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Summary of Remarks
by
J. Dewey Daane, Member
Board of Governors of the Federal Reserve System
at the
Luncheon Meeting
of the
Richmond Export-Import Club

The Jefferson Hotel

Richmond, Virginia

As I view the Annual Bank-Fund meetings held this year in Tokyo, in the very short time there has been for any real perspective on them, it seems to me that there were three main threads or themes running through the conference, apart from the question of increased capital for the less developed countries.

1) Increased international cooperation,

2) Increased flexibility of monetary institutions and arrangements,

3) Increased resources of the International Monetary Fund.

Prime Minister Ikeda of Japan sounded the keynote of increased international cooperation in his opening speech at the Annual Meetings, stressing "the fact that international financial cooperation has grown in substance and strength from year to year."

There is ample evidence of the increased international cooperation that we in the United States, along with our European colleagues, have been experiencing, and benefiting from, during the past several years. In monthly meetings in Paris of financial officials of a number of the OECD countries I have seen at first hand the development of a mutual understanding of the complex problems facing each of the participating countries, an understanding that has provided a broader base for cooperative effort. It would not be difficult to cite tangible results. A good example is found in the agreement incorporated in the General

Arrangements to Borrow, which provides a sizeable addition to the resources of the International Monetary Fund designed to cope with any threatened impairment of the functioning of the international monetary system. Another case in point is the ad hoc, Basle type, arrangements providing assistance bilaterally to countries experiencing temporary swings in their balance of payments positions. Our own network of Federal Reserve swap and stand-by swap arrangements, now totaling over $2 billion, is a further illustration of how we have benefited along with the other countries involved in the cooperative process of constructing this outer periphery of defenses for the dollar--defenses which also include the so-called "Roosa bonds," providing another medium for the investment of dollars acquired by surplus countries during a period of U. S. balance of payments deficits.

I speak with conviction on this matter of international cooperation because I believe that the very process of continuous confrontation is one of the most useful and constructive recent achievements in the international monetary area. Simply to be able to sit down and talk directly and candidly with our financial official counterparts in the other leading countries is in itself, in my judgment, a great gain.

As to the second main theme of the Annual Meetings, that of increased flexibility of international monetary institutions and arrangements, this again was highlighted by Governor Aquino in his opening remarks as Chairman of the Boards of Governors of the several institutions, when he stressed that the Bretton Woods founders had provided the Bank and Fund institutions with "not only a strong structural organization but also the necessary elasticity and flexibility to meet the changing economic problems of a changing world." Significantly, he then went on to point out:

> "I doubt that any one at Bretton Woods would have predicted that in 1964 each institution would have 102 member countries, or that we would meet here today as the Governors of not two, but four, great financial institutions. But these two facts testify how greatly the world has changed and how our institutions have had the flexibility to change with it."

The focal point of this year's Bank and Fund Meetings, however, was the implementation of, and implications of, the key recommendation of the Group of Ten report issued August 10, 1964, calling for a moderate over-all general increase in Fund quotas, plus selective increases for those countries whose quotas are clearly out of line. There was universal support for a general increase in quotas with some expression of view that it should be limited to 25 per cent and others obviously feeling a larger percentage would be more acceptable. The general move toward a quota increase began with a clear call by Managing Director Schweitzer for an increase, followed by Secretary Dillon's supporting statement, the latter by agreement intended to be a statement of basic position which would prepare the way for action in the Fund next year. The call for quota increases met with support from many of the Governors in their prepared statements, and culminated in the adoption by the Fund Governors of a draft resolution to the effect

> "That the Executive Directors proceed to consider the question of adjusting the quotas of members of the Fund and at an early date submit an appropriate proposal to the Board of Governors."

The other principal conclusions and recommendations of the Group of Ten report were also the target of many of the addresses and much of the discussion at the Tokyo Bank-Fund meetings.

As to the conclusions, both Deputies and Ministers concluded that the present international currency system was functioning well, and reaffirmed that its underpinnings, in terms of fixed exchange rates and the established price of gold, had proven their continuing value as a foundation of the international monetary system. They also concluded that liquidity was fully adequate for the present, so that the problem of liquidity was a future problem, not a present problem.

The Group of Ten recommendations were fourfold. First, they recognized that any step taken by one country to correct its payments deficit or surplus is a matter of interest to other countries, and also affects the aggregate international demand for liquidity. Accordingly, they recommended that Working Party 3 undertake a study of the adjustment process of correcting such imbalances.

Second, both the Deputies and the Ministers called for "multilateral surveillance of bilateral financing and liquidity creation." As Chancellor Maudling pointed out at the Bank-Fund Meetings the week before last, this is "intended to represent a step forward along the road of increasing consultation and co-operation in monetary and economic affairs which we have been following ever since the end of the war."

The third major recommendation of the Group of Ten study was the formation of a so-called "Study Group on Creation of Reserve Assets." This group is scheduled to examine various proposals regarding the creation of reserve assets either through the IMF or otherwise.

Finally, as indicated previously, the Report called for a moderate, general increase in Fund quotas, supplemented by selective increases for those countries whose quotas were clearly out of line.

The other item of interest in the meetings and corridor conversations was, of course, the statement by French Finance Minister d'Estaing which sketched out some of the French differences of view regarding the future course of the payments system. In essence, d'Estaing argued against the provision of liquidity via reserve currencies or additional "conditional liquidity" and called for the construction of a new collective reserve unit, rigidly tied to gold.

The United States' position with respect to the French proposal was clearly outlined by Secretary Dillon. Basically, he stated the following four objections:

1) The United States believes in a "multilateral framework" for handling problems of world liquidity, whereas the French arrangement would be confined to a small group of countries, possibly ten or less.

2) The French proposal, with a fixed link to gold, would be restrictive, and perhaps even contractive in the first instance, rather than flexibly adaptable to meet expanding needs.

3) The French diagnosis as to what is, or is not, wrong with the present system is incorrect. Specifically, Secretary Dillon refused to accept the French view that the United States is to blame for the inflationary problems in Europe, noting that the European countries could readily solve this problem by a change in their restrictive trade policies, and a more liberal attitude toward the exporting of capital.

4) The United States believes in building on, rather than discarding, the present system and this, too, was stressed by Chancellor Maudling in his prepared remarks at the Fund meetings.

Clearly the subject of international liquidity will continue to receive much attention and study both in and outside the international monetary organizations. From these studies and the cooperative efforts among the countries involved I can only conclude, as did the Managing Director of the Fund, that "the international monetary system will emerge strengthened and even better equipped to serve the interests of the community of nations."