions at the beginning. For example, it could happen that it would become necessary to create additional reserves because the United States was in deficit; in other words, it might be necessary to replace the liquidity that was being lost because of the conversion of dollars due to lack of confidence. In his view, any system, including some sort of self-qualifying arrangement, would be preferable to fixing preconditions. But the best system would be a very high majority for both ratification and activation. Certain preconditions might very well enter into the considerations which individual countries would weigh before voting but these should not be laid down in a precise manner in advance.

Mr. Dale welcomed the chance to participate in the first, and perhaps somewhat tentative, discussion of this difficult topic. He thought that the staff paper offered a very interesting and useful basis on which to begin, and he particularly welcomed Mr. Handfield-Jones' remarks. He said that his own remarks would be personal and unauthorized.

Referring to Mr. Ungerer's comments, Mr. Dale agreed that the fact that the U.S. deficits no longer necessarily created reserves in a global sense did not, in itself, necessarily mean that there was a need for reserve creation. On the other hand, since the U.S. deficits did not create reserves any longer, it was a little difficult to reconcile Mr. Ungerer's comments with the established principle that reserve creation should not be related to the particular balance of payments circumstances of individual countries.

Turning to the aspects of the decision-making process brought up in the staff's statement, Mr. Dale noted that a figure of 85 per cent had been suggested as the voting majority for approving the entry into force. Having in mind that both the staff and others in their comments had felt that there should be a certain amount of reliance on the precedents that existed in the Fund, he observed that Article XX, Section 1 of the Fund Agreement specified a 65 per cent majority for the entry into force. It seemed to him that the staff's suggestions implied a completely different strategy from that which had been followed at Bretton Woods. The requirement for the Articles of Agreement to come into force had been approval by countries with 65 per cent of the quotas set forth in Schedule A of the Articles of Agreement.

Mr. Dale thought it would be interesting if he cited a few figures, though he did not wish to imply that he had any motives in doing so. At Bretton Woods the first global figure which had been suggested for quotas was $8 billion and, as far as he could tell from the documents, the quota initially suggested for the United States, had been $2.75 billion. If the global quotas specified in Schedule A had in fact been $8 billion, then the U.S. share of quotas would have been 34.3 per cent or just short of the amount which would have permitted the United States to prevent the Articles of Agreement from coming into force. In the end quotas were increased at Bretton Woods to $8.8 billion so that the U.S. quota, which remained at $2.75 billion, fell considerably short of what would have been necessary to prevent the Articles of Agreement from coming into force. In order to prevent this happening, the United States would have had to have been joined by, for example, Canada, Uruguay and Venezuela. With the 85 per cent majority which the staff was now suggesting, the United States alone could block the entry into force of any agreement proposed.

Mr. Dale hoped Mr. Stevens would not mind if he indicated what the United Kingdom could have done in 1944, as compared with 1966. If in 1944, the United Kingdom had been joined by all of the sterling area and Canada, there still would not have been sufficient votes to have blocked the entry into force. Even if all those countries had been joined by France and Belgium, they still could not have prevented the coming into force of the Fund Articles of Agreement. If all of Europe (including the United Kingdom) and Canada had been joined by either India or China, they could just barely have prevented the Articles of Agreement from coming into force. Mr. Dale thought that these figures provided an interesting contrast with what the staff was now suggesting.

With regard to voting arrangements in the proposed new Fund affiliate, Mr. Dale considered that there were five or six elements the interrelationship of which needed to be taken into account in reaching a judgment as to the types of voting arrangement that might be necessary.

(1) Should there be basic votes, equivalent in their effect to the existing basic vote in the Fund of 250 votes per country? He thought that, as the staff had suggested, it would be desirable to have a basic vote element similar to the one in the Fund.

(2) Should the distribution of votes be based on Fund quotas alone, or quotas plus GAB commitments, or some other kind of magnitude? His preference was for Fund quotas alone.

(3) What should be the size of the majority required to create reserves? Mr. Dale said he would prefer a somewhat smaller figure than the 80 per cent the staff had suggested.

(4) To what extent, if any, should creditor and debtor positions be taken into account? He had some preference for giving more weight to creditor, and perhaps also to debtor, positions than had been provided for in the present Fund system. Like Mr. Siglienti he was attracted, at least initially, to the staff's idea that rather than taking away votes from countries in debt to the institution, only creditor positions should be taken into account.

(5) Should the votes on crucial decisions be cast on a country-by-country basis as was done when Governors voted on quotas, or should there be, so to speak, block voting, as would happen if Executive Directors voted on an issue? He thought that, for the reasons which Mr. Handfield-Jones had enumerated, it would be desirable to have country-by-country voting. Whether it should be the Executive Board of the institution or Governors that should cast the votes, was also an important question.

(6) Should countries lose some votes (i.e., those pertaining to a particular distribution of units) when they opted out? Mr. Dale thought that it was only reasonable that they should.

On the very important question of the formulation of proposals, Mr. Dale thought that, without trying to come to any conclusion one way or another, it might help to elucidate the possibilities to ask whether the better analogy was the procedure for a borrowing under the GAB on the one hand, or the procedure for a general quota increase on the other. There were quite important differences between these two procedures. When a question of borrowing under the GAB arose, the Managing Director was required to consult both with the participants, who were specified, and with Executive Directors. (He pointed out that the term used was "Executive Directors" and not "the Executive Directors.") Once he had completed such consultations as, presumably, seemed desirable and useful to him, the

Managing Director was then in a position to put forward a proposal which might be accepted, amended, or rejected first by the participants and then by the Executive Directors.

Mr. Dale pointed out that as far as quota increases were concerned, particularly ones which resulted from a quinquennial review, it was doubtful whether the Managing Director had the authority to put forward a proposal, however much consultation he might undertake. Moreover, for all of the Managing Director's influence and the respect in which he was always held, there was a committee which, so to speak, stood between him and the submission of proposals.

In concluding, Mr. Dale said he thought that it would be necessary for opting-out provisions to be included in any agreement and he had been rather attracted by the several ideas which had been put forward by the staff.

Mr. González del Valle said that he was particularly grateful to Mr. Handfield-Jones for bringing into the discussion what he had called the "proposal-making" arrangements. Like Mr. Nikoi, he had the impression that this was an issue which was considered crucial in at least some quarters outside the Fund. What the staff had called "appropriate consultations" could be carried out in several ways. Mr. Handfield-Jones had suggested that the Managing Director should consult with countries or groups of countries. Mr. Ungerer had proposed consultations with the officials of certain regional financial institutions. For his part, Mr. González del Valle wished to suggest the possibility of a standing committee of the Executive Board of the new affiliate, which would broadly represent the various groups of countries whose relative voting power had been illustrated in Mr. Handfield-Jones' useful table. He thought that this procedure would provide the right kind of guidance to the Managing Director, rather than merely the views or opinions of Governors or outsiders. It should be possible to spell out the conditions for these consultations; his preference would be for spelling them out in the by-laws of the affiliate, but, if so desired, they could be incorporated into the Agreement of the affiliate itself.

With regard to the decision-making rules proper, Mr. González del Valle noted that the staff statement had covered a range of possibilities. At first sight, the suggested proportion of 80 per cent of voting power for approving decisions on reserve creation once the affiliate had been established appeared to be reasonable. Mr. Handfield-Jones had called it a "minimum." In Mr. González del Valle's opinion it ought also to be considered a maximum since any higher ratio would probably make it difficult to avoid a veto by a minority of member countries. He was not sure whether Mr. Kafka's suggestion of a majority which would decline

over a period a period of time would be acceptable to the more conservative members of the Fund, given the fact that, in principle, there did not appear to be a substantial difference between the effects of reserve creation now and the effects of reserve creation five or ten years hence. Mr. González del Valle thought that in general, therefore, 80 per cent as a permanent proportion struck a good balance between the extremes of a veto and a full consensus.

Mr. González del Valle thought it was conceivable that the provision for opting out might in practice work out as a virtual veto and, therefore, a declining majority vote requirement would appear desirable. But the staff suggestion that such a provision would not apply for an agreed minimum of reserve creation was, in his opinion, a safeguard which would prevent the breaking down of the whole scheme at any stage.

Mr. González del Valle considered that it was probably too early to discuss organizational aspects of the Fund affiliate. But, since several speakers had referred to the question of whether the Managing Director of the Fund should also be the highest executive official of the affiliate, he wished to emphasize the advantages of this dual role being filled by the Managing Director. There were many important advantages, but he wished to single out two. First, such a provision would guarantee continuity in the reserve creation process, which was particularly necessary with regard to the harmonization of conditional and unconditional liquidity. Second, since the Fund would probably play an active role as agent in the reserve creation scheme, unity of administration and operation needed to be assured.

Mr. Larre said that he was not in a position to discuss any of the proposals, but he thought it would be useful to look further into the background of the problem. He thought it would be too easy to take the procedures used in the Fund or the GAB or any other institution and say that they would make a good model. It was necessary to look more closely at the political and economic realities of the situation. The merit of the discussion so far had been that it was gradually bringing out those facts. The people who set up the Fund had been dealing with a specific problem. They had fixed quotas for member countries which would be the limit of their commitments and, at the same time, the limit of the benefits that they could derive from it. This had been a very important problem, but it had also been a very definite and specific one and it was not completely relevant to the issues that were now being discussed.

Mr. Larre thought that in any scheme for reserve creation, quotas would have the same virtues for the debtor as in the Fund, because they would set the limit up to which the drawing country could use the advantages of the scheme. He thought that the analogy stopped there, however,

because the financial burden of the creditor would not be set by the limit of acceptability of units or drawing rights. As the Economic Counsellor had clearly stated on a previous occasion, the economic burden could be greatly in excess of that limit.

Mr. Larre thought that the most important difference between the setting up of the Fund and any new scheme for reserve creation was that the new scheme would be a venture in international money creation. As such, it would be quite different from what the Fund had been. As Mr. van Campenhout had indicated, the creation of any scheme would be the first departure from a form of monetary policy which had, up to now, been based on credit which was related to real assets. Activation would also be very important since this would fix the tempo at which the new facility would be used and the rate at which dangers or advantages would emerge.

Mr. Larre observed that there had been great concern over the inflationary impact of reserve creation. In France it was felt that any authority which had the power to create money would be under tremendous pressure to do so, and to do so on an extensive scale. This meant that checks and balances would be necessary if the scheme was to be prevented from skidding. There would be various types of pressure. It would come from the debtor countries and from the developing countries. It would also come from the staff of the IMF who would be pleased to have this means of avoiding having to beg for resources from more or less reluctant member countries. There might even be pressure, or at least tolerance, from some creditor countries which feared that they might become debtor countries or which, taking a long view of the international situation, thought that the main threat in the world was not inflation but recession and, therefore, considered it better to err on the side of excessive, rather than inadequate, money creation.

Mr. Larre considered that although there was some similarity between the pressures to which the monetary policies of individual countries were subjected and those which would be applied to any institution set up to control the creation of international money, nevertheless there was no real analogy. Reserve creation would not be controlled by the one limit which sooner or later worked on domestic monetary policy, namely, the balance of payments. Sometimes countries could get around that limitation for a time, but ultimately they had to adjust their monetary policies. There would be no similar international balance of payments limitation on reserve creation. Consequently, there would be a tendency to increase the allocation of units with the danger that an excessive creation would have inflationary consequences, both for the international economy and, more specifically, for the economy of those countries which were more susceptible to inflationary pressures. This was one of the reasons why France was very anxious about this whole problem. France

was prone to inflationary pressures and when the authorities departed from very strict financial management, there was a stronger tendency for inflationary wage and price increases than in most other countries. Mr. Larre thought that Mr. Ungerer's statement had reflected similar fears.

Mr. Larre believed that the fears and dangers which he had described were germane to any consideration of the decision-making process. The inclusion of opting out provisions could not give a country any assurance that the scheme would not damage its national interests because pressures which would affect it could clearly be generated by other countries. The only real safeguard would be to require unanimity in the decision-making process. This could be regarded as a permanent rule or, as Mr. Kafka had suggested, it could apply during an initial period until it was seen how the scheme worked. There might be other ways around these difficulties. For example, more weight might be given to creditor positions because creditors were likely to feel more pressure on their economies from this scheme than from their quotas in the Fund. But, whatever scheme was adopted, it was essential that it should contain checks and balances to control the built-in inflationary tendency which any scheme for money creation would contain.

Mr. Larre considered that, although any scheme for reserve creation would contain inflationary tendencies, nevertheless, as he had tried to point out in a previous statement, any drawing right scheme would not be so prone to inflation as a reserve unit scheme. Moreover, a scheme which included a gold transfer ratio would not be so inflationary initially as one which did not contain this type of brake or limitation. In short, he believed that before the decision-making process could be discussed in more detail, decisions had to be taken on what sort of scheme it would apply to.

Mr. Stevens said that he agreed with Mr. Kafka and Mr. Nikoi and supported strongly the conclusion that the key event in the decision-making process was the consultation which the Managing Director would carry out. He hoped that consultation procedures could be worked out which would ensure that the Executive Board would be able to go along with any proposals that were made.

Mr. Stevens thought it was clear that the first decision to create reserves would be the most difficult and, therefore, it would be dangerous to base it on pure pragmatism. It would also be necessary to have some procedure for observing the effects of reserve creation. It had been obvious from the discussion so far that there were varying views on what these effects would be. He agreed with Mr. Larre that a country would not really avoid any ill effects by opting out. This pointed to making the distribution of assets as scientific as possible.

In this connection, Mr. Stevens thought it was relevant to look at the problems related to the distribution of newly mined gold. No one could claim to know where gold had been disappearing over the last two years. If the answer to that question were known, it would be much easier to decide what was the real nature of the reserves problem. It would certainly help a number of countries in the handling of their balance of payments problems.

Mr. Stevens wondered whether full advantage was being taken of the gold that was available for reserve purposes in view of the political considerations which had clouded discussion of this problem. This was another reason why the distribution of new units should be made as scientifically and as rapidly as possible.

Mr. Stevens then referred to Mr. González del Valle's suggestion of a possible committee of the IMF or its affiliate which could act as a watchdog. He thought that if there was an impartial group which could reach agreement on the merits of each proposal to create reserves, the urge to opt out might wither away.

Mr. O'Donnell observed that it had been the long-established practice in the Fund to stay with a subject until a unanimous view had been reached. The practice of patiently working toward a consensus could only survive as long as there was a spirit of compromise. It was necessary to get a scheme for reserve creation accepted and that could mean that there would have to be provision for a large voting majority. It was a matter of judgment as to what that majority should be. There was perhaps a case for having an 85 per cent majority for both entry into force and activation. He agreed with Mr. Siglienti that a high percentage vote for activation would be preferable to at least some of the preconditions that had been suggested. He understood the point of view of those countries that saw inherent difficulties in absorbing created reserves as well as in the continuing balance of payments deficit of the United States. But in the same way as it had been argued that reserves should be created to meet global needs and not to overcome the balance of payments difficulties of particular members, so it could be argued just as logically that countries facing difficulties arising out of persistent surpluses should not say that there should not be any reserve creation, because that would make it more difficult for them to manage their economies. In his opinion the argument ought to cut both ways.

Mr. O'Donnell believed that the question of improvements in the adjustment process ought similarly to cut both ways. He thought there was a tendency for some surplus countries to argue as though all the improvements had to come from the side of the deficit countries. The report of Working Party 3 emphasized that there were things that surplus

countries ought to do to help this process along. But, as these were matters upon which people and countries would go on arguing, it would be better not to include them among the considerations affecting reserve creation. It would be preferable to have a high percentage vote both to launch the scheme and to activate it.

On the question of how votes should be calculated, Mr. O'Donnell thought there was a good deal to be said for including creditor positions. Initially the weighting would have to be related to Fund creditor positions, but later on it should be related to creditor positions in the new scheme.

Referring to Mr. Ungerer's comments, Mr. O'Donnell said that it was incontestable that all countries were not the same and that differentiation between them was not necessarily discrimination. But it all depended on the differences that were singled out and the purpose the differentiation was intended to serve. In his opinion, if there was to be differentiation between countries in a scheme for reserve creation, the one important point of difference would be whether they were receiving or giving up resources, in other words, whether they occupied a creditor or a debtor position. This form of differentiation could not be based on any arbitrary grouping and it would not be appropriate to single out certain pre-existing groups.

In this connection, Mr. O'Donnell supposed that, ideally, the Managing Director ought to be careful to consult the countries that were likely to have to provide resources in the event of an increase in created reserves. But it was hard to be sure in advance which countries these would be. The only objective way of doing it would presumably be to single out the countries that happened at the time to be creditors and make sure that they were consulted.

Mr. Friis thanked the staff for its introductory statement, which he considered a model paper. He also thanked Mr. Handfield-Jones for his statement and hoped that it could be distributed.

Mr. Friis thought that the staff had been right to limit its comments to decisions on the amount and timing of reserve creation. There were, of course, a large number of matters of secondary importance which would have to be solved as well, but this could be done more expediently when the time came for drawing up the Agreement which would constitute the legal basis for any scheme of reserve creation.

Mr. Friis then turned to the question of the "proposal-making" process. He assumed that the Managing Director of the affiliate would in fact be the Managing Director of the Fund. He thought the staff had suggested the right approach when they said in their statement, "It would

also be anticipated that the Managing Director will keep himself fully informed about the views of these matters held by different member countries...." He believed that if this approach were accepted it would be possible to avoid provisions requiring the Managing Director to have formal consultations with the major countries which felt that they had particular responsibilities for the functioning of the international monetary system.

On the question of entry into force, Mr. Friis agreed with the solution the staff had suggested. This would avoid difficulties which were likely to occur if a solution along the lines suggested in SM/66/30 were adopted.

On the question of decision making in general, Mr. Friis thought it was clear that the creation of reserves would have to be approved by a large majority in order to ensure the smooth and satisfactory functioning of the scheme. He found it difficult to express any firm views as to how large the majority should be, but his personal inclination would be to take a rather conservative line.

Mr. Friis considered the problem of opting out to be a difficult and serious one. If there were only a few isolated cases of opting out over a long period of years, it might be acceptable, but if it occurred more frequently members might easily lose confidence in the scheme, in which case the world might have been better off without any scheme at all. The main reason why the problem was serious was, of course, that the countries that might be inclined to opt out were probably some of the more important surplus ones since they perhaps had a rather less urgent approach to reserve creation than the majority of countries. Nevertheless, it did seem necessary to have rules allowing countries to opt out, because otherwise some countries in the category he had just mentioned might prefer not to become members of the scheme at all, or might, in certain circumstances, prefer to withdraw. He thought that the implication was, therefore, that the amount of reserve creation should be rather modest at least during the initial period. The staff's suggestion that a provision for opting out should not apply until there had been a certain minimum reserve creation was also a sensible one.

As far as the voting requirement for activation was concerned, Mr. Friis thought that the majority ought to be the same as for the entry into force. It was essential to ensure that no improvident decisions would be made. Therefore, his preference was for making the first distribution under the normal decision-making process provided in the Agreement.

Mr. Lieftinck considered that the staff statement provided a very useful introduction to the discussions on decision making. He thought

there was value in distinguishing between matters of substance and matters of presentation when considering the points raised by the staff. For example, a veto for a particular group was a substantial matter, but it could be presented in various ways.

Mr. Lieftinck considered that there was a clear distinction between decisions on ratification and decisions on activation. He thought that this distinction should not be obscured by submitting the first proposal for activation at the same time as the scheme was put forward for ratification. Activation should be a separate and subsequent exercise. He had two reasons for taking this view. First, if the initial activation became wrapped up with the proposal for entry into force, peoples' appraisal of the scheme as a whole would be liable to be warped by their views on the justification for the initial activation. Second, he knew from experience that as soon as parliaments got the smell of being involved in the decision making on one specific activation, they were likely to want a say in every specific activation that might follow. Activations ought to be a matter of executive, not legislative, decisions.

Mr. Lieftinck wondered whether the staff had perhaps been too much influenced by the thought that the first activation decision should cover the needs of the first five-year period after the scheme was ratified. He thought it would be unwise to think to rigidly along those lines. It could well be that a decision to create reserves was required in order to meet the gold payments connected with a quota increase. If this was the case, the whole approach could be somewhat changed. For example, it could affect the staff's suggestion that opting out should not be allowed until there had been a minimum reserve creation of between $5 billion and $10 billion.

Turning to the method of ratifying the scheme, Mr. Lieftinck took the view that the voting majority chosen would be of only formal significance because any scheme for reserve creation ought not to be submitted for approval unless it was certain to be supported by a very large majority. It would not make sense to submit to a special meeting of the Board of Governors a scheme which had not obtained, beforehand, the blessing of practically all groups involved. Nor would it make sense to submit a scheme if it was known beforehand that, for instance, the Six or the Ten would oppose it. The possibility of one or two countries dissenting could always be left open, but unless practically unanimous approval was assured, no scheme should be submitted to a formal vote.

Mr. Lieftinck thought that this was another example of how a difference could be made between substance and presentation. In substance it was necessary to have virtual unanimity but it would not matter if, for presentational reasons, a majority of 65 per cent was required in a

formal vote. For his part, he did not attach too much importance to whether the majority should be 85 per cent or 65 per cent. Of course, there was always the possibility that some legislatures would not give their blessing to a scheme which had been approved by practically the whole of the Board of Governors. For this reason, there was some purpose in fixing a voting majority.

Mr. Lieftinck pointed out that, once the affiliate had been established, numerous decisions would have to be taken, not all of which needed to be governed by the same majority rules. A different sort of decision-making procedure would probably be required for dealing with the current operational needs of the affiliate. But, concentrating on the major decisions to be taken by the affiliate, namely, those on the amount and timing of new reserve creation, Mr. Lieftinck did not see much reason to distinguish between the first decision and subsequent ones. There would not be any substantive difference between the first and the subsequent decisions.

Mr. Lieftinck agreed with the staff that the influence to be exercised by creditor countries probably ought to be enhanced. The staff had indicated two techniques for achieving this. He thought that the proposed technique for adjusted weighted voting, which was similar to the one provided for in XII, Section 5(b), made sense and he could go along with it. The opting-out device was a very interesting one, and could be helpful in preventing some creditor countries from feeling that they were going to be too heavily burdened whatever the majority on which decisions were reached. It would enable them to escape individually from a majority decision and this safeguard might make it easier to reach a solution on the question of the voting majority.

Mr. Lieftinck felt that even with an opting-out device and adjusted weighted voting, some countries would not be satisfied and would continue to insist on a voting system which would give a relatively small group of countries some kind of veto. He did not wish to imply that he preferred this approach himself, but he felt that unless a majority of 85 per cent was required for activation decisions, those countries which believed that their own economies would be affected by reserve creation would think that the safeguards were inadequate. He feared that there might be some countries which would only be satisfied with unanimity. But the higher the majority required for activation was raised above 80 per cent, the less palatable it would become psychologically and politically. He hoped, therefore, that an attempt would be made to find better built-in safeguards which might satisfy countries which would otherwise feel that they needed to have a veto or at least a very high majority requirement.

Mr. Lieftinck observed that these problems illustrated a point which had been made already by Mr. Siglienti, namely, that it was difficult to discuss decision making until it was known more precisely what scheme was likely to be adopted. Much would depend on the provisions in the scheme itself for safeguards against, for instance, inflationary increases in liquidity. In order to avoid that danger, potential creditor countries were liable to ask for excessive safeguards in the voting procedures. That was one of the reasons why he had felt from the beginning that perhaps it was too early to put this item on the agenda for the next joint meeting with the Deputies. On the other hand, it was clear from the discussion so far how important the subject was and how useful it was to have at least a preliminary exchange of views, not only between Executive Directors, but also with the Deputies.

In concluding, Mr. Lieftinck pointed that among the possible built-in safeguards that could be used were the gold transfer ratio and a ceiling on the amount of liquidity which could be created over a given period. He did not intend to commend either of these, but built-in safeguards would have to be looked at more carefully if politically and psychologically unacceptable voting requirements were to be avoided.

Mr. Anjaria noted with pleasure that no one had even hinted that any scheme for reserve creation might be operated through anything other than a Fund affiliate. He thought that this was a considerable gain. In that context he supported the suggestion that the Managing Director of the Fund should also be the Managing Director of the affiliate. He hoped that the Executive Directors of the Fund would also be the Executive Directors of the affiliate. He believed there would be considerable advantage in having unity of command and of thinking processes behind the activation and operation of any scheme of reserve creation.

Mr. Anjaria said that his approach to the problems of decision making was broadly the same as that of Mr. Handfield-Jones, Mr. Kafka, and Mr. Nikoi. He felt that the practices established by the Fund should form the basis from which discussion should proceed. He had been particularly struck by the figure of 65 per cent which Mr. Dale had quoted as the majority required for ratification of the Bretton Woods Agreement. From the point of view of the adequacy of a formal constitutional provision, that did not seem to him to be an unreasonable percentage. At the same time, as Mr. Lieftinck had just said, the success of any scheme would depend on securing near unanimity in practice. He thought the whole problem should be approached from the point of view of securing unanimity in practice and not from the point of view of laying down a constitutional safeguard to ensure that a particular group of countries would be in a position to turn down a solution that it did not like.

Mr. Anjaria said that he was aware of the strong views which some Executive Directors held on the voting requirements for the ratification of any agreement. In his opinion, the size of the majority would have to be decided in the light of a number of factors, including the nature of the scheme itself.

Mr. Anjaria noted that mention had been made of whether the procedure for the creation of additional liquidity should be compared with quota increase exercises, or with the setting up of the Fund Agreement. He was inclined to think that the decisions taken at Bretton Woods had been at least as far-reaching as those which were being contemplated in connection with the coming into force of the new scheme. He was not inclined, therefore, to support the proposition that decisions regarding the new scheme were in a class apart from those that had been taken at Bretton Woods and that, therefore, a higher percentage was necessary than the 65 per cent that had been adopted at that time.

On the question of safeguards against excessive creation of international reserves, Mr. Anjaria said he assumed that the balance of payments position of the reserve currency countries would be markedly better by the time the new scheme became operative. It would be somewhat unrealistic to concentrate on providing safeguards which were related only to the immediate situation. It was necessary to think in terms of a situation in which there would be a more random distribution of surpluses and deficits and to define more closely than in the past the criteria upon which a judgment should be made as to the amount and timing of reserve creation. Mr. Anjaria believed that the establishment of these criteria was not a political problem. In his view the problem could be tackled at the economic level, and some working rules arrived at, on which proposals regarding the amount and timing of reserve creation could be based.

Turning to decision making, Mr. Anjaria endorsed Mr. Kafka's comment that the provision of a veto power was not likely in practice to serve the purpose that it was supposed to serve. On the process of consultation, Mr. Anjaria thought it was quite clear that a two-tier arrangement was not acceptable. The decisions involved in reserve creation were of a different category from those that had been involved in setting up the GAB and there was no justification for adopting similar procedures for consultation and activation. Unquestionably, the Managing Director would have to take into account the views of important members whose resources were likely to be drawn upon. But there was no need to lay down a special procedure. These countries were all represented in the Fund and there was no danger of their being prevented from arguing their point of view. Whatever consultation had to take place, ought to take

place within the precincts of the Fund. Other consultations might perhaps take place privately, but there could not be anything like a requirement binding the Managing Director to consult any particular group outside the Fund.

Mr. Anjaria considered that it did make sense to include a provision for opting out. But he strongly endorsed the staff's suggestion that a country should not be able to opt out until there had been a certain minimum level of reserve creation. He also agreed with the staff's suggestion that a certain flexibility was necessary with regard to the decisions to create reserves over a five-year period. It was reasonable to have quarterly or six-monthly reviews in order to adjust the amount of reserve creation either upward or downward. Naturally, the safeguards required for an upward adjustment would have to be stiffer than for the other way around.

Mr. Anjaria had no strong views on whether reserves should be issued at quarterly or six-monthly intervals. He did not think the point which Mr. Faber had raised about the difficulties of having quarterly reviews need cause any great concern, although this did perhaps suggest that there would be some advantage in having six-monthly distributions. On the question of the basis for distributing voting power in the affiliate, Mr. Anjaria said he would prefer using Fund quotas, though there was a case for taking creditor positions into account.

In concluding, Mr. Anjaria said he wished to repeat his earlier comment that the decision-making process that was being considered would have to operate for a long period and therefore too much weight should not be given to current pressures and forces.

Mr. Mansour said he did not think it was necessary to remind the Board of the views held by Mr. Saad. He would reject any voting provisions which would tend to endow any group of countries with the right to veto any policy-making decision. He had always held the view that, under the Articles of Agreement of the Fund, there were adequate provisions to safeguard the special interests of all members incorporated in the Articles of Agreement which had been accepted by all the members of the Fund. There was nothing new in the techniques involved in the present exercise for creating liquidity which required the provision of additional "safeguards." The Fund had been providing liquidity for the last 20 years, and had been applying the provisions in the Articles of Agreement for decision making. It could not be said that the Fund had not accomplished its objectives and had not commanded the full cooperation of the entire membership. To think in terms of an affiliate with special provisions for voting could mean losing the standing of the Fund in the world. It would be a pity to throw away the experience, the stability, the confidence of the whole trading community which the Fund had built up.

Mr. Mansour said that he found himself largely in agreement with the point of view which Mr. González del Valle had expressed on the question of voting requirements. In particular, he shared his feeling that to increase the majority required beyond 80 per cent would raise, in the minds of many people, the thought that this really endowed some groups of countries with a right of veto. The Articles of Agreement stipulated the maximum percentage that could be required for an important matter, such as increasing the resources of the Fund. There was also a provision in the Articles of Agreement which would permit the basic votes to be adjusted. He would be prepared to go along with the implementation of this provision in order to mitigate the fears of the group that claimed special responsibilities and special voting rights. But he did not believe any further safeguards were required.

Although he could go along with a lot of what Mr. Handfield-Jones had said, Mr. Mansour could not accept his apparent suggestion that it might be necessary to impose a voting percentage beyond what had been specified in the Fund Articles. In this connection, Mr. Mansour emphasized the importance of a global approach to international liquidity problems. He understood that the first informal talks with the representatives of the Ten had achieved a considerable degree of agreement on the need for a contingency plan. It was saddening to get the impression from certain comments that even this understanding was still in the melting pot.

Mr. Mansour recalled that the underdeveloped countries had not at first regarded the question of international liquidity as the most important of the problems facing them. They had felt that it was mainly the problem of the big countries. But the protracted discussions which had taken place on the subject had generated an atmosphere of suspicion and indecision which had seriously affected capital markets and foreign aid, and had promoted a tendency to adopt trade restrictions to curb demand and imports of raw materials. Consequently, the top priority issue for underdeveloped countries, which was development financing, had to be relegated to a lower priority among international financial problems. They had come to realize that liquidity was an issue which affected the whole trading community and that they were the most vulnerable group in that community. They hoped that something would be done quickly so that the big countries and the whole world community could face what was the underdeveloped countries' particular problem.

In concluding, Mr. Mansour reiterated his opinion that the Fund and the affiliate should not differ in their provisions for voting because the Fund already provided adequate safeguards for the responsibilities of the present surplus countries. The countries which had had a surplus when the Fund was set up had not found those safeguards unsatisfactory

and no one could tell who would be in surplus in the future. Therefore, any arrangement which would create special privileged positions for any group of countries should be rejected. As for the discretionary powers that might be given to the Managing Director to negotiate, Mr. Mansour considered that it was sufficient to trust his good judgment.

Mr. Ozaki said that he very much appreciated the useful statement by the staff which had clarified many points which he had hitherto found ambiguous. In SM/66/30, for example, the double participation requirement had seemed to him to apply not to the entry into force, but only to decision making related to reserve creation. The staff statement had made it clear that it was intended to apply more to the entry into force.

Mr. Ozaki agreed with Mr. Siglienti and Mr. Lieftinck that the problem of decision making could not be discussed in isolation. For example, the degree of protection provided for creditors by other methods was very relevant. Even the basic form of the reserve assets would, in his view, have considerable effect on the problem. Although the staff's statement had claimed that "Approximately similar provisions could also be worked out for a drawing rights scheme in the Fund," he thought that this was probably not the case.

Mr. Ozaki considered that, given the principle of universalism, the staff had been right to take the view that, for reserve creation, the decision-making process should be similar to that followed for quota increases in the Fund. Although he appreciated the comments of Mr. Lieftinck and Mr. Anjaria about voting majorities not in fact being of much significance, nevertheless he felt that this was an aspect to which more attention ought to be paid now.

Mr. Ozaki then turned to the question of "adjusted weighted voting." He did not think that this technique was entirely consistent with the procedure for quota increases. He noted that three main ways in which the adjustment might be made had been mentioned in the staff's statement:

1. Adjustments similar to those provided for under Article XII, Sec. 5(b) of the Fund Agreement.

2. Adjustment on the basis of cumulative acceptance obligations.

3. Adjustment according to actual holdings of new units.

If the method based on actual holdings of units were adopted and combined with compulsory reconstitution of Fund debtor positions, the discrepancy from the present method used in the Fund would be considerable. The use of cumulative acceptance obligations would have a milder effect.

Finally, Mr. Ozaki said that he found the staff's comments on "Opting Out," and "Changes in the Rate of Reserve Creation" reasonable. They were complicated issues and they should be given further study soon.

Mr. Ungerer felt that there had been a lot of talk about vetos when this was perhaps not an appropriate term to be using. He wondered whether it could really be applied to a group of countries when it was by no means clear that they would always hold the same views. He would prefer to talk more in terms of support because the scheme could not work without the support of certain countries. The figures provided by Mr. Handfield-Jones had shown that only the United States had a veto, but here too it was a question of support, not veto powers, because neither the Fund nor the new scheme could work without the support of the United States. It was much more constructive to think about what support would be needed to make the new scheme work rather than who could veto its operation. In this context, Mr. Ungerer said that he could not see how the new scheme could operate without the backing of the EEC countries which, in the last fiscal year, had provided 60 per cent of the currencies used in drawings from the Fund.

Mr. Wass asked for clarification on what would happen if only the minimum percentage for ratification of the Agreement was reached. He agreed with Mr. Lieftinck that it was almost unthinkable that a proposal should be put to a plenary meeting without reasonable certainty that it would receive virtually unanimous support. Nevertheless, as Mr. Lieftinck said, the matter had to be submitted to legislatures, and it was conceivable that a percentage which was only slightly greater than the ratification minimum would be reached. If that did happen, how would the 80 per cent majority required to create reserves be affected? In other words, did this provision refer to 80 per cent of the membership of the affiliate or 80 per cent of the Fund's membership? If it meant 80 per cent of the affiliate and only 85 per cent of the Fund elected to join the affiliate, activation could in effect take place on the basis of a 68 per cent majority of the Fund membership. If this was correct then Mr. van Campenhout's suggestion that the voting majority for activation might be greater than that required for entry into force could cause difficulties.

Mr. O'Donnell said that Mr. Mansour's remarks prompted him to make much the same point as Mr. Ungerer had made. So long as no group of countries was singled out and given special privileges or powers, then even if the voting percentage was made as high as 85 per cent or 90 per cent, no injustice would be done to any group of countries in the Fund or to any group of countries that might join an affiliate. As Mr. Lieftinck had pointed out, it would not be sensible to go ahead with a scheme that was not going to command overwhelmingly large support, so that even an

85 per cent participation requirement would be something of a formality. The fact that a particular country happened to receive sufficient votes to be able to exercise a veto was incidental. As the figures presented by Mr. Handfield-Jones showed, the United States had a big enough vote to be able to block any move requiring an 80 per cent majority vote. Nevertheless, he did not think any group of countries would be justified in feeling that their position was being damaged in any way.

Mr. Mansour, replying to comments by Mr. Ungerer and Mr. O'Donnell, said he could interpret the pressure for an 85 per cent vote rather than an 80 per cent one only as being designed to accommodate the viewpoint of a particular group of countries. Referring to Mr. Ungerer's remarks about the potential veto which the United States already had as the largest shareholder in the Fund, he said that any group of countries which desired to occupy a similar position could seek quota increases if such representation meets the test, and he remarked that in the last round of quota increases certain surplus countries had been reluctant to increase their quotas.

Mr. Larre thought that many people would have difficulty in understanding how the United States could be regarded as not having a veto while, if a few countries happened to share the same view and voted the same way against a proposal, that would be considered as exercising a veto.

In answer to Mr. Wass's comments, Mr. Biron explained that Mr. van Campenhout had been assuming that all member countries would agree to the initial scheme and that he had only been suggesting that there should be the same majority for the first and subsequent activations of the scheme as for the entry into force because, in his opinion, activation was at least as important as the setting up of the scheme itself.

Mr. Biron said he did not think that an 85 per cent majority could be taken as implying that some countries were asking for a right of veto. He did not know why in the Fund Articles a majority of 80 per cent was required for increases in quotas, but he found it hard to understand why that figure should be regarded as sacrosanct. What was the difference between 85 per cent and 80 per cent? In any case, the Articles of Agreement of the Fund did provide that in the case of a change in the price of gold members with ten per cent or more of total quotas could veto any decision.

The Economic Counsellor said that he would try to reply to some of the questions that had been raised. In answer to Mr. Ungerer's enquiry about the meaning of the staff's comment that an 80 per cent majority would, as a rule, assure that not only the majority of members, but also

the majority of creditor members would be in favor of a particular decision, he said that the underlying arithmetic was extremely simple. If it was assumed that half the members would be debtors and the other half creditors, then a 50 per cent majority might mean that only the debtors or only the creditors were in favor of a particular action. If there was a 75 per cent majority, there would be a reasonable chance that all the debtors and half the creditors, or all the creditors and half the debtors, would agree on any proposal. With an 80 per cent majority, the support of more than half the creditors would be needed if the membership was divided 50-50 between debtors and creditors. Even if the distribution between debtors and creditors were as much as 60-40, the support of half the creditors would still be needed. This would not necessarily work out in every case, but generally it would ensure that the support of the great majority of members, not just those with special interests, would be necessary.

The Economic Counsellor then turned to Mr. Ungerer's question on why the staff had quoted a figure of $5 billion to $10 billion below which opting out should not be permitted. Initial quotas in the Fund had totalled roughly $10 billion and so the original members were, in effect, committed for that amount. The staff had thought that a commitment of roughly the same magnitude might be appropriate. This figure was not intended to relate to the amount of reserve creation during the first five-year period. The amount of reserves created during that period might be smaller, but countries would not be able to opt out until the figure was reached.

On Mr. Faber's question about opting out, the Economic Counsellor said the intention was that a country could opt out of a particular round of reserve creation without having to go as far as withdrawing from the affiliate and so disassociate itself from all future decisions on reserve creation. Assuming the major decisions were taken on a five-year basis, opting out would presumably also be on a five-year basis. In answer to another of Mr. Faber's questions, the Economic Counsellor said that the reference to quarterly figures was only intended to relate to the method of distribution. It would clearly not be desirable to distribute in one lump sum the whole amount of reserves which it had been agreed should be created during a five-year period. There had been some discussion of having annual distributions but, as a practical matter, there did not seem to be any reason why it should not be on a quarterly basis so that the amount injected at any moment of time would be small. Certainly the staff had not had in mind anything like a quarterly review, for the very reasons that Mr. Faber had mentioned. The basic decision would be a five-yearly one, but possibly with a yearly review, which would be unlikely often to lead to a change in the amount of the quarterly reserve distribution.

The Economic Counsellor observed that in questioning the meaning of the passage in the staff's statement about quotas in the affiliate being proportional to or the same as Fund quotas, Mr. Faber had put his finger on a point which had not been introduced before. If the affiliate was to be an independent agency, a set of absolute numbers would be needed to determine the votes of members and the amount of reserve distribution. It would not matter too much what relationship these numbers had to Fund quotas, because the positions of all members could be adjusted correspondingly. In terms of the domestic arrangements which countries might have to make in adhering to the scheme and in authorizing the acceptance of distributions, for example, this absolute amount did become of some importance. The staff thought it would be reasonable to work with a set of numbers equal to Fund quotas.

The Economic Counsellor noted in this connection that the question of basic votes could only be meaningfully discussed if there was not only an absolute number for the votes, but also an absolute number for the quotas, or the acceptance obligations, or whatever it was from which the other votes were derived. In the Fund, basic votes constituted about 10 per cent of the total. If it was decided to have the same proportion in the affiliate it would be necessary to divide 10 per cent of the voting power equally among the member countries rather than simply giving them 250 votes each.

On Mr. Faber's question about why adjusted voting power was thought to be in order, the Economic Counsellor said that it had been suggested as a device by which the voting power of creditor countries could be increased above what it would otherwise be. He had had the impression from the discussion so far, that it was a device which had found considerable support.

Turning to Mr. Dale's comments about a voting majority of only 65 per cent for the Fund's initial entry into force compared with the much higher figure which had been suggested for the affiliate, the Economic Counsellor pointed out that the Fund was not only a financial institution. It could probably function usefully even before it distributed any financial resources. If the new affiliate were brought into force before it could begin distributing reserves, it would be a totally meaningless organization. This would be particularly true if, as had been suggested, it had the same Executive Board, the same Managing Director, and even the same staff as the Fund. There would be nothing that it could do which the Fund could not do for it until such time as it was ready to begin reserve creation. A rather high voting majority had been suggested in order to ensure that the affiliate would not only be nominally created, but would also be effectively in being.

The General Counsel said that there were a few constitutional issues on which he wished to comment in the hope that this would clarify some of the points which had been brought up. Before doing so he noted with some surprise that, although some Executive Directors had referred to the fact that the ratification requirement for bringing the Fund into existence had been 65 per cent of quotas, nobody had mentioned the fact that the decision to begin operations, which presumably could be called activation insofar as financial operations were concerned, had been taken by a majority of the votes cast; in other words, by quite a slender voting proportion.

Referring to comments by Mr. van Campenhout, Mr. Lieftinck and Mr. Wass, the General Counsel observed that in the process of bringing an affiliate into being, there were really three important stages. These were agreement on the final act of a conference or what might be described as the agreement on a contingency plan, the entry into force of the final act as a treaty and institution, and the decision to begin operations. The first stage was not in fact essential. There had been international organizations which had been brought into being without that stage. In one case, the document on which the Executive Directors of an existing organization had agreed had been sent directly to member governments. If a constitutional conference was held, however, the normal procedure would be for the participants to initial the final act, or to initial it with reservations or to refuse to initial it. If a country initialed, it constituted what was sometimes called a quasi-legal obligation to submit the final act to its parliament. The important thing to bear in mind, therefore, was that, whatever might be decided as a result of a conference and a final act coming out of that conference, it was not normal to find a participation requirement laid down at that stage.

The General Counsel went on to point out that the stage at which a ratification clause was required was, of course, in connection with the entry into force. This was quite normal. Proposals for treaties had a clause which stated that the treaty would take effect when a certain event had taken place. In this connection, the General Counsel saw some technical difficulties in Mr. van Campenhout's suggestion that the voting formula for the entry into force might be the same as for activation. Before a treaty entered into force, there was no voting power. Voting power existed only after the organization came into being. That was why in the case of the Fund, for example, the 65 per cent requirement was tied to quotas. Activation, as a decision of the organization, would presumably be related to voting power and voting power would not, in this connection, be by any means the same datum as quotas. It did depend, of course, on the extent of membership, as Mr. Wass had pointed out, but in addition, basic votes came into play and affected any formula for voting strength based simply on quotas.

The General Counsel explained that Mr. Wass was right in suggesting that if only the minimum number of countries agreed to participate, a percentage of voting power could represent a smaller international consensus than a comparable percentage based on membership by all countries.

On the question of basic votes, the General Counsel recommended that this element should be considered favorably. In all the international organizations of which he was aware where there was a weighted voting system, there were basic votes. These basic votes reflected the classical principle of the sovereign equality of all states, and it would probably be regarded as retrogressive if basic votes were abandoned. But they had more than merely political value. They could also help to make weighted voting more flexible. If basic votes were regarded as inviolate, it was possible to go beyond the present Fund Articles in adjusting weighted votes based on quota. For example, votes might be adjusted downwards as well as upwards, not merely up to 25 per cent as in the case of the Fund, but up to 100 per cent of quota without completely disfranchising members. It was also relevant to point out that, in the Fund, basic votes had direct importance since half or more of the total votes of some 40 countries consisted of basic votes.

In concluding, the General Counsel said he had been a little surprised at Mr. Siglienti's comment that Italy was not getting any adjusted votes as a result of its bilateral lending to the Fund. This was, of course, a mathematical question and it was possible that a country would receive no additional votes from a loan agreement of that character. But there was nothing in the loan itself compared with, say, the GAB, which precluded the adjustment of the votes of the creditor countries. Provided that the net sales of its currency by the Fund did not already exceed 100 per cent of its quota, Italy would receive additional votes as a result of some, although possibly not all, of the Fund's sale of the bilateral loan.

The Chairman said that he agreed with much of what had been said during the discussion. Obviously, the question of decision-making was one in which negotiations would play a role because it could not be decided purely on economic or technical or statistical considerations. It would have to be considered in the light of the scheme which would eventually be approved and in the light of all the safeguards which might be built into it because the decision-making provisions would themselves be one of those safeguards.

The Chairman noted that several Executive Directors had talked about the importance which prior consultations would have as compared with the more formal subsequent process of decision making. This was obviously an essential procedure. There would be no value in having the Governors

of the Fund approve a scheme by a simple majority unless it was known in advance that the scheme would be ratified by whatever proportion of members was required. Obviously, the purpose of consultations would also be to ascertain whether the first activation and subsequent proposals for creation of liquidity were likely to be approved by a large enough proportion of the membership. Because the main purpose of the consultation would be to ascertain whether proposals would be acceptable to a large enough proportion of participants, he personally thought that they should be as flexible as possible. Not much would be gained by making the procedures too rigid or by having a formal two-tier arrangement.

The Chairman observed that, in discussing what would be the best possible majority for decision making, no Executive Director had mentioned that all but certain amendments of the Fund's Articles required an 80 per cent majority as part of the formula. The creation of an affiliate should be regarded as being as important as an amendment and therefore 80 per cent would appear to be at least a starting point.

The Chairman said that he fully agreed with the comment that it was important, when thinking about the questions which were open for discussion and negotiation, to take a positive attitude rather than be preoccupied over how many members it would need to exert a veto.

On the question of whether specific conditions for activation should be written into the Articles of the affiliate, the Chairman said that he personally did not think too highly of that idea, at least at the present stage. It was possible that the general purposes of the affiliate ought to be stated in the same way as they were in Article I of the Fund Agreement, but to go further and insert conditions would not, in his opinion, be very helpful. He did not think that anyone was wise enough to foresee all the circumstances under which it might be advisable to create reserves. As some Executive Directors had pointed out, it was possible that before long the main problems facing the world would be the opposite to those about which people were thinking when they talked about deficits now. Not only would it be very difficult to make binding conditions which would be applicable for a long period of time, but to add technical and statistical controls would only increase the complications of reaching a general agreement on the advisability of creating liquidity.

Mr. Siglienti said that when he had made the remark on which the General Counsel had just commented, he had only been pointing out that there could be a difference between total net sales of currency to the Fund and the amount which could be included for adjustments under Article XII, Section 5(b). That Article stated that adjustments could take

place provided that neither net purchases nor net sales were deemed at any time to exceed an amount equal to the quota of the member. In his opinion, it would not be necessary to have a similar limitation in any affiliate. There would be an additional incentive for countries to exceed their acceptance obligations if there was no limitation.

To clarify the same point further, Mr. Handfield-Jones pointed out that the calculations in the last column in the table he had circulated had been intended to show how the provisions of Article XII, Section 5(b) as it now stood would affect the distribution of votes. As it happened, as of November 30, 1966, sales of Italian lire were in excess of 100 per cent of the Italian quota and, therefore, the limitation in Subsection (2) of Section 5(b) did apply, although he believed the margin for which there was no adjustment had been a relatively small one.

Mr. Handfield-Jones added that when he had referred to the application of Article XII, Section 5(b) he had been thinking that a somewhat similar provision might be built into a possible affiliate. He fully recognized that there was a good deal of variation possible--for example, the size of the weights, the application of Subsection (2), whether the weights given to creditor and debtor positions should be the same. These were all aspects which would be subject to negotiation. Mr. Handfield-Jones then asked whether the General Counsel could confirm that it was possible to reduce basic votes as well as increase them. Was this one possibility which he had been considering?

The General Counsel said that he had mentioned the possibility of adjustments downward in his statement because that was one of the things that the present Articles of Agreement provided for. He had not intended to suggest that it was necessarily either a good or a bad idea. Downward adjustments did create a special problem, however, namely, the risk of disenfranchisement of a member if the adjustments were carried ad infinitum, and did not stop short of basic votes. He also agreed that all of the other modifications that had been mentioned were possible under a new charter.

W. LAWRENCE HEBBARD
Secretary