



BOARD OF GOVERNORS  
OF THE  
FEDERAL RESERVE SYSTEM  
WASHINGTON, D. C. 20561

May 21, 1974

CONFIDENTIAL (FR)

TO: Federal Open Market Committee

FROM: Arthur L. Broida

Attached is a report from Governor Wallich summarizing developments at the May meeting of the C-20 Deputies.

Attachment

Henry C. Wallich  
May 21, 1974

Report on the May 7-10, 1974, meeting of  
the CXX Deputies in Paris

At their Paris meeting May 7-10 the Deputies of the Committee of Twenty (the committee established by the IMF to reform the international monetary system) narrowed down some of the issues to be settled at the final meeting of the principals of the Committee in Washington June 11-13. The final document will consist, in all probability, of: (1) "immediate steps" to be taken pending implementation of a long-run reform, of which some might be embodied in IMF amendments requiring action by national legislatures; (2) the broad principles of the long-run reform, hopefully to be endorsed by the Committee as a whole although embodying the record of substantial disagreements and in effect to be put on the shelf; (3) a set of annexes backed only by the "Bureau," spelling out the areas of agreement and disagreement and suggesting alternative solutions.

The "immediate steps" would have to be regarded as the main outcome of the CXX exercise. Their embodiment in IMF amendments, to the extent that it materializes, could be regarded as a significant gesture of national endorsement. The principal "immediate steps" are outlined in this note.

Immediate Steps

A. The high-level Council/Committee. The IMF Executive Directors on May 24 will consider a draft resolution establishing an Interim Committee of the Board of Governors. The Committee could

be converted into a permanent Council by means of an amendment, which would probably closely follow the pattern of the Interim Committee.

The main points to be settled are:

1. The United States has sought to restrict the attendance in the Committee/Council to not more than three persons per IMF Board constituency. Most of the other Deputies argued that attendance should be at least as broad as in the present Committee of Twenty -- 9 or 10 persons per constituency.

2. There was also considerable dispute concerning the Committee's/Council's terms of reference. Some Deputies argued that these terms of reference should be precisely defined and sharply restricted. The United States has advocated broad terms of reference.

B. Floating

1. The Deputies reviewed the IMF Executive Board's consideration of guidelines for floating. (The Executive Board continues to discuss this issue.) The major questions are the following:

- a. To what extent, if any, should the Fund have the right to call upon member countries to resist the appreciation or depreciation of their currencies? If the Fund were to be granted the right to take such initiatives, to what extent would it be required to take into account a country's domestic policy objectives?

- b. To what extent should a country's reserve objective be accepted in overriding the Fund's notion of its appropriate exchange-rate objective?

2. On the proposal for an amendment to the IMF Articles to legalize floating, there was considerable opposition. It is likely that such opposition would remain even if the amendment were to cover only an interim period prior to the full reform of the international monetary system. Legalization of floating is of particular interest to the United States, because without it a country that for reasons of domestic policy or for lack of reserves is unable to establish a fixed rate could be penalized by the Fund.

C. Current account restrictions

1. There was some support for a pledge by countries not to impose current account restrictions for balance-of-payments purposes during a specified period without the approval of the IMF. But there was concern expressed over impinging on the role of GATT. Many representatives from developing countries also stated an unwillingness to be covered by such a pledge -- under present GATT arrangements they receive special treatment.

2. There was even less support for a permanent amendment to the IMF Articles on the same subject.

D. Gold

1. Efforts were made to water down the text concerning gold in the present draft of the "interim steps" which now reads "arrangements for gold will be internationally agreed in the Fund in the light of the objective that the SDR should become the principal reserve asset of the reformed system." The objective of these efforts apparently

was to make the statement more consistent with possible unilateral steps on gold by individual countries or groups of countries. These efforts did not meet with success, but may be repeated at the next meeting.

2. Various technical provisions concerning gold were discussed that would lend themselves to embodiment in an amendment.

3. The Italian representative proposed an amendment that would empower the Fund to issue SDR's in exchange for gold or foreign exchange. After brief discussion, this was left for further consideration by the IMF Executive Board.

E. Special interests of the developing countries

1. The representatives of the developing countries continued to plead for a link. Their principal spokesman continued to declare that the LDC will not approve any package of amendments that does not include the establishment of a link. The U.S. is the principal forceful opponent of the link.

2. The Deputies moved closer to an endorsement of the establishment by the Fund of an "Extended Fund Facility," i.e., a longer term loan window; such a facility would not require an amendment to the IMF Articles.

3. The CXX Report will call for the establishment of a joint Fund/Bank study which is "to carry forward the study of the broad question of the transfer of real resources to developing

countries .... and to recommend measures to be adopted in order to implement its conclusions." The G-24 countries (representing the LDC's) made specific, elaborate proposals concerning the structure of such a study group.

F. Adjustment

Surveillance of the adjustment process during the interim period, including the experimental use of reserve indicators, will be endorsed. There was, however, some resistance to the endorsement of reserve indicators in whatever form.

G. Only quite general language covering the surveillance of international liquidity and official currency holdings will be employed, covering a lack of more detailed agreement.

H. The SDR

1. There was little further discussion of the basket valuation of the SDR. This matter can be settled by the Executive Board of the IMF. The U.S. has argued for treating the initial decision as provisional only.

2. The interest rate on the SDR was not discussed.

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Very few of the finance ministers of the leading countries who initiated the CXX discussion will be present at the final meeting. There will have been changes in the U.S., Germany, France, U.K., Japan, Italy, and elsewhere. This reduced identification with the CXX exercise leaves little prospect for broadening the areas of agreement at the final meeting.