I think the veto is not sensible. I would not want to make it a veto easier than it is, but personally I would feel they are not getting anything if they get a veto on a general increase in quotas.

Actually, what you give countries when you raise the voting requirement is not the power to stop an increase in quotas; you give them more power to bargain down the amount of the increase.

The five countries together would not try to stop an increase in quotas. But by threatening to use the veto, they could get the United States, the United Kingdom, Canada, Japan, to come around and compromise on a smaller increase in quotas.

We have done that before. The Common Market countries would have more formal power but no more real power than now. If they did not want to take an increase in their own quotas, regardless of how many votes it takes to approve a general increase in quotas, the Fund could not do any good by increasing quotas. The increased quotas could not be used.

Sir Roy Harrod. I have not got the last point. If they did not——

Mr. Bernstein. If the Common Market countries exercised the authority they have in the present Articles of Agreement, to say they do not want any increase in their own quotas, then they could effectively stop the IMF from increasing the quotas of everybody else, because the IMF then would not have the money to lend to other countries that try to exercise their increased quota-drawing rights.

Chairman Reuss. Sir Roy, would you now address yourself to the second point?

Senator Proxmire. Could I ask at this point, Mr. Chairman—and I will be brief—I would like to ask a somewhat broader question of you two gentlemen.

I am wondering about the kind of conditions that would make ratification and activation likely and what, if anything, this country can do to promote them.

I have felt for a long time that the reason why we have had as much international liquidity as we have had is because of the deficit in our own balance of payments, that we have provided the liquidity through that deficit, and that as long as there is no need for expanding reserves because of the dollar deficit—there is at least no imperative obvious transparent need—we are unlikely to get effective activation of a greater reserve.

Now, if this is true, would not the balancing of the U.S. payments tend to promote a situation of diminishing international liquidity which, in turn, would tend to promote both ratification and activation?

Is it possible that the international community is working this rationally and this logically, and you can rely on this?

Mr. Bernstein. I do. I think, Senator, you have asked the most important of all questions.

The most important question is not what second thoughts Sir Roy Harrod or I can dig up on the plan we have. The most important question is how do we speed the ratification and activation of an agreement which seems to me to be a very reasonable one and a very good one.

The best way to speed up ratification is for us to ratify the agreement when the formal amendment is submitted to the members of the International Monetary Fund. The principles of the agreement as stated in the Rio resolution are excellent. Once the United States