Views and Comments

At a Program Meeting on International Economic Affairs held by the U.S. National Association of Manufacturers on October 11, 1965, Mr. Frank A. Southard, Jr., Deputy Managing Director of the International Monetary Fund, summarized proposals now being discussed for the future management of international liquidity. The following is an extract from his speech.

"THE VARIOUS PROPOSALS to expand or modify the arrangements to add to or subtract from international liquidity are so numerous that it is difficult to summarize them. . . . I shall confine myself to mentioning briefly the range of practical possibilities which may be canvassed during the next year.

"Within the IMF I see three main possibilities:

"(a) The first possibility is to liberalize our present proposals which govern the use of Fund resources. We divide a country's quota into five quarters or tranches, the first being the so-called gold tranche which is available virtually automatically, and the other four being credit tranches. These latter are available on condition that the country meets Fund requirements which are aimed principally at assuring that the country will take appropriate action to achieve balance in its international payments. As one ascends from the first to the fourth of the credit tranches, access to them becomes more difficult. The first credit tranche is available fairly readily. The upper tranches are available only after very careful examination of situations and, usually, on the basis of very clear-cut plans of action. When one comes to the upper limit, the so-called "200 per cent line" at which a member will have drawn currencies equivalent to 125 per cent of quota, the Fund has authority to allow additional drawings but has thus far done so only if a portion of the earlier drawings was made under the Fund's compensatory financing facility. The Fund could liberalize its policy in two respects. It could increase the area of automaticity and it could correspondingly thrust up above the 200 per cent line the normal availability of conditional drawings.

"(b) The second possibility is to revise and expand the Fund's compensatory financing facility. The phrase "compensatory financing" has come to be applied to financial assistance to less developed countries to enable them to meet shortfalls in export earnings. Early in 1963, following considerable discussion outside the Fund in the United Nations and the OAS and elsewhere, the Fund devised and put into operation a facility by which countries could expect to draw an amount equal to 25 per cent of quota to meet shortfalls of export earnings. The shortfalls were to be temporary and not due to the fault of the exporting country. In order to assure countries that this facility was additional, the Fund made clear that other drawing rights would not be reduced by virtue of any compensatory drawing. . . . The Fund could expand and modify its compensatory facility. This could be done, for example, by increasing the number of tranches available, by giving stronger reassurance that these tranches would be "floating" as compared with the availability of regular tranches, by giving assurance that countries suffering from shortfalls through several years in succession could obtain assistance, and, finally, by liberalizing the statistical determination as to whether a shortfall exists.

"(c) The Fund could create new assets and new liabilities. . . . In general, the liabilities could arise from borrowing from members or from deposits of their currencies. The corresponding assets could be used in various ways, including investment by the Fund in countries under certain conditions.

Composite Reserve Units

"There is another group of possibilities which are being and will continue to be seriously discussed. These are composite reserve units or CRU's. Schematically, three possibilities may be laid out.

"(a) There could be a CRU system set up outside of the IMF, limited to countries now in the Group of Ten plus, conceivably, two or three other industrial countries, and rigidly tied to gold both as to issuance and as to utilization. That is, CRU's would be created in relation to the gold holdings of the participants and would be used in ratio to gold utilization in making settlements. A CRU of the restricted nature probably comes closest to reflecting official French thinking.

"(b) There could be a CRU system, also outside of the Fund, tied to gold and foreign exchange. Or this could be modified further by breaking the link to gold and foreign exchange either on creation or on utilization.

"(c) There could be a CRU or, more broadly, a reserve asset created within the IMF. Any of the above-mentioned types of CRU's could be turned over to the IMF for administration. But there could also be a CRU in the IMF to which any Fund member, or a wide group of Fund members, could be admitted which met certain tests, such as currency convertibility. Mr. Robert Roosa, in his recent book entitled *Monetary Reform for the World Economy*, has outlined this kind of arrangement. . . .

"I believe that everything in the liquidity field which would need to be done could be done within the IMF. The IMF resources, facilities, and procedures are flexible and are capable of wide evolution—with or without amending the Articles of Agreement. I also believe that the Fund, as a worldwide institution serving industrial and less developed countries alike, is the best vehicle for developing whatever additional means of creating liquidity which may be needed."