

COMMITTEE 2 OF COMMISSION I

Auditorium

July 4, 1944, 5:30 p.m.

CHAIR: The Committee will come to order. The Secretary will call roll.

SECRETARY: Australia; Belgium; Bolivia (absent); Brazil (absent); Canada; Chile; China; Colombia; Costa Rica; Cuba; Czechoslovakia; Dominican Republic; Ecuador; Egypt (absent); El Salvador; Ethiopia; French Committee of National Liberation; Greece; Guatemala (absent); Haiti (absent); Honduras (absent); Iceland; India; Iran; Iraq; Liberia (absent); Luxembourg (absent); Mexico; Netherlands; New Zealand; Nicaragua; Norway (absent); Panama; Paraguay (absent); Peru; Philippine Commonwealth; Poland; Union of South Africa; USSR; UK: US: Uruguay; Venezuela; Yugoslavia.

CHAIR: Before turning to the agenda there are one or two matters on which I would like to say a word. In the first place, the Acting Chairman was at more than one disadvantage this morning in not knowing what if any effect this microphone had on his voice and I would be very glad if the members of the committee would inform me if at any time I cannot be heard. In the second place, there were certain questions of procedure raised at the end of this morning's session on which I think we should have some discussion and a meeting of minds. It has been understood

DECLASSIFIED

Authority NND 8,83079

understood through earlier conferences, the heads of delegations that committees would not proceed to formal voting but that they should use every means to try and reach agreement to clear as many of the problems as possible before reporting differences to the commission.

I take it it is the wish of the committee to follow procedures which will achieve that as far as possible.

One practice which has been developed in other committees which I think might be considered by this committee is to authorize the Chair to appoint a small drafting committee to which might be referred proposed changes which do not involve changes in substance and, secondly, points on which it is the view of the Chair with the concurrence or at the suggestion of the committee, points on which it is thought that the real differences can be adjusted and an accommodation reached in a rewording of the Alternative. It would not be part of such a proposal, I would think, that we would burden a drafting committee with questions on which there were real and firmly-held differences of opinion. Further in the matter of procedure I think that we might proceed by having the Chair take alternative steps following a discussion, or in the divert? of discussion, ~~waxxi~~ the Chair might well state that there seems

to be

DECLASSIFIED

Authority NND 8,83079

to be a consensus of opinion and in divert of any objection the reporting delegate would so report. If there are objections which are not held by many representatives but only a few, it would be open to the Chair to say that if so desired those objections would be recorded by the reporting delegate. Where on the evidence of the discussion or on the stated objectives of members of the committee it is apparent that there are real and substantial differences of opinion which have not been reconciled, the Chair should state in its view there are such differences and the reporting delegate should so report them to the commission unless there is any suggestion from the Committee as to means by which the differences might be reconciled, either by consultation among delegations, by appointment of special subcommittee, or by any other device which members of the committee care to suggest. The Chair will always be open to suggestions for any step which will avoid stating differences unnecessarily. Though I make those suggestions from the Chair I would welcome any brief discussion of them if there is any accord for them. I would entertain a motion for the drafting committee.

NETHERLANDS: Mr. Chairman, the meeting this morning was especially to make sure that procedures should be followed [the member stated also that discussions should be postponed and the procedure presented by the Chair was practical].

DECLASSIFIED

Authority AND 8,83079

UNION OF SOUTH AFRICA: I have only one comment to make on your excellent suggestion and that is the name of the body/^{to}which you propose that these verbal questions should be referred. Looking ahead I think there is some slight danger of misunderstanding if we think of this small body as a drafting committee. It seems likely, sooner or later, if things go well with us, all these conclusions which these committees and commissions arrive at will have to be looked over by lawyers to see that they make sense and are consistent. These things have already been through a drafting committee and therefore sacred. The sort of committee I believe you have in mind is a committee on language, call it an asterisk committee because it is the asterisk paragraph referred to.

CHAIR: Is there any motion for the appointment of an asterisk committee?

SOUTH AFRICA: I propose ---

NETHERLANDS: Second.

CHAIR: It has been proposed by the representative of South Africa and seconded by the representative of Natherlands that a committee be appointed. I take it a committee named by the Chair to deal with the changes in wording of the various proposals, particularly those paragraphs

paragraph proposals which are marked by an asterisk, we can call it, if you wish, a "wording committee" or we can call it simply a drafting committee.

MEMBER: Language committee!

MEMBER: Grammatical committee!

CHAIR: Is there any discussion of the proposals?

If there is no objection, I take it that it is agreed that the Chairman should appoint such a small committee for this purpose. It is so ordered. Is there any further discussion? Is there any discussion on the remarks which the Chairman made with respect to procedure? If not, we might turn to the agenda. May I say just a word on the discussion this morning. I am afraid that I did not make clear that it was in respect to the alternatives proposed by the Australian delegation and the Delegation of the French Committee that it appeared clear to the Chair that there were wide differences of opinion firmly held and that it was not possible in the discussion in this committee to reach ~~xxx~~ any reconciliation of them. I did not wish to close off the discussion but the view seemed to me on both sides to have been fully stated and at the time of the adjournment no progress was being made in any reconciliation of those views so that I would have taken it as a result of this morning's discussion that the differences in view would be fully recommended by the reporting delegate.

The next item on the document which we have before us

was

DECLASSIFIED

Authority NND 8,83079

was paragraph 4 of section 2 to replace in part paragraph (b)?
(d)? of section 2 of the joint statement.

NEW ZEALAND?: Mr. Chairman, may I raise a question arising out of 2, before we pass away from it. This question was not discussed this morning. In the joint statement the change is contained then also in the alternative paragraph 2a (Reads paragraph 2a on page 6)--the words "member represents that", I am not sure whether those words are set there for a fell purpose or whether it is in the drafting. Is it intended that it should be an open fund or is the fund to have any say in the question whether that currency is, as a matter of fact, required as the member represents it.

CHAIR: My own understanding is that the words are of substance but ^{if} any member of the committee wishes to explain the words further I would be glad.

BROWN (US): Mr. Chairman, the statement of principles used the words "the member represents that the currency demanded is presently needed to make payments..." The same language is continued without any change except to add the words "of currency" and the insertion of the words "provisions of this agreement" as I tried to explain today. We all realize that a country has a right of access to this fund and if the fund isn't (is inclined?) to go broke in short order that right has got to be conditional. The representation is made that unless it is obvious that the currency is demanded

DECLASSIFIED

Authority NND 8,830,79

for some other purpose it would be necessary that the fund accept a representation. I should imagine, although I should hope it would never arise in the civilized nations. Sometimes ~~inxxx~~ under a government, not in effect, a representation would be made which would be so flagrant and false the fund, on its face, would see that it was false and in such case I should say that the fund would either have to say that the representation was false, I can scarcely imagine such a case arising, if however, a nation that made false representation regarding money, it might be the ground for the fund, the next time~~x~~ the nation came to the fund, to make a very careful investigation. We are faced with the fundamental difficulties of reconciling the extreme idea of absolute and complete right without restriction and the other idea of coming to this fund as the privilege similar to a broker going to a private bank. It is possible to accept either of those theories and we think this language is the right subject and condition to represent the best compromise possible between the two. I tried to explain that.

CHAIR: Does that answer?

MEMBER: The contrast between this particular draft which puts the judgment on what are the purposes of the fund in the hands of the members and other portions of the texts where are such words as "other expressions ~~and~~ the opinion of the fund"?. This is neglect? of the moment, the only case where the judge of the purpose is not the fund but the member. And that is why it struck me that possibly it may

DECLASSIFIED

Authority NND 8,83079

not be ~~the~~ intention to make an exception in this particular case. What is the general rule? I myself would feel that the text would be ^avery much more closely shorn one and a more direct one if the ~~the~~ wording here suggests that he read passage beginning with "currency demand at least..."7.

NETHERLANDS: I think, if I may say so, we have good reason in this particular case for exercising^{emphasizing} the discretion of the member, If these rights are to be of real help and comfort to the nations concerned, it is surely necessary that on occasion they should be exercised very quickly and that a central bank which is going to use these rights should be able to present its demand on the fund and expect them to be honored at very short notice, and immediately. It mustn't be left in doubt as to whether it is going to be kept in doubt days, weeks or months, waiting for its money while an argument takes place and ~~by~~/their wondering whether the money is really needed or not. I think that is in itself sufficient reason for the slight difference in emphasis which the delegate from South Africa has pointed out. There are, of course, elsewhere in this document provisions for the fund to get its loan back by a if a member is caught in the act of behaving improperly, flagrantly or dishonestly. I think it would be better to leave it at that and place the emphasis here when it is placed on the ability of the member in this case to get the money quickly on his own representation that he is entitled to it.

DECLASSIFIED

Authority AND 8,83079

CHAIR: I think that as we are here to answer a question and not reopen a discussion on a clause which has been accepted this morning that that probably meets the question of the representative of South Africa.

~~S~~OUTH AFRICA: I will not question the matter any more, sir.

CHAIR: With reference to Alternative A, section 2, paragraph 4, you will notice a change that has been made from the Joint Statement is that the referred to suspension has been transferred to a later section--a new section ~~2~~ 3-- and that what is set fourth in section 4, Alternative A, adds nothing of substance. On that basis the committee may be willing to agree to section 4 discussing the proposed new section 3 which contains the substance of the changes. Is the committee agreed to that suggestion. I take it that it is agreed.

There is then also in Alternative A, a sentence added following the numbered paragraphs. The first sentence which is changed in only very slight detail "The Fund may, in its discretion, and on terms which safeguard its interests, waive any of these conditions." Added, "In special circumstances, where the Fund considers it necessary, it may require collateral security as a condition of such waiver." Is there any discussion of that proposal? If there is no discussion may we take it as agreed that those sentences of Alternative A are acceptable to the committee? Agreed.

DECLASSIFIED

Authority NND 8.83079

CHAIR (cont'd): The next proposal is under Alternative A and is for the addition of a wholly new paragraph, numbered here section 2a. "Conditions Governing Purchases for Capital Transfers". It reads that (reads 2a, pages 6a and 7).

I take it the footnote indicates some uncertainty as to the correct percentage to insert in the last place and some willingness to adjustment. I would ask the delegation responsible for the proposal to explain it further.

CANADA: Mr. Chairman, this proposal is designed to enable the countries which have not been net purchasers of exchange from the fund. Those countries which have not used the Fund's resources, to buy exchange from the fund for any purpose including a capital transfer. I take it there is general agreement that the primary purpose of the resources of the fund is to facilitate current account transactions. This is stated by implication at several points in the joint statement and it is stated explicitly in V, paragraph 1 of the printed text which reads: "A member country may not use the fund's resources to meet a large or sustained outflow of capital, and the fund may require a member country to exercise controls to prevent such use of the resources of the Fund." I think that ^{it could also be argued that} it is stated by implication in paragraph 3, 2a of the printed booklet which reads: (here reads that contained on p. 2 of the Joint statement of experts on establishment of the International Monetary fund). Since the purpose most relevant in this connection is purpose 5

DECLASSIFIED

Authority NND 8,83079

on page 2 (reads this), I think that it is beyond dispute, Mr. Chairman, that the main purpose of the resources in the fund is to facilitate current transactions but it has appeared to some of us who have studied this problem, the problem of the restrictions that should be placed on the access of creditor countries to the fund that so long as a country is not making net use of the funds resources that is to say in terms of this document so long as the funds holdings of the currency of a member are not less than 75 percent of the quota of that member, there is no disadvantage and on the contrary an advantage in allowing such a member to purchase exchange from the fund for any purpose including capital transfers on certain conditions and subject to certain safeguards. If a country's currency is held by the fund in amounts under 75 percent of its quota, that country --I think we can take by hypothesis--is a creditor country with a favorable balance of payments on current account. Anything that that country can do to increase the world supply of its currency is to the general advantage of the community. There therefore appears to be no reason subject to qualification which I shall introduce later, why that country should not buy exchange from the fund for capital purposes. If it does, in other words, why it should not be able to use mechanism of the fund to lend abroad. If it lends abroad, outside the ^{mechanism of the} fund, there is no positive assurance that the domestic currency which it places at

DECLASSIFIED

Authority NND 8,83079

the disposal of the rest of the world will find its way in whole or even in part into the coffers of the fund. That will depend on the situation of the countries to whom the loan is being made. Therefore the underlying thought in this proposal is that the countries which have not used the resources of the fund should not be used for capital purposes. Obviously, it would be against the general interest if countries, as a result of purchasing exchange from the fund for capital purposes precipitated in any degree a scarcity in the fund's holding of the currency which are being required, that would be contrary to the interests of the community as a whole as well as contrary to the interests of the country whose currency is being required under the circumstances. That explains the proviso at the end that this procedure must not reduce the fund's currency purchases below 75 percent/ of the member ~~country~~ ^{of the quota} whose currency is purchased. The Chairman has referred to the three figures mentioned in the footnote at the bottom of the paragraph and they do indicate, indeed, a certain flexibility of mind as to the xprecise figure to be inserted. My own view, the figure should be like 60 percent. What one wants to avoid is a country ~~xxxxxxxxxxxxxx~~ ^{which is initiating a such a purchase} currency scarcity/ than its own in the fund. This provides however that the fund's holding of such a currency must remain below

DECLASSIFIED

Authority AND 8,33-79

75 percent over a six-months' average on the level, so that by the time the country could utilize that right the fund's holdings would be something like 60 percent. On the other hand, I understand that from private conversations with some delegations, there are some delegations who are approving the general principle of this taking the view that the figure should be 75 percent which would necessarily produce a situation under which currency which the fund was getting was less scarce than currency the fund was giving up.

It would seem to us, Mr. Chairman, in using the fund for capital purposes, one must avoid any suspicion or any thought of acting in any way that could be injurious to the fund itself or to the rest of the community and notwithstanding ~~the~~ our original desire to have the figure of 60 inserted, we are quite prepared to agree to a form of words which would leave the same figure of 75 percent in both cases.

CHAIR: Any discussion.

BROWN (U.S.): Mr. Chairman, I would like to state that in b~~y~~ehalf of the U.S. delegation we think this section proposed by Canada is an excellent section one which helps the fund to work more efficiently. We believe 75 percent of the currency purchased should be retained and not reduced to 60 percent. One other comment. We feel that when the happy day comes when the agreement on every disputed principle ~~is~~ in the hands of the lawyers (here mentions Professor Robinson?) we think this particular section of 2a might more appropriately fit into some other article of the agreement.

DECLASSIFIED

Authority NND 8,830,79

CHAIR: Any further discussion.

~~XXXXXXXXXXXX~~:

NEW ZEALAND: In view of the fact that this
is
provision now under discussion/~~xxx~~ contained in a separate
clause, I am inclined to doubt whether it is sufficiently
clear whether the facilities provided by that clause cannot
be undertaken if the currency in question has been declared
scarce. In the previous clause it is provided: that a
country may obtain another currency for its own currency
provided its own currency hasn't been declared scarce.
Should that provision also be included in this clause.

CHAIR: Any comment on that?

CANADA: I think that point raised by the delegate
of New Zealand is in fact covered by the reference to the
fact that purchases for this purpose must not reduce the
funds holdings required below 75 percent. It would be only
inconceivable ^{shall? would?} contingent that the fund ~~xxxx~~ declare
the currency scarce at a time when the fund's holdings of that
currency amounted to 75 percent of the quota of that country
that the situation ~~explicated~~ raised by the delegate of
New Zealand would arise.

CHAIR: Any further discussions?

CZECHOSLOVAKIA: In the first part of the section it is
stated that as long as a currency has remained below 75
~~xxxx~~ percent for not less than 6 months, then the second
part states "currency of the other member..." but does

DECLASSIFIED

Authority NND 8,33079

not state whether it applies also of the one would 75 percent , should be calculated ~~maximum~~ it seems to me for reasons of safety. It should be a set period during which currency would remain at least about 75 percent. Another one, I wonder whether this provision is certainly very good, should be introduced immediately or whether we should not wait and see how the whole fund will operate. My third remark is whether in such a case when a member country buys currency of another country should the country be asked to give its consent.

CHAIR: Any comment?

GREECE: May I ask, Mr. Chairman, if in case that the country has control on capital transactions does this paragraph here affect ~~that~~ control of a country. Is a country which has imposed a control ~~in~~ to determine the capital transaction. Is this country affected by this clause.

CHAIR: I would welcome assistance.

CANADA: I don't see why it should be, Mr. Chairman, if a country has control of capital transactions that control is not necessarily a complete prohibition of all capital transactions and it may be that through the facilities provided in this way such a country would permit capital transactions to take place which it would otherwise prohibit. I wonder whether I might refer to points by delegate of Czechoslovakia, while I am up.

DECLASSIFIED

Authority AND 8,33079

CANADA: (continued) The first suggestion that he made was that not only should the currency of the country which is purchasing exchange for capital purposes have remained below the level of 75 percent over a period of 6 months, but also that the currency of the country which is being purchased should have remained above a 75 percent level for 6 months. ~~that is going to mean~~ That does appear to me, / Mr. Chairman, to be going a unnecessarily long distance to undo the effects that we are seeking to obtain in this clause. If a currency has remained above 75 percent level for 6 months, then by definition that country has been a consistent net purchaser of the exchange from the Fund, because the Fund begins by holding, forgetting for the moment, the complications that may arise by the fact that some of the initial subscriptions may not be 75 percent but a higher figure. The Fund begins by holding 75 percent of currency of each country. Now the Fund, having held 75 percent of the currency of each country over a period of 6 months, has plenty of the currency of that country. There is no danger involved to the Fund in getting back to the position in which it originally started. If I pointed out in introducing this proposal, the practical working of it, under the present formulation, would necessarily be that the currency ^{that} / is being supplied to the Fund is scarcer than that obtained from the Fund, and why one should set up restrictions making

DECLASSIFIED

Authority NND 8.33.79

making it impossible for others to come to assistance of the Fund in supplying it with their currency. Don't see why those restrictions should be necessary. The same comments apply to transitional period. If in the course of the transitional period the Fund supply of any particular currency does become scarce, not in a technical sense, under which provisions of placement would come into operation but then this clause would not come into operation at all, either during the transition period or at any time.~~wouldxxxxxxxxxxxxxxx~~ The third point on the consent of the country required, I think, is unnecessary and from some point of view, objectionable. What one is seeking ^{to establish here} is definite provisions that countries will be able to count on, ~~barring~~ barring misbehavior, and on which they will be able to base their plans. The introduction of the consent ^{of} to the country on whose currency is being acquired does mean that no country will be able to count on the operation of this provision and I should have thought that interests of the country whose currency is being acquired is adequately safeguarded.~~the~~

GREECE: I ~~must~~ am sorry that I must repeat my original question. I agree that this provision is very useful and might be helpful both to the country and to the Fund. I am afraid that the unlimited right of a member country to purchase local currency from Bank of another country over and above 75 percent of the holdings ^{of a country} might
be

might be against the interest of the country and the purposes of the Fund. What is the real object of the Fund? It is, in my opinion, to collect the different subscriptions and to accord facilities in order to promote the best growth of trade. If a country, over and above the original contribution, has made use of facilities of the Fund, has paid to the Fund its local currency in a prior foreign exchange, this country has a right to expect that this local currency would be used by other countries on current account for the purchase of goods for payment of services which will be considered as capital account. If this country, without its consent, must accept that this currency will be utilized by other countries for investments, it is not quite in agreement with the Fund. It is the general feeling that this clause is a useful one. I should think that the limit should be set somewhat above the 75 percent, and then to come to the other alternate, that the holdings of this council are not below 100 percent.

CZECHOSLOVAKIA: I propose the following problem. According to the Fund, a country is supposed to accept its local currency for all payments on current account. It is not obliged to accept them on payments for capital income, as Mr. Varvaressos stated, and asked whether capital incorporations will not be transferred by this clause. I understood by the answers that he gave he agrees with this interpretation, then

then we can see that the local currency held by the Fund which could be freely used for all kinds of payments and transactions would not be beyond import capital control if used for the import of capital.

CANADA: It is obvious that I misunderstood Mr. Varvaressos' questions. I had in mind the country which was exporting capital and not the country which was importing capital. Dr. Basch referred to imported capital. There was nothing in this proposal which would, in any sense, make it necessary for countries to change such regulations which they may have respecting imported currency. If any country wishes to take the position,--though, I can't think of a single example of a country that has taken this position-- that it requires to get foreign exchange--willing to accept local currency for its exports of ~~xxxxxx~~ goods by foreign exchange of its exports of capital. If any country wishes to take that position, then I would concede, Mr. Chairman, it is open to that country to take that position, and in that case, local currency acquired under this provision would not be available for capital purposes, and therefore it would not be required by the purchasing country.

CHAIRMAN: May I ask how far that meets the question asked by the Representative of Greece?

GREECE: Yes.

CHAIRMAN: I take it from this discussion that there is general agreement that this is a desirable clause. There is
also

also the suggestion of the representative of the U.S. that when the stage of ultimate drafting comes that it not be included as clause 2(a) here ~~xxxxx~~ but might be placed in some more suitable location. Is it the wish of the Committee to adopt this clause and recommend it to the Commission or are there modifications which are proposed. Does the Chair take it that it is agreed that this clause is ~~ng~~ approved? So agreed.

The next proposal is the additional Section 3 in Alternative A additional to the Joint Statement. As I said before it takes the part of the wording 2(d) of the Joint Statement and binds it into a new section Declaring Members Ineligible to Use the Resources of the Fund. (reads all of Section 3, page 6b). Any discussion of that proposal? There being no objections may I take it that that proposal is agreed?

CUBA: Mr. Chairman, may I ask whether the differences which are contemplated ~~byxxxxx~~ between the article of the declaring members ineligible to use the sources of the fund and the provision announced on page 35 of this draft preliminary articles on suspension of membership or compulsory withdrawal-- may I ask what is the difference between the ineligibility and suspension of membership because I couldn't get quite clear from the discussions in Atlantic City which was exactly the difference between these two provisions.

BROWN (U.S.)

BROWN (U.S.) Mr. Chairman, In the first place the U.S., which proposes this, would like to strike out the words "and policies" in the second line, ~~and~~ subsequently to leaving it "in a manner contrary to the purposes". I do not think any country here would care to bind itself to the probable degradation of the use of the fund ^{and} ~~of~~ suspension by disobeying policies which might mean policies adopted by the board of the Fund at some later date. The original section of the Joint Statement of the experts provided nothing except suspension. It is the view of the U.S. Delegation that something less than suspension was highly desirable and that it would be much less contrary to the dignity of a nation to limit its resources to the fund temporarily than to suspend or throw it out of the Fund. Consequently the proviso was changed from the expert's statement declaring its ineligibility to use sources of the fund or limiting its use. The other substantial change is that after the fund is presented a report and before a reply is received, it has, in special circumstances, the right to limit or to propose conditions on access to the fund. This was designed to take care of the case of the country which would not reply immediately or the reply might be unsatisfactory when it did come in, and the maximum amount which was still drawable. Again I think it is a case which is very unlikely to arise but it is possible. I think the alternative section is much better for all countries in that it does not involve the ~~insignity~~ indignity of suspension in

in case of disagreement it does allow much lesser punishment of limitation which might be instead of drawing 25 percent at one time but rather 5 percent a month for ~~xxx~~ 5 months, but not all in a day. This section will be rarely used but it seems to me the main effect would affect the dignity and honor of various countries which joint the Fund.

CHAIRMAN: I am not sure the representative of the U.S. was entirely heard. I shall state briefly the point which was raised. The explanation was that it was desired in these circumstances to have a restriction on countries which fell short of suspension or anything which would involve the dignity of a country where it was contemplated that the Fund might withdraw the use of its resources entirely but limit the use of its resources for a period of time and that for the remainder it is mainly spelling out in fuller language the brief statement which appeared in the joint agreed statement of experts. Is there any further discussion?

CUBA: Mr. Chairman; might we postpone the consideration of this article particularly in its last line on declaration of ineligibility// Up to the time that we know what the final draft or the draft of suspension of membership--

CHAIRMAN: May I ask the representative of the U.S. whether it is considered to declare a country ineligible to use resources of fund is equivalent to discussion, or is there additional . .

BROWN (U.S.)

DECLASSIFIED

Authority AND 8,83079

BROWN (U.S.): I should say that the difference was a real difference, that if a country is suspended, I can scarcely conceive of any country risking its own national honor// which wouldn't immediately withdraw from the Fund and tell it politely to go to the devil, whether it could meet its obligation to the fund or not. If it is declared to be ineligible to use resources of the fund it means there is every opportunity for conciliation and clearing up misunderstandings which might arise between sovereign nations, as between individuals, and that the country will come back into the fold of the Fund without any hard feelings. I think it is a very important difference from the point of both national honor and also of keeping this Fund permanently going as an organization which we hope all the civilized nations of the world will ultimately join.

CHAIRMAN: There is some difficulty in accepting the suggestion made that this should be left open and that the section referred to on page 35 should not come before this committee but before another committee. In view of the fact that it is open to any delegation to raise this question in this commission, where both points may be raised, would it be satisfactory if we left it there that any delegation could discuss it in the committee as we are not able at this committee to answer questions in respect to suspension.

CUBA: It is satisfactory.

CHAIRMAN: Is there any further discussion of this section?

If

If there are no objections, accept this section as agreed.
So agreed.

The next item is Alternative C. We passed over it this morning inadvertently. Alternative C relates to Section 2, paragraph a, of the Joint Statement and refers to Section 2, paragraph 1, of Alternative A, which we have already accepted. You will note there have been certain changes in the Joint Statement. The final phrase read "which are consistent with the ^{purposes} ~~provisions~~ of ~~the~~ the Fund". In Alternative A that has been changed "which are consistent with the provisions of this agreement". Alternative C proposes the wording "consistent with the purposes and provisions of the Fund".

CZECHOSLOVAKIA: This alternative before Alternative A was known.

CHAIR: Alternative C is withdrawn. That completes the discussion of Section 2.

We turn to Section 3 of Roman III, Joint Statement. The original section reads: (reads the above).

The proposal ~~which~~ would be new Section 4 to the section, ~~this~~ in view of the fact that a new Section 3 has been proposed. It would read: (reads Section 4, page 7). The changes seem to be minor changes in wording. Is there any discussion? If there is no objection may I take it that Alternative A, Section 3 of the Joint Statement is agreed.

Section 4. Read in the Joint Statement: (Reads Section 4, page 8). That has been reworded in Alternative A to read: (reads Section 5, alternative A, page 8).

Any

Any discussion of this proposal? If there is no objection, may we take it.

ECUADOR: This morning the proposal/^{was}that the fund would not operate except through a central and stabilization fund-- is it here authorized to make transactions outside? Wouldn't that be in contradiction to what was proposed this morning? I assumed that it was a borrowing operation and would be handled through the approved institutions.

BROWN (U.S.): The member from Cuba raised the same point this morning when he stated that except as otherwise provided in this agreement all transactions should be with central banks or with other fiscal agencies and called attention to the fact that this indicated that the Fund might borrow from private chartered banks with the approval of the country in which they were located and whose currence was being borrowed. I think the member from Cuba's point was entirely correct this morning. I think it may be left to Mr. Robertson's friends, the lawyers, for the day when we are all agreed on principles.

CHAIRMAN: ~~REXXXX~~ Does the explanation cover the point?

MEMBER (?): I have no objection whatever but since it was emphasized "only", that had not been in the original proposal but here emphasis has been placed on it. I have no objection.

CHAIR: ^{That} ~~There~~ is a point to be looked after by the drafting people.

CANADA: The points I have to raise are also drafting points.
There

DECLASSIFIED

Authority NND 8,83079

There is a typographical error on this page (page 8) in the ~~next~~ section that reads "borrow such currency within that country. . .". I believe that the word "or" has been omitted. "or from some other source". My understanding of the meaning of this paragraph was that if the currency was becoming scarce the fund might attempt to borrow that currency either from the country concerned or from some other country which had adequate holdings of the currency which was becoming scarce. That is the first point. I stand to be corrected. The second point is ^{perhaps} more a point of substance, but no member shall be under obligation to lend its currency to the Fund or to approve the Fund's borrowing its currency from any other source". I raise the question whether there is not in that form of words an implied obligation on the part of the third country's holding the currency which is becoming scarce to make loans to the Fund. Say "but no member shall be under any obligation to make such loans to the Fund or to approve the Fund's borrowing its currency from any other source".

BROWN (U.S.): May I ask Mr. Bernstein of U.S.,

MR. BERNSTEIN: First if I may revert to the point that Mr. Pazos raised, there is the problem of drafting in connection with Section 1 ^{and} ~~in~~ this Section, but I should call attention to the fact that Section 1 reads that: (Section 1, p.5, is read). It is not intended that the Fund shall necessarily limit its transactions ^{to} ~~as~~ dealing ^{with} ~~to~~ those agencies providing ^{ed} ~~it~~ deals through

through such agencies. That may clarify Mr. Pazos' point somewhat. I gather this is entirely correct.⁹¹ I have a few more words. Perhaps the best thing is to turn it over to the asterisk committee. In the second line of No. 1, "propose to the member that it lend such currency to the Fund or with the approval of the member", I think these words are omitted "that the fund borrow such currency within that country"--may be a little equivocal, maybe it needs another word. I think it is intended that the loan should be made either by the central bank or another fiscal agency within that country. It could also be from some other source than the ^{central} bank or it would be through ^{a true} (the) fiscal agency in such a case. I think if so interpreted it might be clear. If not, the asterisk committee is the proper committee for it.

CHAIRMAN: Would it be the sense of the Committee that we would refer this clause to the committee to be named to deal with these problems of wording.

NETHERLANDS: Mr. Chairman, I would like to be sure that I got the substance there. The proposal is that the Fund may, with the consent of a member government, borrow either from that government or from private persons under the jurisdiction of that government or from any other source. Is that right?
~~XXXXXXXXXXXX~~ Three alternatives. I must confess that the word had been omitted from this sentence.

BERNSTEIN (U.S.): I am not certain, Mr. Chairman, whether that might be so. I would have to think back more leisurely to agree.

CHAIR:

DECLASSIFIED

Authority NND 8,83079

CHAIRMAN: I take it is agreed to refer this to the subcommittee who will consult with Mr. Bernstein and others as to the original intention of this proposal.

Section 5 (2). The change is only a change of wording "offered by the currency of that member with gold". Is there any discussion?

NETHERLANDS: Perhaps you are right. It is just a matter of wording. We wanted to make sure by putting in that no country have the right to refuse gold for its currency.

CHAIRMAN: Any further discussion? I take it it would be appropriate to link with this discussion Alternative B which is to sell gold to a member country. I was referring to Alternative A or the alternative to sell gold to a member country in exchange for its currency.

NEW ZEALAND: I think in order to protect the interests of the country concerned it is desirable to offer (to sell ?) otherwise it is not sufficiently clear that the country would have the option of refusing and if compared with the clause of the previous draft, it says offer to buy currency of that country with gold. It doesn't make it clear there that the country's permission must be had because the country's consent must be had before the Fund must borrow its currency. Just a question as to whether the same provision should apply. It is a question as to whether the Fund must offer to buy or whether it has the right to buy.

NETHERLANDS: That is just the point. We are wondering
whether

whether any country would be in a position to refuse to sell its currency for gold, and we are of the opinion that the gold should always be accepted. ^{It may not work but} in other words that is the essence of the proposal.

CHAIRMAN: Is there any further comment ^{that will} ~~make~~ ~~this~~ clearer the difference between these alternatives?

NETHERLANDS: I think I see the difference and the language of Alternative B sufficiently expresses the difference. But if ~~this~~ even so Alternative B seems to me very unacceptable. I think the option must remain with the country whether or not it furnishes ~~ix~~ its currency to the fund in exchange for gold.

CHAIRMAN: Any further discussion?

MEMBER (?) : Might I ask the Professor how he reconciles ^{the} the remarks just made with/provisions of 9-1 of the Joint Statement.

NETHERLANDS: It has nothing to do with any obligation on any part of a member country to take gold, whether from the Fund or from anybody else.

MEMBER: Provisions of the joint statement--there is no where any provision which covers an obligation on the part of any country either to sell gold--

BROWN (U.S.) Mr. Chairman, I think it is the view of the American Delegation implicit in the whole agreement, the country must sell its currency for gold or else the Fund won't work. It is a very large question. I think it is such an important question that it would be desirable to start the discussion tomorrow with that question.

CHAIRMAN: ADJOURNED.

DECLASSIFIED

Authority NND 8,83079