

Committee 2 of Commission I

Convened at 11:30 P.M.

Delegate Maletin of Union of Soviet Socialist Republics
presided until appointment of Vice Chairman,
Delegate Mackintosh of Canada.

MR. MACKINTOSH: As the Chairman said, the assignment of this committee is concerned with section 3 and the following sections of the joint statements and the committee document 1. The first question to be considered by the committee is the sale of exchange. You will find material has been prepared by the secretariat on pages 5 to 7 of the document F-1. This material covers section 3, provision 1, 2 and 3 of the joint statement of principles. If it is agreeable to the committee I would propose that we proceed with the discussion of the document F-1, section by section. The first section of the document for the first section of the joint statement there is an alternative (a) suggestion. The original statement "~~xxxxxxx~~" "Member countries shall deal with funds" etc. (balance of statement read)-- is replaced by a slightly revised statement (statement read). The second sentence of the joint statement, we are told, is to be dealt with elsewhere in the document. Is there any discussion of that pure and formal change in wording? Would you propose an alternative wording?

Delegate from Cuba: I do suggest that at the beginning of the paragraph the phrase "except as otherwise provided" should be introduced so that made the other way "For further discussion" alternative (a) page 8 "borrow such currency within that country from some other source" and the phrase "except as otherwise provided" would permit the discussion of this alternative without modifying substantially the clause which has been proposed.

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Mr. Mackintosh: I would suggest it would probably be better in dealing with alternative (a) on page 8 - 10. Having dealt with it we might then come back to this clause, if there is any consequential amendment that would have to be made. Is there any other discussion or is it your wish we should pass on to section 2. Under section 2 you have very substantial amendments. I in alternative (a) and additional amendments in alternative (c) and (b). The meeting is open for discussion of very proposals on section 2.

Delegate from United States - Brown:

Alternative (a) which has been proposed by the United States after some discussion is designed to clarify and state the position of the United States of America in regard to the sections of the joint statement 2 (a), (b), (c) and (d). I think everybody here realized that this is one of the most important sections of the joint statement. The statement as it appears in the joint statement of ~~principles~~ principles by itself is not sufficient and that the statement in the joint principles represents the compromise between two points of view, a ~~the~~ compromise, which I think everybody here realizes is necessary and desirable. On the one hand everybody agrees that the countries must have access to the fund. The question is how far that right of access is an absolute right. - How far, perhaps I should say, a privilege. The American Delegation of the United States of America recognizes very clearly the difficulties of the problem. They feel the right of access to the fund is the right of ~~xxxx~~ access - must be the right of access subject to conditions. The fund must in extreme cases

and under certain circumstances have a right to point out the conditions that are violated and have some discretion in refusing. ~~xxxxrightxxxxxx~~ The right of access to deal is primarily a right and not a privilege. Regarding this section, we provided this provision in order to give us all the aid in attempting to state the right to the conditions under which that right should be exercised. I do not know how the Chairman will go on with the discussion. I think the discussion will, however, begin with the very first clause and it will probably continue and the separate clauses will be taken up one by one.

Mr. Mackintosh:

Chairman: This is a highly technical section of the document - I refer to the statement of the representative of the United States - Alternative (a) represents to some degree a compromise which when used - I note that in condition 2 of alternative (a) --shall I state it this way - I note that we have alternative (a) which has ~~xxx~~ some ~~xxxx~~ conditions and ~~xxxx~~ some rewording of the joint statement. You have also (b), (c) and (d). (b) and (d) are conditions to alter funds, particularly clause (c) of the section. Is it agreeable to the committee that we should proceed to discuss this clause by clause or is it better to discuss section 2 as a whole. If there is no objection I suggest we proceed with a discussion of clause by clause. I note that with respect to 2(a) of the joint statement which is rewritten as 2(1) of alternative (a), that there is no alternative offered to that particular clause. Is there any further discussion or explanations which any delegate cares to offer on section 2(1) as an alternative. Section ~~2(2)~~ 2(2) then - There are alternatives (b)(c) and (d). I suggest we discuss 2(2) taking the alternatives in the order in which they appear in the document.

Delegate from

May I suggest that section 2(2) of the American proposal be reserved until we come to the discussion of scarce currency and then come back to it and proceed to 2(3) which is the same as 2(c) in the original document.

Mr. Mackintosh: I take that to be agreeable to the committee. I am sorry I misstated the situation before. The clause to which there are a number of alternatives is Clause 2(c) of the joint statement of which there is alternative (a) as number 2(3), alternative (b) alternative (c) and (d). We are ~~not~~ open for discussion on clause 2(c) and the various alternatives proposed to it.

Delegate from France:

Mr. Chairman, is it better to discuss now the amendment (d) or first to discuss the other amendments?

Mr. Mackintosh: I suggest we might discuss them in order - a, b, c and d.

Delegate from Australia:

Mr. Chairman, alternative (b) was proposed by Australia because we felt the limitations on the use of the fund as contained in the joint statement and as retained in 2(3) do not provide sufficient elasticity in the case of many countries. Certainly in the case of agricultural countries or countries producing a narrow range of raw material and food stuffs. Their balance of payments are subjected from time to time to very great disturbances. The prices of raw materials are notoriously subject to variations and when they fall temporarily the countries effected cannot avoid heavy deficits in their balance of payments. We appreciate, of course, that

this fund is intended to provide countries with working balances that they draw out in some years. They are expected to pay back in other years of others. Of course, if the proposal we put forward is adopted or alternative (d) is adopted it would be perfectly satisfactory as far as we are concerned. We know, of course, that if there is a great deal of liberty permitted to a country then to that extent it will be pledged subsequently to pay back to the fund a larger amount but we feel that for a number of countries this greater degree of elasticity is essential. It is difficult to discuss this with the absence of a figure for quotas but whatever the quotas will be, some greater degree of elasticity will be needed. Of course it is true that the fund can any time waive the restrictions but the lenders use of the resources of the fund - But that would mean, certainly in the case of Australia, that every few years we should have to apply to the fund for permission to make further use of its resources than was automatically provided by the fund under the constitution of the fund and that, I suggest, would not be a satisfactory position for ~~any~~ any government or any essential bank to find itself in. It would continually be uncertain whether resources needed to meet a temporary disturbance in its balance of ~~payments~~ payments would be available to the fund. It would have to apply to the fund for permission to use money and comply to the conditions laid down by the fund. Now we suggest that some greater degree of elasticity is essential to the covenant as provided in (b) and (d) wording of the fund.

which is very important. In the amendment which has been suggested, amendment (d), there are two points.

There is a point of principal, -- whether a carry-over

Mr. Mackintosh: I think it would assist in the discussion at this point if the delegate of the French Committee would explain alternative (d) which is directed to the same point which, as I understand it, is a slightly different method from that proposed by the Australian delegate.

French Delegate:

I wish to state that the purpose of amendment (d) is as much to the interest of the fund as in the interest of the countries which wish to make use of the resources of the fund. In the present draft of clause 2(c) a country has inducement to use the resources of the funds in a regular way even though it has not met the specific requirements. The reason is that if a country does not use during the first period of 12 months then during the second and third year the country may not be able to retain the total resources which the country thus doing should be entitled to so that the lack of possible carryover will have the probable effect to increase the amount of currencies which the fund will hold - - The reply to this argument may, of course, be that countries are not entitled to appeal to the resources of the fund except for current purposes. But there are a number of cases where a country might think that if it would have a possibility of obtaining the resources which it would require in the future that it would not for the present time appeal to the fund so that a provision of carry-over is something which is very important. In the amendment which has been suggested, amendment (d), there are two points. There is a point of principal,--Whether a carry-over

would be acceptable to others - the second point of the issue is the specific figures which have been mentioned. On the matter of the specific figures, if those figures are considered to be not quite appropriate it would be quite favorable ~~in~~ the French delegation would be pleased to revise those figures if the majority of the delegates would think those figures inappropriate - but on the question of the ~~principle~~ principle, I think it is in the interest of the fund of accepting that principle. I would just like to mention a very small point which I have already mentioned in Atlantic City that we do not need any more which either complicates the wording or confuses the meaning. Thank you.

~~Chairman~~

Mr. Mackintosh: Is there any further discussion?

Delegate from Norway:

I bet to state that the proposal of the French delegate - I think that the principle laid down in Alternative (d) is much better reading. The French delegate has already forwarded the arguments which I think. The word of the joint statement perhaps might be unjust ---

Russia's Delegate:

I believe that the suggestion proposed as supplement (d) by the French delegation ~~is~~ is a practical proposal which improves the using of the resources of the fund. I think this proposal meets practically all the needs of such countries as we ^{are made} heard from the Delegate of Australia/for the reason of considerable deviations in their balance of payments and credits -- From the other side I think this suggestion shows that the countries will borrow more

freely, will more liberally use the resources of the fund when they actually need that. The proposal in the joint statement is of such character that it can induce the countries to use their maximum possibilities in the fund and also in these cases when they don't actually need larger resources to assure them against the future needs. Therefore I think that it would be appropriate to support the suggestion made by the French delegation.

Mr. Mackintosh: I am of the opinion that the clause on page 3 of the joint statement by which the fund can use its discretion to waive conditions provides sufficient elasticity and would take care of the needs of agricultural countries as the delegate from Australia suggested---

Delegate from Brazil:

Mr. Chairman there are two questions it seems to me in the suggestion made by the French delegation, one which is less important and which refers to the figures and the other which is more important which refers to the principle which is the carry-over principle. The Brazilian delegation considers it an open question to examine the question of the figures but wishes to give its support to the principle of the carry-over in the type of manner that it be applied in the best interest of the fund.

Delegate from United States:

I shall speak only on the point that was raised by the Australian delegate. I believe that point has really been answered by others who have called attention to the waiver provisions. The 25% a year limitation is

is whether the merits of the proposal are not affected merely a standard provision - one that applies to all countries irrespective of the peculiarities of their papers. Where exceptions are necessary, where particular countries require additional support from the fund, that can be given at the fund's discretion to any extent that the fund deems such support necessary. Now, the conception of the Australian delegate seem to be that countries with a wide seasonal movement in the balance of payments would eventually meet that seasonal trend by drawing on the fund. This is not our conception of the use of the fund. Most countries will have substantially independent gold reserves - gold and foreign exchange reserves of their own, even if they are meeting a large seasonal movement. Many countries will be able to meet that movement entirely by utilizing their own resources. They may come to the fund only for rather small marginal amounts. We cannot make the standard provision cover the extreme cases of countries that have both large seasonal moves and no independent reserves of their own. What we have put in, therefore, is the standard provision that applies to all countries like that with allowance of the cases that are not - may be that provision in the form of power to waive that provision if the fund deems it necessary.

Delegate from United States: (Mr. Bernstein)

Mr. Chairman, we all recognize that there is considerable merit in the proposal of the Delegate from France. There may, no doubt, be instances in which a country would be permitted to use the resources of the fund when the full rights under the conditions of the provisions would likewise remain unused. The question

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is whether the merits of this ^{the French} proposal are not offset by important difficulties. In the first instance it should be noted that the concept of this provision, Alternative A, is that in effect countries do not make use of the ~~fund's~~ fund's resources when they are not needed. When the resources are needed, in accordance with the provisions of the fund, they are available. When ^A a country is not entitled to acquire the resources of the fund, to purchase foreign exchange ^{from} of the fund, merely to build up ^{idle} vital balances to await future use because their current needs are not fully up to the ^{maximum level of} provisions in ^{paragraph} part 3. The difficulties I have in mind, and they are, I believe, important difficulties, are these:

Just as countries need certainty - some degree of assurance that the needs that they will have in the near future will be met by the fund, so the fund needs assurance that it will be in a position to provide the resources that will be needed by member countries in accordance with the provisions of the fund. If after four years the fund in fact may be faced by a request for the unlimited purchase of exchange for any rate ^{aggregate} limited only by the maximum ^{aggregate} provisions, it may find itself in a position where it will be pressed - a condition of uncertainty in which it cannot make its own balance. We must find, of course, some balance between certainty needed by member countries and certainty needed by member funds. We believe that the provision of alternative in provision A, calling for use of resources as needed but limited to 25% a year provides that necessary balance.

The second difficulty, in some respects, holds up the first. We all know that Alternative A represents a common view of many of the technical experts who have been studying this question. It would be a mistake to conceive of this provision 3 as the provision of the United States technical experts. It has in a sense the full force of the opinion of all experts whose discussion is found in the joint statement. That is not to say that every technical expert agreed with that particular provision but it is more than one country and more than two countries. In the course of finding a common view it was clear from the beginning that if the fund is to avoid the continuous exercise of authority on the sale of exchange it must somehow have what we may call "rules of thumb" - a reasonable basis for proceeding with the assumption that the use of the fund's resources is being limited to the purposes and the provisions of the fund. If this ~~quantitative~~ ^{quantitative} quantitative limitation of 25% of the quota in a 12-month period is modified or withdrawn it seems to me unavoidable that we will have to restore to the fund a balancing provision which will give the fund an opportunity of ~~exam~~ examining from time to time whether the use of the fund's resources are not excessive and are at a rate which will cause this ^{dis}equilibria. The disturbance of the ^{of payments and other} balance of payments leads only to the taking of further steps which are undesirable to others and which should be avoided as far as possible. If the fund is to depend on the concept that some quantitative use is a measure of reasonable access to the resources of the fund it will not be possible to modify provision

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3 in such a way as to open up after a stated period of course, an amendment of that kind has been made that the purchase of as much exchange as the country is able after a period of four years. I think it is also prepared to use without submitting that to the discretion of the fund somehow, and for these reasons at any time and 200% if that country has had 200% I feel it would be a mistake to relax provision 3 to take account of the very reasonable point that the delegate from France has made. That can fully be taken care of in the waiver provision of this alternative. Delegate from [unclear]; countries which, whether Mr. Chairman, As far as I can hear them, the arguments which are given by Mr. Bernstein - there is one thing which I must say does not ~~not~~ answer our purpose. It is the idea of a waiver. I do not see how the possibility of waiver by the fund does protect the country which does not know any difficulties - whether they will receive that waiver and in the absence of knowledge will take the protection each year to draw what is reasonable in order to be assured of its requirements of the future - in order to be assured of the possibility of having success in the fund-- I quite agree with the idea that the resources of the fund should be used exclusively as temporary nature and that therefore provisions must be made and should be made if the principle of carry-over is accepted whereby a country which would use for more than 2 years up to the extent of 150% as an average, whose currency is more than 50% of its quota for more than 2 years. I think it would be quite normal whereby outside of penalty of interest the fund can request the country to take such measure as to reduce the amount of currency. I must confess I have been unable to find satisfactory wording. I suppose the wording similar to the one suggested in A concerning ineligibility to the resources of the fund -

Of course, an amendment of that kind has records that binds after a period of four years. I think it is also proper to afford us something whereby a country cannot at any time ask 200% if that country has had 200% previously.

Delegate from United Kingdom: These countries the

My delegation is by no means lacking in sympathy with the condition of those countries which, whether because of their dependence on ~~particular~~ crops ~~or for other reasons~~ ^{their end is} may find that ~~that~~ particularly heavy in particular years, but we do feel that their difficulties ought to be sufficiently looked after by the discretionary powers vested in the fund under section 4 in alternative (a) and by the practice which we hope of continuous consultation between members and fund about their prospective troubles and difficulties and we do feel, therefore, that the limitations which are set out in section 3 of alternative ~~xxxxxx~~ A are desirable and indeed necessary if the fund is to be assured of being always in the position to fulfill the heavy obligations which are going to be laid upon them.

Chairman: Unless the committee feels otherwise, I think that the views on this clause have been fully expressed except I would ask Mr. Melville of Australia if he wishes to add any further statement.

Delegate from Australia, Mr. Melville: countries

I should like to refer to some points made in objection to alternative b and d. The first point is in Mr. Gardiner's comment there was implicit suggestion that the countries would have reserves outside the fund on which they can draw. That is by no means certain.

It is by no means certain that the end of the war the countries I have in mind will have reserves outside the fund on which they can draw. If they have not and if this fund implies that it will not work unless they have reserves outside the fund then the creation of the fund inevitably imposes on those countries the duty of building up large reserves outside the fund's. We cannot discuss this satisfactorily until we know more about quotas. I think this committee should consider very carefully what the implications are of forcing countries to build up large reserves outside the fund. It seems to me that would, to some extent, be inconsistent with the purposes of the fund. The purpose is to provide countries with working balances. If Mr. Gard's impression of the fund is right, member countries must get their working balances outside the fund and look to the fund to provide them with resources only in exceptional circumstances.

~~Second point~~

Second point - whether the power of the fund to waive conditions is really satisfactory - If, of course, the need for waiving conditions of the fund ^{only} is ~~required~~ required in exceptional circumstances, occasionally, then I would agree that this provision would be satisfactory - It can deal with that type of case quite satisfactorily but as I see the operation of the fund in its ~~application~~ application to some countries it will not be at all exceptional for a country to request the fund for a waiving of those conditions. I think it is most unsatisfactory for a country to be placed in that uncertain position to have to ask that the limit of 25% be waived. That does not

seem to be a very satisfactory method of procedure or a condition which government would feel at all happy to place themselves. I want to make this point - I was referring not only to ordinary seasonal fluctuation - not merely to the trend of events during one portion of the year. Agricultural funds are affected far more by fluctuation in prices which are constantly going on - more so through the business cycle than other times. Fluctuations in prices are quite customary and these fluctuations do affect their balance of payments during the course of the year or few years and it is that sort of movement that would make requests for waiver of conditions which I think is unsatisfactory.

Delegate from Mexico:

Mexico, as a producer of raw materials, should be in favor of alternative B presented by France but there are considerations which have made us modify that apparently obvious attitude. On the matter of ^{principle} ~~principles~~ we believe that each country has to consider itself both as a debtor and creditor of the fund. As a debtor, of course, alternative D is favorable to Mexico, but are we sure that Alternative D covers sufficiently all the risks which all of us are undertaking as creditors and as shareholders of the fund. A situation might arise if we are too liberal, that a country normally a debtor country would become a creditor position but when the time comes for that same country to ask the assistance of the fund, if the fund has been too liberal, it might be possible that its resources of vital or important currencies would have been exhausted. Also, there is another argument which we would like

to underline. If the fund carries its transactions with a conservative spirit then its reputation in world capital markets would certainly be better. Conservative handling of the fund's resources may be in the long run much more favorable to the countries which are normally debtor countries.

Delegate from New Zealand:

As a delegate from a country which is very largely dependent upon the export of / ^{primary} production, I should like to associate my delegation with the Brazilian and the French delegation and Australian delegation. New Zealand is a country is first liable to fluctuations from time to time in great amounts and prices - - -

~~The points raised as to the~~ The points raised as to the provision for flexibility and waiving of clause 1 -- but on the other hand that does not seem to cover sufficiently the point which is one of the objects of the fund - the confidence to make use of the fund - whereas I recognize the points that is made that Clause D that if Clause D replaces the clause which is already in the joint statement it places the fund in the position of not having quite the same protection. On the other hand I think we can rely on the caution of the fund just as much as we can rely on the generosity of the fund in order that countries dependent on the export of primary products can use the fund in the ordinary course. I feel in any event it will be helpful to have the clause inserted in considering the waiving of these restrictions. Due regard would be had to special conditions of those countries which are dependent very largely on external trade.

Delegate from South Africa:

I find myself unable to support either of these alternatives. I would draw the attention of the committee to this point - It is a bit thing indeed which is proposed here that a country can go to the fund and have a certain overdraft without too much financial investigation as to its proper ~~xxxxxxxx~~ position. That is a big advantage - That advantage you can only maintain if you establish what would be in the opinion of the countries which have funds - That figure of 25% is under - ~~Now~~ 33% would be just as good figure - But I should say it does suggest that we ~~xxxxxxxxxxxxxxxx~~ do not put any unnecessary strain on this machineryxxxx we are trying to build. Increasing strain may put the fund into the difficult position of increasing obligations. From 25 to 33-1/3% is a wrong move. As far as the proposal of the French delegation is concerned for the carry-over, I would like to draw attention to a fact which we must ~~xxxxxx~~ foresee. Let us hope, at least for the first few years of the fund, there will be a number of countries who will not require the help of the fund. But we cannot hope that there will not come the time of increasing the number of countries. Let us say that this period of four years takes us ~~xx~~ up to the maximum. For every country which has not used any of its resources in the past you will have a country that can immediately come to the fund for 100% quota. You are going to have a rush on the fund. I repeat my point that we want to start, but on a very conservative basis. Provision made in the original draft for a waiver provision will have to be exercised very carefully in a period such as the one which I have just reviewed when a large number

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of countries will have to come to the fund for assistance. It may not be possible at that time to help all the countries.

Adjourned at 1:00P.M.