REPORT OF THE DISCUSSION GROUPS[1]

Presented by
Mr. Camille Gutt

CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Mr. Chairman and Gentlemen, this year the Governors began what I believe is a practice of considerable promise. They came together in informal discussion groups to exchange views on the subjects which are of importance to them and to the Fund. This, I believe, carries forward the first purpose assigned to the Fund — "To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems."

Under this year's procedural provisions I was asked to Chair the discussion meetings and to make an oral report to the Board of Governors. These meetings were confidential in order to encourage free participation by the Governors. Accordingly, my report will be general and brief.

Discussion Group One was assigned the topic of Exchange and Monetary Policy, based on Chapters I and II of the Fourth Annual Report. These Chapters carried carefully worded — but nevertheless, I think, fairly clear — indications of the Executive Board's thinking on important and timely problems. I am pleased to say that, with one possible exception, the Governors who spoke complimented the presentation in the Report and did not take exception to the general analysis set forth there. They only raised questions on the emphasis given to particular points.

Some Governors felt there was possibly not enough emphasis in the Report on encouraging a resumption of the traditional triangular

[1] The oral report of the Managing Director on the deliberations of the Discussion Groups was presented to the Board of Governors (Session No. 4, September 16, 1949) in accordance with provisions laid down by the Procedures Committee (Procedures Committee Report No. 1, Annex V).

trade pattern from Europe through Far Eastern markets to the Western Hemisphere. They believed that if production in the Far East could be helped to a rapid recovery, the dollar payments problem of European countries could be considerably relieved.

The reply was that the Executive Board would undoubtedly subscribe fully to this view. However, the magnitude of Europe's dollar deficit was so great that even with a considerable improvement in the triangular trade, there would still be a great need for increased direct exports to the Western Hemisphere.

The exceptional view mentioned above was that the report laid too much stress on exchange adjustment as a method for coping with the dollar payments problem, and that other measures, such as the encouragement of trade between particular regions, should receive more attention. The reply again was that although this and other measures could play a part the size of the dollar payments problem for many countries was so large that it could not be overcome unless disparities in costs and prices were eliminated.

Another comment, arising particularly out of Chapter II, raised the question of what consequences could be expected if the difficult steps to achieve a tolerable balance in international payments were not taken or were taken too slowly. The implications for the possibility of maintaining an orderly pattern of cross rates for currencies was noted. The belief was expressed that the problem was more than an academic one and should continue to receive the active study of the Executive Directors.

Discussion Group Two dealt with the topic of Exchange Restrictions and Monetary Reserves, based on Chapters I, III, and V of the Fourth Annual Report. Again in this group the Governors generally appeared to accept the basic analysis of the Report, but suggested possible differences of emphasis. One trend of thought was that an early relaxation of exchange restrictions could not be expected, not only because of the difficult payments problem but also because of the low reserves of most countries. On the other

hand, it was observed that the improvement over the last few years in the underlying economic situation, though inadequate, provided an environment — especially as prices and costs were brought in line — not for full convertibility but for progress toward convertibility. Indeed, it was noted some real progress had been made — a kind of background progress in the direction of making it possible to take explicit steps in the exchange field. Happily, I believe the Report itself is a balanced document and takes account of these two lines of thought.

The discussion also took account of a number of other important factors, including the relationship of the flow of private capital to exchange restrictions, the problem of public and international confidence in currency values, and the relationship of monetary reserves to the attainment of convertibility. In response to another line of questioning, it was pointed out that the Fourth Annual Report and previous annual reports of the Fund have recognized the difficulties involved in attaining significant relaxation of exchange restrictions, unless at the same time there is a strengthening of the balance of payments position of the countries imposing such restrictions.

In summary I am glad to report that despite some differences of emphasis there was a substantial amount of agreement with these parts of the Annual Report.

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