

Crisis Management in the International Monetary and Financial System: OECD Working Party 3 (1961-1979)

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Introduction

The postwar international financial system went along with several “forums” of decision making, official as well as unofficial. Starting with the Bretton Woods Institutions, namely the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD, the World Bank), bi-lateral negotiations between the United States and the European countries took part in the “forum” for reconstruction; the Bank for International Settlements (BIS) and the European Payments Union (EPU) began to play important roles in the 1950s; several “Groups”, from the G10, C20 to the G5, G7, faced the reform of the Bretton Woods System.

Of the above “forums”, one of the most enigmatic bodies was the Working Party 3 (WP3) of the Organisation for Economic Cooperation and Development (OECD). Set up in 1961 as a mere technical working group for the Economic Policy Committee (EPC) of the OECD, the WP3 soon became an important meeting place to discuss the overall strategies of the world economy. Chaired by Emile van Lennep (later Secretary General of the OECD), the WP3 brought together not only the brightest agents of the OECD member countries, but also representatives of the BIS and the IMF. In the

1970s, while the IMF was busy preparing the amendment of its Statutes due to the collapse of the Bretton Woods fixed rate system, the WP3 acted as *de facto* crisis manager of the capitalist world and paved the way to the transformation of economic policy in the 1980s towards deregulation and privatization. The precise context of the decision making in the WP3, however, has not been revealed from an historical point of view⁽¹⁾. Relying on archival studies in the OECD, the BIS and other national archives, including newly released Bank of Japan materials, this paper tries to deal with this decision making process of the WP3.

Before entering in detail, let us describe our approaches in relation to recent studies on the subject and put it in a broader context of economic history and social sciences.

An organisation in a general sense of word has long been an important object of historical study: state bureaucracy had been a source of inspiration in a tradition of German Historical School and sociology of Max Weber⁽²⁾. Business history, for example, treated an enterprise from various points of view, from a classical work of Alfred Chandler to more recent “organisational history” proposed by Louis Galambos and Patrick Fridenson⁽³⁾. Finally an individual actor in history incarnated the organisation and networks: Olivier Feiertag has clearly presented a contemporary financial history through a biographical study of Wilfrid Baumgartner⁽⁴⁾, a French high ranking *commis des finances*. One of the most successful researches depending upon the

(1) A general view on the subject has been given by Peter Carroll and Aynsley Kellow, *The OECD, A Study of Organisational Adaptation*, Edward Elgar, Cheltenham/Northampton, 2011. This is the most outstanding historical work on the OECD, but the archival sources are limited to the “C” series, which represents the official Ministerial Council documents, and therefore not necessarily reflecting the more informal side of the organization. We are to study not only the “C” series but also the “CPE” series dealing with the WP3 and other lower-level commissions.

(2) One of the most representative works on the subject by Max Weber is *Soziologie der Herrschaft*, which constitutes a chapter (Ch.2) in his great collection *Wirtschaft und Gesellschaft*, Tübingen, 1921-22.

above approach to the international organisations is a collection on the history of the transnational ideas and movements during the interwar period, edited by Daniel Laqua⁽⁵⁾.

One question arises: when we look at an international organisation like the OECD, are we to treat it as “a tool” to serve someone’s interest, or “a forum” where several interests are coordinated? The former point of view, *instrumentalism*, represents a rather classical view, which finds many applied variations such as the classical Marxist view of the state as of “a tool of the bourgeoisie”, or a brand new corporate governance theory regarding an enterprise as a “tool to serve interests of shareholders”. Another view of an organisation, which regards the organisation as “a forum” is called *pluralism*. It provides a more dynamic interpretation of history. Our approach to the history of the OECD is familiar to this pluralist view. In other words, we do not see the OECD-WP3 as a mere “tool” of some particular interest, e.g. the United States. What we focus is the process of coordination which took place in the OECD and a dynamics of organisation emerged in the process.

Another question may quickly follow the above one: who were the actors? While we talk about the “forum” function of the OECD, the actors of the decision makings have been, first of all, the representatives of the mem-

(3) Cf. Louis Galambos and Joseph Pratt, *The Rise of the Corporate Commonwealth: U.S. Business and Public Policy in the Twentieth Century*, Basic Books, New York, 1988; For a methodological survey, cf. Alfred D. Chandler, Jr., Stuart Bruchey, Louis Galambos, eds., *The Changing Economic Order : Readings in American Business and Economic History*, Harcourt, Brace & World, New York, 1968. For a manifesto for organizational history in recent years, see Patrick Fridenson, “Un nouvel objet: l’organisation” in *Annales, Histoire, Sciences Sociales*, vol.44, no.6, novembre-décembre 1989.

(4) Olivier Feiertag, *Wilfrid Baumgartner, un grand commis des finances à la croisée des pouvoirs (1902-1978)*, CHEFF, Paris, 2006.

(5) Daniel Laqua, ed., *Internationalism Reconfigured, Transnational ideas and Movements between the World Wars*, I.B.Tauris, London/New York, 2011. See in particular Yann Decorzant, “Internationalism in Economic and Financial Organisation of the League of Nations”, in *Ibid.*

ber countries, the highest ranking of those gathered at the Ministerial Council Meetings (MCM). However, the decisions took place in the WP3, as we shall examine in the paper, have *not* been a mere average of the national interests of the member countries: it was something else, which even forwarded the contemporary ideas of growth and stability. Then who proposed and decided such a splendid idea? It was sometimes a representative of a member country, who committed himself rather deeply in the workings of the organisation, not in his particular home-country interest. Or it was an anonymous secretariat view provided on the table of the MCM. Secretary-Generals, from Kristensen to Gurria, may have exerted influences⁽⁶⁾. Roles played by individuals such as Emile van Lennep, Ottomar Emminger or Valéry Giscard d'Estaing were also of importance. The only way to resolve the above complexity of the decision-makings of the organisation is to rely on the archives, i.e. historical approach, which focuses on the actors through the lens of text-critique⁽⁷⁾.

Let us then examine the “forum” function of the organisation more precisely in the context of contemporary international monetary and financial history.

Recent works on the history of international monetary and financial system shed new light on the international institutions and “forums”: Barry Eichengreen, in his book discussing the Bretton Woods System referring to the debate over the “Bretton Woods II”, has given a precise explanation on

(6) Following figures have been Secretary-generals of the OECD: Thorkil Kristensen (1961-1969); Emile Van Lennep (1969-1984); Jean-Claude Paye (1984-1996); Donald Johnston (1996-2006) and Angel Gurria (2006-). For an overview of their works during the terms, cf. Richard Woodward, *The Organisation for Economic Co-operation and Development (OECD)*, Routledge, London/New York, 2009, pp.18-42.

(7) A recent work by Gfeller focuses on the French diplomacy towards European unification at the time of the Oil Shock, referring to the French strategy over the OECD energy policy and oil sharing mechanism. Aurélie Elisa Gfeller, *Building a European Identity: France, the United States, and the Oil Shock, 1973-1974*, Berghahn Books, New York/Oxford, 2012.

the Gold Pool⁽⁸⁾. Eichengreen, in this work presents a negative view on the “forum” like the Gold Pool, which failed to sustain the Bretton Woods system through international cooperation. Eichengreen’s view has been echoed by Catherine Schenk, who stressed the role of financial innovations by markets and banks in the 1970s and the ineffectiveness of capital control by governments as well as international organisations⁽⁹⁾. Above views represent a common understanding of historians on the limited role of institutional bodies in the international monetary and financial system: the change comes from the market, and the organisations or the “forums” respond in a passive and retarded manner.

However, different views have been proposed from the political economy approaches: Jeffrey Chwieroth, for example, explains that the innovation in the international organisations came “from within”, not from the outside market⁽¹⁰⁾. Relying on a constructivist and sociological approach, Chwieroth explains that the change in the IMF view from the capital movement restriction to deregulation has been brought about through organisational conflict among various ideas within the institution. A similar approach has been applied by Rawi Abdelal, who explains the market-friendly IMF view after the 1990s as a product of French left wing politics (the “Paris consensus”) instead of the familiar American initiative (“Washington consensus”)⁽¹¹⁾. Although the former Chwieroth criticizes Abdelal as taking an “insufficient” approach, these two recent works cast new light on the role of formal and informal institutions.

(8) Barry Eichengreen, *Global Imbalances and the Lesson of Bretton Woods*, MIT Press Cambridge, 2007.

(9) Catherine Schenk, “Crisis and Opportunity: the Policy Environment of International Banking in the City of London, 1958-1980”, in Youssef Cassis and Eric Bussiere, eds., *London and Paris as International Financial Centres in the Twentieth Century*, Oxford University Press, Oxford, 2005.

(10) Jeffrey Chwieroth, *Capital Ideas, The IMF and the Rise of Financial Liberalization*, Princeton University Press, Princeton, 2010.

(11) Rawi Abdelal, *Capital Rules, The Construction of Global Finance*, Harvard University Press, Cambridge, 2007.

Our study stands in between the Eichengreen-Schenk historical/market view and the Chwieroth-Abdelal sociological/institutional view. The organisation in question, the WP3, was set up to respond to the crisis of the Bretton Woods system in the 1960s, and market forces pushed forward the financial innovation of the 1970s much faster and broader than the WP3 forecast. However, as we shall examine in the following sections, the WP3 itself proposed financial innovation, such as capital market deregulation, and in some aspects triggered market movement. The innovation proposal thus came “from within” the WP3, at least in some fields. Our paper aims to ascertain in which domain and how far the WP3 could enhance the market (or how far it retarded the market change), from the contemporary point of view, i.e. the view as seen by the actors in those historical phases.

Depending upon the above approaches, we are to answer the following questions:

- (1) The OECD in the 1960s set growth targets and was familiar with macro-economic planning. A serious debate took place in the WP3 over how to define “growth”, and the WP3 in those days was regarded as Keynesian friendly. How did these ideas and culture change in the 1970s?
- (2) The WP3 had been under the strong influence of the EEC Monetary Committee led by Emile van Lennep⁽¹²⁾ and Ottmar Emminger. Moreover, the European representatives were reluctant to admit to any unofficial relationship between the WP3 and the EEC Committee. How did the European Countries handle worldwide issues in the WP3 with the EEC ideas in the background?
- (3) The WP3 was in a way competitive against the BIS and the IMF, espe-

(12) Emile Van Lennep (with Evert Schoorl), *Working for the World Economy, A Personal History*, Nederlands Instituut voor het Bank-en Effectenbedrijf, Amsterdam, 1998.

cially on the recognition of the euro-currency market and the financial innovation which emerged at the international capital market. How did this competition progress and what was the outcome?

- (4) The reform plan of the international monetary system prepared at the WP3 changed in the 1970s, mainly due to the American influence. American representatives, who were not active at the start of WP3 meetings, became more influent in the 1970s. What was the role played by the United States representatives in the WP3?
- (5) Faced with an oil price upsurge, twice in the 1970s, the WP3 began to consider strategies to apply to developing countries and the Communist world. These strategies have been in a way challenging the World Bank lending scheme to developing countries. At the time of change in the Cold War context, how did this thinking work?

In section 1, we overview the organisational features of the WP3, then in sections 2 and 3 we follow the discussions in the WP3, throughout the 1960s and 1970s, in chronological order, before arriving at a conclusion. The chronological limit of our study, which appears on the subtitle of the paper, represents the foundation of the WP3 (1961) and the date of the newest archival record (1978) available up to the present time.

1. What is the WP3?

We shall review briefly the organisational features of the WP3 regarding its position in the OECD as well as membership and the culture of the Committee.

OECD and its Working Groups

In 1961, the Organisation for European Economic Cooperation (OEEC), which until then had acted as the agency to receive funds under the Marshall Plan, was reorganized into the Organisation for Economic Cooperation and Development (OECD)⁽¹³⁾. This resulted in forming a venue for consultation by

representatives of the fiscal authorities and central banks of the U.S., Europe, Japan, and other members across a wide range of levels, from the finance minister and governor rank through the level of staff responsible for practical operations. Under this organisation, the Economic Policy Committee (EPC) was established as a subsidiary organisation within the OECD Secretariat.

The EPC included three subcommittees (later to be four). Of these, the WP3, which was responsible for currencies and finance, became a venue for meetings between leading personnel responsible for practical operations at the bureau chief or director level. According to Emile Van Lennep, the founding chairman of the WP3, both the American and the European representatives agreed to set up the new working group in the OECD. The decision was taken right after the Deutschmark revaluation in March 1961, and the WP3 was founded on 19 April 1961⁽¹⁴⁾.

Member countries and participating figures of the WP3

After a strong suggestion by the founding chairman Van Lennep, the initial membership of the WP3 consisted of the EPU countries, including the United States and Canada. The autobiography of Van Lennep mentions the names of James Tobin (Council of Economic Advisors), Richard Cooper and Ralph Young (FRB) as the US delegates, Sir Dennis Rickett from the UK Treasury, Otmar Emminger of Germany and Louis Raminsky from Canada⁽¹⁵⁾. The participating figures in future meetings are also of importance, often including key persons in international financial cooperation. After Van Lennep, Emminger and Valéry Giscard d'Estaing would lead the decision making of WP3. The EPU countries had already established a close relation among the member central bankers especially via the BIS meeting⁽¹⁶⁾. To add the United States and Canada while the majority of votes were held by European

(13) As for the OEEC, cf. Richard Griffiths, ed., *Explorations in OEEC History*, OECD, Paris, 1997.

(14) Van Lennep, *Working for the World Economy*, *op.cit.*, pp.100-105.

(15) *Ibid.*, pp.105.

countries was thus a natural course of evolution from the EPU viewpoint.

The membership of the committee was enlarged in 1964 to include Japan, the IMF and the BIS. This time, the matter did not settle naturally. At the meeting of the WP3 held on 17th June 1964, Van Lennep, the chairman, opening the session, proposed that “Japan, the BIS and the IMF be admitted as new members”, insisting that after Japan’s entrance “it was made very clear that there were going to be no more increases in membership”. To this proposal, Lord Hankey as a chairman of the EPC noted “the admission of Japan required a decision of the EPC” and “off the record”, Lord Hankey added that “Austria might make some difficulties if she succeeded getting an alternate in the EMA”. But Mertens representing the Benelux countries replied that “there was undoubtedly some connection between the Working Party 3 and the Group of Ten, and that, therefore, the composition of the two groups ought to be the same”. After a short intervention by Gocht of Germany, stating that Germany would not take a negative attitude towards an application for membership by Austria, Van Lennep repeated bluntly that “limit was now reached” and that “Austria should not be given any hope”⁽¹⁷⁾. The session of the WP3 which made the decision on this new membership reveals some important features of the group: limited membership, independent features of the WP3, and connection between the membership of WP3 and G10.

WP3 and G10

During the early years of the WP3, namely the beginning of the 1960s, the international financial forums encountered a period of restructuring, along

(16) Harold James assesses that “Already in the 1950s, the BIS had organized within the European Payments union what amounted to a swap system for European central bankers”. Harold James, *International Monetary Cooperation since Bretton Woods*, IMF/ Oxford University Press, London/ New York, 1996, p.160.

(17) OECD Archives, Working Party No.3 of the Economic Policy Committee, Record of the Meeting held on 17th June, 1964 at the Chateau de la Muette, Paris, Strictly Confidential.

with the crisis and “patchwork” of the Bretton Woods System⁽¹⁸⁾. The formation of the G10 was the outstanding example of this restructuring. At this time, unofficial coordination among nations had been achieved for the emergency loans implemented during the immediately preceding sterling crisis of 1961. Based on this coordination, the finance ministers and central-bank governors of the ten leading industrialized countries decided to meet several times a year – while the number of countries participating in these meetings later expanded to 11, the organisation continued to be known as the G10. The G10 played an important role in rethinking and reforming the Bretton Woods System in the 1960s.

Limiting the G10 members to the above 11 countries was, according to Erin Jacobsson (daughter and biography writer of Per Jacobsson, the Managing Director of the IMF from 1956 to 1963), a proposal of Wilfrid Baumgartner, Governor of the Banque de France, with the suggestion of Robert Roosa of the United States. Baumgartner was said to have proposed that G10 membership should consist of “only countries that participated in the financing of British [IMF] withdrawals in July 1961”⁽¹⁹⁾. This initial decision seems to have influenced the above WP3 membership.

Incidentally, while the organisations beneath the EPC belonged to the OECD Secretariat, the secretariat of the G10 was set up in the BIS. It should be noted that while the OECD itself was a public institution founded based on a treaty, the decision to hold a meeting of representatives, who were in fact of the ranks of finance minister and central-bank governor, of the ten nations consisting of only some OECD members, was made through unofficial

(18) A general view of the mechanism and collapse of the Bretton Woods System is given in Michael D. Bordo and Barry Eichengreen, eds., *A Retrospective on the Bretton Woods System: Lessons for International Monetary Reform*, University of Chicago Press, Chicago, 1993.

(19) Erin Jacobsson, *A Life for Sound Money, Per Jacobsson, His Biography*, Oxford University Press, Oxford, 1979, p.382. She points to a memo by Gengo Suzuki, Japanese IMF representative, as a source for this observation.

negotiations.

Figure 1 represents the relation among several international forums by 1964, recognized by the Bank of Japan official at that time. As shown here, the vertical line represented organisational relations among forums, while the horizontal line existed between forums, either of central banks or of treasuries. The WP3 has been a cornerstone of these relations, putting together multilateral surveillance frameworks and OECD bodies.

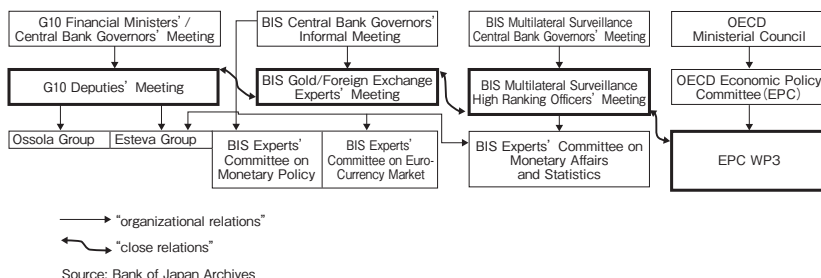


Figure 1: International Financial Forums in 1964

Confidentiality and organisational culture

The WP3 being an informal “forum”, its meetings and records have been put under strict confidentiality. However, at the beginning of the 1970s, the rules and customs on this confidentiality seem to have degraded. We can observe how this happened and how the Chairman and the Secretariat tried to cope with the situation, from a letter distributed in 1979. The letter, headlined “Arrangements to reinforce the confidential character of the WP3” was written by Chairman Matsukawa of the WP3 on 12th January 1979. In this letter sent to all member countries, Chairman Matsukawa recalls that the arrangements had been agreed “to establish more restrictive arrangements concerning attendance and documents, similar to those applied in 1961-67”. In order to “give force to this rule”, the Japanese chairman proposed a limit to

the number of participants of five or six per country, and moreover, asked the secretariat “not to respond to any requests from delegations for derogations from this rule by providing entrance cards in excess of the appropriate number”⁽²⁰⁾.

The organisational culture of the WP3 seems to be situated in between a “hard law” regime like that of the IMF, and a “soft law” one like that of the BIS. “Hard law” system stands on the legal structure of modern democracy, supported by voters and taxpayers. The United Nations and the IMF are representative examples of the “hard law” system working in the international field. A “soft law” system, conversely, does not have a robust legal base but rather an informal process of decision makings. The BIS, which stands on the central bank cooperation, setting the *de facto* standard of international banking business, is an example of this ambiguous but powerful system⁽²¹⁾. The WP3 was in a way “hard” since it was an organisation legally founded by “hard” institution of the OECD. Yet it was in another way “soft” because the WP3 had no obligation to publish its decisions for the public, or to respond to the member countries’ political bodies. The only organisation to which the WP3 had any commitment was the EPC, its mother committee. Moreover, the existence of the WP3 itself was not clear to the public. This protection by the “soft law” style of organisational culture enabled the WP3 to make innovative policy proposals.

2. WP3 in the 1960s: “the Bretton Woods patchwork”

With its brand new organisational features and brilliant members, the WP3 went on “in the process of creating something entirely new and differ-

(20) OECD Archives, M.Matsukawa, Arrangements to reinforce the confidential character of Working Party no 3, 12th January 1979.

(21) Concerning “hard law” and “soft law” in this context, see Kenneth Abbot and Duncan Snidal, “Hard and Soft Law in International Governance” in *International Organization*, vol.54, no.3, Summer 2000.

ent”⁽²²⁾. Let us first look at some typical discussions from the 1960s.

Balance of Payments and Adjustment Process

During the early days of the OECD, one of the main themes on agenda was capital movement. At the very first meeting of the WP3, held during 18-19 May 1961, the president Van Lennep drew attention of the participants to the subject of “les moyens d’atténuer les conséquences dommageables pour la balance des paiements de certains pays des mouvements de capitaux rendus possible par le retour à la convertibilité monétaire”. In other words, the WP3 in the early stage of return to convertibility under the Bretton Woods System had been somewhat awkward to the change, to be brought about by the capital movement. In fact, Van Lennep enumerated the three possible cases: “laisser les capitaux se déplacer tout en contrebalançant l’effet produit par des opérations de financement appropriées” ; “coordonner les politiques des grands pays en matière de taux d’intérêt, de manière à éviter ou à restreindre l’influence de ceux-ci sur les mouvements de capitaux” ; “limiter les mouvements par le jeu du contrôle des changes, notamment dans les pays dont la balance des paiements est déficitaire”. The document distributed by the president for the meeting has also suggested three international political goals “dès prochaines années”: transform the UK “base deficit” into surplus, reduce the USA “base deficit”, and urge the West Germany to record a certain “base deficit”⁽²³⁾.

However, soon after its start, the WP3 began to take up the question from an approach different from those achieved by the previous IOs: not to only deal with the BP question from the point of view of macro-economic consultation, but from that of liberalization of capital movement. In this context,

⁽²²⁾ Van Lennep, *Working for the World Economy, op.cit.*, p.107.

⁽²³⁾ AEF B68222, Le Directeur du Trésor à Monsieur le Ministre des Finances et des Affaires Economiques, Compte rendu de la 1ère séance du groupe de travail No 3 cu Comité de Politique Economique de l’O.C.D.E., le 25 mai 1961.

the WP3 dealt with the “adjustment process”, in which the BP imbalance would be adjusted between current account and capital account.

One typical example over the relation between the BP question and the capital movement could be found in the discussion in the meeting of the WP3 on 6th November 1962⁽²⁴⁾. Just after the session open, the US representative Daane criticized the Secretariat paper as it was “disturbing because it failed to present correctly the United States’ interest in the subject of European capital markets”. According to Daane the focus of the paper was “much too narrow”. After a long speech, he summed up the American position as follows:

- (1) The United States is interested in the broad questions that need to be raised in connection with European capital markets.
- (2) The United States believes that Working Party No.3 should consider this subject from time to time to hear what steps are being taken by the countries concerned to develop their markets.
- (3) The United States believes that Working Party No.3 should instruct the Secretariat to conduct studies of various capital markets in conjunction with the studies already going forward in the Invisibles Committee, and the United States has some suggestions as to the types of questions these studies should seek to answer.

The main point of the American discussion was “the inter-relationship between the development of capital markets and restrictions of capital movements”. Daane concluded, criticizing the French and Italian restriction over the capital market, that “the Working Party No.3 was perhaps dismissing too lightly the balance-of-payments significance of the capital markets-capital con-

(24) OECD Archives, Record of the meeting of Working Party no.3 of the Economic Policy Committee held on Monday 5th and Tuesday 6th November 1962.

trols question” and that “increased capital outflows from surplus countries would therefore be needed to compensate for current account surplus; where controls persisted, they should be removed”. Against the American criticism, the French delegate Pérouse objected that “France’s attitude toward the question of capital markets and capital movements was not influenced by its balance of payments”. After a debate between American on one side and the Europeans on the other, the Chairman summed up the discussion that “the United States was urging greater freedom of capital movements” while “European members, though agreed on this as a matter of principle, thought that the removal of restrictions must come slowly and in conjunction with the closer co-ordination of economic policies to prevent undesirable capital flows”.

It is noteworthy that the subject on capital market had been dealt with in the WP3 in relation to the BP adjustment problem from the early 1960s, and in this phase it was the American who was keen to open the European capital markets.

Towards Capital Market Deregulation

As for the BP adjustment, the WP3 adopted the report entitled “Procedure for Study of Adjustment Process”⁽²⁵⁾. Distributed at the meeting held on 2nd July 1964, the note enumerates the elements which would influence the BP adjustment as follows: “interrelationship between Internal Liquidity and Balance of Payments”, “Standards of Monetary Policy”, “Use of Fiscal, trade, Incomes, and Other Policy Measure...”, “Relationship of Various Types of International Liquidity to the Adjustment Process”. After the above chapters on the elements concerning the BP adjustment, a chapter deals with “Role of Capital Movements and Capital markets in the Adjustment Process”. Under

(25) Bank of Japan Archives, 12929, CPE/WP3(64)22, annex II, “Procedure for Study of Adjustment Process”.

this chapter title, the note indicates that “each delegation to be requested to submit a paper setting forth its view of the role of its own capital market in the adjustment process”, and “national delegations to be invited to submit general papers on this topic”. The “procedure” has been followed by the “Proposals for improving the European capital market”, presented by Robert Roosa of the United States⁽²⁶⁾.

An interesting topic in the discussion which followed this “procedure” was the “taxes on new security issues”⁽²⁷⁾. The reason why the WP3 member countries took up this issue was that these taxes “affect the flow of loanable funds from savers to investors, both within countries and between countries”. This approach relied on a notion that in many countries “they tend to encourage direct links between big firms and financial institutions” of which operations are carried “outside the capital market proper”, and thus “militate against the development of an efficient capital market”. This situation has been supported by taxation on capital operations, and these “dissimilarities between the level of such taxes between countries may stimulate international capital movements which, depending on the circumstances, can be undesirable from the point of view of international payments equilibrium”. The discussion over the capital market deregulation in the WP3 evolved from the European reluctance in the early 1960s to more market oriented reform plan in 1964, focusing on taxation and financial intermediaries.

3. WP3 in the 1970s: forerunner or follower?

The 1970s witnessed the international financial system turmoil that began with the Nixon Shock of 1971.

(26) Bank of Japan Archives, 12929, CPE/WP3(64)26, “Proposals for improving the European capital market”, 24th August 1964.

(27) Bank of Japan Archives, 12929, CPE/WP3(64)25, annex, “Reduction or removal of taxes on new security issues”.

Shock of the Nixon Shock (1971)

The first response of the WP3 to the Nixon statement of August 15, in an official term, was expressed by the presse communiqué of the G10, in 16th September 1971. In the communiqué, the G10 Ministers and Governors noted that the WP3 would prepare an assessment of “the scale of the balance of payments adjustment required for the United States and the implications for other countries”. The work has been completed in a confidential note by the WP3 secretariat, dated 4th October 1971⁽²⁸⁾. The note, after assessing the present position of the member countries’ BP, aimed “to assess how far the aims of the United States are consistent with those of other countries” and to illustrate “the scale of adjustment that might be implied for each of the major countries”, and to highlight some discussions. The analyses are rather static, not dynamic, from contemporary point of view. It was partly due to the theoretical level of the economics in those days, but mainly due to the fact that they could not foresee the effect of capital movement. The WP3 and the OECD themselves would change the bases of discussion by pushing the capital movement liberalization further.

As for the countries’ opinion, generally speaking, the US representatives tended to present an optimist picture of their BP, with the Europeans opposing it.

The Americans were even optimistic about capital movement, while the Europeans tended to strengthen control. For example, in March 1972, at the end of a WP3 session, in reply to the question on control over capital movement, Paul Volcker, an eminent American representative, remarked that “les inquiétudes des marchés des changes ne sont pas provoquées par le niveau actuel des parités mais par la crainte d’une extension des contrôles des mou-

(28) OECD Archives, CPE/WP3(71)17, Paris, 4th October 1971, “The Scale of the United States Adjustment Problem and the Implications for Other Countries” (Note by the Secretariat), confidential.

vements de capitaux” [the anxiousness of the exchange markets are not provoked by the actual level of parity, but by fear of extension of controls over capital movement]. To this statement, the French delegate Claude Pierre-Brosolette reacted that “on pourrait soutenir exactement le contraire”, [exactly the opposite could have been supported] and that the liberalization of capital movement under examination “ne seraient pas de nature à améliorer la balance des paiements américaine et à rétablir la confiance dans le dollar” [is not of the nature to improve the American balance of payment and to reestablish the confidence of the dollar]⁽²⁹⁾.

What is noteworthy about the above discussion in the WP3 is that the both sides of the debate, American and French, stayed in the framework of the fixed exchange-rate system. In other words, the WP3 could not touch the “exchange-rate system” angle of the *trilemma* proposed by Obstfeld and Taylor⁽³⁰⁾. Leaving the fixed exchange-rate system as given, their choice had been limited between the “free capital movement” and the “independent financial policy”. The United States insisted on the former, France claimed the latter.

Later on, however, the focus of debate shifted from the American BP issue to management of the BP imbalances. The WP3 then started to set a certain “aim” or “objective” on the BP of each member country.

Balance of Payments and Adjustment Process in the 1970s

So who proposed this “BP aim” method for the first time in the WP3? As far as we can ascertain, it was in May 1972 that the OECD Ministerial Council agreed to discuss the BP issues (aims, adjustment and mobile capital

(29) AEF B54755, Note pour ministre, Compte rendu de la reunion du Groupe du travail no 3 de l’O.C.D.E. les 28 et 29 mars 1972 (Claude Pierre-Brosolette), 7 avril 1972.

(30) As for a recent work on the “trilemma”, cf. Maurice Obstfeld and Alan Taylor, “Globalization and Capital Market” in *NBER Working Paper*, Series 8846, 2002.

flows). The Ministers charged the WP3 with responsibility to prepare reports on the subject⁽³¹⁾. Facing this demand by the Ministerial Council, the reaction of the WP3 members varied: the American delegate insisted to “accélérer des travaux de manière à ce qu’une première discussion puisse avoir lieu sur ce thème dès la fin de l’été” [accelerate the work so that the first discussion on the theme could be held by the end of summer], while the British and French delegates expressed the view “que ne soient négligés les travaux traditionnels du groupe” [the traditional works of the Group shall not be ignored]. Another member added that “ces travaux fassent l’objet d’une coordination avec ceux menés au sein du Groupe des vingt du FMI” [those works are the object of coordination with the works handled in the G20 of the IMF]⁽³²⁾. The American delegate expressed their positive view on this new method, while others expressed a negative view. It should be noted that the American view in those days was far from “market oriented” policy which the United States would insist in later period. The American government was keen to fix the “aims” and manage the BP, not to let it go through market mechanism.

Along with the “BP aims” scheme, in the 1970s, the WP3 took up the BP issue in a way quite different from other institutions like the IMF: first of all, the WP3 focused on BP imbalances not only among the OECD countries but also between developed and less-developed countries; secondly, the WP3 (and the OECD as a whole) aimed at free capital movement, and from this point of view the WP3 paid interest to adjustment processes, namely adjustment between current account and capital account. The secretariat of the WP3 imposed these directions, although the responses of member countries varied. The WP3 September-November 1972 sessions give us an interesting example.

(31) AEF B54755, Working Party No.3 of the Economic Policy Committee, Future Work of the Working Party (Note by the Secretariat), Paris, 30th May 1972.

(32) AEF B54755, Note pour ministre, Compte rendu de la réunion du Groupe du travail no 3 de l’O.C.D.E. les 13 et 14 juin 1972 (Claude Pierre-Brosollette), 20 juin 1972.

In September 1972, WP3 secretariat presented a report entitled “the Possible Use of Balance-of-Payments Aims as an ‘Indicator’ of the Need for Adjustment”. The questions posed in the report were as follows: (1) How to ensure the coherence of BP aims of member countries of the OECD; (2) How to improve the adjustment process of BP; and (3) How to reduce the short term capital movement. Due to the time limit of the session, only two topics (1) and (2) were discussed. The session concluded that (1) although there were certain differences between the adjustment objective set by the OECD secretariat and that of each member countries, there was not too much to worry about; (2) the OECD secretariat proposed using a middle-term objective of the current account balance as an indicator for the BP adjustment, i.e. once the BP of a certain country displayed a margin out of the middle-term trend, then the country would be encouraged to exert a corrective measure. However, the member countries “ont généralement critiqué cette approche du problème”[have in general criticized this approach to the problem], since the middle-term objective has to be compatible among countries concerned, not only by a single country adopting the objective. A French delegate, in his note to the Finance Minister, reported the discussion “longue et confuse”, [“long and confusing”] and criticized the WP3 secretariat report as repeating the conclusions already reached in its 1966 report⁽⁶³⁾.

Although the attitude of the member countries was negative on the “aims” or “objectives” on the BP, the WP3 secretariat enforced the proposal. In the next WP3 session, held on 31st October 1972, the secretariat presented a note confirming the following points: (1) the rationale for seeking to establish BP aims; (2) the relation of targets for development Aid to BP aims; and (3) the member countries’ differing philosophies regarding the use of controls of capital flows. A summary of the secretariat proposal is as follows:

⁶³ AEF B54755, Note pour le Ministre, objet : Réunion du Groupe du Travail no.3 de l’O.C.D.E. les 14 et 15 septembre 1972 (Claude Pierre-Brosolette), le 5 octobre 1972.

- (1) “The logic underlying the WP3’s series of discussions on BP aims springs from the fact that different instruments of adjustment affect different elements in the BP. In particular, exchange-rate adjustments affect primarily the current account. Individual measures of direct control affect either the current or the capital account according to what items are subjected to control”.
- (2) “In the world as a whole, the BP surpluses necessarily have a counterpart in BP deficits so that ...the total BP of the world is zero. This, however, is only true *ex post*... If aims are incompatible, one or several countries will necessarily be frustrated in reaching its aims and a danger will arise of mutually offsetting policies”.
- (3) As for philosophies of the member countries with respect to the capital account, the secretariat observed that “some countries have positive views as to the desired structure of their BP as being between the current and capital account”, while “other countries take the view that controls on capital flows, except possibly as a temporary measure, are undesirable, either they believe them to be harmful or, alternatively, ineffective”⁽³⁴⁾.

The session, after examining the above proposal, “agreed to discuss further the possible use of countries’ BP aims as ‘indicators’ of desirable adjustment action”, with certain “margins of tolerance”, beyond which it could be presumed a country would wish to take adjustment action”⁽³⁵⁾.

⁽³⁴⁾ AEF B54755, Working Party No.3 of the Economic Policy Committee, Balance-of-Payments Aims: Implied Assumptions regarding Capital Flows (Note by the Secretariat), confidential, Paris, 31st October 1972.

⁽³⁵⁾ AEF B54755, Working Party No.3 of the Economic Policy Committee, The Possible Use of Balance-of-Payments Aims as an “Indicator” of the need for adjustment (Note by the Secretariat), confidential, Paris, 2nd November 1972.

However, the thinking of the WP3 stayed within the limit of the fixed rate system: the BP aims were tools to manage BP imbalances in the world of Smithsonian Agreement, which tried to put the currencies in a framework of the Bretton Woods, in vain. The OECD-WP3 would face the collapse of the system in a particular way.

First encounter with the floating rate system

The Smithsonian Accord in December 1971 could not keep on standing until 1973. The Italian lira and the Japanese yen declared floating in February 1973, and other currencies followed, including the pound sterling. The IMF adjustable peg exchange rate system then collapsed and a floating exchange system was introduced.

No one, including the WP3, has ever experienced the floating exchange rate as a main rule to work in the international monetary system. In fact, when the WP3 began to study the floating exchange rate system from February 1973, the recognition of the system was not so clear: in a note on the “Prospects after the new currency realignment”, the OECD Secretariat counted a floating rate system as one of the three “dangers” which could result of the realignment, along with the “exchange controls” and “a general tendency for exchange rate adjustment to go further than needed to restore payment equilibrium”. The report of the WP3 emphasized that “further bouts of speculation would seem, not merely possible, but probably inevitable”⁽³⁶⁾.

According to the notion of the WP3 of the time, “the disadvantages of unstable rates would be greatest as between close trading partners, e.g. within Europe”.

⁽³⁶⁾ OECD Archives, CPE/WP3(73)5, Working Party No.3 of the Economic Policy Committee, “Prospects after the new currency realignment”, 19 the February 1973.

The European skepticism to the floating system was followed by future-looking view of “a common “European” float”, although “any large movement in the common exchange rate against the rest of the world heightens tensions resulting from disparities in the positions of countries party to the scheme”. On the other hand, the WP3 indicates that “the positive argument for floating is that it would eliminate the conditions which permit the building up of large private speculative positions”. The report finally concludes that “floating would not necessarily have to be clean floating”. Because “there could be a case for financing mobile capital flows [...]even though the exchange rate provided a mechanism which could (at the cost of unwanted rate fluctuations) prevent them”⁽³⁷⁾.

In a session of the WP3 on 5th March 1975, the general impression was of “mild optimism” but an American delegate, Benett “strongly denied that his country followed a policy of ‘benign neglect’ with respect to the exchange rate of the dollar (he also objected to the qualification of the present situation as necessarily one of ‘weakness’ of the dollar) and assured the Working party that the United States authorities would not reintroduce capital controls”⁽³⁸⁾. In the session, Benett repeated that he “did not like the expression ‘weakness of the dollar’” and that the trade-weighted exchange rate of the dollar remained in a certain range from 1973. The American view at the time was that there was no “target zone”, nor “benign neglect” for the dollar rate⁽³⁹⁾.

Oil-dollar recycling

A striking feature of the discussion which took place in the WP3 (and of course a striking feature of the 1970s itself) was the energy problem. After

(37) Ibid.

(38) BIS Historical Archives, DEA21, FO52, Summary Report on the Meeting of Working Party No.3 on 5th March 1975.

(39) BIS Historical Archives, DEA21, FO52, Note on the Meeting of Working Party No.3 on 5th March 1975, confidential.

the petroleum price upsurge provoked by the OPEC countries in 1974, the WP3 set up an agenda on “oil-money flows, Euro-currency market, direct recycling, and recycling through international institutions”⁽⁴⁰⁾. During the session, WP3 members examined the “oil-money flows” mainly flourishing into the U.S. Treasury and the Bank of England. All the other subjects on the table, namely the Euro-currency market or recycling (direct recycling of capital between two countries or secondary recycling through a third country) concerned “oil-money”. Let us pick up some representative topics.

According to the data presented on the table of the WP3, the oil-money flows into the U.S. Treasury during the 8 months from January to August 1974 totaled 28 billion dollars (of which 13 billion from the Euro-Currency market and the rest 7 billion from the U.S. market). During the same period the Bank of England gathered 27 billion dollars of the oil-money, of which 12 billion in London (and of this figure 3.5 in sterling holdings and 8.5 in euro-currencies). The two Anglo-Saxon markets were thus favored as a reservoir for the oil-dollar. Regarding this market move, “some speakers” in the meeting “considered that the market was “saturated” and that the volume of new credits should, and would, continue to diminish”. Those speakers “said that excessive underpinning of liquidity positions should be avoided”. However, “others felt that the market could continue to handle a fairly substantial volume of credit”. The Chairman of the meeting supported the latter optimistic view.

After a long discussion over various subjects, the WP3 reviewed the five types of scheme over how to recycle the oil-money, as follows:

- (1) a new investment institution, set up jointly by the oil-consuming and the

(40) OECD Archives, CPE/WP3(74)17, Working Party No.3 of the Economic Policy Committee, Informal Record by the Secretariat of the Working Part's Meeting on 28th September 1974 in Washington, confidential.

oil-producing countries

- (2) a new facility for re-cycling through the IMF
- (3) “the General Agreements to Borrow”
- (4) a BIS or an OECD-BIS arrangement
- (5) borrowing by the European Economic Community

All the above schemes have been examined in the meeting, with the IMF and the BIS representative present, and finally the Chairman concluded the discussion: the important point of conclusion was that the WP3 “had seen much more clearly than six months ago, the limits to the capacity of the banking system and the Euro-dollar market, due to the nature of these intermediaries”. Although some speakers supported the scheme of “direct recycling” from the oil countries, the Chairman summed up that “this also had its limitations and problems”. Finally, the Chairman noticed that “there was a consensus on the need in future to rely more on multilateral arrangements”. Neither banking system, nor the Euro-currency market functioned effectively, from the viewpoint of the WP3, to recycle the huge amount of oil-money. The answer to the question was formally the “multilateral arrangements” but the direction of the discussion would move toward the more thorough deregulation of capital markets.

Conclusion

Let us conclude our paper, although temporarily, responding to the five questions asked in the above introduction.

- (1) The OECD in the 1960s was a “Keynesian friendly” institution, with target-setting and macro-economic planning. Although in the 1970s these ideas were politically criticized, the WP3 continued to set targets and interfere with the macro-economic policy of member countries through “tour d’horizon”. This interventionist culture survived in the WP3, at least until the end of the 1970s.

- (2) In the 1970s the European Countries in the WP3 focused on capital market deregulation, with EEC ideas in the background. They were keen to open their capital market, and the WP3 agreement was useful as a means to persuading each member government.
- (3) The WP3 in relation to the BIS was more liberal, anti-restrictive. On the other hand, the WP3 was more European based, anti-dollar hegemony in comparison to the IMF. Thus, the WP3 stood in between these two institutions, one representing the “soft law”, the other the “hard law”.
- (4) The role played by the United States representatives in the WP3 at the beginning of the 1960s had been somewhat isolated in coordinating international financial cooperation. The Americans, however, soon “learned” the organisational culture of the WP3, and by the end of the 1970s became more agreeable in the WP3. The American attitude seems to have reflected the US view on international institutions, especially after the collapse of the Bretton Woods System.
- (5) The Cold War context was beyond the scope of this study. Perhaps in dealing with the Euro-Currency market and oil-dollar recycling, a new thinking on the Cold War might have emerged in the WP3, but this subject is left to be studied in the future.