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COMMITTEE 3 of COMMISSION I - HEMICYCLE ROOM

4:00 p.m. July 5, 1944

ARBrown  
Reporter

The Chairman: The session is open.

I suggest that we will begin our discussion today on page 26 of the Joint Statements of No. 2 and 3, leaving all the questions relating to the executive directors postponed for tomorrow morning because certain groups are making certain arrangements in order to arrive at any conclusion and present a new statement to the Committee. And so the matter is now in discussion. We may receive the objections or the remarks about this question.

Question: On the question itself, Mr. Chairman, or on the fact of taking up that question first?

The Chairman: Of that question, of No. 2 and 3.

Question: Yes, but I mean on substance?

The Chairman: On substance, yes, regarding to the matter of Board of Governors but not of the executive committee.

Mr. Gutt(Belgium): Gentlemen, I am sorry to take up your time again, but yesterday it had been proposed that some matters not regarding the Board of Governors but regarding the executive committee should be postponed or sent to a special subcommittee because they are very closely linked to the questions of quotas. Now we have this question of voting power with the Board of Governors, which is again very closely linked to the question of quotas, and I wonder how we can make quotas if we do not adopt the same system for that as the system which was proposed yesterday.

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By km NARS, Date 6/27/92



Mr. Luxford (United States): Mr. Chairman, I merely wish to state that there is much in what the gentleman from Belgium says. On the other hand, I believe that in section 3, page 26, we are talking about an over-all problem that is not closely related to the question of management or the details of management. Rather, it deals with the question of what will be the voting power of each country in the Board of Governors, which we have already discussed and more or less agreed on yesterday morning. That is, page 24, we talked about the Board of Governors, we agreed that there would be a Board of Governors more or less, and now we are talking about how a Board of Governors will vote. This has nothing to do with an executive director who may be elected some other time.

Mr. Gutt: I said so. But it is linked, nevertheless, with the quotas.

Mr. Luxford: Both are linked to quotas. Any question about it?

Mr. Hexner: Gentlemen, I think this Alternative A and B, it is true it is linked to quotas but in an abstract sense it means whatever the quotas will be these two proposals apply to it. I could imagine  
/a quota system which would make these provisions inapplicable but according to those quota systems which are discussed -- I would underscore "quota systems". What is discussed now, according to my knowledge will be probably the size of the quotas. I do believe that we could attempt to discuss this



voting with reference to the executive board and if we hit a point which makes it impossible to go further we could probably postpone the discussion of that point until we will know the quotas. But we could at least attempt to read it and to discuss it with reference to the Board of Governors in order to make some progress.

Mr. Gutt: I agree.

Mr. Beckett (United Kingdom): Mr. Chairman, perhaps it would help the committee if I pointed out this: It is rather an accident of the arrangement of the papers in the looseleaf that you have Alternative A on page 26 and Alternative B on page 26a together. They really have no relation to each other at all because Alternative B is talking about the Board of Governors and the votes that can be cast there, etc. When you come to Alternative A on page 26, it is talking about a particular matter which probably would be delegated to the executive directors, and, therefore, there is no connection between Alternative A and B at all and it would be a mistake to try and discuss those two alternatives together.

Mr. Luxford: Mr. Chairman, I think that what Mr. Beckett has said is absolutely true with regard to the second and third paragraphs of section 3, namely, there you are talking about a special fact situation. I do believe, on the other hand, that paragraph 1 is speaking of a general proposition, namely, how you shall vote on the Board of Governors, and for that reason there is perhaps a reasonable overlapping between the two. I think

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it might be helpful, since there seems to be a little confusion on the matter, to set forth at least intended to be covered by Alternative A.

The first paragraph provides that each member country shall have 250 votes, plus one additional vote for each part of its equity equivalent to \$100,000. Now, that voting you are talking about at that point is, what are the rights of a country on the Board of Governors. What are the votes that each governor on the Board of Governors votes? What votes will he have? So that there we are talking of the highest body and we are discussing what each country votes will be on that highest body.

Now, the formula that has been suggested here, in the first sentence, it contemplates the necessity for combining two different factors. There are obvious reasons, which all of you know, why it would be desirable to have each country with an equal number of votes. There has been a technique that has been used before many times by international bodies. On the other hand, there are perhaps equally persuasive reasons why you should not have your voting tied to the amount that each contributes in the sense of a business corporation. What this particular paragraph attempts to do is to equate, to bring together and balance the rights of each country as a country and its investment so that both factors are represented in your end product, namely, the votes of a particular country.



Now, the formula suggested here contemplates that each country by virtue of accepting membership will be entitled to 250 votes regardless of what its quota may be. In addition to the 250 votes to which each country is entitled by virtue of membership, it is also entitled to votes depending upon the amount that it contributes. The particular formula which has been suggested here contemplates that for each \$100,000 that a country contributes it will receive one additional vote. Therefore, if one country should contribute, let us say, \$1,000,000 its total votes would be 250 plus 10 votes, which means that it would have a total vote of 260.

Now, this particular formula was intended in particular to give the smaller countries, the countries with the smaller quotas, voting strength by virtue of their acceptance of membership, recognizing that if you were to tie it entirely to their quota their votes might not represent their true interests in this organization.

Turning from the first paragraph to the second paragraph, there you are dealing with a very particular situation specifically under Article III, section 2. You have a provision that the Fund may waive conditions regarding the access of a particular country to the Fund.

To illustrate: Under Article III, section 2, a country is entitled to 25% of its quota during any 12-month period in the event that conditions within that country require in any particular 12-month period a sum greater than 25% of its quota.



The country has a right under this document to apply to the Fund for a waiver of this 25% provision so that it is possible to give it a much greater amount.

Now, on the question of waivers, you have a vote. The Fund will vote on that question and at that point this particular provision comes into play. On the date that the Fund is established, each country will have its quota in the Fund and the vote will be in the ordinary way. On the other hand, it is perfectly conceivable that over a period of time you will find that certain countries have drawn heavily on the Fund and other countries have not drawn on the Fund. This formula attempts to adjust for that contingency and the procedure contemplated would be that on this narrow question of waiver each member shall be entitled to a number of votes modified from its normal as follows: (a) by the addition of one vote for the equivalent of each \$200,000 of net sales of its currency by the Fund. That is, as the currency is withdrawn from the Fund by other countries, the country whose currency is being taken from the Fund will have an increase in its votes on the basis of one vote for every \$200,000 of a country's net purchases of the currency of a member country. Thus, if there were only two countries in the Fund and one country were to take the currency of another country -- let us say \$100,000 -- out of the Fund the net result would be -- My example should be \$200,000. If Country A



took \$200,000 out of the Fund or the equivalent, which would only be the currency of the other country since there are only two countries in the Fund, the net result would be that the country taking the \$200,000 would lose one vote. The country whose currency was taken would gain one vote.

Now, that provision only applies on the question of waiver plus one other case, and that is in section 3 under Article III, which deals with voting on whether a country is using the resources of the Fund contrary to its purposes. Those are the only two occasions on which there is any adjustment on the voting technique.

Now, as Mr. Beckett did point out, probably these votes that we are talking about now would be votes on the executive committee, but the point that is attempted to be established here, regardless of when that vote takes place, you will make adjustment on these two issues depending upon whether a country is either a net -- if I may use the term "borrower" -- from the Fund or a net creditor to the Fund.

Now, the last paragraph again is general. It states that, except as otherwise specifically provided, all matters before the Fund shall be decided by a majority of the aggregate votes cast. That will probably be more clear to you in terms of some of the earlier drafts where you had sprinkled throughout the document "4/5 votes." Most of those provisions have been eliminated from the draft.



There is one case that I can think of where it still limits, namely, in the case of changing ~~quotas~~ quotas a 4/5 vote is still required. There is one other exception, possibly, to this provision. Probably when you get to the question of suspension, voting on the forcible withdrawal of a country from the Fund will probably be on a country basis rather than on any basis of quotas.

<sup>Skau</sup>  
Mr. Colbjørnsen (Norway): Mr. Chairman, I should think that this second part is rather closely related to what we are going to do about executive committee. At any rate, it is very closely related to the spirit in which we are going to solve the functions of the executive committee. And in connection therewith, I should like to remark that it has not been decided and I hope it will not be presumed to be decided that the executive will be voted according to quotas. I hope that we will reach a place where we can decide that executive directors will vote individually with the only proviso that in order to avoid that we will have to give very big members more than one director, two or three to a very large one. It does not do away with the principle of voting as individuals rather than voting as representatives of countries. I don't want to go into that matter any further now since it will come up for discussion when we discuss the whole question of executive committees. Therefore, we are not quite able to discuss it at all.

The only thing I want to say is of a general nature. I am rather horrified by the spirit that is behind these questions. It makes the impression

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that we are going to make a distinction here between the virtuous and the sinful, the virtuous being those who do not use the Fund and the sinful being those who use the Fund. The consequence will be that the virtuous will have more votes than the sinful. Mr. Chairman, I think that would be most unhappy if we couldn't get ourselves rid of that conception. It should not be considered a bad thing to use the Fund. If someone abuses the Fund, and let us assume if we start in this business that the greatest majority of us sitting around here will work this Fund in good faith. If we don't assume that, what is the good of starting a fund that is meant to be a fund of cooperation, but if somebody doesn't do that, there are various means for the Fund to intervene -- it can even take sanctions, it can take reports. In the exceptional case that somebody tries to make wrong use of the Fund, doesn't take the steps provided, there should be no distinction between Class 1, virtuous, who do not use the Fund, and Class 2, sinful, who do use the Fund. And apart from the fact we can't discuss the details of it, I want to warn all people here against such a conception as it would wreck the possibility of this Fund ever being useful at all.

Mr. Hexner: May I assume, Mr. Colbjornsen, that your objection is only against this exception of provision.

Mr. Colbjornsen: Yes. Two things: First of all, I don't agree that the direct objective of



the directors should vote by quota. Secondly, I am against the conception that you should pursue people who use the Fund.

Mr. Luxford: Mr. Chairman, I think that in many of these cases that we are going to run into in the Fund you are really running into a basic problem of, what kind of an animal is the Fund? And I don't know whether it is going to help any of us to talk morals about it. I think when you start gauging these matters as being "sinful" or perfect that it is not going to contribute too much to an evaluation of a concrete proposal. Although I can understand the analogy might perhaps clarify the issues in certain cases, I do not believe that it helps here. No one here is talking in terms of sin.

You have a question here, too, of an international body that has both political and economic phases. In other words, this whole document is an attempt to marry, to mingle, and to blend the political aspects of this agency with the practical business aspects of the agency, the economic aspects. Institutions in the past have been established on more or less completely commercial lines. Others have been established on completely political lines. This whole document is an attempt to blend those two concepts. Neither of them have been perfect. You are dealing with an international problem. The spirit of this document is to bring together political considerations and economic. If you will approach this paragraph in that frame of reference, as a question of being one of economic or business aspects of this problem, it is fairly easy to understand

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this particular provision.

Specifically, I think all had experience in the past that we have with credit institutions and the more that any business who borrows from a credit institution the more the credit institution wants to have a voice in what they are saying. Now, the analogy is by no means perfect. It is probably just as bad as the "sinful" analogy, but somewhere in between is the mean we are seeking here and the provision contemplated here is that as a country continues to make access to the Fund the Fund is interested in restoring and in bringing back the funds into the Fund so that it will be able to handle the next emergency. And this is just one of the ways in which you can say that the Fund as a whole is attempting to restore the liquid assets of the Fund so that it can meet the next emergency.

Mr. Baranski (Poland): May I ask whether you don't consider it as possible such example as I shall give you here? If my country uses 25 percent of the quota in the first year -- it may be also 30 millions of dollars -- then according to the formula Poland may lose completely their voting power in this question in the first year because that will be more than the voting power of Poland at all. I think that the idea to penalize the country which is using the Fund for the purposes approved and established in the Fund has no justification at all. But even in that time you might say that the penalization may be too big.

Mr. Luxford: Mr. Chairman, I would just as a point



of explanation say that if Poland were to use 25 percent of this quota during the first year -- is that your question? Did I understand it correctly?

Mr. Baranski: Yes.

Mr. Luxford: 25 percent of the quota. The reduction in its quota would only be  $12\frac{1}{2}$  percent of its votes. Let us take the extreme case. Suppose that Poland used 100 percent of its quota. In that case Poland would lose 50 percent of its votes and not 100 percent.

Mr. Bridgen: I regret to interrupt this <sup>interesting</sup>/discussion but I want to suggest that the Committee might deal with section 2 and the first of the part of the suggested part of section 3, Alternative A, and leave this other matter because it is quite definitely a separate principle. I would like to discuss section 2 and the Alternative B, which relates chiefly to section 2. We have nothing to do with sponsoring Alternative B but we prefer the text to the original section 2, and for this reason, that we feel that you cannot actually relate the distribution of voting power to the quotas at all closely in practice. We are departing from it already in this proposal that there shall be votes irrespective of the quota. If you recall, the difficulty about the three objectives or participation, first of all a criteria for contribution, a criteria for participation in the Fund and then a criteria for voting, you get an impossible combination so that you cannot use any formula probably for all countries for all three purposes. The capacity of a country to contribute to the Fund may be, and often is, very different from its needs of participation in the Fund.



We ~~have~~ in Australia feel we must have a large enough quota for participation. We will contribute what is necessary for that. But we feel that if we seek an adequate quota we do not at the same time want to lay claim for a proportionate amount of voting power, and it is for that reason that, while it may be proper to base voting power upon the quotas and to vary from that base as may seem sensible, I don't think that we can really in practice have ~~it~~ closely related to the quota. I do not wish to make any suggestion of my own. I support Alternative A and Alternative B in that connection and would suggest that we discuss that and then the first part of Alternative A, distinguishing that from this proposal that we have just been discussing for reasons of simplification.

Mr. Hexner: Mr. Chairman, may I indicate the points which are at issue perhaps in order to have an idea how to break down the discussion. I suppose that we may discuss and we best discuss Alternatives A and B together. The first question is whether the votes in the governing board, unless otherwise provided <sup>for</sup> -- I mean election of the executive -- unless otherwise provided for, whether they shall relate directly to quotas as in Alternative B or whether it should relate to quotas, in addition 250 votes. This is the first question.

The second question is whether there should be a change in voting power with reference to certain questions as provided for in points A and B. I would ask your consideration whether this point has so very much significance for those who propose it? I suppose there will be a group with very strong voting power which anyway could vote down



the creditor countries, but I don't want to go further into this question. It would perhaps be wise to consider whether it is really very significant, whether it is worth while to make it as a point of issue.

The third point, which is very important, is that "except as otherwise specifically provided for, the votes should be taken by a majority of the aggregate votes cast." Now, this can be understood only with reference to a certain quorum. There is ~~no~~ quorum in Alternative A -- at least, not in this point -- so we may take the quorum from B and this quorum provides for 2/3 of the total voting power.

The next point we could discuss is whether this 2/3 of the total voting power is an adequate quorum. However, I would call your attention to the fact that it would be good to consider what is going to happen if there is no quorum because there may be urgent matters which have to be decided, there is no quorum. So that there should be an answer given whether there should be a quorum which should decide with members present or whether that should be regarded as dropped. I suppose there is no doubt that this quorum probably doesn't relate to voting according to VII, 1, (d) -- that means when a vote is taken by cable. It means that in that case if there is no -- I don't know how the proponents meant this quorum problem. in the case of voting taken according to VII, 1, (d), by cable. It is an easy thing to answer in one way or the other. I suppose these are the issues which could be discussed.

Sir Wilfred: I think this committee owes a great debt to our Reporting Delegate for the way in which he regularly brings us back to what we really are talking



about. With the permission of the committee, I would like to comment on Alternative B. First of all, in the agreed statement of principles which was published it is clear it says the distribution of the voting power on the board shall be closely related to the quotas. And that is published as the first item of our agenda. Alternative B, I think, can be criticised as being a rather lazy alternative. It says the number of votes which each governor can cast shall be related to the quota of the member appointed governor. All that that has done at that stage is to make explicit that vote on the Board of Governors shall be related to quotas. But I am afraid it has not gone on and possibly it should have to discuss how to calculate the quotas' strength on the Board of Governors. It accepted the principle that voting on the Board of Governors should be by quota strength, but it did not go on to discuss how to calculate it. Now, the United States delegate, in explaining the first paragraph of Alternative A, said that it was an attempt to weigh two things, to put two things over, the calculation of voting strength, first, the universal equality of all member countries because they had become members and, secondly, in accordance with the principle that is in the agreed statement of principles weighting by additional votes related and in the first paragraph related very exactly to the quotas. I think that the quorum part of Alternative B I should like to get out of the way. I think the Reporting Delegate was right, it doesn't really arise now, and <sup>what</sup> the Alternative B was doing was make it plain that you did not require all the Board of Governors



to be present physically, or his alternative, in order to give a valid decision by the Board of Governors. You cannot contemplate that that will always be possible. But the articles must provide that there shall be a minimum number of governors or their alternates present in order that their decision shall have validity. All the second part of B was doing was to make a suggestion about the minimum voting strength represented on the Board of Governors, which would give validity to the decisions of the Board of Governors. It is quite true that it did not provide for the complications of what you would do with a quorum when you could cable to people. I am afraid we were thinking all the time about physical discussions around a table and not this helpful consequence of the enormous quantity of inventions by American inventors.

May I ask that this quorum question for the moment be outside of the discussion? What we are asked to consider and to discuss now is, do we agree with the statement of principles that voting on the board shall reflect fairly accurately what one might call the economic interest of the participating countries in their contribution to the Fund. I suggest that we must accept that principle. It seems the only possible one that will be a working principle.

The second question we are asked is when you are translating that is this combination of a unit value for all members as members plus a weighted addition equal to their contribution to the Fund. Is that a reasonable way of trying to link the political equality



of the members in the Fund to the inevitable economic differences in contribution they are able to make? Is 250 votes plus this additional vote for each hundred thousand dollars of the quota a reasonable way of doing it? I think it would help very much if we kept also quite separate the other part of Alternative A ~~kar~~ which the Delegate from the Netherlands has criticised because there is a certain corollary. It is a qualification of the first principle. But I venture to put to the Committee that what we are asked to decide is, do we accept the principle that on the Board of Governors voting power shall reflect the contribution that each country has made to the finances of the Fund. Secondly, is this a reasonable way of giving effect to that principle.

Mr. Baranski: I made really a mistake in my calculations, for which I apologize most humbly.

Mr. Hexner: I think that is the problem at issue, this 250 votes. There is no doubt that what the British Delegate explained corresponds verbally to the Joint Statement. I suppose everybody who read the statements -- it means the drafts as they followed each other, knows the story of these 250 votes. In the first draft they were 1,000 votes, or they were 100 related to 1,000,000 votes. So that in this relation there were 1,000 votes. Later on, they were boiled down to 500 votes. The idea is to give a certain voting power to small countries. I suppose from the point of view of justice it is very difficult to state something to the right or to the left. It is a problem of protecting small countries or, not protecting, that is nothing why they should be protected -- perhaps supporting small countries, something like that, these

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250 votes. The question is a question of substance, the question of volition, which can be argued with great difficulties.

*Durán Ballón*  
Mr. ~~Garín~~ (Ecuador): Mr. Chairman, I have no intention of appearing "virtuous" by what I am going to say. Although I realize that my primary duty is to defend the interest of the country which has honored me with its representation, I believe that I have -- and I hope that many feel as I do in that case -- an even higher duty, and that is to defend the Fund, to aim at making it a success because in that manner I am not only looking after the interest of Ecuador but of all the nations associated with it in the Fund; and, because of that, I believe we should keep the Fund sound and safeguard it against error or abuse. For that reason, I am wholly in sympathy with the necessity of preserving the principle appearing in the Joint Statement about relating the voting power to the quota.

Furthermore, since the second paragraph on page 26 relates only to Article III, as has been pointed out by one of the speakers, I believe the United States Delegation -- I do not take that as a punishment; I take that as one of those safeguarding measures to which I have referred. If a country is in the position shown in the position shown in Article III, paragraph (c), on page 6, that country's position has been weakened and it has a tendency to weaken the Fund if no measure is taken to correct that measure. To my mind, the second paragraph on page 26 decreasing the voting power of ~~a~~ countries in the Fund is such a corrective measure and as such I would be prepared to support it.

Sir Wilfred: May I ask the Chairman to give a



ruling? I am not sure we have disposed of the first paragraph. May I ask as a point of order that you rule as to whether we have disposed of it or that we will go on to the next? So that we will not lose ourselves again.

(No action taken.)

Mr. Hsi (China): On behalf of the Chinese Delegation, I beg to support the case made by the Ecuador Delegation. The Chinese Delegation considers it very important that voting power shall be closely related to the principle as agreed upon in the Joint Statement.

With regard to 250 votes as a basis, this I think is normal. What is important is the one for the several hundred thousand dollars. And, turning to the (A) and (B) under this Alternative A, the Chinese Delegation is prepared to agree in principle but would like to suggest that the \$200,000 for every vote shall be changed into \$2,000,000 in order to lighten the penalty.

Mr. <sup>S. Kaug</sup>Colbjornsen: I must admit, Mr. Chairman, that I am getting a little confused regarding what are the issues here. Now, we all seem to agree that the voting power can be related to the quotas and it seems to me the question before the Committee is, how and how strictly should they be related to the quotas. As I understand, Alternative B proposes voting power which is proportionate to the quotas while A inserts a 250 basic-unit vote. After what has been said from Ecuador and China, it may seem difficult to get up and defend Alternative A because I understand both Ecuador and China want Alternative B. I was a member of the Norwegian Delegation last summer which had the pleasure to discuss this problem with the Treasury representatives and I took part in the gradual decrease from 1,000 to 500, and some time it disappeared



altogether and now we have 250. Now, we don't want to give the impression that we are so terribly anxious to get voting power or all these sorts of things but we do feel that also from the small countries there are good people in these fields, people who understand things and might be able to make a contribution to discussions and to the decisions which are going to be made by the Fund, and for that reason, ~~whether~~ we think it is justified that we should have a basic vote -- I should not object to 500 but I am not going to raise that question, let the 250 which is proposed in the alternative. In behalf of the Norwegian Delegation, I should like very strongly to support Alternative A.

Mr. Monteros (Mexico): I want to point out to this committee that the Mexican Delegation is also strongly in favor of that first paragraph that is under discussion but I must point out that 250 vote has to be taken in relation to the total of votes. In other words, that I would suggest that the question of how many votes of a country should be postponed until, as the Delegate from Canada, proposed yesterday, we know the scheme, the total schedule, of votes. In other words, I favor the principle of assigning to each country as a member country a number of votes. How many votes, I would leave for discussion which will take place after we know that schedule.

Mr. Hexner: But, Mr. Chairman, may I suggest that we finish our discussion on the first part of this point by recording that there was a disagreement in the Committee whether voting in the Board of Governors should be related directly or rigidly to the quotas or whether a certain



amount of votes should be added to that vote.

Mr. Monteros: Mr. Chairman, a point of order. I would suggest that if we first decide whether this committee accepts the principle that each country should have a number of votes independent of its quota votes.

Mr. Hexner: Well, I suppose that the Committee isn't supposed to make majority voting. It means to outvote each other. We are going to put into the record there was a disagreement. It is obvious that the representative of the United Kingdom opposed the adding of a rigid number of votes to the quotas and this in itself is sufficient to register disagreement.

Sir Wilfred: Would it help if the United Kingdom withdrew Alternative B? It was never meant to suggest that the relation of the votes on the Board of Governors should be rigidly related to the quotas. We have no objection in principle to the suggestion in Alternative A and, in order to avoid any implication that there is disagreement on the principle that each country shall have a given number of votes as a country, we are content to withdraw Alternative B.

Mr. Hexner: Would the Delegate of Mexico oppose this number 250?

Mr. Monteros: I would not oppose it until we know the relation between 250 and the total aggregate quota votes.

Mr. Hexner: We could perhaps register the following decision, if you agree, gentlemen: That there is an agreement on the first paragraph of VII, 2, 3, according to Alternative A with the remark that the number 250 has to be reconsidered after knowing the quota participations.



Mr. Luxford: Mr. Chairman, I think it might be helpful if the Reporting Delegate could now summarize paragraph 2 and 3 for us, he has done so well on the first paragraph.

Mr. Hexner: I would not want to compete with Mr. Luxford. I suppose you did an excellent job on that.

Mr. Luxford: I only meant to summarize the sense of the matter. I think we have discussed, and I think in the same way that you have reported on 1 to us maybe you can tell us there seems to be disagreement on 2 and we can leave it at that.

Sir Wilfred: May I ask, first of all, I understood from the United States Delegate that this will be amended to read Article III,2,(d) and Article III,3. It is not the whole of Article III but Articles III,2,(d), which is giving notice of suspension and the waiver, and Article III,3 -- Article III,2 on looseleaf A of the folder.

The second question is rather more technical: What is the meaning to be attached to adjust the votes in the transactions in gold? There are one or two possible meanings and I would like to know what is involved in this. I don't know whether it would be convenient to the United States Delegate when he is replying, with your permission, if I also raised two other things which are not questions of interpretation.

The other is this: I would like to know whether more consideration will be given to the suggestion which was raised by the Delegate from China that halving the voting power of the countries in these circumstances may be an



unreasonably strict treatment of the situation. It appears to attach more significance to the restriction of voting than one would hope would apply to a situation arising under III,2,(d). It is certainly arising on the Waiver. But if the United States Delegation feels that something must be done to the country which is in credit to the Fund to weaken its voting position, whether it is not simpler and better to say that the country involved does not have a vote.

Mr. Luxford: On the answer to Sir Wilfred's first question, I think we are in agreement in principle with his proposal to spell out in Article III the specific provisions involved. The difficulty is that while it is very easy to say III,2,3 -- that is subdivision or section 3 -- declaring members ineligible to use the resources of the Fund and that can be done very simply. It is a little difficult to do that on section 2 where the only waiver provision is at the end of the section and does not have a letter after it. I think it is a drafting detail and in the next draft I hope the Secretariat would fix it up so that we can put it in there that way.

Now, as to what ~~adjusted votes~~ in net transactions in gold, I believe that that provision was intended to take care of the situation so that a country would not be getting votes simply because the gold in the Fund which had been part of its original contribution was being counted. I think that what that really means is that you would deduct the gold part of its quota in calculating the votes that it would gain. I believe the Canadians made that proposal some time and we accept it as being a reasonable interpretation of what we were driving at.



On the third question as to whether the figure of 200,000 is the right figure, I would only say that that is certainly something that the Committee should consider and that I do not believe it is something that anybody has any real fixed views on. It was put in there as being a simple way of throwing this matter open for discussion.

On the fourth proposal that a country involved does not have a right to vote, I would be a little concerned about that as being a fair alternative to what has been proposed here and I would be concerned from the point of view of the country involved. I do not think that because that country may be using the access to the Fund or using the Fund's resources that it should be denied its full vote. At the outside, the proposal that we have suggested would only deprive them of a little less than half of their vote. If they would use all of their quota they would still be entitled to half of their vote and I think it might be regarded as a little severe to deprive them of their whole vote. But that is a question for the whole committee to consider, but it does have the merit that Sir Wilfred has suggested, it is a little simpler; and to say whether that statement makes up for a possible hardship would be something for this group to determine.

Sir Wilfred: May I ask the Delegate from United States about the explanation for Article III on net transactions in gold. I think there is a need in final drafting for simplification. If the amount of currency exceeds 75 percent or 100 percent, then it has the meaning --

Mr. Luxford: I am agreed, fully.

Sir Wilfred: I am content that the last suggestion that the country should not vote should be left to the



Committee. I don't question that.

Mr. Hsi: The reason I mentioned 2,000,000 is because I thought that while the Chinese Delegation agrees that there shall be some penalty for a member country to draw on the Fund and, on the other hand, to give the equivalent number of votes to the creditor nation, I mentioned that in order to say that while we agree in principle that the penalty to the member country should be as light as possible, so instead of 50 percent I make it 5 percent.

Mr. Hexner: May I ask the Delegate of the United States whether in practice this provision may be in reality applied in the sense that it will really influence the voting. I don't want to go into the merits of the question, but I have the feeling that there will be a strong majority in the Fund who are going to defend certain interests. I don't think that this point is going in reality to influence one of the decisions of the executive committee or of the board. And it is a somewhat complicated provision. I suppose the intention is that the by-laws of the Fund -- we are discussing first the constitution of the Fund -- that this constitution should be rather simple. If there may not be expected that this is going to influence real situations in practice. I would like the United States Delegation to consider whether we shouldn't drop this provision from the by-laws.

Mr. Monteros: Mr. Chairman, Mexico has to voice, also, her strong approval of this principle. It may appear inconsistent with her normal position as a debtor



country, but has it not always been true that creditors have more to say about lending money than borrowers? Is it not obvious that when the Fund has lent more money to a single country that country should have less to say about how the Fund's resources will be used. To us, it is one of those principles which are basic in the constitution of this Fund. Not that it should be so. We question from a higher point of view this principle established in international finance but we take it as something fundamental that when we undersigned the Joint Statement we all thought that that was a basic principle, that the creditor nations should have proportionately more voting power than the debtor nations. The matter that my distinguished colleague from China has brought up to us, how to measure this difference in penalty, although it is a word I don't like to use, is to me more important than the matter of principle and, therefore, I would ask also whether there is general agreement in principle and not in quantity. Isn't that, after all, the general feeling of this meeting?

Mr. Sbarounis: I should like to add to the discussion that I do consider that this principle is in accordance with the aims of the Fund because the Fund aims to bring an aid to help the small countries that need the help of the Fund. So I don't see why they should be penalized when they use that facility that is afforded them. That is why in the name of the Greek Delegation I ask to be allowed to oppose that principle.

Mr. Blowers (Ethiopia): Mr. Chairman, the Ethiopian Delegation wishes to support this Alternative A. I think



we are all taking this entirely too personally. I don't believe it is aimed at any one country. As I understand the provision, it was put into safeguard against the possibility of a combination of debtor nations cornering the lending power of the Fund. I think it is a reasonable safeguard and one that we should keep in the proposal.

Mr. Fisher (New Zealand): There are just two points I want to make. It seems probable in practice, the adjustment of voting power in accordance with the proposals of the paragraphs here would be likely to be a very complicated matter, and it might turn on the chance whether a vote were taken one day or the following day whether the country had a certain voting power or not. Of course, it seems that these things will be decided by close votes, which, as the representative of the Netherlands has already suggested, would be pretty clear indication that the Fund was on the verge of foundering. But if the matters are not to be determined by very close votes, then it certainly doesn't seem to be worth while making the elaborate adjustments of what for the majority of countries here would be very small voting power in the Fund. In the case of New Zealand our voting power wouldn't be as much as 1 percent of the whole anyway, and it doesn't matter to us very much whether that is increased by 1,000 or diminished by 1,000. That won't affect anything of importance at all. But -- and this is my second point -- it may be a matter of very great importance if the provisions of these two subsections were applied in the case of one of the really big contributors to the Fund, which might very well, to use the inaccurate phrase, be in credit to the extent of increasing its



voting power by, as has been said, practically 50 percent. And that is a matter about which I think we might legitimately be a little concerned.

To take the extreme case, we don't know exactly what the figures will be but if we can take as an illustration the figures in the New York Times today the rather paradoxical situation might arise that just at the moment when the biggest contributor to the fund was on the verge of being declared a country whose currency was technically scarce from the point of view of the operations of the Fund ..... its voting powers for these purposes would be just a little bit less than 50 per cent of the total votes and it seems to me that an arrangement which would create a situation of that sort is not a very desirable one.

I would suggest quite provisionally as a possible compromise which would meet the arguments that have been put forward about not allowing people who are borrowing to have the same power to deal with the situation as the people who are lending, that we may delete (a) altogether and be satisfied with the diminution of the voting power by the net purchases from other countries.

Mr. Luxford: Just on the point of issue, the gentleman from New Zealand in understanding the provision, it was never contemplated that this vote provision in the second paragraph would have general application. It would by no means have any application on the question of whether a currency should be decided to be scarce. It would only have application in two narrow cases -- I mentioned that -- and I think Sir Wilfred's suggestion



of pinning it to those provisions would be most helpful in making it clear. It was not intended to apply to a vote as to whether currency of a country would be made scarce.

Mr. Fisher: I understand that perfectly. What I had in mind was when the Fund's supplies of the currencies of the larger contributors to the Fund were being reduced to zero at that moment for other purposes and the representative of the United States mentioned the voting power of that country would be at its maximum.

Mr. Luxford: That's right. It would be, approximately. I think you are using the United States as an illustration, and as I recall its then voting position might be ~~between~~ between 20 and 25 percent. Now, at the outside, this might increase it to about 35 percent, probably not quite that much.

The Chairman: I think the matter is already being clarified, but nevertheless we cannot decide at once. And so it seems we must proceed with the second part and carry on the discussion in the meeting this morning and we can come back and discuss and decide this question.

Mr. Machada: Mr. Chairman, in withdrawing Alternative B the gentlemen from the United Kingdom in order to help us came to an agreement on Alternative A. There is an important matter at the end of Alternative B that I think has no bearing on the subject, namely, establishing a quorum for a meeting of the board of directors. I think our Reporting Delegate raised that point. And I was wondering if we would like to register an agreement on



whether or not the quorum should be established.

Mr. Hexner: We are going to discuss that in a few minutes.

The Chairman: We must discuss this question, "that except as otherwise specifically provided all matters before the Fund shall be decided by a majority of the aggregate votes cast."

Mr. : Mr. Chairman, I am sorry to go back to paragraph (a) and (b) or, ~~ks~~ rather, the first part of Alternative A, but I would like to have some clarification on one point. I believe everyone here agrees on the principle that the distribution of voting power should be related to the quotas, and I can well see how the system of voting is going to function as far as the board of directors is concerned when every member country is reached. But the Joint Statement speaks also of the executive committee and I would like to have some explanation on how the system of voting is going to function for the executive committee because there we are going to have five members of the executive committee that will be appointed by the five largest contributing countries and ~~some~~ other members who will represent the other countries. Now, how are they going to calculate the voting power of those ~~xxxx~~ other members of the executive committee? That is a clarification that I would like.

The Chairman: At the beginning of the meeting I have already explained that all the questions in relation to executive committee will be discussed after, when we will receive the new statement being prepared by some groups. Th

And so we have this part. I think that Cuba wants



to discuss this. The exception is made at the end of section 7, "except as otherwise," and so we may discuss the problem of a quorum as it is proposed in the Alternative B, a quorum which must consist of not less than  $2/3$  of the total voting power. That is the question under discussion.

Sir Wilfred: I am grateful to the Delegate from Cuba for reminding me that I withdrew more than I intended to withdraw. I did not intend to withdraw this provision for a quorum. I venture, also, to suggest to our Reporting Delegate that we are ~~in~~ really not considering the question of how you get a decision from the board of directors, including cabling. We are considering now when there is a meeting of the Board of Governors what is the minimum number present who constitute a valid vote. That is all. And we have suggested here that a valid vote requires not less than  $2/3$  of the total voting power of the governors on the board.

Mr. Monteros: Mr. Chairman, I believe, sir, that this minimum quorum is really dangerous to the small countries. In other words, that a  $2/3$  quorum might be easily formed by the largest-quota members; therefore, it seems to me that  $2/3$  quorum is too low in this particular mechanism for validity, especially if regarding certain matters of concern and of great concern to all the countries. Therefore, I would suggest the division of the quorum. I would propose two different



kinds of a quorum should be had, some larger quorum for more important issues. that the board will decide and a small quorum for the less important issues.

Mr. Chairman, just as a suggestion, and the figures I am going to mention are not intended to be specific, perhaps a combination of a quorum of voting power and a quorum of member countries would do the trick, as they say. Perhaps if we had, and I repeat these figures, the  $2/3$  voting power and  $1/2$  of the member countries ~~andxanyx~~ or any other figures that might be agreed upon.

Mr. Luxford: Mr. Chairman, I would suggest that by all means we do need a quorum provision in this document. I think that the suggestions that have been made are very good, both by Mexico and by Ecuador, and I am quite certain something along that line should be worked out so that we will give due regard to both the number of countries and the quotas.

Mr. (United Kingdom): I would be prepared to accept an amendment in that sense in any form drafted by the Committee. I entirely agree in the suggestion of the Delegate.

Mr. Hsi: All that I want to say is to support the suggestion made by the Mexican Delegation. ~~Mayx~~

Mr. : May I suggest we have a small committee to draft that last sentence of Alternative B incorporating the suggestions that have been proposed here?

Mr. Hexner: Could we clarify the point made by Ecuador and Mexico? Would it be convenient to the Mexican Delegate if we should state a quorum of  $2/3$



with the minimum half of the member countries present. That would settle one part of the issue.

Now, the second point would be if no quorum is present and business should be performed would it be agreeable to state that the chairman/should call another meeting within the month at the latest and this meeting could decide without regard to a quorum present. Would this be an agreeable proposal?

Sir Wilfred: Is not that which happens automatically, that if there is not that quorum present no business can be transacted at that meeting, and that the executive committee has to set another meeting?

Mr. Hexner: What I assum, Mr. Chairman, is that to suppose such business has to be performed which cannot be delegated to the executive committee that just that happens, that in the second meeting again there is no quorum. Now, we could decide -- I admit that it is a possible solution --that we should state rigidly that if no quorum is present no business can be performed. It is an alternative, too.

The Chairman: I have understood the last part of Alternative B must be read like this, "<sup>A</sup>Quorum for the vote shall consist of not less than 2/3 of the total voting power of the governors and 1/2 of the countries." That, I think is the proposal of Mexico and of Ecuador. All the gentlemen who are agreed to such a proposition say "Aye."

Vote: Aye.

The Chairman: App~~r~~roved.

I was so happy because we ha approved something.

Mr. Hexner: I assume that the agreement of the



Committee is that there should be a quorum always present, 2/3 and half of the members.

Mr. Monteros: That is right.

Mr. Hexner: That if there is no such present there cannot be a decision made.

The Chairman: All right. Tomorrow at ten O'clock.

Mr. Machado; Before we adjourn, I would like with your permission to present -- I have given it to the Secretariat -- Alternative C/<sup>as</sup>to the organization of the executive committee and I would like your permission to hand it to my colleagues, the delegates from various countries here pending their receipt of formal mimeographed copies, so that they may ~~not~~ study it and be ready for discussion .

The Chairman: All right.

The meeting is adjourned.