

THE PROBLEM OF INTERNATIONAL LIQUIDITY FOR DEVELOPING COUNTRIES, ESPECIALLY INDIA

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Summary

International liquidity may, for purposes of analysis, be classified as (a) Primary, (b) Subsidiary, and (c) *Ad hoc*. In estimating the total quantum of international liquidity particularly from the viewpoint of developing countries, we exclude *ad hoc* liquidity. The major supply of international liquidity is concentrated in the hands of industrial countries; while the major demand for international liquidity arises from developing countries which fall under Article XIV of the I. M. F. The problem of international liquidity, therefore, exists essentially for the developing countries only. This paper suggests policy guidelines to get over the problem.

I. Constituents of International Liquidity

International liquidity, in other words international purchasing power, is made up of the several media of making international payments. For purposes of enumeration, these media can be classified under three heads: Primary, Subsidiary, and *Ad hoc*.

1. Primary Liquidity: From the viewpoint of a country, the primary media of international liquidity are gold and those foreign currencies which are universally acceptable in settlement of international transactions, that is, those foreign currencies which are freely convertible.¹ As a convention, however, only two foreign currencies, namely the U. S. dollar and the pound sterling, are considered as international reserve currencies. Thus, the stock of gold and the accumulated resources of U. S. dollars and pound sterling possessed by the monetary authorities of a country are known as that particular country's primary reserves of international liquidity. Adding up the country-wide data on official holdings of gold and foreign currencies, we estimate the aggregate quantum of primary international liquidity in the world.

2. Subsidiary Liquidity: Subsidiary resources of international liquidity are

¹ According to the I. M. F., *Articles of Agreement*, a member's currency becomes a convertible currency when the member has accepted all the obligations of Article VIII, Sections 2, 3, and 4 which means, among other things, that the member will not impose restrictions on current payments and transfers without the approval of the Fund. Member-countries whose currencies have attained convertibility as defined here are known as Article VIII members of the I. M. F.

provided by the International Monetary Fund to its member-countries for purposes of meeting current balance of payments difficulties. As a rule, a member-country's access to international liquidity through the Fund falls into two parts: the gold tranche and the credit tranches.¹ The gold tranche is equivalent to a member's gold subscription to the I.M.F.; normally this is 25% of the quota, the remaining 75% or more being in local currency.² A credit tranche is equal to 25% of a member's quota, which is the same size as its total subscription. The total of international liquidity that a member-country may obtain on credit from the I.M.F. is equivalent to its subscription-quota. Unless a 'waiver' is granted, the Fund permits access to one credit tranche only during a year. Moreover, the credit facility may be permitted under a "Standby Arrangement" so that no questions are asked at the time of use of the credit line. A country's resources of subsidiary international liquidity, then, are represented by its unused drawing rights from the I.M.F. Adding up the unused drawing rights of I.M.F. countries, we estimate the aggregate quantum of subsidiary international liquidity in the world.

These are the general policies of I.M.F. with regard to the provision of subsidiary resources of international liquidity to its member-countries. Since February, 1963 there has been an innovation in the Fund financing rules: that of compensatory finance for export price fluctuations in respect of member-countries exporting primary products.³ As per rules now, the I.M.F. may provide international liquidity on credit to primary exporting countries, over and above the normal financing as stated in the preceding paragraph, if their payments difficulties are a result of sharp but temporary shortfalls in export earnings. The extent of this Fund assistance is limited to 25% of the member's quota. As a consequence, the subsidiary resources of international liquidity available on credit to a primary exporting member of the I.M.F. are equivalent to 125% of the quota.

3. *Ad Hoc* Liquidity: Thirdly, there has been since 1961 the *ad hoc* supply of international liquidity through currency arrangements arrived at bilaterally or regionally, and catering to the financial needs only of the participating countries in need of liquidity. Such a provision of international liquidity is meant to absorb the currency strains of nearly a dozen countries who, having virtually fulfilled the Article VIII obligations of the I.M.F., have liberalized the international transfer of capital funds so as to achieve what has been

¹ *Tranche* simply means a slice.

² Originally a member-country's gold subscription was fixed at either 25% of the quota or 10% of its net official holdings of gold and U. S. dollars on 12 September, 1946 whichever is less. India, for instance, paid \$27.5 million in gold and U.S. dollars out of its initial subscription of \$400 million. For the 1959 quota increase it was laid down that 25% of the increase in subscription must in all cases be paid in gold. As a result, India paid \$50 million in gold, thereby bringing its total gold tranche to \$77.5 million, local currency contribution being \$522.5 million.

³ For details, see I.M.F., *Annual Report, 1963*, pp. 77-79 and 196-199.

described as 'extended convertibility.' These countries comprise the I. M. F. group of ten industrial countries—the members of so-called Paris Clum—namely: Belgium, Canada, France, Western Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom, and the United States *plus* Switzerland.¹ Of these, the United Kingdom and the United States have particular problems as guardians of the two reserve currencies which are peculiarly exposed to speculative attack.

II. *Quantum of International Liquidity*

To estimate the quantum of international liquidity, it would not be very relevant to include the *ad hoc* resources, particularly if one is interested in the international liquidity problem of Article XIV countries most of which are also the so-called developing countries.² For, the essence of *ad hoc* liquidity resources is that these are available to only those Article VIII countries whose currencies are susceptible to speculative transfer of funds; and the arrangements governing them are an outcome of the various first-aid devices that have cropped up on a regional basis since 1961 under stress of sudden and massive capital flight. Moreover, the *ad hoc* resources are supplementary resources, as the second line of defence, in the event of currency weakness as a result of short-term capital outflows, while the "basic" differences in balances of payments are taken care of, by and large, through normal resources of international liquidity, namely, the primary resources and, if necessary, through the subsidiary resources as discussed above. Again, the international currency arrangements providing for *ad hoc* liquidity are extremely flexible inasmuch as the quantum of liquidity available under these can be augmented at short notice to suit changed circumstances. In short, currency co-operation amongst the rich industrial nations has become the keynote of foreign exchange stability under the present-day international gold standard.³ The Table below, therefore, does not cover the *ad hoc* resources of international liquidity.

The total quantum of international liquidity, both primary and subsidiary (in other words the *real* resources and the *credit* resources of international liquidity) are presented above as a time series for 1954–1963. The qualitative question of whether the supply of international resources is adequate or not can be examined more fruitfully for one part of the world *vis-à-vis* the rest of it than for the world as a whole.⁴ Here we view the problem of inter-

¹ Switzerland, not being a member of the I. M. F., participates in this arrangement under a special agreement with the Fund; see *International Financial News Survey*, Vol. XV, No. 12 (29 March, 1963), p. 89.

² For the classification of I. M. F. members into Article VIII and Article XIV countries, see author's "To Amend the I. M. F.," *The Bankers' Magazine*, London, November, 1963, pp. 312–316. Of the 77 Article XIV countries of the I. M. F., the following ones are *not* classified as developing countries: Denmark, Spain, Yugoslavia, Australia, New Zealand, and South Africa.

³ Cf. author's "Working of the Present-Day International Gold Standard," *The Bankers' Magazine*, London, November, 1962, pp. 334–335.

TIME SERIES SHOWING PERCENTAGE DISTRIBUTION OF PRIMARY
AND SUBSIDIARY RESOURCES OF INTERNATIONAL LIQUIDITY AS
BETWEEN ARTICLE VIII AND ARTICLE XIV COUNTRIES¹⁾ 1954-1963

(End of Period : billion U. S. Dollars)

	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963
Primary (Real) Resources										
<i>Gold</i>										
(a) Article VIII countries*	30.9	31.3	31.8	33.2	34.0	33.9	34.1	34.6	34.7	35.4 (p)
(b) All countries	35.0	35.4	36.1	37.3	38.0	37.9	38.0	38.9	39.2	40.2 (e)
(c) Percentage (a) to (b)	88.3	88.3	88.2	89.1	89.3	89.5	89.7	89.1	88.4	88.0
<i>Foreign Exchange</i>										
(a) Article VIII countries*	7.4	7.9	8.4	8.0	8.9	8.0	10.5	11.1	11.5	12.6 (p)
(b) All countries	18.2	18.7	19.7	18.9	19.2	19.1	21.5	22.1	23.0	24.8 (s)
(c) Percentage (a) to (b)	40.8	42.3	42.7	42.2	46.4	41.6	48.8	50.3	50.2	50.0
<i>Total-Primary</i>										
(a) Article VIII countries*	38.3	39.2	40.2	41.2	42.9	41.9	44.6	45.7	46.2	48.0 (p)
(b) All countries	53.2	54.1	55.8	56.2	57.3	57.0	59.5	61.0	62.2	57.0 (e)
(c) Percentage (a) to (b)	72.0	72.4	72.1	73.3	74.9	73.5	74.9	75.0	74.3	73.8
Subsidiary (Credit) Resources										
(I. M. F. total tranche position) ²⁾										
(a) Article VIII countries	8.1	8.1	8.1	8.0	8.2	13.3	13.6	13.7	13.6	13.9
(b) All countries	9.7	9.8	9.8	9.5	9.6	16.1	17.2	17.0	17.2	17.4
(c) Percentage (a) to (b)	83.2	82.7	83.0	84.3	85.2	82.4	78.9	80.8	79.4	79.6

Notes: 1 Absolute figures for Article XIV countries may be arrived at by subtracting (a) from (b), and their percentage share by deducting Row (c) figures from 100.

* Including Japan and Switzerland. Prior to 1961, the United States did not hold foreign exchange as part of its international reserves.

2 Out of the total subscription-quotas amounting to \$15.6 billion in the I.M.F., the share of Article VIII countries stands at \$10.5 billion namely 67.3%, the remaining 32.7% belonging to Article XIV countries.

p=Provisional e=Estimated s=September

Calculated from *International Financial Statistics*.

national liquidity from the standpoint of developing countries which, approximately, are coextensive with Article XIV countries. The Table also shows, in percentage, the proportion of world reserves belonging to Article VIII countries, the remainder being that of Article XIV countries. To view the problem of international liquidity in proper perspective from the considerations of Article XIV countries, it is essential to elucidate the concept of international liquidity in the context of economic development.

Since "balancing" is the only function of international liquidity, the volume of world trade and payments can expand without requiring a *pari passu* increase in the quantum of international liquidity. The conventional practice of indicating the state of international liquidity by an aggregate

⁴ "World" here refers to the so-called *free* world. The phrase 'international reserves' denotes both the primary and subsidiary resources of international liquidity.

figure for the entire world is of little help in grasping the problem; more so are the attempts to relate yearly changes in this figure to yearly changes in world trade. To discuss the problem of international liquidity as a relationship between the quantum of world liquidity and the volume of world foreign trade is inconclusive; for, then, the post-Second World War feature of expanding world foreign trade while the resources of international liquidity grew only moderately in comparison, would look intriguing. It is relevant, therefore, to relate international liquidity rather to the balance-of-payments differences. At best, one may test the adequacy of international liquidity for a country or a group of countries over time by relating the reserves position to the amplitude and duration of fluctuations in their international balances of payments.

Studied in this light, the problem of international liquidity is only a symptom of chronic disequilibria in the basic international payments; in other words, of the resultant maldistribution of existing resources of international liquidity. The present-day problem of international liquidity, therefore, is a qualitative one: this is the result of balance-of-payments differences as between the developing countries and the developed countries, that is, between the poor primary producer countries and the rich industrial countries; in other words, between Article XIV and Article VIII countries of the I. M. F. The provision of additional resources of international liquidity for developing countries would mean only a short-term remedy; the final and the real solution of the problem is to remove the payments imbalance between the two sub-worlds.

III. Inadequacy of International Liquidity

1. Developed Countries: In order to judge if the primary and subsidiary resources of international liquidity are adequate to meet the demands as indicated above, one must view the problem separately in respect of Article VIII and Article XIV countries. If the demand for international liquidity in the case of Article VIII countries is to be taken to arise solely from basic balance of payments deficits, one is led to conclude on the basis of their reserve position that their primary reserves by themselves are more than "adequate," by and large, to meet their international liquidity requirements, so that the problem of international liquidity in respect of Article VIII countries simply does not exist. All the same, the support of subsidiary resources of international liquidity is available to them in case their basic balance of payments were to reveal temporary deficits while observing the I. M. F. rules of free trade and payments. And, whatever foreign exchange weakness they might face on account of short-term capital transfers would be overcome through the *ad hoc* sources of international liquidity as mentioned above.

2. Developing Countries: The international liquidity problem of developing countries falling under Article XIV of the I. M. F. can be viewed, depending on their balance-of-payments deficits, separately for the short run and the

long run. Bearing India's case in mind as a typical illustration, the size of deficits in the short run would be a function largely of the intended rate of economic growth, more precisely of the investment mix contemplated in the plan. The increased provision of international finance through foreign aid, whether as loans or as grants, helps either in pushing the rate of economic growth without balance of payments difficulties or in reducing the balance of payments deficits resulting from the existing investment programmes. The short-term balance-of-payments problem, therefore, is that of limiting the deficit—through trade and payments restrictions, through mobilizing additional foreign aid, and as last resort, through adjusting the domestic investment programmes—to the extent of available resources of international liquidity, both primary and subsidiary, so that the I. M. F. condition of exchange rate stability is fulfilled.

The balance of payments deficit in the long run would depend, apart from the progress of economic development, on the terms of loan aid obtained from abroad during the course of development. To the extent the servicing and amortization obligations falling due are heavy, and the balances of payments continue to reveal large deficits, the demand for international liquidity would persist. Only in the very long run, theoretically speaking, when the country's foreign exchange receipts become large enough within short-term to offset its payments, does the problem of international liquidity tend to disappear. Taking note of the fact that the "short term" in respect of a developing country is longer, relatively speaking, the "very long run" is a fairly remote stage in the future. Thus, the picture of India's balance of payments that emerges both for the short run and the long run is pretty grim: one may safely suspect that the problem of international liquidity for developing countries is likely to last for quite a foreseeable future. Moreover, there are economic factors in developing countries, India in particular, that intensify the balance of payments difficulties. This is the outcome of the working of a vicious circle: dearth of international finance compelling the country to limit its rate of growth, and to contain the balance of payments deficit through an array of trade and payments restrictions; these restrictions in turn distort the cost structure of industry with the result that exports are priced out in competition and that foreign trade ceases to act as an engine of economic development. The resulting slow rate of economic growth only prolongs the duration of the Indian balance of payments problem, and hence the problem of international liquidity persists.

From the foregoing discussion it is clear that the developing countries generally face a chronic shortage of international liquidity. This has resulted not only from the large-scale need for international liquidity arising in the course of economic development, but also from the slender resources of such liquidity they have access to.

The Table gives a relative picture of the distribution as between Article VIII and Article XIV countries of primary reserve holdings and of the permissible access to the I. M. F. resources of international liquidity at the

end of calendar years 1954–1963. Throughout this period Article VIII countries have continued to hold without much deviation nearly three-fourths of the primary reserves owned by reporting countries of the world, at the same time having access to four-fifths of the subsidiary reserves available on credit from the I. M. F.; while out of the total country reserves of monetary gold, the holdings of Article VIII countries have topped 88%. That the primary reserve position of Article XIV countries *vis-à-vis* their requirements is slim as compared with that of Article VIII countries goes without saying. And out of the I. M. F. liability at the end of 1963 to provide subsidiary resources of international liquidity, only 23% belonged to Article XIV countries—in absolute terms, some \$3.5 billion—showing thereby that their I. M. F. drawing rights had been used up on a comparatively large scale. Thus the distribution of the world supply of international liquidity has continued to remain much skew in favour of the rich industrial countries, leading thereby to the problem of international liquidity for the poor developing countries.

Looking to the demand for, and the supply of, international liquidity—both primary and subsidiary—on the part of Article XIV countries, the inevitable conclusion is that the problem of international liquidity exists in the case of Article XIV group of countries only: the supply falling much short of the demand. This situation suggests two policy guidelines with respect to the overall use of international liquidity.

First, for Article VIII countries the legitimate use of their primary and subsidiary resources of international liquidity is to finance only the basic differences in their balance of payments, leaving the short-term capital movements to be taken care of through international monetary co-operation and the I. M. F.'s "General Arrangements to Borrow," that is, the provision of *ad hoc* liquidity.

Secondly, for Article XIV countries, the developing ones in particular, the policy with regard to the primary resources of international liquidity may be to use a substantial part of these according to plan for financing essential import requirements rather than to hold these as idle cash balances abroad, relying thereby chiefly on the I. M. F. resources of international liquidity for containing their balance of payments differences in the course of development.

Such a policy on the part of developing countries would imply that the subsidiary resources of international liquidity are used, as per rules, to finance the balance of payments deficits, the primary reserves having been conserved for planned utilization in pursuit of economic development. No doubt, this would require fresh consideration of I. M. F. relations with the developing countries particularly in regard to rules of assistance, drawing rights, and the repayment period.

IV. Policy Guidelines

In order to overcome the shortage of international liquidity in respect of

Article XIV countries, one can proceed both through primary and subsidiary liquidity resources. Let us refer to primary liquidity first. Its supply can be increased by transferring the primary resources of international liquidity from rich industrial countries to poor primary producer countries so that the distribution of international reserves as between Article VIII and Article XIV countries becomes less unequal than at present, and at the same time more equitable than at present, keeping in view the glaring need of Article XIV countries for international liquidity. This redistribution of international reserves can be achieved through international measures now universally accepted: first, if the developing countries are able to win surpluses in their current balance of payments *vis-à-vis* the industrial countries; secondly, if the industrial countries permit deficits in their basic balance of payments as a result of capital outflow to underdeveloped countries. Both these aspects of policy have been receiving international attention through two United Nations agencies, namely, G. A. T. T. (the General Agreement on Tariffs and Trade) and I. B. R. D. (the International Bank for Reconstruction and Development). Although it is beyond this paper to make an assessment of the results achieved by them, we may presume without much error of judgement that these have contacted only the fringe of the big balance of payments problem confronting the developing countries.

1. **Subsidiary Liquidity:** As regards the provision of subsidiary resources of international liquidity through the I. M. F., it is inadequate in quantity as well as quality, as noted above. The balance-of-payments requirements in the course of economic development are not only large but also prolonged, the readjustment processes being slow, if not absent at times. This is so in spite of the continuance of payments restrictions. In principle, the balance of payments difficulties that the I. M. F. resources are supposed to see through are likely to be got over within three to five years. Even so, one may question the wisdom of applying one and the same principle alike to rich developed countries and to poor developing countries. Under the circumstances the term of I. M. F. assistance to Article XIV countries may be extended to five to seven years, if it were to contribute significantly in improving their economies. This paper outlines, therefore, for consideration, a proposal to enlarge the I. M. F. resources of international liquidity available to Article XIV members, allowing at the same time a waiver of the repurchase time-limit in special cases.

2. **The Proposal:** Considering the fact that the primary reserve position of developing countries is narrow, so much so that it is hardly capable of lending any worth-the-name support in the course of rapid economic development, one wonders if the same could be harnessed as a base to augment the subsidiary liquidity resources through the I. M. F. Let the developing country deposit its primary reserve, or a part thereof, at the I. M. F. as a 25% gold subscription of a fresh increment in its quota. This would increase the supply of subsidiary liquidity, under the existing I. M. F. rules, to fourfold, and to fivefold in the event of a shortfall in foreign exchange earnings from primary

products. No wonder, speaking subjectively from the point of view of some developing countries, a dollar of "unconditional" liquidity in primary reserves is equal to four dollars of "conditional" liquidity in subsidiary reserves. The judgement ratio may be higher for others, making the proposition all the more attractive.¹

If the primary reserve position were at the 'bed-rock' level which is earmarked as Central Banking support for domestic currency, necessary legislation may be passed to amend the Central Bank laws so that the reserves are transferred to the I. M. F. without undermining the popular nation of a central currency reserve. If orthodoxy in Central Banking were no inhibition for policy, gold certificates issued by the I. M. F. are fairly efficient as currency backing. Such a scheme will activate a substantial portion of the existing primary reserves, earmarked at present to fulfil the traditional Central Banking function of currency support. The fear of inflation as a consequence of the overall increment in the supply of international liquidity to developing countries will have to be guarded against through sound monetary policies under supervision of the I. M. F.

To illustrate with the help of a plain exercise, the subscription-quotas of Article XIV countries total \$5.1 billion; and their outstanding drawing rights at the end of 1963 amounted to \$3.5 billion. An addition of \$5 billion to their quotas would require an extra gold tranche contribution of \$1.25 billion; this would raise their normal drawing rights to \$9.75 billion while the drawing rights of Article VIII countries remain at \$14 billion as of 31 December, 1963. The usable liquid resources of the I. M. F. on that date totalled \$8.9 billion; add to these the proposed gold tranche of \$1.25 billion from Article XIV countries, and the total resources would rise to \$10.2 billion: these would not be available to Article VIII countries for financing *net* movements of short-term capital. The primary reserves of Article XIV countries at the end of 1963 amounted to \$17 billion; diverting \$1.25 out of these to I. M. F. gold tranche would hardly damage, generally speaking, the Central Banking rules of those countries. At the same time this would substantially improve their international liquidity position. The proposal may be implemented country by country after negotiations with the I. M. F.

International action along the above lines complements the draft scheme suggested by the writer last year² for gradual removal of trade and payments restrictions in developing countries with a view to breaking through the vicious circle of slow economic development and the achievement of regional convertibility for their currencies. Since the implementation of that scheme would tend to magnify the balance-of-payments fluctuations in the initial stages, international liquidity requirements of Article XIV countries should

¹ The point that this would unduly sacrifice the economic freedom of developing countries is not very valid, for the country in question in order to assert itself may still use its primary reserve, now turned into the gold tranche, unconditionally, as per rules of the I. M. F.

² See author's "To Amend the I. M. F."

become all the more pressing. Hence, the present proposal to raise the supply of international liquidity for them. Then only will the I. M. F. make a significant contribution in accelerating the pace of economic development in its Article XIV countries, and in shortening thereby the duration of the "transitional arrangements."

3. Case of India: Take India's case as an instance. India's subscription-quota at the I. M. F. is \$600 million, and the gold tranche contribution is \$77.5 million; the total supply of international liquidity India may normally demand from the I. M. F. is \$677.5 million. The outstanding drawing rights that India still possessed at the close of February, 1964 amounted to \$426 million including a one-year stand-by arrangement of \$100 million entered into July, 1963. At the end of 1963, India's primary reserves amounted to \$469 million consisting of \$247 million in gold and \$222 million in foreign exchange, mainly sterling and some long-term securities. In addition, the Government of India held \$138 million as balances with its agencies situated abroad.

If India, in an all-out bid to achieve rapid economic development and stabilization were to obtain legislative sanction to divert, worst coming to the worse, \$200 million from its primary reserves towards a fresh gold tranche contribution at the I. M. F. (needless to mention: with the latter's approval), India's outstanding drawing rights from the Fund would increase by \$1,000 million; by \$1,200 million in case the balance of payments deficits resulting from decline in export prices of primary products. By thus depositing a part of the primary reserves at the I. M. F., India will be in a position to increase the total supply of international liquidity by \$1 billion according to normal rules and by \$1.2 billion in special circumstances.

India may, at the same time, enter into a stabilization agreement with the I. M. F. According to this, the country would be reassured of I. M. F. assistance in case the gradual relaxation of trade and exchange controls in the course of development were to cause an undue strain on its balance of payments. The I. M. F. in turn would assist the Indian Government, through consultation and international action, in implementing sound monetary policies conducive to economic growth.

4. In Defence: The foregoing proposal may be criticized along the following lines.¹ Basically, it may be pointed out, what the developing countries need is additional resources of international finance; this can be achieved through stepping up the flow of foreign aid, without interfering with the existing international liquidity arrangements. Secondly, one may fear resistance to the proposed method of increasing Article XIV countries' resources of international liquidity, for this would tend to disturb the voting power of rich industrial countries at the I. M. F. Thirdly, the developing countries in particular are generally sceptical of international arrangements that seem to subtract from their right of independent economic decision.

¹ I owe these points to Mr. Roger G. Opie, Fellow of New College, Oxford who was kind enough to read an earlier draft of this paper and send suggestions.

Let us refer to these points briefly one by one.

5. Foreign Aid vs. International Liquidity: The plea for increased foreign aid in lieu of additional resources of international liquidity for Article XIV countries confuses the issue. 'Aid' and 'Liquidity' are two separate types of international finance, the distinction between the two being very subtle. The purpose of foreign aid is to help developing countries finance specific projects by getting over the domestic shortage (or absence) of technical materials, equipment, and know-how through imports. The purpose of international liquidity, on the other hand, is *general*: to relax the foreign exchange and trade restrictions and to afford adjustment time to the economy in case of balance of payments disequilibrium without reimposition of payments restrictions. Aid is no substitute for liquidity; nor is liquidity for aid. Increased provision of international liquidity need not imply a cut in the flow of external aid to developing countries. Both have an important role in accelerating the pace of economic development in underdeveloped areas. This paper highlights the importance of I. M. F. in the task of economic development of its Article XIV members.

Another point: the access to international liquidity is fairly automatic, once the arrangements exist. Foreign aid, on the other hand, is negotiated generally on year-to-year basis both project-wise and country-wise. Moreover, the supply of international liquidity has a psychological significance in so far as it brings about a sense of confidence and self-reliance amongst the developing countries. Also, one fears that foreign aid is spent liberally, if not wastefully, by the aided countries.

6. I. M. F. Voting Arrangements: According to Article XII: Organization and Management, Section 5: "Voting" of the I. M. F. *Articles of Agreement*, the relative voting strength of member countries depends on their subscription-quotas and use by them of the Fund's resources. As of 30 April, 1963, the voting power of the 10 creditor countries, viz. Belgium, Canada, France, Western Germany, Italy, Japan, the Netherlands, Sweden, the U. K., and the U. S. A., represented almost 60% of the total votes, that of all Article VIII countries together forming 65%. It is evident that increasing the subscription quotas selectively of Article XIV countries would disturb marginally the existing voting power of rich industrial countries in the I. M. F. This sounds inevitable, yet realistic, in a scheme of reforming the Fund so that it may contribute increasingly, through consultation and assistance, to the rapid economic development of its underdeveloped members especially in view of the contemporary enlargement of its membership. It is only appropriate that the I. M. F., like its other sister United Nations agencies, adjusts increasingly to the needs of its developing members. The I. M. F. by now has served its rich industrial members by rehabilitating and safeguarding their currencies internationally; let it divert its centre of activity to the poor primary producer countries.

7. Fears of Developing Countries: Additional transfer of gold and foreign exchange resources to the I. M. F. by Article XIV countries, as conceived in

this paper, should not, in our opinion, mean a substantial surrender of national sovereignty in economic matters. Whatever sacrifice, however, is presumably made would be worth-while considering the increased access to international liquidity under the proposed arrangements. The I. M. F. along with other United Nations agencies, aims at international economic liberalization through co-ordination of national monetary and fiscal policies. Developing countries, in pursuit of economic stabilization, would find that the discussion of their problems with the I. M. F. experts is helpful in viewing their problems in proper international setting. International co-operation, after all, is the key to successful functioning of the present-day international monetary arrangements; and this applies to Article XIV countries also.