SUMMARY PROCEEDINGS
ANNUAL MEETING
1967

INTERNATIONAL
MONETARY FUND

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INTERNATIONAL MONETARY FUND

SUMMARY PROCEEDINGS

OF THE TWENTY-SECOND ANNUAL MEETING

OF THE BOARD OF GOVERNORS

SEPTEMBER 1967

WASHINGTON, D. C.

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INTRODUCTORY NOTE

The Twenty-Second Annual Meeting of the Board of Governors of the International Monetary Fund was held in Rio de Janeiro, Brazil, from September 25 through September 29, 1967, under the Chairmanship of the Honorable Erik Brofoss, Governor for Norway. The Meeting was held in conjunction with the Annual Meetings of the Boards of Governors of the International Bank for Reconstruction and Development and its affiliates. Mr. Brofoss and the Honorable Kåre Willoch, Governor of the Bank, IFC, and IDA for Norway, acted as Chairmen of the Meetings.

These Summary Proceedings include statements, or portions of statements, relating to the work of the Fund which were made by the Governors during the Meetings; omitted passages are indicated by dots (. . .). The statements are presented in chronological order. Resolutions adopted by the Board of Governors of the Fund, reports and recommendations of the Joint Procedures Committee, and other documents relating to the conduct of the Meetings are also included. A list of statements arranged alphabetically by country and a list of the principal topics discussed will be found on pages 303-307.

Statements relating to the work of the Bank are reproduced in the Summary Proceedings of the Annual Meetings of the Bank and its affiliates, issued by the Bank.

W. LAWRENCE HEBBARD
Secretary
International Monetary Fund

Washington, D.C.
November 28, 1967

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ADDRESS BY THE PRESIDENT OF BRAZIL [1]

Arthur da Costa e Silva

I am here to welcome, on behalf of the Brazilian people and Government, the distinguished participants of the Annual Meetings of the Boards of Governors of the International Bank for Reconstruction and Development and its affiliates and the Board of Governors of the International Monetary Fund.

Our country considers it a privilege, as the seat of your meetings, to contribute to the continuity of the healthy tradition established in the last 20 years, that the men responsible for the economic and financial problems of so many countries, which are directly interested in the functioning of these institutions, should meet periodically to examine the progress of the world economy during the second half of the twentieth century.

These meetings—an extension of the Bretton Woods spirit—reflect the progress achieved in the field of communications and at the same time evidence the general desire to advance in the still more important sphere of the interests of each of the nations here represented. These meetings amplify the possibilities of mutual understanding as opportunities are opened for personal discussions among the high authorities on economic matters, whose points of view may thus mutually influence each other in the search for solutions of problems which have their own characteristics in each sovereign nation, but are, in the final analysis, problems concerning the international community as a whole.

In fact, we shall only make progress in the solution of such problems if we achieve a well-balanced appraisal of the over-all interests of our countries. By this means we will be able to measure, with greater certainty, the differences to be overcome among better developed areas and those which demand and deserve

[1] Delivered at the Opening Joint Session, September 25, 1967.

an adequate treatment in their struggle for progress. Fortunately, the more favored nations are already aware of the fact that their own tranquility, in the context of international politics, depends directly on the development of poorer nations or those more pressed by social inequalities.

In many instances, it is less important to measure in absolute terms the progress already attained than to be sure that the treatment adopted in each case will make it possible to reach positive results through the sincerity and perseverance of its application.

This, gentlemen, is a moment of maturity for the international community. Our common destiny is inexorably linked to the destiny of each one of us. It is well known that it is the richer nations which trade most among themselves. Nonetheless, their unimpeded trade depends on the availability of means of payments. Though the international monetary system has functioned with great efficiency in the postwar period, there exists today the firm belief that the moment has come when the level of international reserves can no longer be the unforeseen result of the vagaries of gold production, or ad hoc measures, but must be the object of deliberate decision, as will be registered at this meeting, 23 years after the first one was held at Bretton Woods.

It is necessary to entrust an international organization with the task of adjusting the level of the means through which international exchange is to be settled. It is even more important to note that this is a decision to be taken, not under the impact of an emergency, but as the result of a serene and objective evaluation of the conditions which govern our common advance toward the future.

This approach deserves to be stressed, especially when we have in mind the difficulties the world economy went through in the period between the two World Wars. On the other hand, it should be stressed that in the international organization charged with such an important task, there are to be represented, in accordance with accepted principles designed to reflect the economic weight of each country, all members of the International Monetary Fund, in order to ensure that the decisions to be taken shall be adopted in an adequate context, because they are capable of affecting profoundly the community of nations.

As a result of the tasks to be undertaken by the Governors of the IMF during this meeting, there is to be established the basis for a solution which will allow continuous growth in international trade. The attention given to financial matters should not mean that less emphasis will be placed on questions pertaining to the liberalization of this trade, including the opening of markets for manufactured products from less developed countries.

It is a fact that the effort toward the promotion of development is the individual responsibility of each nation. However, this internal effort can and must be supplemented by a broader availability of resources derived from the more developed countries, to be used in accordance with consistent government programs. It is exactly in this area that the experience of these last few years has not been very satisfactory.

The well-known difficulties we face, in diversifying our exports, require urgently to be removed, so that, besides being raw material exporters, we will become suppliers of manufactures to the world market. As all of you are aware, the restrictions that the developing countries experience in building their industrial sector hinder the speeding up of their economic growth. We trust that, in addition to the measures to be adopted in this meeting concerning the problem of international liquidity, others may be studied which will help to stimulate the flow of investment capital and to open markets for the products which the economies of developing countries are in a condition to offer to the industrial nations. In addition to its own efforts, Brazil looks forward to the expansion of the availability of these external resources in order to help increase the pace of its progress and to enable Latin America to achieve its aim of economic integration.

The objective of harmonious and self-sustaining development for all nations can only be feasible if we have in mind the problems I have just mentioned.

The world must renew and raise the volume of resources made available through international financial institutions. However, equally important is the problem of how such resources shall be used. We have noticed a favorable evolution toward greater flexi-

bility and more courage to innovate. This is a healthy tendency which must continue.

I hope that your labor will bear fruit and help to satisfy the hopes of countries like ours, which want to advance on the road to progress, so that our community of democratic nations shall be stronger and happier.

Brazil receives you with open arms.

OPENING ADDRESS BY THE CHAIRMAN OF THE BOARDS OF GOVERNORS OF THE BANK, IFC, AND IDA, THE GOVERNOR OF THE BANK, IFC, AND IDA FOR NORWAY [1]

Kåre Willoch

I thank the President of the Republic of Brazil for his most gracious remarks. It seems fitting that our first Annual Meeting in the Southern Hemisphere should be here in Brazil, which is the largest country in this part of the world and one of the founding members of the Bank and the Fund. I am certain that I speak for all in thanking the President of Brazil, and the Government and the people of Brazil and of this city of extraordinary beauty for their generous hospitality. In particular, our thanks are due to those who have made available to us this striking Museum of Modern Art, and who have in the past year and a half, with great energy and imagination, adapted it so well to the needs of our meetings.

Speaking for myself, as well as for my colleague as chairman, Governor Brofoss, I extend a most cordial welcome to all Governors, Alternates, Advisers, and guests. I wish especially to welcome the Governors for Indonesia and The Gambia, whose representatives have signed documents of membership since our last meeting, and to the observers from Botswana, which has applied for membership.

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[1] Delivered at the Opening Joint Session, September 25, 1967. Mr. Kåre Willoch, Governor of the Bank, IFC, and IDA for Norway, and Mr. Erik Brofoss, Governor of the Fund for Norway, acted as Chairmen of the Annual Meetings. Mr. Willoch presided at the Opening Joint Session on September 25, at the Second Joint Session on September 26, and at the Bank, IFC, and IDA Session on September 27, 1967. Mr. Brofoss, Chairman of the Board of Governors of the Fund, presided at the Fund Session on September 28 and at the Closing Joint Session on September 29, 1967.

You have before you the Annual Reports of the World Bank Group and the Fund. In a few moments I shall call on Mr. Woods and Mr. Schweitzer, whose annual addresses are eagerly awaited. Before doing so, however, I should like to make a few introductory observations on the problems we confront in finance and development.

For several years, our major preoccupations have been essentially the same. On the side of finance, our attention has primarily been focused on the intricate problems of world liquidity and the functioning of the international monetary system. In the realm of development, the core of our concern has been the inadequacy of financial resources. These are still the overriding issues before us. Their successful resolution is essential to the achievement of our twin objectives: the maintenance of international financial stability in an atmosphere conducive to high levels of employment and growth and a marked rise in the living standards of developing countries. No doubt the attention of the world is focused on our meetings this year, and there certainly is a feeling of hope that the clouds of uncertainty which have for some years surrounded these questions are at last dissipating.

A recitation of what the Bank Group and the Fund have been able to achieve despite the handicaps of the continuing uncertainty affords a glimpse of the potential of these institutions. I should like to highlight a few points which seem to be particularly relevant to our discussions.

When the Annual Reports of the World Bank Group are examined in the context of the entire development effort, one gains three quite distinct impressions. First, one is struck by the magnitude of the world's accomplishments in the last fifteen years or so and by the promise this holds for the future. Second, the record of the last few years reflects a remarkable intensification and broadening of the effort to come to grips with development in all its dimensions. Third, yet at the same time, one is impressed by the critical—even dangerous—nature of the debt service problem we confront at this moment, and by the inadequacy of development resources. I should like to speak on these three points.

Once again in its Annual Report, the Bank has made an important contribution to the assessment of development progress and

prospects. It summarizes the varied growth experience of the developing countries against the background of world economic conditions, the inadequacy of development resources, the rising debt service burden, and obstacles to a satisfactory increase in export earnings. This is an extremely useful analysis, but I believe it deserves a footnote to make clear that today's aggregate rates of growth in agricultural, industrial, and gross national production are not an adequate measure of the development effort already made. While they do reflect results so far obtained from earlier investments, the full benefit of a significant proportion of total postwar development expenditure will not swell the growth rate of gross national product for some time to come.

This point may have a bearing on the degree of public impatience with regard to the results of development assistance which can be witnessed in many industrial countries. Perhaps our own preoccupation with aggregate rates of growth has encouraged the public to look upon them as a kind of official index of development success. We should take pains to make it accepted that they alone cannot serve such a purpose in a satisfactory way at this stage in the development effort. In many developing countries, rapid economic growth can be generated only after far-reaching structural changes have been brought about. This is inevitably a long process, and in many parts of the world we have some distance to go before the investments necessary to these changes can be expected to pay off.

Although purposeful measures to create a more favorable basis for economic growth in underdeveloped parts of the world date further back, one may say that the international development effort as we think of it today really began to gather momentum only about fifteen years ago. To illustrate, of the $8.6 billion the Bank and IDA had disbursed for development purposes through last June 30, less than 4½ per cent had been paid out by mid-1952. Of the remainder, more than three quarters have been disbursed in the last decade, and, of this, more than 60 per cent in the last five years. I have not analyzed disbursements from all sources in the same way, but if high proportions of the total have been spent in such relatively short spans of time we can hardly expect to see the bulk of these investments fully reflected so soon in the growth of GNP.

A few examples should make this point clear. Education probably takes the longest time to pay off economically, but is a fundamental development necessity. The developing countries have made massive investments for this purpose. It must be relevant to any realistic assessment of development achievement that the number of children in school more than doubled between 1952 and 1963 in Latin America and South Asia, as reported by UNESCO, while it tripled in Africa. Surely this increase can be expected to add much more to future economic growth than has so far been reflected in the GNP of developing countries.

A lag between investment and realized benefits is inevitable in all development, though the time span involved varies widely. Water will begin to flow to the fields from a Bank-financed irrigation project, for example, only from three to five years after the loan is approved. Some increase in production may result during the following year, and afterwards output should rise gradually. Experience has shown, however, that an irrigation project's full contribution to growth cannot be expected until ten or more years after the water becomes available. On this basis, less than 12 per cent of the approximately $660 million the Bank and IDA have committed for irrigation projects has had sufficient time to generate its full benefit; projects representing nearly 90 per cent of the Bank Group's investment for this purpose will reach their potential of productivity only gradually between now and 1982.

In the case of so-called infrastructure projects for electric power, transportation, telecommunications, and urban water supply, these investments also are often made to anticipate and lead demand rather than respond to it. Thus, in these sectors as well, there is often a lag between project completion and full capacity utilization. Such projects have accounted for two thirds of the $11.6 billion the Bank and IDA have committed for development, and a significant part of that amount has not yet been disbursed.

Investments for industry entail the shortest lag between construction and the realization of benefits, since they are normally made in more direct response to demand. Yet the infrastructure and skills resulting from the more slowly maturing investments are both a prerequisite and a powerful stimulus to most industrial growth.

They also contribute greatly to the higher and more immediate returns on industrial investments. It is interesting to note that industrial production in the developing countries has been growing at an average annual rate of more than 7 per cent during the last six years. Despite the fact that this growth starts from a very small base, it may be at least one happy augury for the future.

Agriculture is still the great laggard. Some of the crucial facts reported by the Bank are those concerning the failure of agricultural output, and especially of food production in the developing countries, to keep abreast of the increase in population. Total farm production in these countries actually declined last year, and in per capita terms it fell almost 5 per cent over the two years 1965 and 1966. In food production, the decline per capita has been even more severe.

These facts add a grim and powerful endorsement to the initiative, taken by Mr. Woods nearly five years ago, to engage the World Bank Group more fully in the basic, highly complex, and difficult task of agricultural development. They argue strongly in favor of the emphasis which the Bank and IFC have been giving to the achievement of a massive, early increase in fertilizer production and use. While there was a disappointing drop in the amount of funds the Bank Group actually committed for agricultural development during the fiscal year ended June 30, 1967, one IDA credit and four Bank loans have been approved since then, bringing the total of funds committed for agricultural lending during the first nine months of calendar year 1967 to $194 million, a much higher rate than for any previous period. We are assured that the number and diversity of suitable projects are increasing. At the end of the fiscal year, 28 projects had either reached the stage of loan negotiation or were being appraised, and an additional 35 projects were under preparation. This compares with 19 projects for which funds have been committed over the last two fiscal years.

There have been equally important developments during the past year in the Bank Group's assistance to industry. A first line of credit for IFC has been made available by the Bank, under the new authority recently approved by the members of the Bank and IFC. The Corporation's total commitments reached more than $220 million, well over twice the amount of its capital. The Bank

made its first loan to a government-owned industrial enterprise—an enterprise with experienced and efficient management.

Education is another difficult field into which the Bank Group has been led by Mr. Woods. Here also, steady and encouraging progress is being made, although, as already described, investment in education probably takes the longest time to pay off. Bank and IDA lending for education is increasing at a rapid rate, but still totals only $142 million. It may probably never be significant in terms of money in relation to total lending, but looms substantial in terms of over-all assistance to education by external agencies. However, there is reason to believe that the Bank's interest and activity in this field may have considerable impact in helping countries obtain greater long-range development benefit from their education budgets.

Within the broad framework of technical assistance, the Bank has acquired much new experience with the manifold problems of aid coordination, both through the formal coordinating groups that it has organized for 11 recipient countries and through flexible, ad hoc arrangements to deal with special problems as they arise.

One important contribution the Bank has made in recent years has been through its studies of problems that are crucial to the growth of developing countries. Major efforts in this direction have been the staff studies carried out at the request of UNCTAD. Those concerning suppliers' credits and shortfalls in export earnings of developing countries are of particular interest. Many of us also share the interest of our hosts in the study, now under way in conjunction with FAO and the International Coffee Organization, concerning the world coffee problem and its impact on many developing countries. And we all join in commending the Bank and OECD on the new and expanded system of debt reporting which they have worked out, and which came into effect on the first of this year.

This leads me to a main point, the serious nature of the debt service problem and the inadequacy of resources. In some countries the debt service emergency might perhaps to some extent have been avoided by more skillful management. Much of the difficulty, however, results from causes beyond the control of the

developing countries concerned but well within the control of those in a position to encourage and help economic development, if they could only concert their policies with that end in view.

The seriousness of this predicament has been summarized with stark clarity in the Bank's Annual Report and has also been treated in the Fund's Report. The facts make it obvious that the inescapable arithmetic of debt service burdens will delay the development process in country after country unless the world community represented in this room finds it possible to agree on an acceptable solution. Cooperation between the Bank and Fund in coping with debt problems has been gratifying, but further steps are needed to assure a satisfactory development.

This situation underlines the necessity of giving the highest priority to the task of providing sufficient funds for the branch of the World Bank Group which has been created with the specific purpose to grant loans on lenient terms, viz., IDA. It is of paramount importance to enable this institution to fulfill its function. It is a most efficient instrument for long-term cheap and untied lending.

Mr. Woods will undoubtedly have something further to report on his efforts to obtain agreement on a new and larger replenishment of IDA's resources. We should feel it as a great encouragement if Governors of the principal industrialized countries could give us hope for further, broader, and more closely harmonized policies for liberal aid in all its forms.

A new feature in the field of the World Bank Group activities, which I will take this opportunity to welcome, is the creation of the International Centre for Settlement of Investment Disputes, which has now come into operation. The first annual meeting of the Administrative Council of the Centre will be held here today. The creation of this facility for international conciliation and arbitration in investment disputes marks an important step in the cooperation between member countries for the promotion of economic development by private international investments.

Turning now more specifically to the activities of the Fund, I would like to note, as one measure of the Fund's accomplishments, certain aspects of its recent operations.

Drawings from the Fund in the past fiscal year again exceeded $1 billion, causing outstanding drawings to rise to over $5 billion. In this process the currencies of four member countries, namely those of Brazil—our host—and Malaysia, Venezuela, and my own country, Norway, were used for the first time. Since our last Annual Meetings, Bolivia, Denmark, Guyana, and—I am pleased to note—also Norway, assumed the obligations of Sections 2, 3, and 4 of Article VIII.

The fiscal year saw Fund quotas rise by $1.5 billion as a result of the general quota increases which were authorized in 1965. Support of its resources continued under the General Arrangements to Borrow, which were renewed during the year. The Fund did not have recourse to these Arrangements during the year, but it is interesting to note that the Fund borrowed directly from Italy. This is the first such bilateral arrangement in Fund history. It seems to me that Italy has thereby set an example which, if adopted by other creditor countries, may prove to be of great importance for the adjustment process.

Another initiative—demonstrating once more the flexibility which has characterized the policies of the Fund—was the liberalization of the compensatory financing facility. Subsequent to this extension of policy have come the five compensatory drawings described in the Report, plus two later drawings, a total of four more than had occurred in the three years previously. This indicates that increased use of the facility may be anticipated, particularly during the present economic pause in the industrial world, with its expected depressant effects on the export receipts of the developing countries.

Equally deserving of attention have been the strong and successful efforts of the Fund to provide assistance in technical fields relating to monetary and exchange policies, central banking, fiscal management, and financial statistics. Much of this technical cooperation takes place within the framework of its regular annual consultations procedure or through similar staff discussions with members, but in a number of areas the Fund has developed specific technical services to assist members. Experts provided by the Fund, both from within the staff and recruited from outside, are actively engaged in counseling the newer central banks and in

advising on budgetary and tax operations. Moreover, the Fund has continued to be active in trying to alleviate the excessive burden of indebtedness facing some of its less developed members and has actively collaborated with the Bank to help creditor countries consider the debt problem of particular countries. These technical assistance activities, including the training provided by the IMF Institute, reflect the Fund's efforts to help countries to increase the vital supply of skilled and experienced civil servants, especially in newer members which have joined the Fund since independence.

In view of the comprehensive account to be found in the Annual Report, I have merely touched upon some of the more notable financial operations and decisions of the Fund. I have also noted with deep interest the review of economic policies and trends in member countries which is given in the Report. This part of the Report depicts an economic slowdown in major industrial countries, with only few exceptions from mid-1966 to mid-1967. I shall not belabor the important economic and political questions which this part of the Report might evoke. I would like, however, to express the view that, while in previous years most countries agreed in disapproving of economic policies which involved what might be called "export of inflation," the development in the last year seems to illustrate and underline the equal importance of avoiding economic policies which lead to "export of recession."

The question of pressures that may generate recession brings me to another general issue, to which I would now like to turn, and to which we all must give our careful attention during these next few days. I refer to the problems of liquidity and the functioning of the international monetary system, which are so important to the world's financial community and, indeed, to the world as a whole.

The Fund has given much time and attention to these questions over the years, and Governors will recall that at our last Annual Meeting in Washington it was agreed that informal joint meetings between Executive Directors and the Deputies of the Group of Ten might be helpful. In the four such meetings that have taken place, and in the other contacts relating to them, there has been a most valuable exchange of views contributing to the clarification

of many problems. A useful contact has also been established between the Fund and UNCTAD.

The result of these various activities seems to be that we are now closer to the end of the uncertainties of the past years. I am eagerly awaiting Mr. Schweitzer's comments on these events, and I wish to pay tribute to him, to the Executive Directors, to the Fund's staff, and to the Deputies of the Group of Ten for the excellent work done during this period.

As a result of these various efforts, the Fund Governors have on their agenda the "Establishment of a Facility Based on Special Drawing Rights in the Fund and Modifications in the Rules and Practices of the Fund." Later this week, they will be asked to approve a Resolution which requests the Executive Directors to proceed with their work on these matters and submit to them appropriate amendments to the Articles of Agreement and the By-Laws. Our predecessors, the Founding Fathers, at Bretton Woods were wise in establishing an institution so organized that it could repeatedly respond to challenges then unforeseen, and we must aim to be as effective as they were. Reform, to be reform, should be directed toward the Fund's continuation as the vigorous and universally recognized center for international monetary collaboration.

In summing up, I believe that we have only started to see the full possibilities of the world-wide effort which began with the establishment of the Bank and the Fund at Bretton Woods. We have at our hands instruments that give us great opportunities to pave the way for still further and uninterrupted economic growth, and thereby lay the foundations for increased well-being and social justice all over the world. And we are all particularly aware that the struggle to realize national potentialities and to facilitate economic self-determination touches every aspect of the hopes and expectations of the peoples of the developing countries. Despite the difficulties, I am confident that we shall proceed toward these goals, which affect the dignity and self-respect of a major proportion of mankind.

PRESENTATION OF THE TWENTY-SECOND ANNUAL REPORT [1]

BY THE CHAIRMAN OF THE EXECUTIVE BOARD AND MANAGING DIRECTOR OF THE INTERNATIONAL MONETARY FUND

Pierre-Paul Schweitzer

Mr. Chairman, I wish to join you and Mr. Woods in thanking the President of Brazil for his kind words of welcome. We all deeply appreciate the gracious invitation of the Government of Brazil that has resulted in our meeting here; and we are moved by the warmth of the welcome that we have received. The beauty of this city, in this great country, is famed throughout the world and, as one who comes to it for the first time, I may perhaps be permitted to say that it even surpasses my expectations.

In greeting all those present today, I too wish to express my particular pleasure at seeing the Governors for Indonesia and The Gambia, and also the representatives of Botswana whose country has applied for membership. Lesotho and Malta, though not represented here, have likewise applied to become members.

It is my privilege, Mr. Chairman, to present to you the Annual Report of the Executive Directors of the Fund, which deals with a year of intensive activity in relation to transactions, consultations with members, technical assistance, and international liquidity. In the past fiscal year, outstanding drawings on the Fund rose for the first time above the equivalent of $5 billion. This figure has subsequently fallen, largely owing to a substantial repurchase operation by the United Kingdom.

At the last Annual Meeting, I reported on the extension of the Fund's compensatory financing facility, designed mainly to assist primary producing countries which experience temporary short-

[1] September 25, 1967.

falls in their export earnings through circumstances largely beyond their control. The value of the facility is borne out by the fact that in the intervening year seven member countries have made use of it. Another noteworthy development has been the further widening of the range of currencies used in Fund drawings. It is surely an auspicious circumstance, Mr. Chairman, that the currencies used for the first time in the past fiscal year included both that of your country and that of our host.

After these brief remarks I now turn to the two main subjects on which I wish to dwell today: the state of the world economy and international liquidity.

As you are aware, the remarkable expansion of world economic activity that had characterized the 1960's up to about the middle of last year has since been interrupted. The economic slowdown among the industrial countries has been the most pronounced and widespread in nearly a decade. This slowdown, in turn, has had markedly adverse effects on the primary producing countries. During the first half of 1967 the world economy was apparently at a standstill, showing little if any growth. However, by midyear it was evident that a cumulative downward movement had been prevented by the shift to expansionary policies in a number of industrial countries during late 1966 and early 1967, so that the key question then related to the timing and strength of an upturn. In recent weeks the fact of an upturn in the U.S. economy has been established, and signs have appeared that the German economy reached the trough of recession some while ago.

Let me now be more specific concerning world economic developments during 1966 and the first half of 1967. For all of the industrial countries taken together, the rise in industrial production decelerated steadily after the first quarter of last year and gave way to actual declines, though small, in the first two quarters of 1967. This change of pace was led and dominated by four countries—the United States, Canada, Germany, and the United Kingdom. In only two of the industrial countries—Japan and Italy—has the trend of industrial production remained strong. Not surprisingly, therefore, the rate of expansion in the total imports of industrial countries has fallen sharply since about the middle of 1966. On the export side of international trade, the impact of this

change has been felt most forcibly by the less developed group of primary producing countries. In the aggregate, and adjusted for seasonal influences, the export receipts of these countries increased only moderately in the second half of 1966 and appear to have declined slightly in the first half of 1967.

The immediate background of this recent slowdown in the world economy is to be found in developments and policies during the latter part of 1965 and early 1966. This was a period in which the forces of expansion were both vigorous and widespread. By the end of 1965, an easing of demand pressures over much of the industrial world had become appropriate and necessary, inasmuch as the intensity of demand in individual countries was incompatible with the maintenance of reasonable price stability and balance of payments equilibrium. However, the adjustments of national economic policies to deal with this situation cannot be said to have been very successful.

In the first place, industrial countries generally applied policies of financial restraint too late; indeed, because of a belated recognition of the problem in some cases, these policies were put into effect only during the first part of 1966, when prices were advancing at an exceptional rate but output expansion and demand pressures were already tending to subside. Fiscal action usually was delayed or employed only moderately, and the primary emphasis was placed on monetary policy. This contributed to severe strains in money and capital markets, and in a number of countries the ensuing credit squeeze had undesirably harsh effects on particular sectors of the domestic economy.

From an external viewpoint, the timing and combination of policies employed to restrain the 1965-66 inflation had a visibly sharp effect on the balance of payments of individual countries. But these policies do not appear to have made any lasting contribution to the reduction of payments disequilibrium in the international system as a whole. In particular, they were of limited usefulness in inducing equilibrating international capital flows, essentially because of the common pursuit of monetary restraint by a number of major countries primarily for domestic reasons. Moreover, the policies of late 1965 and early 1966 failed to prevent marked differences among major countries in output growth

and pressures on resources, and these conditions led to an impact on the external current account that in some cases was quite unwelcome to the national authorities.

It must be recognized that the period around the end of 1965 was an unusually difficult one for the formulation of economic policy in the main industrial countries. Nonetheless, the experience of that period throws into relief some valuable lessons for the future. Although none of these lessons is new, I shall mention a few of them in order to underline their importance.

First, a review of recent performance serves to remind us of the inherent difficulties of economic diagnosis and forecasting. At the same time, it signals the importance of improving the flow of requisite statistical information.

Second, the recent developments clearly showed that incomes policies cannot achieve their purposes under conditions of excess demand. An incomes policy should only be expected to work effectively in conjunction with the appropriate use of fiscal and monetary policies, and when viewed in this light it can have an important role in the context of over-all national economic policy. I hope and believe, therefore, that national authorities will persevere in attempts to develop incomes policies suitable to their particular economic and institutional settings.

Third, and of particular importance, the 1965-66 experience demonstrated that industrial countries should make a more flexible use of fiscal measures in seeking an effective combination of policies to meet their domestic and external objectives. On other occasions, including last year's Annual Meeting, I have dwelt on this need for better fiscal policies.

Finally, the recent economic record points up the continuing need to achieve a better coordination among financial policies of the major countries. Such a need becomes apparent at this time as one looks at the problem of fostering a broad revival of world economic activity while achieving a satisfactory international payments adjustment. It is a problem calling for appropriate adjustment policies on the part of deficit and surplus countries alike.

In the United States, as I have mentioned, an economic upturn is already under way, and the authorities of that country are suffi-

ciently confident—indeed, concerned—about the outlook as to have requested legislative approval for an early increase of income taxes. After only a slight increase in total real output during the first half of 1967, the current U.S. objective is to achieve a growth rate approximating—but not exceeding—4 per cent a year, in line with the economy's estimated noninflationary potential. This objective is in the interest of other countries as well, given the need to expand world output without generating a resurgence of inflationary forces.

On the other hand, the early realization of its domestic growth objective could hamper the United States in its efforts to improve the external balance on current account if, as now seems likely, over-all growth in the major trading partners of the United States proceeds for a period of time at an annual rate markedly below 4 per cent. In view of the persistent problem of the U.S. balance of payments deficit, the development of renewed strains on the current account balance would be quite inopportune, and it would be essential for the authorities to limit the impact of such strains on the over-all payments position.

In the situation now evolving, a significant contribution to international adjustment can also be made by those major countries that are in relatively strong reserve positions and do not at present face a conflict between domestic and external objectives. It is appropriate that such countries—principally Germany, France, and Italy—should continue to pursue expansionary policies. Such policies are essential to help restore and broaden the upward trend of activity in the industrial world while mitigating strains on the external payments positions of the United States, the United Kingdom, and other countries as well.

Early resumption of a satisfactory growth rate in the industrial world would be of great benefit to the primary producing countries. The slowdown of industrial activity during 1966 and 1967, it should be noted, had a severity of impact on these countries that was most untimely, especially in the case of the less developed group. Over all, the real product of the less developed countries had already grown somewhat more slowly from 1960 to 1965 than in the previous five years, and the performance was distinctly less favorable on a per capita basis. Per capita output in the first half

of this decade advanced appreciably in some less developed countries, but in others, accounting for nearly two thirds of the population of all such countries, it rose only slightly or declined. Because of the recent weakening in the export receipts of the less developed countries, the situation undoubtedly worsened during 1966 and 1967. In its close work with these countries, the Fund has been deeply aware of their increased difficulties and will continue in its efforts to alleviate them.

The economic record of the developing countries that I have just outlined prompts me once again to urge that the industrial countries improve the access to their markets and that they also accord a high priority to the flow of development assistance.

The successful conclusion of the Kennedy Round, after four years of difficult and intensive negotiations, will bring about a highly important reduction in tariffs on a world-wide basis. It is to be regretted, however, that it was not possible to do more toward the elimination or reduction of tariffs on products of special interest to the developing countries. It is gratifying that efforts in this direction are to continue, and it is important that they yield satisfactory results. In the meantime, the tariff cuts that have been agreed for a wide range of industrial products that are not of immediate export interest to the developing countries should nonetheless exert a favorable influence on the demand for their raw and semiprocessed products.

The value of international collaboration on a world-wide basis as exemplified by the Kennedy Round should not make us lose sight of the benefits that countries can derive from collaboration with their more immediate neighbors. One must be impressed, for instance, by the progress that has been made possible by the Central American economic union among countries of that area in recent years; and I want to express my earnest hope that the high aspirations embodied in the charter of the Latin American Free Trade Association will be realized.

I have already alluded, Mr. Chairman, to the importance of development assistance. It is a matter for deep concern that the flow of long-term financial resources to the less developed countries in recent years has lagged behind the growth of output in the industrial world.

Observation of economic developments in the last few years reveals other disturbing tendencies. I am bound to note, for instance, that there has been retrogression in the freedom of capital movements, although the industrial countries introducing restraints in this area have endeavored to shield the less developed countries from their impact. There has also been increased insistence on the tying of foreign aid, which is hardly conducive to its most efficient use. More generally, I want to stress the need to progress on a collective basis toward the further liberalization of international trade and payments. In this context, I urge that countries make renewed efforts to avoid unilateral action—no matter what its motivation—to withdraw concessions or impose new restrictions.

I now come, Mr. Chairman, to what in my view constitutes the most significant development in international financial cooperation since Bretton Woods. I refer to the proposed arrangements for international liquidity. An outstanding lesson of both the Kennedy Round and the liquidity negotiations is that the most difficult problems of trade and finance can be resolved provided that the will exists. Once again we have seen that the most diverse countries can agree on what best serves their individual and collective economic interests and that they can effectively shape their economic environment in order to promote the general welfare.

The discussions on international liquidity were conducted over a period of four years in the Fund, among the ten countries that participate in the Fund's General Arrangements to Borrow, in the joint meetings of Executive Directors and the Deputies of the Group of Ten, and in many other forums. As a result Governors now have before them, approved by the Executive Directors as the basis for an amendment of our Articles, a specific Outline for a facility to meet the need, as and when it arises, for a supplement to existing reserve assets. At this juncture I want to express my very real appreciation of the way in which the long period of discussion and negotiation was so lightened and made pleasant by the spirit of cooperation shown by all participants; and I should like here to pay particular tribute to the Chairman of the Deputies.

After a number of years in which I could do no more than report a certain amount of progress and promise intensive additional study for the next year, I am particularly happy to be able to pre-

sent this plan to you now on behalf of the Executive Directors and to give my warm support to the proposed Resolution that asks them to prepare the necessary amendments of the Articles for submission to the Board of Governors. Once approved by the Board, the amendments would go to members for ratification.

The Fund staff and management stand ready to prepare with maximum dispatch drafts of the necessary instruments, and any other requisite material, to facilitate the work of the Executive Directors in both tasks assigned to them in the Resolution, relating to the establishment of the new facility and to possible improvements in the present Fund.

The Outline reflects the principle that the international community should be able to control reserves, instead of reserves controlling the community. Further, the Outline embodies agreement as to the lines on which action will be taken in case of need. The questions whether there is or will be such a need and, if so, its magnitude are left for determination after the plan has entered into force. Once the final document has been worked out and ratified, the international financial community will have the power to create additions to reserves in the amounts that it judges necessary. When a collective judgment is made that it is desirable to supplement existing reserves, there need be no fumbling for ad hoc solutions. The risk has been dispelled that for lack of agreed international arrangements countries would find themselves driven to adopt solutions dictated not by reason but by force of circumstances.

The Outline now put forward is the result of an intensive and even microscopic examination of many alternative possibilities. I feel confident that it provides a basis for arrangements that will be practical, successful in operation, and capable of further development.

The new facility is aimed at creating international liquidity in unconditional form. In recent years, there has been an increasing tendency in the Fund and elsewhere to distinguish between two main categories of international liquidity: unconditionally available reserves, that is, the kind of liquidity that countries can use without being subject to any commitments or discussion as to policy, and "conditional liquidity" such as the Fund provides in the

credit tranches. It is vital to the promotion of an efficient international adjustment process that conditional credit facilities should continue to play a major role in the international payments system. It has become clear, however, from the discussions of recent years that countries see important differences between access to such conditional facilities and reserves available as of right, so that augmented conditional facilities are not regarded as a full substitute for a normal accrual of reserves. A type of international liquidity that has taken on vastly increased importance in the past few years is that provided by bilateral credit arrangements between monetary authorities. These have conclusively proved their value in times of stress, and they have made for themselves a permanent place in the international financial mechanism. However, given their essentially short-term character, they too are nowhere regarded as an adequate substitute for reserves.

The clear desire of members that the new reserve asset should be unconditional and permanent in character is fully met by the Outline. A member will be able to use the special drawing rights for which the Outline provides whenever it has a balance of payments or reserve need to do so, and its judgment of its own need will not be subject to prior challenge. A member will be able to transfer its drawing rights to appropriate transferees, and in this way can be sure that it will get the currencies it needs to meet a payments deficit. Members that join the scheme will be obligated to accept without question the new reserve assets when presented to them by other members in accordance with rules and instructions of the Fund. This acceptance obligation is an important feature of the reserve character of the new drawing right, and its limit has been set at a level designed to ensure that members will be able to use their drawing rights when they need to do so. Of course, any member can agree to hold any amount of the asset in excess of the limit. The new drawing rights will be usable among participating members only for official settlements. But they will presumably also be usable, under rules still to be worked out, for some of the types of transactions that presently take place between the Fund and its members.

The asset will be given certain other characteristics to make it an international asset worthy of standing side by side with gold,

reserve currencies, and existing reserve positions in the Fund, such as a guarantee of the maintenance of its gold value and interest remuneration at a moderate rate. For these reasons, countries can be expected to want normally to retain the drawing rights allocated to them, to acquire additional amounts when they are in payments surplus, and, when they are in deficit, to use the new drawing rights only in conjunction with the use of their other reserves. The latter idea is indeed reflected in the Outline, which refers to the desirability that countries pursue over time a balanced relationship between their holdings of special drawing rights and other reserves. A member that follows this principle in the management of its reserves would be unlikely to have to adjust its holdings of drawing rights as a result of the obligation to reconstitute—an obligation which specifies that over a five-year period a member's average use is not to exceed 70 per cent of its average net cumulative allocation.

I have commented so far on the more technical aspects of the Outline, but surely of no less importance is the fact that it maintains the principles of universality and of nondiscrimination that are basic in the Fund. All members of the Fund will be entitled to participate in the benefits, while sharing in the obligations, of the new facility. The amounts allocated to each member will be based on the yardstick that has been established in the Fund as measuring its economic and financial position in the world, that is, its quota. Each member's voting power in the new arrangement will be determined on the basis of criteria very similar to those that now apply in the Fund. And the right to use the new drawing rights will be on the same terms for all Fund members. In every way, therefore, the unity of Fund membership has been preserved.

During the long period of discussion and negotiation I have remained confident that the ultimate outcome would be satisfactory both from the technical and from the political point of view, and that it would be such as to strengthen international monetary collaboration and the Fund. It is my conviction that, once the new plan has been translated into an amendment of the Articles, the Fund will be greatly helped in the pursuit of its objectives, which include, if I may paraphrase Article I, the expansion of trade, the

development of the resources of all its members, and a regime of stable exchange rates.

In pursuing these aims over the years, the Fund has shown a remarkable capacity to evolve. Its policies and practices are not static. They have been modified and adapted to meet changing world conditions. They can be further modified to enable the Fund to play an enduring and effective role both in the provision of liquidity and in the promotion of international monetary cooperation.

DISCUSSION OF FUND POLICY AT SECOND JOINT SESSION [1]

STATEMENT BY THE GOVERNOR OF THE BANK FOR GHANA

A. A. Afrifa

We have been most impressed by the hospitality of the Brazilian Government, and I would like to offer our sincere thanks and best wishes to the President and his people.

When I addressed the Annual Meeting last year, the present Ghana Government had been in office for only a few months and I could speak only of the first steps taken toward economic recovery and our program for the future. This year, happily, I can speak of a modest but concrete progress.

The real rate of economic growth in calendar year 1966 was of the order of 1.6 per cent, and this was a modest improvement on the 0.7 per cent growth rate recorded for the previous year. For the first time in many years, balance was achieved in the financial accounts of the public sector. For the current financial year also, the Government has been able to introduce a budget which shows a small surplus on current account.

In spite of these improvements, our balance of payments has continued to be under pressure, and to reinforce the stabilization measures which were introduced last year the Government announced in early July this year a number of far-reaching financial and economic measures, the most important of which was the devaluation of the currency by 30 per cent. This last measure was, among other things, designed to give the cedi a more realistic exchange rate.

It is our view that these measures will lead to an expansion of domestic production and exports and will enable us to further liberalize our imports, current payments, and transfers.

[1] September 26, 1967.

It seems appropriate on this occasion to recall the wide extent of overseas assistance which we have received during the past year. The Fund itself made its facilities available to us in the form of a compensatory financing drawing of $17 million and of a further stand-by arrangement amounting to $25 million. Negotiations between Ghana and its principal creditor countries have also taken place during the year, and these culminated in an agreement last December to stretch out the servicing of our very substantial debts on suppliers' credits. This was followed in April by a meeting organized at the request of the Ghana Government by the Fund in collaboration with the Bank, at which Ghana's balance of payments gap and external aid requirements for 1967 were discussed. This Aid Meeting resulted in encouraging offers of balance of payments support from a number of donor countries, for which we are very thankful.

The provision of this and other forms of relief enabled us during the past year to meet nearly all kinds of current foreign exchange commitments as they arose and also to continue paying off accumulated arrears on short-term debts.

I believe that this was the first time that the Fund had arranged such a meeting at the request of a member country, and I wish to take this opportunity to express to the Fund the appreciation of the Government and people of Ghana.

Having said so much about our own domestic situation, I should like to turn to the question of international liquidity and the progress that has been made during the past year in finding a way to supplement existing reserve assets as and when the need arises. The outcome of these discussions is now before us as an Outline of a Facility Based on Special Drawing Rights in the Fund. I wish to say that my Delegation supports these proposals generally and believes that they represent an important advance toward ensuring that the growth of world trade is not hampered by a shortage of monetary reserves.

The Ghana Delegation, however, recognizes that the Outline is a compromise, which clearly demonstrates the need for flexibility so that the scheme could be adapted to meet the changing requirements of both developed and developing countries. In this connec-

tion, permit me to say that Ghana feels that countries with balance of payments surpluses should use these surpluses, where there is no conflict between domestic objectives and external considerations, to contribute to the smooth functioning of the international monetary system.

The present proposals rightly give the Fund a key role to play in the new arrangements, and I am sure that many others will share my hope that it will discharge its task with the same understanding and flexibility that it has shown in all its other transactions. . . .

Both the Fund and the Bank have continued to provide technical assistance to Ghana in various ways, and I would like to take this opportunity, and again more formally, to acknowledge these invaluable services given so freely and so competently to my Government and the people of Ghana.

In conclusion, may I extend my Delegation's congratulations to the Managing Director of the IMF and the President of the IBRD for completing yet another year of successful operations by these institutions.

Statement by the Governor of the Fund and Bank for Korea

Bong Kyun Suh

It is a great honor and a distinct privilege for me to participate in this Twenty-Second Annual Meeting and to commend, on behalf of the Government of the Republic of Korea, the Fund and the Bank Group for their worthy achievements in promoting further international economic cooperation during the past years. Before talking, however, on subjects of common interest, I would first like to join with my fellow Governors in welcoming The Gambia to our fraternity of membership in the Fund and the Bank Group and the Governor for Indonesia in honor of Indonesia's resumption of membership in this fraternity. Also, I am very happy to join with the honorable delegates who have paid such well-deserved tributes to our Brazilian hosts for their great hospitality

and for making such excellent arrangements for this Conference in this beautiful city and to the staff of the Fund and the Bank Group for their usual superb competence in ensuring the success of our deliberations.

I do not believe that there have been many times before when as much mutual understanding and cooperation among countries, not only in political affairs but also in economic matters, have been required as in the world today. In meeting this need, the Fund and the Bank Group are indeed playing an increasingly useful role. In this connection, I wish to express my Government's sincere appreciation for the assistance given to us by these two institutions since Korea joined them in August 1955. The Fund has always rendered us valuable advice through its annual consultations and provided us with a very useful second line of credit by means of three successive stand-by arrangements, all of which have been a major element in inspiring domestic and international confidence in our economy. We also highly appreciate the very useful technical assistance that the Fund has provided us continuously since 1964 in the formulation of sound fiscal, monetary, and exchange policies. . . .

Fellow Governors, may I now take a few minutes of your precious time to narrate to you some of our major economic achievements during the last few years, about which we in Korea feel very proud indeed. Last year, we successfully completed the First Five-Year Development Plan, and in the current year we launched the Second Plan. During the First Plan period, the Korean economy recorded an unprecedentedly high annual average GNP growth rate of 8.3 per cent, and in 1966—the last year of the Plan—at 13.4 per cent, the growth rate was indeed epoch-making.

The rapid progress of our economy in recent years has been perhaps most dramatically demonstrated in a substantial increase in the degree of industrialization, with the share of the secondary industries in the fast-growing GNP rising from 18 per cent in 1961 to 25 per cent in 1966. In the external sector, too, we have achieved remarkable results. Our merchandise exports, which amounted to only $41 million as recently as in 1961, rose to $250 million in 1966, the increase in 1966 alone being 43 per cent. Encouraged by this result, and also as an important element in our

economic stabilization program, my Government has been pursuing a bold policy of increasingly opening our doors for imports from all friendly countries. Especially rapid strides have been taken in this connection during the current year, as evidenced by the recent trade liberalization measures through the adoption on July 25 of a new negative list system, under which only a relatively limited number of import and export items still remain prohibited or restricted. Furthermore, Korea has actively sought to implement an increasingly rigorous financial stabilization program in close collaboration with the Fund, which, along with the rapid increase in our export earnings and steadily enlarging net inflow of foreign capital, has imparted to our exchange rate a remarkable degree of stability since 1965.

We in Korea, however, fully recognize that all our economic progress hitherto and plans for development hereafter will be largely nullified unless we are able to control our population growth rate. This growth rate is still high, but, thanks to a vigorous family planning program that we launched some years ago to coincide with the inauguration of our First Five-Year Plan, the growth rate has already registered a noticeable decline from 2.9 per cent in 1961 to 2.5 per cent in 1966. But we realize fully that this is only the beginning and are convinced of the need for a further sharp decrease in this rate. Consequently, our new Second Five-Year Plan, which commenced this year, calls for a sustained further drive in this respect, with a view to bringing down the population growth rate to even below 2 per cent by the end of the Plan. We are confident that we shall attain this goal with the adoption of all the necessary measures on our part and with appropriate technical and other assistance from the concerned international organizations in this field.

Although Korea has made such good progress in both the internal and external sectors in the past few years, we are still in great need of further sizable external development assistance. In this connection, please permit me to draw your attention to the pressing problem that is currently facing the world, namely, the widening gap in economic prosperity between the developed and the developing countries, even during this so-called Development Decade. It is regrettable, therefore, that in recent years, the scale

of aid from the developed countries to the developing countries has been decreasing relative to the growth rate of their national incomes. Hence, it would not be inappropriate for me to recall here a UN Resolution passed in 1960 that requested the developed countries to allocate at least 1 per cent of their annual national income for giving aid to the developing countries.

Of particular interest in this context to all of us in the developing countries are the activities of the international financial institutions which, I sincerely believe, can provide us perhaps the most suitable forms of both short-term and long-term development assistance. I wish, therefore, to commend very highly the Fund's Executive Board for initiating in 1966 a new policy of permitting drawing rights for compensatory financing up to 50 per cent of the members' quotas. This liberalization of the policy in regard to the use of the Fund's resources is indeed of considerable benefit to the countries eligible to use this facility.

Speaking of the Fund's resources, my Government welcomes the very happy outcome of the recent London deliberations regarding the appropriate measures for the expansion of international liquidity through the well-tested mechanism of the Fund. This momentous step in the history of international finance in the past two decades has indeed been taken none too soon, and has lifted a great cloud of uncertainty that for the past several years had hung over the future of the world payments system. I am confident that the Executive Board's imaginative proposals in this regard will be unanimously adopted at this meeting. In this connection, however, may I add that in view of the small quotas of many member countries like mine, which have particularly pressing needs for achieving and maintaining balance of payments equilibrium in the light of the much needed acceleration in the pace of economic growth, my Government strongly urges that special consideration be accorded to our countries in regard to the use of the Fund's increased resources. . . .

Finally, I take this opportunity to extend my Government's sincere gratitude to our fellow Governors for approving the increase in Korea's Fund quota and to convey our thanks to the member countries that are now participating in the Bank Consultative Group for Korea.

In concluding my remarks, may I add that, in meeting the challenge of attaining a self-sustaining and satisfactory rate of economic growth in all the countries, millions of the people must, during the years ahead, undergo such changes in our ways of thinking and modes of living as men in former times have never known. In this task, we as Governors of these Bretton Woods institutions have a continuing obligation to help to focus the world's attention on the need for the pursuit of sound national and international monetary and external payments policies, and I am confident that we shall discharge this obligation honorably at this historic meeting.

Statement by the Governor of the Fund and Bank for Australia

William McMahon

Mr. Chairman few delegates have traveled as far as we delegates from Australia. From the moment we arrived in Central America—that is, in Mexico—through the United States, later on to Puerto Rico and Trinidad, and now into Brazil, we have been treated with the greatest courtesy and consideration, and I am sure that if all the delegates have been treated in the same way it must add to their capacity to make a contribution in these discussions.

In particular, I would like you to convey to the Government of Brazil, the host country, our respects and also our thanks for the kindness they have showered upon us. They could not have done more to make our stay here both happy and informative.

Most of us, representing countries large or small, must have asked the question—what catalytic agents have drawn us together from all parts of the free world.

I believe there are two reasons why we are here—and they are both rational and practical. First, we are reviewing the work of the Fund and the International Bank, and their related institutions,

during the year past. Second, we are considering what action may be necessary in the period ahead to ensure that the Fund and Bank will be better able to fulfill the functions for which they were created.

I shall not discuss the functions of the Fund and Bank in detail. I do believe I can aptly summarize the basic purposes of these institutions in this way. They are inspired by the need to achieve a healthy rate of growth of world production and trade and to maintain that growth with a minimum of checks and reversals. It is for them to help to ensure that world financial and economic conditions are favorable to such growth.

Let us first look at the picture which emerges from our review of the year just past. In important respects it was not a satisfactory one. There was what is now called, not inappropriately, a "deceleration" in world production and trade. To some extent this was avoidable. Initially there was a failure to employ sound economic and fiscal policies in some countries. Action subsequently taken to offset excess demand and correct external disequilibrium was belated. It was excessively concentrated in the monetary sector when fiscal restraints could have been more appropriately used. A slowdown in the rate of growth of trade and development occurred.

One important consequence was a hardening of world interest rates. Capital and aid flows were restrained with adverse effects on growth in the developing countries. World commodity prices and the export incomes of many primary producing countries fell, and the terms of trade moved against the primary producing countries. World reserves showed a slower rate of increase, and official gold holdings actually declined.

Clearly this series of events and these trends have implications for policies in the years ahead if needless slowing down in the growth of production and trade is to be avoided. There is, for example, a need for countries with high external reserves and weakness of effective demand internally to encourage domestic expansion and in that way stimulate growth domestically, and in the rest of the world as well. There is need for recognition of the desirability of a more appropriate mix of monetary and fiscal

policies—relying rather more perhaps on fiscal policy than on monetary policy, high interest rates, and direct restraint on capital transfers.

Nor have developments in the world capital markets been encouraging. Interest rates for long-term capital borrowings are discouragingly high. Even at those rates the most creditworthy borrowers have difficulty in gaining access to capital markets. Financial flows to developing countries have been falling, and the international bodies which need funds to channel to those countries have difficulty in raising them. I believe capital should in principle be permitted to move as freely as possible. Such transfers can contribute much to our objective of a strong and steady increase in world production and trade.

This said, I now want to strongly emphasize how much recent economic trends have underlined the need for a scheme to supplement international liquidity. Such a scheme would not be directed specifically to meeting balance of payments deficits as ordinary fund drawings are but more to creating additional reserves for all countries. At the last Annual Meeting many Governors urged the need for early action to create a new reserve asset. Subsequent events have confirmed the opinions then expressed. It is particularly timely, therefore, that an Outline of a scheme for creating additional international liquidity should be before Governors at this Annual Meeting.

Some Achievements in the New Scheme

Various questions will be raised about the content of the Outline of this novel and radical system of special drawing rights, and there will assuredly be some criticisms. I believe, however, that the substance of the proposals should give Governors great satisfaction and should be endorsed.

The Outline provides for the creation of a new reserve asset which will be available unconditionally and automatically and will be permanent in character. The new drawing rights will be guaranteed in terms of gold value and will bear a moderate rate of interest. As Mr. Schweitzer has said, the new asset has characteristics which "make it an international asset worthy of standing side

by side with gold, reserve currencies, and existing reserve positions in the Fund." There can be no doubt that the proposal we have before us represents a real step forward.

You will recall, too, that many of us stressed at the last Annual Meeting that any new scheme should be under the management of the Monetary Fund. On this point, I think the Governors' wishes have been met. The Fund Executive Board was closely involved in hammering out the scheme with the Group of Ten. The Outline provides that the Fund will administer the new scheme through a special drawing account. All decisions on the timing and allocation of drawing rights under the scheme will be taken by the Board of Governors of the Fund—that is, by ourselves. Finally, where there are questions as to whether the special drawing rights have been properly used or not, it will be the Fund which will make the judgment. So I think we can fairly say both that the standing of the Fund has been preserved and its status and responsibility have been enhanced.

There is another equally important basic aspect of the scheme which accords with our earlier views. Many of us suggested that any new asset created should be distributed universally and that it should be allocated on a nondiscriminatory basis. The new special drawing rights will be automatically available to any Fund member who wishes to participate in the scheme, and the drawing rights will be allocated to such participants on the basis of Fund quotas. So again I think the Board of Governors should be pleased that in this scheme we have a proposition which recognizes the principles of both universality and nondiscrimination.

Some Questions that Remain Unanswered

Perfection is all too seldom realized in real life. So it is understandable that there are features of this scheme which will probably draw comment from some, though I hope few, quarters.

There is the question of the 85 per cent voting majority and the right of veto which this may give to some groups of countries. Personally, I am not unduly concerned about this provision. If we are to have an effective scheme for creating additional international liquidity, there must be near unanimity in favor of the scheme or

it will not work. So I think that the problem of the 85 per cent voting majority may be of less importance in practice than it appears on paper.

There is also the problem of the limits to both the creation and actual use of the new asset. First, there is a limit on the initial allocation of SDR's and on their *use* by participant countries. And there is a limit on the extent to which participants have to *accept* SDR's. The first limit is clearly necessary if countries are to be prevented from financing deficits indefinitely at the expense of others. Equally, a limit is necessary if participants are not to be compelled to accept SDR's from others without limitation in exchange for their own reserve assets of a different kind.

And I stress the further argument that, if too large an amount of the new asset is created initially, it may be difficult for it to acquire an appropriate first-line status.

It is important in a scheme as significant and far-reaching as this that we should proceed with responsibility and care. There will undoubtedly be opportunities to improve the scheme in the light of experience. It is better to proceed carefully than to invite difficulties in the early stages. On the whole I think the safeguards built into this scheme should help it toward success and improve its chances of growing into something greater.

There may be some regrets on the part of developing countries that the liquidity proposals are not specifically directed toward meeting development needs. I appreciate the concern of the developing countries. Nevertheless, I believe that the present scheme *will* be of positive benefit to them. These special drawing rights will add to their reserves and to this extent will ease their immediate reserve situation.

Furthermore, it is not an accident that the flow of aid has been slowing down in recent times simultaneously with a check to the growth in world production and trade. If special drawing rights can improve the economic climate and sustain confidence in the financial world, this is bound to improve the possibilities for increasing aid to developing countries as well as improving their export markets and the availability of capital to them. So for these varied reasons I commend the special drawing rights scheme to

the developing countries. I believe the scheme could be of substantial and continuing benefit to them.

Implementation of the Scheme

In my opinion it can be truly said that the Board of Governors has before it an acceptable scheme for creating international liquidity in time of need. But we have not yet cleared all our hurdles. Much remains to be done before the scheme is brought into operation. I see it as critically important that, during the next 12 months or so, momentum shall be maintained.

It is particularly important that the scheme should not be held up by premature arguments about any one country being in balance of payments deficit. Surely the liquidity needs of the world transcend any question about the balance of payments situation of any particular country, important though it may be. In considering the "activation" of the scheme and the amount of the drawing rights to be created, it would be quite proper to take into account the rate of growth of the traditional forms of reserve assets. Nonetheless, if at any time the facts indicate that there is an over-all need for more liquidity, the scheme should be activated without further delay.

While we should be reasonably conservative in deciding the amount of the initial allocations of drawing rights, I strongly feel that the 85 per cent voting majority should not be used to limit allocations to an amount so small as to have little effect in ensuring a degree of liquidity sufficient for world needs. I hope it will not be difficult to reach argreement on these matters.

Gold

On earlier occasions I have referred to the problem of gold. The Fund Annual Report indicates that official gold holdings fell slightly in the course of 1966. I do not think there can be any doubt that the fixed price for gold has had a depressing effect on gold production and on the proportion of gold output which finds its way into official reserves. I must repeat what I have said before that the time is overdue for a Fund study of the many aspects of gold production and the contribution it makes to world monetary reserves.

It may be argued that the new facility will reduce the need for gold. I cannot see it that way myself. Behind the special drawing rights facility stands the Fund and behind the Fund stand gold subscriptions. I still maintain therefore that it would be wrong of us to neglect the contribution of gold, which I believe will remain the foundation of our international payments system for a long time ahead.

Reform of the Fund

The Resolution before the Governors on international liquidity also provides for more work to be done in relation to improvements in the present rules and practices of the Fund. Some of the proposals have been formulated in detail. Others, including perhaps the more significant of them, have not. In requesting the Executive Directors to report to us further on this matter, I can say that Australia will approach these proposals—and any others that may be put forward in this context—with an open mind. Some of the proposals elaborated so far appear to us broadly acceptable. However, it is appropriate to say, at this stage, that on the information available to us we would *not* favor major proposals to render the operations of the present Fund more restrictive than they now are. In particular, proposals to raise to 85 per cent the voting majority required for general increases in quota, or for decisions relating to Fund policies governing drawings in the credit tranches, would not be favored by Australia.

In saying this, however, I am not unmindful that it would be possible in special circumstances to envisage agreement on special increases in Fund quotas for some major member countries which, taken together, would lift their combined quotas closer toward the veto level existing in the present Articles of Agreement.

Of course, the present Articles of Agreement are capable of improvement. I acknowledge the debt we owe to those who have focused our attention on possible changes. However, improvements are one thing. Radical changes which cut at the roots of the mutual contract into which members of the IMF entered after Bretton Woods are another. We will need to exercise care in our examination of these matters.

Mr. Chairman, in my address to the Board of Governors, I have concentrated on the scheme for special drawing rights and on the proposal regarding modifications in the rules and practices of the Fund. I believe it is of the greatest importance that work should proceed apace on these two subjects in the Fund, and I therefore support the Resolution and commend it to my fellow Governors.

Last year, some of us voiced misgivings regarding the outlook at that time for the international trade and payments system. What was said then was borne out to some extent by the check to the advance of the world economy which took place in the second half of 1966 and the first half of this year. For the year ahead, we can take comfort from the strong upturn now occurring in the United States economy and from the hopes that have been expressed regarding developments in other major industrial countries. Let us trust that these forecasts will be fulfilled, for these things are important to all of us, primary producers and industrial countries alike.

In conclusion, may I congratulate both the Fund and the World Bank for the help they have given countries like my own and the undeveloped countries. Without their efforts, I am certain that world trade and development would not increase in the way we have known it to increase over the course of the last few years.

Statement by the Governor of the Fund and Bank for Malaysia

Tan Siew Sin

In the first place, I would like, on behalf of our Delegation, to express our appreciation to the Government of Brazil for the cordial welcome and generous hospitality extended to us. We meet today in this beautiful city of not only a very large country but a country with a wonderful future, and we hope that that future will be as good as what its people wish it to be. . . .

The main issue before this session, insofar as the Fund is concerned, is, of course, the question of international liquidity and the Outline scheme to create special drawing rights within the

Fund. I would like to say a word or two on this proposal, and I should add that I am doing this not only on behalf of my own country, Malaysia; I am also doing this at the request of a number of countries in Southeast Asia, which among them cover an area of about two million square miles and have a combined population of about 200 million people. I do not wish to comment on the technical aspects of this scheme, as this is a matter on which our technical experts are more competent to advise than mere amateurs like Ministers of Finance. I do wish, however, to put on record, on behalf of these countries of Southeast Asia, both our views and our hopes on the broad aspects of this scheme. While we appreciate that it is largely designed to meet the needs of the industrial countries and is, by the very circumstances of its birth, a compromise between differing points of view, it nevertheless constitutes a step in the right direction. In any case, it represents the broadest possible area of agreement among the industrial countries, which are most concerned with this matter. As such, we accept that this is the furthest that they can go at this stage of the game.

At the same time, we in the developing world would be less than honest if we were to declare that we welcome it with wild enthusiasm. If, however, this single step forward could be the forerunner of many more steps and if, as Mr. Schweitzer stated in his opening address, this scheme is "capable of further development," and such further development is directed toward the needs of the developing countries, this move would certainly be a welcome one. Mr. Woods reminded us in his opening address of an old proverb that a journey of a thousand miles begins with a single step. We in the developing world, therefore, hope that the second and further steps of this journey will not be unduly delayed, because these subsequent steps could and should be far more relevant to our needs which are as urgent as they are vast. In other words, we appreciate the necessity for a modest beginning, but let us hope that this modest beginning can lead to something which would be more specific to the problems which confront the greater part of humanity, that is, the developing world. Speaking of the immediate future, this scheme should make it easier for the industrial countries to adopt more liberal trade and economic policies toward

the developing countries. We certainly hope that this is the kind of development which we can look forward to as one of the first fruits of an easier payments position in the industrial countries.

It is also encouraging to note that the Fund has met with some success during the year to lengthen the list of currencies which can be used for drawings on it. There are presently 21 currencies in this list, compared with 16 at this time last year, consisting largely of the currencies of the rich industrial countries, although the currencies of a few developing countries, most of them being Article XIV members, are also included in this list. The Malaysian dollar was so included in March 1967, but this status was acquired at a stiff price, namely, the loss of interest earnings as a result of the transformation of interest-bearing external reserves into an increased reserve position in the Fund. Furthermore, the transformation of such reserves into a mere reserve position with the Fund implies some restriction on the use of the reserves so transformed, and unlike the currencies of Article VIII countries, Malaysian currency is not accepted for repurchase, which imposes a further restriction on its use. In order to alleviate some of these disadvantages and to induce a fuller participation on the part of more members, particularly the developing countries, in furthering the aims of the Fund, I would suggest that the Fund should seriously consider paying a reasonable return on the currencies of developing countries used for drawings on the Fund. I am aware, of course, that this policy, if adopted, will necessitate an amendment to the Fund's Articles of Agreement, but I suggest that these rules are man-made, and hence not sacrosanct, and should be amended if changing circumstances so require. After all, the Fund has achieved a net income of US$50 million plus another US$41 million income from its investments for the fiscal year ended April 30, 1967 and is wondering what to do with it, and I have a feeling that, even if our suggestion were adopted, it would reduce the total amount still available for distribution, if this is deemed desirable, by a negligible figure.

At past meetings, I have constantly referred to a basic problem of the developing world, viz., the need to secure fair terms of trade, our chief disability being that we are paid less and less for what we largely export, i.e., primary commodities, while having to

pay more and more for what we largely import, i.e., manufactured goods. Secondly, freight rates of the shipping companies, and the overwhelming bulk of such ships is owned and controlled by the industrial countries, are heavily loaded against both the exports and imports of the developing world, though some are discriminated against more heavily than others. Thirdly, the manufactured goods of the developing world are all too often denied reasonable terms of access into the industrial countries. It is becoming increasingly clear that the principles of GATT are being implemented in such a way that GATT has become a club run by the rich for the benefit of the rich.

Although GATT rules permit the establishment of free trade areas and customs unions, such as the European Economic Community, such arrangements are, by their very nature, more suited to conditions in developed countries. On the other hand, any proposal to introduce new preferential duties in favor of the less developed nations, such as those adopted by the Australian Government with effect from April 12, 1966, requires a specific waiver of the provisions of GATT forbidding the creation of new preferences. While it is not suggested that there was any undue delay in the granting of the waiver by the CONTRACTING PARTIES on that occasion, we in the developing world urge that the GATT rules should be modified in such a way as to facilitate such arrangements. . . .

I shall now take the case of my own country, viz., Malaysia, as an example to illustrate my point. Between 1960 and 1966, the unit value of Malaysia's natural rubber exports, our most important export commodity, fell by about 38 per cent from an average of 35 U.S. cents a pound to an average of 21 U.S. cents a pound. Since then, the price has fallen further, and only a little while ago touched a level of 15 U.S. cents a pound, its lowest price in 18 years. Although the volume of rubber exports expected for 1967 is estimated to be about 26 per cent higher than that exported in 1960, estimated export earnings for this year will probably amount to only about two thirds of the sum received in 1960. I need hardly add that the prices of manufactured goods which have to be imported by us have steadily risen, or that the terms of trade have equally, steadily, and correspondingly deteriorated. Since

1960, the foreign exchange loss incurred by Malaysia as a result of falling commodity prices has been of the order of US$1,807 million, which represents more than 57 per cent of our estimated gross national product for 1967, or nearly 1½ times the country's gross estimated export receipts for 1967, or 6¾ times the amount of official net loans and grants received during the period 1961-66, or more than 3½ times the inflow of both private and official long-term capital during this same period.

To illustrate my point further, I might add that a drop of one Malaysian cent in the price of natural rubber over a period of one year results in an annual loss of nearly US$7 million in export earnings. One can come to the valid conclusion from the figures which I have given that if Malaysia had been given fair terms of trade we would not need any aid from anybody, because the difference between what we actually received and what we should have received was 6¾ times the amount of official net loans and grants or more than 3½ times the inflow of both private and official long-term capital during this period. In fact, not only would we not require any aid from anybody, we would be in a position to give aid to others, and this brings me to the main theme of my statement. . . .

Mere project financing is only a palliative, and at the moment it is treating only the symptoms rather than the causes of the disease. The basic causes are, as I have stated already, three in number, viz., (a) uneconomic prices for primary commodities, (b) excessive freight rates for the goods of the developing world, both exports and imports, and (c) difficult terms of entry into the industrial countries for the manufactured products of the developing world. I am, of course, aware that at least two of these subjects are being studied by bodies sponsored by the United Nations, but one cannot help feeling that the Bank and Fund would be the most appropriate institutions not only for the study of these subjects but for the implementation of schemes which such studies could well produce.

Though the United Nations was asked to take over these tricky subjects, it is clear that this body does not possess the financial resources to implement any scheme, however soundly conceived,

which could tackle the root of the problem. On the other hand, the Bank and Fund are the only two institutions in the world which have the resources to implement sound and viable schemes, however vast such schemes might be, so long as the will to help is there. These two institutions can also act expeditiously because five or six of the largest industrial countries between them represent more than 50 per cent of the total voting power. The apparent unwillingness of the Bank and Fund to tackle the basic problems of the developing countries will inevitably give rise to a growing belief in the developing world that the Bank is not really interested in the basic reconstruction and development of Asia and Africa as it originally was with the reconstruction and development of war-torn Europe. This would be a very great pity indeed. . . .

We in Malaysia, therefore, warmly welcome the Resolutions to be put forward by a number of countries urging the Bank and Fund to concern themselves directly and closely with the question of fair prices for primary commodities. We would like to congratulate them on their initiative, and we hope that the Bank and Fund will respond suitably and spiritedly to the challenge which has been presented to them. That response could well signify the beginning of a new era in the history of these illustrious institutions and open up a new vista of hope for the developing world. In the process the shadows of today would be lifted and make way for the promise and fulfillment of tomorrow.

Statement by the Governor of the Bank for Germany

Karl Schiller

I am very happy and honored to address this distinguished assembly. I should like to say how very much impressed I am by the hospitality of this great country of Brazil. I am overwhelmed by the vast economic possibilities and by the social needs of this continent. I am deeply impressed by the efforts made for growth and stability. My greatest wish for this country is that it may be able to make further progress on the road toward a higher standard of living. You may be sure you are not alone in your struggle

for economic and social development. The fate of the developing countries is also our own fate. The developing countries and the old industrialized countries are living in one world. We all—for instance, Brazil and Germany—are in this sense united in an Alliance for Progress.

The Bank and the Fund have again this year been doing excellent work and have submitted impressive Reports. I should like to thank them for this and to express our congratulations to President Woods and Managing Director Schweitzer.

In the field of *international monetary policy* we have reached an important stage. Our task today is to consider measures to be taken in case there should be a need for *additional international liquidity*. That is a challenge for all of us. There was fruitful cooperation at the joint meetings of the Fund and the Group of Ten. These joint efforts have now resulted in a concrete proposal for a system of special drawing rights within the IMF. I will try to stress the main principles and the main necessities underlying this proposal.

1. The first principle is that the special drawing rights are universal, that means they are for *all* member countries. Therefore, I do not hesitate to call the new system, laid down in the Resolution before us, the most important contribution to monetary policy since Bretton Woods.

2. The new mechanism for the expansion of liquidity is based on the principles of credit and repayability. This is the right combination. As in the national field, money is created by credit. So the new drawing rights shall be controlled by volume and speed in their creation. All of us know from daily experience what possibilities and also what dangers and temptations lie in such mechanisms. Therefore, we must take care that the new instrument is employed wisely.

3. True, no monetary system can be free from deficiencies. Man is denied the achievement of perfect solutions. It would, however—in the words of the Bible—be "not to see while seeing," if we were to attribute today the balance of payments crises merely to the actual system as such. Our problems depend primarily on our behavior.

4. At any rate, I do not believe that one could definitely conclude that today there is an acute widespread shortage of liquidity. But when the balance of payments deficits in the reserve currency countries diminish, X-day will surely come. Therefore, we have to prepare for a future contingency. Consequently, the further work laid down in the Resolution before us must be continued and concluded with due speed. It will take some time anyway until the new drawing facility becomes available. In activating the system we should proceed with caution—not the least for the purpose of gathering experience with the new instrument.

5. The decision-making process agreed upon warrants that the new facility can count on a broad basis of trust. The new supplement to conventional monetary reserves must be supported by a large number of countries. During the first basic period it will be important to establish confidence in the new facility and to enable member countries to get used to it. The system will function properly only if the drawing rights are not permanently employed by some countries with chronic deficits and do not accumulate in a few surplus countries. The new drawing rights must *not* be a remedy against national balance of payments deficits. They should be applied only to *global* needs. Also, the system must not result in prolonging imbalances and postponing processes of necessary adjustments.

6. Therefore, the principle of reconstitution is an essential of the new system. The new system shall be an instrument to favor world economic growth but shall *not* become a further way to favor world inflation.

7. The draft Resolution before us concerns the creation of drawing rights and the amendment of rules and practices of the Fund. *My Government approves the Resolution.* The two are for us a single entity. We wish to propose that—parallel to the amendments of the Articles of Agreement which have to be made to create the new special drawing rights—studies be undertaken to establish what reforms of the IMF Articles of Agreement are necessary. Between the new drawing rights and the reform of the Fund there are important points of logical interdependence. Practical work done within the IMF too has shown that several rules and business principles have to be adapted to the new situation.

The member countries of the European Economic Community have worked out joint proposals for these studies. We attach a great importance to this work.

For practical as well as procedural reasons, all amendments of the Articles of Agreement proposed should be considered by the Board of Governors and thereafter by Parliaments and should enter into force *at the same time*. Hence, the work carried out within the IMF must be concluded simultaneously. . . .

I would now like to make some comments in respect to the economic position of my own country:

1. Last year our country ran into a significant recession. This has been reflected in our foreign trade balance development. During the first eight months of 1967, German imports were 6 per cent lower than in the year before; exports, however, continued to rise vigorously, by 9 per cent, during the same period.

This development in our balance of trade is an "import deficit" rather than an "export surplus." It has given rise to concern in some of our partner countries. But you may be assured that we do *not* want to pursue any *beggar-my-neighbor policy* by exporting recession. We are aware of our responsibility for international trade. Also for that reason we have—since the beginning of the year—taken decisive measures to revive economic activity. The Federal Government has carried out a first public investment program involving about DM 2.5 billion, and now, in September, we have started a second public investment program comprising DM 5.3 billion. We also stimulated private investment by special depreciation allowances. The Bundesbank has lowered its discount rate by stages, from 5 per cent to 3 per cent, and has reduced the minimum reserve requirements seven times altogether. The measures since the beginning of the year have meanwhile brought the recession to a standstill. The level of production, however, is still low, and upward forces are still weak. But I am firmly convinced that the rapid and straightforward decisions on the second investment program will strengthen the forces of the market and initiate a revival on a broad front of economic activity without any danger to our stability.

2. Unlike several other countries, our conflicting aims are not tensions between the development of domestic demand and the

balance of payments equilibrium. On the contrary, only by strengthening our domestic demand can the foreign trade balance be brought back to a better equilibrium. Sometimes in our country there seemed to be another set of conflicting aims, i.e., between a policy of expansion and the necessities of the medium-term financial planning. We are trying now to overcome this conflict by a "twin program," by consolidating our budget on the one side and by mobilizing an investment budget on the other side. Thus the so-called German double-talk policy in fact makes good sense.

3. Along the same line we have contributed to the international leveling of interest rates. In this way our surplus in the balance of trade has been compensated by short-term money exports and by long-term capital exports out of Germany. Today, the Bundesbank's currency reserves of a little over $7 billion are no higher than they were at the end of 1966 and at the end of 1965.

4. In order to create the instruments of a modern policy of balanced growth, the German parliament has passed an "Act to Promote Economic Stability and Growth," which is—in my eyes—a modern version of the old "Employment Act" of the U.S.A. Our new law provides the legal basis for a global monetary and financial guidance to our market economy, to vary income tax rates by 10 per cent upward or downward, to facilitate investment by tax bonuses, and so on. And now we possess the legal background for a "concerted action" between trade unions, employers' federations, and the Government to work out "orientation data" for an adequate economic behavior of the important groups of society.

5. As a member of the European Economic Community and as one of the important world trading nations, the Federal Republic of Germany is aware of its over-all responsibility for world trade and for the world monetary system. As in the past we are also in the future ready to mediate differences of opinion in the international field. For us the activity of the World Bank and the new developments within the Fund are milestones on the road to a better world, milestones on the road to common progress for all people.

Statement by the Governor of the Fund and Bank for Japan

Mikio Mizuta

I should like to begin by expressing my warm appreciation of the hospitality accorded to us and the excellent arrangements made for this Annual Meeting by the Government and people of Brazil and the city and citizens of Rio de Janeiro. I should also like to pay high tribute to the excellent Annual Reports made by the Fund and the World Bank Group and to the most lucid and penetrating presentations made at the beginning of this meeting by Messrs. Schweitzer and Woods.

For the past several months, people interested in international finances have focused their attention on the progress of the negotiations on international liquidity. And we, who are responsible for the management of international financial affairs, have been sharing a common hope that the Outline of a plan for the creation of a new reserve facility would be worked out before this Annual Meeting in Rio de Janeiro. Now, as we have all been expecting, such an Outline has been presented to us attached to a draft Resolution for consideration. This Outline is, indeed, the fruit of international cooperation, produced through the concerted efforts and collective wisdom of many people. I believe that this Annual Meeting, which will pass a Resolution on this Outline, will mark the greatest step forward in the 20 years since the creation of the International Monetary Fund and will herald a new era in the progress of international finance.

In statements at previous Annual Meetings, our Delegation emphasized the importance of reaching agreement on a contingency plan at the earliest possible date, in order to prevent a shortage of international liquidity, if and when it arises, from interrupting growth and development of the world economy and in order to ensure confidence in the prospects of international monetary stability. With regard to the contents of the plan, we advocated that it should be compatible with the evolution of the existing system and should contribute to greater stability of the

international monetary system; that the Fund should be the agent to manage the new facility because of its profound experience in the international financial field; and that too close a link with gold would not be desirable in the creation of a new reserve facility, not only because of its unfavorable impact on the present international monetary system through possible acceleration of the propensity to hold gold but also because of the danger that it might lead the world economy ultimately into contraction. Furthermore, we maintain that the new reserve facility should be created for and distributed to all member countries of the Fund on the basis of universalism and nondiscrimination; that it would tend to merge with the existing drawing rights in the Fund in its economic sense since both in effect represent the right to draw other participants' currencies; that it should therefore be used only to meet balance of payments needs; and that due regard should be paid to assure equity and order in the holding and use of the new reserve facility. In the light of these viewpoints, we positively and fully support the Resolution to establish the new reserve facility. I sincerely hope that the amendment of the Articles of Agreement based on this Outline will come into effect, and confidence in the prospects of the international financial system will thereby be firmly assured as soon as possible.

The international monetary system in the future will, I believe, be neither a system subject to the physical limitations of a natural product such as gold nor a system too dependent on economic management or on the heavy responsibilities of a single country, but will rather in due course inevitably evolve into a system managed by the collective wisdom and collective responsibility of all countries. The new reserve facility to be created deliberately in accordance with the Outline becomes a good asset only when it is properly managed and controlled. I do not believe I shall be going too far in saying that such collective wisdom and collective responsibility of all countries will be increasingly called for as years go on. The spirit of international cooperation, needless to say, would be of utmost importance for the future international monetary system, but I would like to add that the maintenance of world peace and discipline in the management of economies are the basic prerequisites for its smooth functioning.

The creation of a new reserve facility does not ensure a final solution to international financial problems. We still have before us many problems that need our continuous study. To begin with, how would reserve assets as a whole, including the new facility, be properly used and held? Secondly, how would the improvement in the balance of payments position of the United States, a reserve currency country and the foremost supplier of long-term capital in the world as well, be achieved in compatibility with the sound growth and prosperity of the world economy? Would it not be necessary for the improvement of the U.S. balance of payments to expect also cooperation on the part of the surplus countries as well? Thirdly, would it not be necessary to make further efforts for improvement in the balance of payments adjustment process? I hope studies on these questions will be further pursued.

This year's Annual Report of the Fund points out that the period from the beginning of 1966 to the first part of 1967 witnessed a substantial change in the international economic environment. It suggests that it is of great importance for the major industrial countries to achieve an early resumption of economic growth while avoiding undesirable pressure on prices, in order to cope with the economic slowdown which is widespread and pronounced. It also points out that the U.S. authorities are confronted by the conflict between domestic economic growth and external balance and that fulfillment of the domestic objective of restoring the economy's growth rate to its noninflationary potential is not only important for the United States but is also in the interest of the entire world. It then notes the important role of economic cooperation to be played by the major countries having a strong reserve position and their adoption of appropriate adjustment policies as well as the need for the U.S. authorities to pursue easier monetary policies only with the utmost caution.

I should like to stress that we should be careful, in the years to come, to maintain the momentum of growth and prosperity of the world economy through mutual cooperation of the member countries. Needless to say, each country should carry out its economic policies with discipline, but I believe that the international monetary system, which should be further elaborated and improved upon by ourselves, could provide a basis which would free all countries

from taking excessively restrictive policies, and enable them to follow the path toward expansion of world trade and prosperity of the world economy.

Turning to the domestic economic situation, the Japanese economy entered a course of recovery in the autumn of 1965 and has since been in a new phase of rapid economic expansion. Plant and equipment investment continued on a steady upward course, and consumption remained high. Indications were evident of a strong trend of expansion in every field of economic activity. Although prices have been relatively stable for these several months, the increase of exports lagged behind the continued increase of imports. As to the long-term capital account, the inflow of foreign capital was relatively small while aid to developing countries and export credits showed a marked increase, resulting in a very large net outflow of capital. The balance on nonmonetary transactions thus turned to a deficit since the beginning of this year. The increase of imports reflected the strong demand of the domestic economy, and the slump of exports was also caused chiefly by the strong domestic demand and partly by the economic situations prevailing in the United States and Europe. Under these circumstances, we took a combination of fiscal and monetary measures, at the beginning of this month, including deferment of a substantial amount of government expenditures and an increase in the official discount rate, in order to ensure that our economic growth would be sustainable.

I think it is important for us to maintain a sustainable growth of our economy on a long-term basis also. I believe that flexible and effective management of a fiscal and monetary policy mix is necessary to attain this objective.

Next, I wish to speak on another important problem facing us, that of promoting economic development in the developing countries.

Looking at the progress of aid to the developing countries from the developed countries, one is struck by the fact that the total volume of aid has recently been decreasing rather than increasing. For example, the total for the DAC countries in 1966 amounted to the equivalent of \$9.9 billion, about 4 per cent less than the equivalent of \$10.3 billion given in the previous year.

In the meantime, Japan's aid to developing nations has increased considerably. It is my great pleasure to be able to note here that in 1966 it increased by more than 10 per cent over the previous year. This means the amount of our aid has doubled since 1963. We have made strenuous efforts in this field, and we expect to continue our efforts to the extent circumstances permit. . . .

We all realize the importance of the United Nations Conference on Trade and Development which will be held in February 1968. The proposal for a scheme of supplementary financing, which is expected to be on the agenda of the Conference, will, I think, require very careful study from all angles since it involves many problems, including its relationship to the Fund scheme for compensatory financing. . . .

I would like to conclude my statement by expressing my confidence that the International Monetary Fund and the International Bank for Reconstruction and Development and its affiliates will exert continued efforts for the improvement of the international financial system and for the promotion of economic assistance to the developing countries and will thus make full contribution to the stability and growth of the world economy.

Statement by the Governor of the Fund for the United Kingdom

James Callaghan

I wish to express my gratitude to the Government of Brazil for the hospitality that they have extended to the International Monetary Fund and to the World Bank in inviting us to meet here in Rio de Janeiro—a city famed throughout the world for its outstanding natural beauty. In Britain we are very mindful of our historical association with Brazil, which has extended over the centuries, and of the links of trade and commerce that have given us a deep knowledge and understanding of each other.

It is also a pleasure to express the appreciation of the British Government to the Managing Director and to the staff of the International Monetary Fund and to the President and staff of the

World Bank for the work that they have done during the last 12 months and for the Reports which they have laid before us. It is my privilege to see a great deal of the work of Mr. Schweitzer and of Mr. Woods, and the world is fortunate to have two such outstanding public servants.

It is a pleasure to see the membership of the Fund and Bank growing year by year, and I am very glad to join in welcoming The Gambia and Indonesia. I look forward to Botswana and Lesotho becoming members in due course.

I shall, of course, have something to say about two important initiatives that will take up much of the time of this Conference. One is the proposal for special drawing rights. This is something which, for my part, I warmly welcome. The other is the case for an early and substantial replenishment of the funds of the International Development Association. This is a need to which I give great emphasis.

But before I come to these two matters, I wish to refer to the disappointing rate of increase in world trade during the last 12 months. For this, the major industrial countries must accept primary responsibility. I remind the Conference that the primary objective of both the International Monetary Fund and the World Bank is to ensure expansion of trade and the development of the resources of all their members. We cannot claim that we have succeeded in either direction in 1966/67.

Indeed, in the early months of 1967 world industrial production actually fell slightly—a situation we have not seen for close on a decade—and this has had an adverse effect on the developing countries as well as on the developed countries.

As the OECD has pointed out, this slowing down in world trade has occurred as a result of deliberate reduction of demand in three major countries, namely, the United States of America, the Federal German Republic, and the United Kingdom, while simultaneously a number of other countries were following a similar course. This deliberate action was taken in each case in order to correct either an excessive pressure of demand at home leading to an inflationary situation or to deal with troublesome balance of payments deficits—or to do both. Where these deflationary mea-

sures have been taken, they have had a dramatic effect both at home and abroad. Internally, they have led to a loss of production and to high unemployment. Abroad, they have resulted in the slowing down of world trade with harmful effect on other countries, especially on the developing countries—and consequential harm to the very countries that initiated the deflationary measures.

It is clear from our experience of the last 12 months that, despite the studies and reports and recommendations on these subjects, we have not yet worked out how to achieve full employment and a reasonable rate of growth with a pattern of international payments satisfactory to all of us. All these questions need much more study, which must include the factor of business confidence, before we can be sure that an unbroken period of expanding world trade lies ahead.

Meantime what more has to be done to ensure the renewed expansion of world trade and output which is needed by all of us and in particular by the developing countries who have seen a disappointing fall in commodity prices? I myself have just come from a gathering of the Finance Ministers of 26 nations of the Commonwealth, who represent between them 800 million people of whom the overwhelming number are living in the less developed countries.

My colleagues at that meeting expressed great concern about the price and volume of their exports. Rising industrial production in the developed countries is the best way of ensuring increased export incomes for primary producers, but schemes directed to the support of prices at a level fair both to producers and consumers are also valuable. I warmly support, therefore, the Resolution now before us that these problems be studied by the Fund in collaboration with the other international bodies concerned.

The communiqué of the Commonwealth Finance Ministers' meeting emphasized a further thought that was frequently expressed during our discussions, namely, that countries whose balance of payments and reserve positions are strong and who have a margin of spare capacity are under a heavy obligation to contribute to world prosperity by pursuing suitable expansionary policies at home.

Speaking for Britain, I can say that, within the strict limits imposed by the overriding necessity of maintaining a satisfactory balance of payments, we are following a policy that will lead to a renewal of growth in the United Kingdom during the remainder of 1967 and 1968. We expect that rate of growth to be around 3 per cent per annum, and that this will be consistent with a satisfactory balance of payments. We have no intention of departing from this basic economic strategy, which will prove to be in the long-run interests of both Britain and the rest of the world.

I understand from my colleagues, Mr. Henry Fowler, the Secretary of the United States Treasury, and Professor Karl Schiller, the Minister of Economics of the Federal German Republic, that both of them also expect to see a higher rate of economic growth in their countries, and if this is so then the world can look forward to renewed expansion and to a higher level of world trade in due course.

I hesitate to be more precise than that because I have long since discovered that while we can predict trends with some accuracy we are nearly always wrong about timing. Nevertheless, my view is that the renewal of growth will be discernible by the end of the year and quite obvious by next spring.

Another constant concern for all of us is the persistent tendency of interest rates to edge upward. Difficult though it may be to avoid this at all times, it is harmful not only to industrial countries, especially those with international reserve currencies, but also to the developing world. . . .

I therefore welcome the United States Government's proposal for a tax increase which will help them to achieve the right blend of fiscal and monetary policies. I very much hope that this courageous and necessary move will enable the world to avoid a repetition of a rise in interest rates of the kind which occurred last year, as, taking the world economic situation as a whole, such a rise is certainly not called for.

Another temporary problem is the closure of the Suez Canal. This is doing harm not only to the developed nations, who can withstand it, but also to a number of developing nations. I do not wish to become enmeshed in the political aspects of the problem,

but, from an economic standpoint and from the point of view of the prosperity of the peoples represented here, I very much hope that an early solution will be found. So long as the Canal is closed both trade and aid are hindered, and the world's people are all the poorer. . . .

I turn now to international liquidity, which is naturally in the forefront of everyone's mind at this gathering. This is a great moment in the history of international monetary cooperation. The Outline Plan which we have before us will, if approved, ensure that this 1967 Annual Meeting in Rio de Janeiro takes its place in history. Britain intends to vote for the Resolution approving the Outline. There are those who think that it does not go far enough —this view was expressed by some of the developing nations at the recent Commonwealth Conference. Nevertheless, there was general recognition that compromise had been necessary, and therefore the Finance Ministers of the Commonwealth, while putting it on record that they had their reservations, expressed unanimously the strong hope that the scheme would be adopted at this present meeting.

We support the proposal that a detailed legal instrument should be drawn up, agreed, and presented to us by the 31st March next year. If this is done, I can state now on behalf of Her Majesty's Government that we shall place a Bill before Parliament in sufficient time for the proposals to become law before this gathering meets again next September. I trust that this will encourage others to do the same.

I take satisfaction in the fact that the new plan offers the prospect of introducing a greater element of reason into the management of world liquidity. Decisions to create new drawing rights would be based on a collective judgment about the world liquidity situation. No longer will the supply of new liquidity and the rate of growth of world reserves in total be dependent so largely on the rate of supply of new gold and the balance of payments positions of reserve centers.

Everyone recognizes that the existing system has served us well over the period since the war, but it is no longer capable of providing for the steady expansion of world liquidity which we shall

need in the years ahead. Nevertheless, we are not sweeping away the present system. One of the great merits of the new proposals is that they will strengthen confidence in the means of payment which are in use in the world today. Whatever arguments we may have about gold and the reserve currencies, it is clearly in the interests of all of us that both these means of settlement should maintain their place in the world monetary system.

I do not intend to discuss the details of the scheme today, as they will be familiar to all of you. But I think it is worth pointing out that the new special drawing rights will be distributed universally to all members of the International Monetary Fund who participate in the scheme. That is to say, all countries will be entitled to a proportion of the total special drawing rights based on their respective IMF quotas. By this means we have ensured that any addition to the world's liquidity is not confined to the major industrial nations.

Secondly, as regards reconstitution, I do not believe that, in practice, the arrangements which have been agreed will operate in an unduly restrictive manner. Indeed, I think it will be useful in early years when confidence is being built up. Perhaps later experience will show it can be dispensed with. Reconstitution, after all, will mean no more than a change in the constitution of reserves, substituting one good reserve asset for another.

I should like to make it clear that the United Kingdom intends to include the new drawing rights, when they are created, in their front-line reserves. We hope that other countries will do likewise. When the new drawing rights are treated in this way it will be manifest that they are a supplement to existing reserve assets.

There has been criticism of the voting majority required to create the special drawing rights. This is related to confidence in the new asset. Whatever may be formally laid down on this point, it will always be of paramount importance for purely practical reasons that decisions to create special drawing rights should have the widest possible support, preferably universal support. This is the underlying reality, and it is more important than constitutional niceties.

Another part of the Resolution before us relates to the reform of the Articles of the International Monetary Fund. I support

this part of the Resolution too, including the proposition that consideration of reforms should proceed in parallel with the drawing up of the new instrument for the creation of special drawing rights.

Her Majesty's Government fully recognizes that some changes may be desirable in the Fund after its 20 years of existence, and we are closely studying the proposals already put forward. But we must not allow discussion of these other changes to hold up final agreement on the special drawing rights. We approach this matter with the intention of participating in constructive discussion, the aim of which would be to enhance the contribution that the IMF can make to the development of the international monetary system.

Finally, I cannot leave this matter without paying a very sincere tribute to those who have worked so hard and devotedly to secure agreement, and in particular to Mr. Schweitzer and his staff. I must also mention the work done by the Executive Directors of the Fund and the Deputies of the Group of Ten separately and in the fruitful series of joint meetings which were held during the year, and I would like to single out the Chairman of the Deputies, Dr. Emminger, who, by his energy, fertility of idea, and exactness of expression has contributed as much as any individual to the success of these negotiations.

Discussion of the liquidity problem naturally brings me to the position of sterling in the world monetary system. It is now more than ever clear that we are living and working within a system which is constantly evolving and which must be improved and adapted to the world's needs. But this process of evolution is not simply a matter of what Finance Ministers and Governors of central banks separately or collectively may decide, however important we may think we are. It is a matter, too, of the needs and wishes of the world financial community. This has been overlooked in a lot of the talk—some of it rubbish—that has taken place about the role of sterling in international financial affairs.

On this I have two things to say. The first is obvious. The international role of sterling is a fact. It is not something which has

been fabricated to support the prestige of the United Kingdom or even our economic interests. Nor does it continue because of any stubborn policy on our part to persist in such a role. It continues because it meets a world need: because bankers, traders, investors, and governments throughout the world find it convenient to hold and use sterling. It is noticeable that the fluctuations in the sterling balances, even in periods of considerable pressure, have been relatively small when compared with the total amounts which are held. Pressure on sterling usually arises when the balance of payments of Britain or of the sterling area as a whole looks like being in heavy and continuing deficit. But at present we are not in that position. Indeed at the recent Commonwealth Conference, the Finance Ministers expressed their conclusion that the sterling area showed the prospect of considerable improvement in the balance of payments and of a surplus in 1968, although the amount will be affected by the length of time the Suez Canal remains closed.

Sterling also comes under pressure as a result of a weakening of confidence which can arise, for instance, because of war in the Middle East or disturbances in Asia. These events have little or nothing to do with Britain's economic position, but they can lead to temporary difficulties because the relationship between Britain's short-term liabilities and short-term liquid assets is less than satisfactory. It is that relationship which needs improvement in order to achieve a better balance. There is, of course, no difficulty about the size of Britain's long-term assets compared with her liabilities —our world-wide assets are substantially in excess of our overseas liabilities. Therefore I have consistently taken the view that the smooth running of the world's monetary system requires that a shortage of immediate liquidity should be met by the combined operations of the central banks to offset such a shortage. I readily acknowledge with gratitude the assistance which has been given by the central banks and by governments in this matter, which has enabled these so-called confidence movements to be offset.

Against this background I repeat that we do not approach the question of the role of sterling with a fixed determination to keep things as they are. But it goes without saying that we could not contemplate any change which did not take full account of the

interests of those who have claims on the United Kingdom. Subject to that, however, we shall adopt a flexible position. We are ready to adapt the sterling system to an evolution in the world's monetary arrangements, provided that the change comes in a way which will strengthen the world monetary system as a whole.

As to the U.K. economy, the British Government recognizes clearly that the long-term task is to build an economy which will be capable of sustained growth while still maintaining a strong balance of payments and a high level of employment. To cope with their immediate difficulties we took severe measures last year. Naturally they have been uncongenial to our people, but they have been of great benefit to our competitive position. We have enjoyed a period of over-all relative price stability and of wage stability, with beneficial effects on our overseas prices. The British Government has no doubt that a prices and incomes policy is a necessary condition for success in our efforts to break free from "stop-go." In this aim we have the support both of employers and of organized labor, although there are difficulties about the methods that should be employed. We have now moved out of the period of total wage freeze into a period where wage increases are to be related to increases in productivity. This will continue to be the Government's policy for the next phase. It is estimated that the underlying growth of Britain's productive potential at present is about 3 per cent per annum, with a tendency to accelerate. Accordingly, our medium-term economic strategy is to maintain a rate of growth of demand within that figure.

I have spoken before to this assembly about the long-term structural changes that are taking place in Britain—the rationalization of traditional industries, the training for new skills, the emphasis on productivity, and the technological developments in such fields as computers, nuclear energy, electronics, and natural gas exploitation, not forgetting the growing sophistication of British exports. These are long-term policies, but year by year I can see progress in increased efficiency, better management, and improved labor relations.

At the same time we have taken more direct action to strengthen the external balance. One reason for our difficulties was the high level of government expenditure overseas, principally for defense

and aid, which grew from £270 million in 1959 to over £500 million last year. We have taken measures to reduce that burden, and these will have an increasing effect in the later 1960's and early 1970's. We have also had to take certain measures to limit the outflow of private capital from the United Kingdom to developed countries while leaving developing countries unaffected. It is a regrettable fact that this outflow was making unduly heavy demand on our liquid resources. We are now roughly in a position of equilibrium in the balance of payments.

If we look at the last 12-month period for which figures are available, the year to June 1967, our balance of payments on current and long-term capital transactions, including the normal unrecorded earnings, was roughly in balance, and this represented an improvement of some £275 million compared with the preceding 12 months. Taking all unrecorded movements into account, the balance of monetary movements showed a surplus during this period of some £140 million, compared with a deficit of nearly £300 million in the 12 months before.

We in the United Kingdom look forward to better times, as the various measures we have taken bear fruit. Our objective remains unaltered. It is to make the best use of all our resources and to do it in such a way through the Bank and the Fund that we narrow the gap between rich and poor.

Statement by the Governor of the Fund and Bank for India

Morarji R. Desai

Mr. Chairman, may I first of all congratulate you, Sir, on the very discerning address with which you summoned us to our task yesterday at this annual gathering. To our host, the Government of Brazil, all of us owe a heavy debt of gratitude for the excellent arrangements made for us and for the gracious words of welcome with which our present session was inaugurated by the President of this great country. This is my first visit to Brazil and, indeed, to Latin America. India and Latin America are

separated by thousands of miles. But we are drawn together by our common endeavors for the fulfillment of the hopes and aspirations of our people. I have no doubt that the present meeting will mark yet another stage in the coming together of Asia, Africa, and Latin America, a coming together which is directed solely against the poverty, hunger, and want among our people. I would also like to take this opportunity to welcome in our midst the new members of the Fund-Bank community. We are particularly happy that representatives of Indonesia are fortunately with us again after a brief interruption.

This year the Bank and the Fund have completed 21 years of existence. Beset as we are with problems of one kind or another from year to year, we are naturally inclined to focus at these gatherings on the difficulties and disappointments of the day. But a year in which our two cherished institutions have come of age is perhaps also an appropriate time to look back at the entire balance sheet of our efforts and endeavors. As Mr. Woods reminded us yesterday, it is during these two postwar decades that the improvement of the well-being of human beings everywhere has been accepted for the first time in history as an international objective and responsibility. At no other time in the past has the concern for one's fellow men extended so nobly beyond national or racial or religious frontiers. What is more, what has happened in the social, economic, and political fields during the past 20 years in both the industrialized and the developing countries has surpassed the expectations of even the most optimistic among us. In the international league tables which have become fashionable in some quarters, we see from time to time different countries going up or down in respect of the record of economic progress or political stability or social consciousness and individual freedom. But the more remarkable fact is that behind these vagaries of fortune, there lies everywhere an unprecedented struggle and striving for the betterment of the human condition. We have not all followed the same path; nor have many of us followed the same path consistently. But whatever the course of action that we may have adopted from time to time in the light of our circumstances and in keeping with the traditions of our people, there are not many countries in the world, and hardly any in the membership of our two

institutions, where the past 20 years have not witnessed a remarkable progress in social, economic, or political fields.

I consider it particularly appropriate to recall this at the present stage, when so many people hitherto committed to the cause of world economic development are beginning to be daunted and even disenchanted by the magnitude of the task that lies ahead. Throughout the developing world there is at present a sense of disappointment about the progress made, whether in achieving satisfactory rates of growth or in mobilizing adequate amounts of foreign aid on reasonable terms, or in securing greater access to the markets of the affluent societies or ensuring greater stability in regard to the major primary exports. It is not uncommon to hear nowadays that the promise of the Development Decade has not been fulfilled, that the resolutions of the first UNCTAD Conference have remained mainly on paper, and that the Kennedy Round has not sufficiently taken into account the interests of the less developed countries—and now to this series of disappointments is added the fact that it has not been possible so far for the richer countries to come to an agreement regarding the replenishment of IDA funds on a substantially larger scale than before.

Among the richer countries also, one senses some impatience with the fact that foreign aid continues to be needed on as large a scale as before, that the poorer countries are not able to pay off their debts with interest in a reasonably short time, that the record of political stability has not been as enduring as one might have hoped for, and that many of the problems, such as control of population or increases in exports or avoidance of inflation, are proving more intractable than what all of us had hoped for. Undoubtedly, there is substance in all these complaints. But if we allow the present mood of mutual disenchantment to settle, there is every danger of our dissipating the considerable gains of the past two decades. By all means, let us discuss our problems as freely and frankly as possible and learn from the experience of each of us. But let us not lose our sense of proportion out of impatience. I was, therefore, particularly happy to note, Mr. Chairman, that you tried to put this question in a proper perspective.

It is particularly heartening in this connection that this meeting should mark the culmination of one of the most outstanding

achievements in the history of our two institutions. The specific Outline for a facility to meet the need for a supplement to existing reserve assets, which has been drawn up by the Executive Directors for our approval, is the result of patient negotiations over a period of years; and it represents a kind of compromise which is inevitable in any international undertaking. We ourselves would have preferred a more straightforward approach to this question of the creation of international liquidity. But this is not the time to reopen the arguments and debates of the past. I would, therefore, say simply that we in India welcome the proposed scheme. We welcome it all the more because it fully meets the fundamental requirements to which we attach importance—the requirement that any such scheme should be operated within the trusted framework of international monetary cooperation, namely, the Fund, and that it should apply uniformly to all members of the Fund. We have every hope that under the leadership of the Fund and its distinguished management the scheme will be operated with the breadth of outlook, flexibility of approach, and expert knowledge that we have come to expect from this institution. I should not fail on this occasion to express our appreciation and gratitude to all those who have worked so patiently for this culmination, to Mr. Schweitzer, to the Executive Directors of the IMF, to the staff of the Fund, to the Group of Ten, to the Secretariat of the UNCTAD, and to many individual experts and scholars who have contributed so much to the liquidity debate not only now but even when our two institutions were being conceived.

Looking ahead, it is our earnest hope that the liquidity exercise will not remain suspended in mid-air for any length of time—that the period between the adoption of the contingency plan and the activation of the scheme would be as short as possible. The time for supplementation of existing reserves had already come. Nor is there any need to delay further action pending formulation of very precise criteria and guidelines to indicate the quantum of reserve creation. These are likely to evolve gradually in any event, and the experience of the first few years would itself influence the further evolution of this scheme.

It is understandable that, after 21 years, some need might be felt for possible reform in the normal functioning of the Fund. From

time to time, the less developed countries have made many suggestions to bring the Articles of Agreement of the International Monetary Fund more in line with the special and urgent requirements of the developing world. These and other suggestions will have to be examined carefully before any final decisions are taken on improvements in the present rules and practices of the Fund. However, it is our firm opinion that this question of the reform of the present Fund should not be allowed to delay matters in regard to the activation of the scheme for special drawing rights.

One of the main reasons why we welcome the proposed scheme for special drawing rights is because we see a definite link between the creation of international liquidity and the pursuit of more liberal trade and aid policies on the part of the richer countries. While the developing countries need a growing volume of reserves in their own right, they are equally interested in ensuring that the industrially advanced countries are not forced to follow restrictive trade and aid policies for want of sufficient room for maneuver in regard to their balance of payments. It is, therefore, legitimate for us to expect that the adoption of the special drawing rights scheme will facilitate a greater and more assured flow of multilateral foreign aid, that is, of aid which we can count on with certainty over a number of years and without restrictions on its use. . . .

Sir, I do not wish to take any more of your time by referring to many other aspects of international economic cooperation which are uppermost in our minds today, as I have no doubt that some of my colleagues would undoubtedly do so. I would, therefore, conclude by expressing once again our deep sense of gratitude to the Government and the people of Brazil for receiving us so warmly in these beautiful surroundings.

Statement by the Governor of the Bank for France

Michel Debré

It is a great pleasure for us to be enjoying the hospitality of the Republic of Brazil in this famed city. May we tender our thanks and our compliments to the leaders of this great nation.

Here in Rio de Janeiro we shall be confirming, by a joint Resolution, an agreement that has been eagerly awaited. In this connection I wish to express, on behalf of the French Government, a satisfaction equal to that already expressed by other speakers. The agreement arrived at among the ten countries entrusted with the task of drawing up a plan for the improvement of the international monetary system is a reasonable one. We hope that it will prove possible for the agreement to be approved and implemented in the spirit in which it has been drawn up and accepted. The two main objectives of the agreement are indeed useful ones. It is useful to improve the possibilities and the methods of granting international credit; and it is useful also to bring the Articles of Agreement of the Fund into line with the present status of international economic relationships.

Our satisfaction is, however, tempered by a certain concern. However useful it may be, the proposal cannot solve the serious financial problem faced by both the highly industrialized and the developing countries. It is in fact a dangerous illusion to think that the mere maintenance of present monetary practices, even if they are partially corrected by the provisions upon which we are about to agree, will suffice to meet the demands of our time.

Satisfaction, but at the same time concern: it is around these two themes that I propose to develop the opinion of the French Government.

The London agreement on special drawing rights and the proposal to amend the Articles of Agreement of the International Monetary Fund constitute useful reforms.

The special drawing rights provision in no way constitutes a revolutionary step. These rights do not and cannot establish a new currency designed to replace gold. If such were the purport of the agreement, it is quite clear that France would not sign it. The plan provides for the possible extending of credit facilities. Such is the reform proposed, a limited but important one.

The granting of these facilities is of a contingent nature: recourse to the new drawing rights will be contingent upon the prior fulfillment of certain conditions.

It is true that no statement of these conditions appears in the Outline, but this silence is quite natural, since the sole purpose of the Outline is to describe the proposed mechanism and not to detail the conditions of its activation. However, this is a point on which nobody is ignorant. These conditions have been the subject of detailed studies by the experts, and their merit was endorsed by the vote of the Ministers of the Governments of the Group of Ten at The Hague in July 1966.

These conditions are three in number.

First, the mechanism cannot come into play until a world-wide shortage of liquidity has been collectively recognized to exist. This means that it is not possible either to calculate in advance the amount of the drawing rights designed to remedy such a shortage or to specify that a given tranche of these credits should be made available each year.

Second, the mechanism cannot come into play until there is a more satisfactory operation of the existing adjustment processes.

Third, the mechanism cannot come into play until the balance of payments deficits affecting the countries whose currencies are designated as "reserve currency" have disappeared.

These conditions have been dictated by reason. In particular, we are aware henceforth that the accumulation of claims on reserve currencies, especially in dollars, presents serious drawbacks. It is impossible to imagine a mechanism, designed to improve international monetary liquidity through the instrument of credit, functioning properly so long as a persistent deficit in the balance of a reserve currency as important as the dollar continues to supply, in an uncontrolled manner, world-wide monetary liquidity.

Member countries will use the special drawing rights under the control of the International Monetary Fund, and to meet their balance of payments needs. The fact that provision has been made for generous terms and conditions of repayment is traceable to the concept that these drawing rights will be made available during a period of insufficient liquidity. But rules of repayment nevertheless exist. They are categorical rules and quite properly preclude the possibility of any large-scale or persistent use of the rights.

Thus, a country that drew its entire allocation at the beginning of the operation of the system would be obliged to repay it in full at the end of a three-and-a-half-year period, and would be unable to make any further drawing until the end of the fifth year.

This agreement regarding the special drawing rights is accompanied by a re-examination of certain provisions of the Bretton Woods Agreement and of the practices of the Monetary Fund.

The Articles of Agreement of the Monetary Fund are now more than 20 years old. In many respects they no longer meet the operational requirements of the Fund. I shall mention only one example: the way in which the reserves of member countries are computed. The drafting of the amendments necessitated by the introduction of the drawing rights thus provides an opportunity to update the Articles.

Above all, however, the rules of the Fund do not take into account the changes that have taken place in the world during the past few years—on the one hand, the industrial development and the sound financial condition of the European countries, particularly the countries of the Common Market, and on the other hand, the growing aspirations of the many young developing countries.

It is therefore proper to request the Board of Executive Directors of the Fund to undertake—in conjunction with their study of the new facility and within the same time limits—a review of certain important specific points of the Articles, for submission to our Parliaments at the same time as the proposal relating to approval of the establishment of the special drawing rights. The parallel execution of these two reforms is, I would recall, one of the conditions of the agreement of the French Government.

However, the fundamental difficulties that affect the economy of the present-day world call for other remedies.

What are these difficulties?

There are two with which we are quite familiar. First, the slowing down of the economic expansion throughout the world, and, second, the widening growth-rate gap between the industrial countries and the young developing countries.

One frequently hears it said that both these difficulties could be remedied by creating new monetary liquidity *ex nihilo* and claiming for this liquidity the status of a new currency independent of and replacing gold. But can this be taken seriously? A currency is not created out of nothing, any more than political institutions are created out of nothing. Much more is needed at the start than abstract statements or noble pronouncements. A currency is both an expression of an economy and an assertion of confidence in a higher authority capable of imposing a discipline which, in a free world, is a discipline equal for all. The time has not come for an international currency because the time has not come for such a freely accepted, impartial, and universally respected authority. Any currency other than gold is an expression of sovereignty, and if certain currencies, through the power of the economy they represent and the authority of the government that creates them, enjoy great prestige and a great power of attraction and accordingly play a useful role in trade, the national policy that is —and is alone—at the basis of their management decrees that they cannot be equivalent to gold. Any claim to the contrary may for a time deceive some people, but the truth will very quickly become evident. The longer the deception has lasted, the more tragic will be the consequences of this error.

Let us look at things realistically and wisely. What is at the root of the slowdown in world economic growth?

Political strife and military conflict have their share of responsibility. There can be no growth without confidence, and there can be no confidence in a world divided by sectarianism and strife. But there are also the measures that many industrial countries should have taken to avoid overheating their economy. In the face of nothing short of an explosion of demand, especially for public investment, many industrial countries should cut expenditures and curb inflationary trends when they have been compelled to yield. These countries are not suffering from a shortage of international liquidity but from an imbalance between their production capacity and their economic and social development aspirations. Although monetary factors have been involved and have aggravated these difficulties, it is really inflation that has resulted during recent years from the excess liquidity arising in its turn from the persistent balance of payments deficit of the United States.

Thus, the gold exchange standard, an empirical structure that served well in the past so long as holdings of reserve currencies did not exceed the normal volume of working capital, has become an instrument of instability. It could be otherwise only if the countries whose currencies are responsible for the smooth functioning of the gold exchange standard were to subject themselves to a stricter economic and financial discipline than that required of the nonreserve currency countries.

We note that this is not the case. In other words, the gold exchange standard has had its day, and the more quickly we return to the gold standard supplemented by a good organization of international credit, the more quickly we shall provide the world economy with the conditions for recovery.

The special problem of the developing countries does not affect these conclusions.

It is true that no credit mechanism can fully satisfy the aspirations of the young countries and, in general, of the countries whose rapid development is an essential social priority.

Yet how can it be thought that the artificial creation of paper money can provide a solution? Nothing is solved by distributing small quantities of money, and to distribute large quantities of money would very speedily generate unprecedented disturbances of which the developing countries would be the first victims.

To some extent, the problem of cooperation between industrial and developing countries falls within the framework partly of conventional long-term infrastructure loans.

On this point, I wish to convey to the International Bank and to the International Development Association the support of the French Government. Their past action merits praise, even if their action must take new directions in the future. It will then be possible to place additional resources at their disposal, not excluding the contribution that might be made by the IMF out of the income from interest that it is at present hoarding.

But the effort to be made is greater than the means, even the augmented means, of the existing international organizations, just as it surpasses the special efforts that have been made by certain countries, particularly my own.

What I am going to say here is what I have had occasion to say before other international assemblies, especially the Organization for Economic Cooperation and Development, and I have expressed myself in the same terms to the French Parliament. Aid will be given to developing countries only through a clearly accepted sacrifice of part of their national income by the developed countries.

It is not possible simultaneously to preach about aid to poor countries and selfishly to pursue the welfare of the wealthy countries. We cannot at the same time preach about massive aid to the poor countries and lead the rich countries to believe in the possibility of a rapid reduction in their work effort.

It is true that to bring about a better distribution of income is one of the most difficult tasks before us. We shall not make any serious start on this task except by giving priority to an international organization of the market for certain raw materials and certain products, notably tropical products. By stabilizing prices and by organizing stocks of such items we can bring about an improvement in income having its origin in the prices paid by consumers in the wealthy countries. As a counterpart, the producing countries are required to accept certain disciplines, chief among which is that of production. This is the subsidiary difficulty of the problem.

However, to repeat my conclusion, there is no other way. This is the meaning of the draft resolution submitted by the 15 Ministers of Finance who met in Dakar last week. It is for the members of the Fund and Bank to study the problem and the possible solutions to it, including the possible setting up of a special agency. I am convinced that a well-conducted experiment will permit subsequent developments, the value of which will surprise the most skeptical. France, I need hardly say, is ready to take its rightful share in this effort.

Conclusions.

My country has had no lack of trying experiences in the monetary field as well as elsewhere, which allow me to affirm that we should beware of theories and fancies.

We have accepted the London compromise. We shall remain faithful to it, on the conditions and in the spirit that I recalled at the beginning of my statement, that is to say, we consent to a possible mechanism for new credits, accompanied by a reform of the IMF, and nothing more.

We are aware that the effort to arrive at a monetary system that answers the political demands and social aspirations of our peoples is only beginning. Such a system rests on certain fundamental precepts: the gold standard, a solid credit organization for the equilibrium and expansion of international trade, an intelligent lending effort for the economic modernization of the young countries, and a world organization of the markets for certain raw materials and certain products. I do not hesitate to say, with formal dignity permitted before such a distinguished gathering as I am addressing, that either we take this course or we shall achieve nothing. The more France is resolved to oppose monetary adventures, even to oppose them alone—though France will never stand alone for long—the more gladly will it take its place and bear its responsibilities when a profitable and realistic financial cooperation, respecting the equality of nations, finally makes its appearance.

Statement by the Governor of the Bank for Yugoslavia

Janko Smole

The general economic situation prevailing in the world today, expertly presented in the Annual Reports of the Fund and the Bank, indicates some economic trends in the developing countries that are of great concern to us.

The rate of economic growth continues to be below the 5 per cent foreseen for the Development Decade, the growth of foreign trade has slowed down, prices of primary products have declined, and the terms of trade of developing countries present the most unfavorable aspect since 1960. The flow of long-term capital continues to be below the 1 per cent of GNP of developed countries. In addition, interest rates and other conditions of loans and credits have deteriorated.

These developments should be considered when we discuss the Outline before us for the creation of special drawing rights. This proposal tends to solve one very important problem of the existing monetary system, that is, its quantitative aspect. I think, however, that we would not fulfill our task if we stop at this first step without deploying all our efforts for further improvements in the existing monetary system. We see many serious shortcomings in the proposal: it was created for and under conditions which have been evolving in the developed part of the world.

For developing countries, the problem of international liquidity plays a special role. The development of their economies imposes on them the necessity for a growing volume of imports, which cannot be reduced below a certain level without curtailing their development plans. On the other hand, the decreasing volume of foreign aid and large export fluctuations are imposing upon these countries difficult tasks of adjustment in their economies to maintain a balance in their external accounts. Under the existing monetary system the developing countries are confronted by a dilemma: to increase their monetary reserves or to finance their development plans. This problem still awaits a solution.

With your permission, Mr. Chairman, I should like to quote the case of my country as an illustration of the problems which other developing countries may also face. In order to speed up its industrialization, we had resorted in the past to a system of trade and customs restrictions in order to protect the development of our industry. This protective mechanism played a very important role in the initial period of our development. However, when new industry was built up, it became clear that trade restrictions could be an obstacle to further progress in efficiency and productivity. For this reason, as well as because of technological advances, we see the opening of our doors to world markets as a way to continuing economic progress. This transition from a closed economy to an open economy requires, however, considerable adjustment, which inevitably entails balance of payments difficulties. This adjustment process cannot be carried out within a period of a few years only, is not restricted to particular projects, and cannot be carried out without adequate external financial assistance. Neither the assistance provided by Bank loans under the present procedure

nor by Fund financing of balance of payments short-term deficits is adequate. Nor has the problem been solved by the present special drawing rights facility. The problem, however, remains a crucial one for the integration of developing countries in world economy.

If I may generalize, the international monetary system cannot be regarded in isolation but must be viewed within the context of economic development as a whole. It should contribute to the elimination of a fundamental disequilibrium in developing countries. It seems to me that the absence of this element in the existing monetary system is clearly evident.

The present international monetary system represents a complexity of various instruments of which one—and an important one—is the Fund's resources. It would be advisable for the Fund to study the possibilities of applying more liberal criteria for the utilization of its resources by developing countries. Furthermore, a link between the utilization of special drawing rights and basic financing should be established. I suggest that this subject be thoroughly explored.

The present quotas of the member countries of the Fund represent the basis for establishing the allocation of regular and special drawing rights. Because of this, the question arises whether the existing formula for determining quotas is taking full account of the special elements inherent in the economies of the developing countries.

The Fund's resources are intended to alleviate a country's short-term balance of payments disequilibrium. They must be repurchased within a relatively short period and perhaps at a time when the balance of payments situation is no better than it was at the time of drawing. Here two questions arise: first, the necessity to establish a relationship between the balance of payments situation when drawing and when repurchasing, and, secondly, the need for a reinterpretation of the term "fundamental disequilibrium" if external imbalance is the consequence of sound economic development.

I have indicated some of the problems which I think are of special relevance for the functioning of the existing world mone-

tary system and in respect of which I think certain adjustments in the Fund's policies and practices are required. . . .

One of the very acute problems today, much discussed by various international forums, is the debt repayment problem which threatens to nullify the net transfer of capital to the areas where the problem exists. The present slowdown of growth is to a large extent the consequence of the debt-servicing problem. Debt service and capital income transfers are already absorbing more than half of the inflow of capital and grants to developing countries. Concrete and urgent action is awaited, especially from our international institutions, for solutions of the debt consolidation problem and establishing means for easing the debt-servicing burden. I think that the Bank and Fund are equally interested in the solution of these problems, each of them from their own sphere of competence. This requires close cooperation between the two institutions. The same applies, in my opinion, to the setting up of a suitable mechanism for the stabilization of prices of primary products, which is an essential element for further progress in accelerating the economic development of developing countries. . . .

World economic and financial problems in general, and, specifically, the problems of developing countries, will shortly be the object of discussions at the second meeting of UNCTAD. This requires preparatory work on the part of the Fund, and the Bank as well, and their full cooperation in this important international gathering. The contributions of the two institutions in the past to UNCTAD activities have been of great value. The active participation of the Bank in preparing the scheme for supplementary financing contributed greatly to the clarification of the complex problems in this field, and I hope that the support of the Bank will continue until practical measures are introduced. Here also, the full cooperation of the Fund would be desirable in seeking practical solutions.

I should like to use this opportunity to express the great appreciation of my Government to the Fund for its assistance in the implementation of our economic reform. My Government's appreciation goes equally to the Bank for its assistance in financing the modernization of our industry. . . .

In conclusion, it is with great pleasure that I express my thanks to the Government of Brazil for its hospitality to us in this magnificent city.

Statement by the Governor of the Fund and Bank for the United States

Henry H. Fowler

I take special pleasure in participating in this Annual Meeting in Rio de Janeiro.

I am very grateful to the Government and the people of Brazil for their gracious hospitality on this occasion. The beauty of this city, the breathtaking potential of this huge and vibrant country, form a backdrop to this conference that can inspire us all.

The personal experience of viewing at first hand the problems and potentialities of economic growth in Brazil and in her neighboring nations will, I trust, stimulate us all to assist in further efforts to reinforce international collaboration to support economic development.

I am very glad to see among us once again Governors for Indonesia representing that large and important nation and to note that both the Fund and Bank have been able, in the past year or so, to play a helpful, constructive role in assisting Indonesia to deal with a most difficult and trying period of economic stabilization. I know that all of us wish the Indonesian authorities well in the courageous efforts they are making.

It is also a pleasure to welcome to membership in our organizations The Gambia, which last week completed the formalities to assume membership, and Botswana, whose membership resolutions are before this meeting of Governors.

The Fund and Bank have had another highly successful year, the highlights of which have been recorded in their excellent Annual Reports. Mr. Woods and Mr. Schweitzer have summarized the activity of the past year in the Bank family and in the Fund and I will not retrace the ground they have covered so well.

But the events of the year in the usual pattern have been crowned by an unusual, indeed, unique achievement—the successful completion of substantive negotiations for the creation of a facility to meet the need, as and when it arises, for a supplement to existing reserve assets.

This is to be established within the framework of the Fund and is embodied in the Outline Plan for a special drawing rights facility, which is the principal business of this meeting.

Last year we urged joint meetings of the Executive Directors representing all member countries of the Fund and the Deputies of the Group of Ten. It was our hope and trust that from these meetings a specific plan for deliberate reserve creation would emerge to become the subject of action by the Fund Governors at this Annual Meeting. This hope and trust have been fulfilled. The joint meetings have produced results which exceeded expectations, and the United States is grateful to all the Ministers and Deputies of the Group of Ten and to the Executive Directors, Managing Director, and staff of the Fund.

So, at last we, at this meeting, come to the final and logical forum for an international monetary conference to consider what steps we might jointly take to secure substantial improvements in international monetary arrangements looking to the creation of a facility to provide, as and when needed, a supplement to existing reserve assets. Despite 23 years of steady progress since Bretton Woods, we need to assure a world monetary system conducive to a more rational and constructive world economic order.

It would be a grave error, however, to assume that a strong flexible and adequate international monetary system begins and ends with the assurance of adequacy of global reserves. There are other essential elements which require both international cooperation and a responsible approach of national monetary authorities. Two particularly deserve mention, and the assurance to my fellow Governors is that the United States will play its full part.

The maintenance of convertibility of the dollar and gold for international monetary purposes is also essential to a regime of stable exchange rates, which is a primary objective of the Fund recalled to us yesterday by the Managing Director in his notable address.

Nothing in the new arrangements on liquidity is designed to alter the present relationship between gold and the dollar. The United States commitment to the convertibility of the dollar into gold at $35 remains firm. This has been, and will continue to be, a central factor in the monetary system.

Another element deserving comment is the process of adjusting payments imbalances. International cooperation is important here also, for it is difficult without it to make this process work effectively in the complex world today. The continuing expansion of world trade and investment carries with it a corresponding tendency toward a higher absolute level of international imbalance. An improved adjustment process can serve to moderate this trend, and especially to reduce or eliminate persistent or excessive deficits and persistent or excessive surpluses.

The Fund Report calls attention to some of the difficulties encountered in improving the adjustment process. At the present moment, the domestic economic problems faced by industrial countries show considerable diversity. In my country, there is clear need to apply fiscal restraint to what may otherwise soon become an expansion so excessive as to create serious inflationary strains and an increasing balance of payments deficit. Meanwhile, many countries of continental Europe are still in need of stimulus to restore more satisfactory rates of economic growth. This would also reduce their balance of payments surpluses and thereby promote the international adjustment process.

A perfectly even rate of growth is not to be expected either in national economies or in world trade. The recent situation has been marred by sluggish advances in output—and in some instances, contractions—in a number of key industrial nations. If this state of affairs were to continue, or, worse still, to intensify, strains on the international payments mechanism would surely become severe. In particular, the world's primary producing nations would bear a heavy burden of adjustment.

In many of the industrial nations, a slower advance in output was consciously sought by national policy in order to reduce inflationary pressures. With the adjustment completed, the basis for a more enduring expansion has been laid. Essential as these adjust-

ments in separate countries have been, policies of contraction in surplus countries must not be allowed to continue so long as to prejudice the prospects for an expanding volume of world trade, severely aggravating imbalances in international payments. A constantly expanding volume of trade, well distributed regionally, is essential if acceptable levels of well-being are to be sustained in developed countries and promoted in the developing countries of the world.

A common theme in the recent experience of many industrial nations has been the monetary strains that are the consequence of too rapid internal expansion and too sparing reliance on fiscal restraint. In general, this year has seen some easing of the most severe financial strains. But, in turn, the welcome moderate reduction in upward pressure on money markets internationally has only been achieved, in the main, along with a slowing in the growth of output in some major industrial nations below the rates that are desirable and feasible from a long-term point of view. Despite this, long-term interest rates have remained high.

There will be a need to harmonize national economic and financial policies in the interest not only of balanced expansion at home but also of a balanced expansion of trade internationally. We are all aware that both deficit and surplus countries share the responsibility for continuous efforts to improve the process of adjustment. Deficits and surpluses are after all two sides of the same coin. There should be no presumption that either the deficit or surplus country is the one that is delinquent. Cooperative action by both parties is essential.

Let me turn now to the main subject of interest—on the Fund side—at this Annual Meeting.

This Twenty-Second Annual Meeting has a special meaning for all Fund members. After nearly a quarter century of experience with the Articles of Agreement prepared at Bretton Woods in 1944, we are now asked to approve a procedure leading to the first amendment to those Articles.

The plan for special drawing rights is important to all our member nations. There is no area of the world that does not have a vital interest in the expansion of international trade. Moreover,

the flow of public and private capital across national boundaries is of the greatest concern to the developing world, and these flows can quickly feel the adverse effects of inadequate reserves. At the end of August, President Johnson, commenting on the London meeting, said:

> "Without such a scheme, the increasing inadequacy of the world's money supply will make it progressively harder for national governments to follow liberal trade and employment policies. The livelihood and even the lives of literally hundreds of millions of people over the next decade or two could be at issue, especially in the less developed countries."

Since the war, gold and dollars have provided a flow of new reserves. But gold is not now adding to global reserves, nor can it confidently be assumed that it will do so to a very large extent in the future. Total monetary gold stocks, including those held by the Fund and other international financial institutions, are not significantly larger today than they were at the end of 1964.

Dollars, sterling, and temporary reserves created by the Fund under existing procedures are for the time being carrying on the growth of reserves. But it is clear that future reserve growth cannot rely, as in the past, on United States payments deficits.

It is against this background that the negotiations on the Outline Plan have proceeded. And the plan makes crystal clear that it is possible to reach agreement on a specific course of action, despite differences in approach to the problems of the monetary system and despite widely varying national reserve positions and policies. We have progressed toward agreement in a pragmatic spirit, recognizing that no one participating in these negotiations could expect the outcome to coincide in full with his own ideas.

The judgment and good will of a large number of responsible officials of governments and central banks have combined to bring about this result after some years of intensive work.

The Outline Plan is now before us. We have the responsibility —and the opportunity—to adopt a Resolution to begin the process of giving it life. This is our unique opportunity, meeting as a body, to act on the Outline Plan, before it is committed to our

Executive Directors for final drafting, then to this Board for approval, and to governments for acceptance.

The Outline Plan has the full support of my country. It provides the framework for an effective and workable structure for meeting future global needs for reserve assets.

While there are many aspects of the plan that are noteworthy, I shall confine myself to a few observations:

1. The Outline Plan is a universal plan. It is open to all members of the Fund, and I hope that all will wish to participate.

2. The facility is intended to meet the need, as and when it arises, for a supplement to existing reserve assets. While each country will make its own decision, it is expected that these special drawing rights will be treated as first-line reserves. The United States intends to do so.

3. The new special drawing rights should provide insurance against an excessive cumulative competitive pressure for restrictions on international finance and trade transactions—the discredited beggar-thy-neighbor policies of the interwar period. It can also act as a counter to such interacting national moves toward unduly high interest rates as are brought about by competitive actions of those countries that are protecting their reserves. At one and the same time, it will permit growth in world reserves and buttress confidence in the stability of the entire system of world finance. In a word, it should operate to relax appreciably some of the unnecessarily painful strictures on international finance that come from fears of actual or impending reserve shortage.

4. Endorsement of this Outline Plan should in itself provide smoother sailing in the world's money and exchange markets. Anticipation of the future is a powerful present factor in all things financial. Gold and exchange markets should reflect a new sense of confidence in the adequacy of future reserve supplies.

5. We are gratified that the Outline Plan recognizes that international liquidity is the business of the Fund. It clearly gives the Fund a central role, and provides that the Board of Governors, where every member of the Fund is represented, will have the final responsibility for the vital decisions to create new special drawing rights.

However, as to the role of the Fund in the use of special drawing rights, the Outline Plan wisely leaves scope for development through experience. The Fund's role may well become one of general guidance, more than one of detailed operation. While some basic rules for use need to be maintained, they need not be numerous or complex. The essential part of the Fund's role would seem to lie less in the area of specific transactions than in the process of taking decisions to create special drawing rights and in clarifying and maintaining the basic rules governing their use.

6. A very considerable amount of reconstitution of holdings of special drawing rights may be expected to occur through the normal processes of balance of payments swings. Still, it has been agreed that some explicit reconstitution provision was necessary. At the same time, it was important to avoid compromising the quality of the special drawing rights as a supplement to existing reserve assets. The principles for reconstitution that have been adopted for the first 5-year period assure that the special drawing rights will not be abused, yet do not interfere with their reserve asset status.

In addition to the net average use provision adopted as the initial operating rule, it is also provided that "Participants will pay due regard to the desirability of pursuing, over time, a balanced relationship between their holdings of special drawing rights and other reserves." This provision is intended to encourage a balanced use of all three assets over time and, thus, maintain stability, in a general way, in relative holdings of the new asset and existing reserve assets as well as to promote equivalence between the new asset and the traditional reserve assets.

My country subscribes strongly to the view that the new facility is designed to assure a satisfactory rate of growth in global reserves. It is not designed to meet the problems of an individual country's balance of payments problem.

Let me make it clear that the new facility should in no sense be regarded as a solution to the balance of payments problem of the United States or to the corresponding surplus problem of continental Europe. This is a matter that falls under the heading of the continuing effort to improve the adjustment process. As The

Hague Communiqué of the Group of Ten in July 1966 noted, the prerequisites for the actual creation of reserves "should include the attainment of a better balance-of-payments equilibrium between members and the likelihood of a better working of the adjustment process in the future."

Of course in determining his view as to global needs for reserves, presumably the Managing Director will take into consideration prospective future additions to reserves in the form of dollars or other foreign exchange as well as a number of other factors and developments, both quantitative and qualitative. I doubt that an elaborate or detailed listing of criteria and relative priorities can be established, because conditions change and the relative importance of criteria change. I believe it would not be useful to incorporate a fixed list of criteria in the agreement or the report.

The United States Delegation has great pleasure in giving its support to the Resolution that calls on the Executive Directors to propose the necessary amendments to the Articles of Agreement. It is my strong recommendation that the work of the Executive Directors to this end be completed with dispatch. We hope to propose legislation to the Congress of the United States in the early spring of 1968.

The Resolution before us also requests that a report be made on such other possible amendments as may be recommended at the same time. We are clearly at a much earlier stage of our consideration of other proposals for changes in the Articles and By-Laws. Nevertheless, my Delegation concurs in proceeding to an examination of such proposals.

The proposals will have to be judged on their own merits and accepted, altered, or rejected on this basis in the report to be submitted by the Executive Directors. Some suggestions may prove relatively easy either to accept or reject. If, however, some suggestions are found to be complicated and/or controversial, the Executive Directors could not be expected to put forward next year specific proposals for change based on such suggestions. Adequate time should be allowed to permit a mature, broad, and certain meeting of minds. This is the way we have approached the question of special drawing rights.

For the above reasons, I believe that specific substantive decisions on all these matters should not be regarded as a precondition to taking action on the special drawing rights amendment.

I turn now to matters relating to long-term economic development. The improvements we are now setting in motion in the international monetary mechanism are, I believe, essential to the long-term well-being of the developing countries. Economic interdependence of the developed and the developing countries is a fact of the present and of the future that must be a guiding principle in the direction we give to international economic policies. . . .

Rather than permit our serious and continuing balance of payments difficulties—made still more complex by the foreign exchange cost of our effort in Viet-Nam—we in the United States have found ways to maintain a high level of aid through the transfer of real resources to the developing world. We would prefer, in an ideal world, to make our assistance available in the form of financial resources. However, when balance of payments realities confront us, our choice is clear: we strive not to reduce the level of our assistance—but instead to make our assistance available through transfer of real resources. This approach requires that the real resources represent an addition to, not a substitute for, goods and services moving in normal commercial channels.

If serious and continuing balance of payments difficulties constitute a constraint on the ways the United States can provide assistance, persistent balance of payments surpluses constitute an imperative to countries enjoying such a position to expand their assistance in the form of finance. A sensible policy for such countries, and a policy which can make a contribution to the over-all adjustment process in the international payments system, is one of increasing the volume, easing the terms, widening the geographic scope, and eliminating procurement limitations on the flow of development funds. . . .

In closing my remarks I would like to quote to you the words of the Brazilian representative, Mr. Souza Costa, who, in offering a resolution of thanks at the final session of the Bretton Woods Conference, said:

"As the knowledge of these results becomes more widespread, a corresponding increase will take place in the number of those who, realizing the greatness of the objectives sought, will wish to be counted among the supporters of this undertaking."

How correct this prophesy has been with respect to the Fund and Bank. Let us hope that our successors will say the same of the work that we have launched at this Annual Meeting.

Statement by the Governor of the Bank for Iraq

Abdul Rahman Al Habeeb

The Annual Meetings of the Fund and the Bank are always an important event because they give us an opportunity to review the working of the world monetary system and the efforts made to raise the living standards of the majority of world population. This year's meetings are specially important because they are being held under circumstances which require serious thought and urgent action.

While we are thankful for the studies and discussions on international liquidity both inside the Fund and outside it, the fact is that under the most optimistic conceivable circumstances any plan for creating additional world monetary reserves would take at least two years to come into existence. In the meanwhile, growth of international liquidity is becoming slower, and the consequent dangers of impeding the progress toward a system of free trade and capital flows are becoming bigger. May I repeat a suggestion made by the Governor of the Fund for Iraq at the 1965 Annual Meetings that, pending the finalization of a new plan for creating additional world monetary reserves, we should agree to enlarge the automatic drawing rights of the gold tranche type in the Fund without payment of additional gold subscription. The creation of this facility would not necessarily require a change in the Articles of Agreement and can be introduced without delay.

So far as the contingency plan for establishing new monetary reserves is concerned, let me reiterate that Iraq will endorse any

scheme of world monetary reform which would pay due regard to the interests of all—and not only of some—members of the IMF and which would lay the foundation of a system which would be more closely attuned to the world's needs than the present system is. It is important to stress in this connection that the economic strength of a country or group of countries should not be allowed to be misused for controlling the creation, use, and distribution of new facilities. It should be appreciated that the developing countries deserve special treatment in any new plan of international liquidity, and the proposed Resolution on the Establishment of a Facility Based on Special Drawing Rights in the Fund has not met the requirements and needs of these countries, either from the point of view of principle or from the standpoint of procedural mechanism of the scheme.

Foreign exchange earnings, and indeed a sizable portion of national income of most of the developing countries, are dangerously dependent on the export of one or two commodities. Therefore, they have to keep a relatively high level of monetary reserves in order to be able to maintain their development efforts. While it is generally recognized that reserve currency countries and many other industrial countries need a higher level of international monetary assets than they hold at present, a similar need in the case of primary producing countries is often not appreciated. The compensatory financing scheme of the Fund goes some way toward meeting this need, but it is essential that now, when we are deliberating on the creation of additional liquid assets, the special circumstances of developing countries should be given adequate attention.

In addition to the question of international liquidity, we should give urgent thought to measures which may promote the flow of capital from the developed to the developing countries. It is a sober fact that in 1966—almost the midyear of the Development Decade—the net flow of long-term financial resources to the less developed countries registered a decline. The terms at which capital can be obtained have also tended to be harder. Hence the growing problem of debt servicing would continue to be serious for developing countries in the years to come. The difficulties of poorer countries are likely to be accentuated because of the

continuance of restrictions imposed on the imports of products of these countries by industrialized countries. The long-term trend of prices of primary products is also showing a gradual decline, and exports of these countries are highly unstable. In this situation it is becoming extremely difficult for the developing countries to continue to make a successful effort to develop their economies. We fully endorse the view expressed in last year's Annual Report of the Executive Directors of the Fund that "participation, to an appropriate extent, in the supply of financial resources to the less developed countries should have a high priority in all countries with a relatively high per capita income and should, as far as possible, be shielded from any action needed from time to time to deal with balance of payments problems." May I add that the supply of these resources should also be shielded from political influences and political differences, if any, between the developed and developing countries. . . .

I am offering these suggestions in the hope that they will help in promoting the objectives of the Bretton Woods Agreements. We wish the Fund and the Bank well and hope that they would continue to show a spirit of tailoring their approaches, procedures, and policies to the social and economic needs and aspirations of the people of the world.

Statement by the Governor of the Fund and Bank for Trinidad and Tobago

Francis C. Prevatt

Mr. Chairman, may I with your permission express on behalf of my Delegation and myself how happy we are to be here in Brazil, one of the most dynamic and vigorous developing countries of the Western Hemisphere and indeed of the world, and to be in Rio de Janeiro, a city which we have found to be most delightful and progressive. We are also happy to be present at this historic meeting of the International Monetary Fund and of the World Bank, the arrangements for which merit the highest praise.

International Monetary Problems

At this meeting there is being put forward for our approval a special drawing rights scheme which will have the effect of creating a new international reserve asset, and I wish to place on record that the Government of Trinidad and Tobago fully supports this new contingency plan for overcoming a shortage of international liquidity.

My Government would have been happier had some of the provisions of the scheme been different. But, taking into account the Herculean labors that went into its production and recognizing the need for achieving a consensus among many nations with widely different points of view, my Government is prepared to vote for the Resolution. In our view the scheme, though not perfect, is workable, and is one capable of meeting the needs of expanding world trade in the years ahead. My Government is also especially happy that the plan satisfies the principles of universality, uniformity, and automaticity.

It is our view that the plan will greatly strengthen the international monetary system. I here wish to emphasize that any strengthening of the international monetary system means a strengthening of the world economy, which should create a better economic environment and broaden market opportunities for the developing countries.

I wish to urge that the adoption of the contingency plan and the consequential amendments of the Fund Articles should be introduced as early as possible. At the same time, I wish to emphasize that other and more general reforms of the rules and practices of the Fund are needed so as to achieve greater liberalization and flexibility, especially with regard to the developing countries. I refer to such changes as the easing of conditions for drawing in credit tranches and the reduction of charges for using the compensatory financing facility. Moreover, I am of the view that the adoption of the contingency plan and the consequential amendments should not be delayed pending the finalization of the more general reforms which should themselves be urgently dealt with. It is also important that some means be devised whereby surplus countries would after a point reduce their rate of accumula-

tion of reserves by adopting more appropriate economic policies and furnishing greater amounts of economic aid and private investment to the developing countries.

While I acknowledge that the resources of the Fund should be protected from injudicious use, I feel that the best interests of member countries would be served by the continuing evolution of this important institution so that it can play a broader role in assisting in the achievement of the objectives set out in the Articles of Agreement. In particular, the developing countries would be greatly disappointed at any attempt to make the rules and practices of the Fund more restrictive; for it is the developing countries that have increasingly less room to maneuver in the international monetary field, not least because of the large and growing burden of external debt service on their slowly growing foreign exchange earnings. Further, at the risk of being superfluous, I wish to state that, except in the case of the contingency plan now before us, the developing countries would not welcome any change in the functioning of the International Monetary Fund which would require an abnormally large majority of votes of members. Finally, in respect to the proposed distribution of the net income of the Fund, I would suggest that part of this should be used for assisting developing countries, for example, by providing them with additional technical assistance.

Development Finance

I now turn to the subject of development finance.

Now that a solution of the liquidity problem is in sight, I earnestly hope that the balance of payments inhibitions which have in the past prevented the developed countries from extending economic aid on the appropriate scale and quality to the developing countries will be removed. We of the developing countries are sanguine that the flow of aid from developed countries over the next few years can reach, and indeed should surpass, the target of 1 per cent of the national income. In fact, we hope that in the proposed Second Development Decade of the United Nations, the 1 per cent aid target will be considered anachronistically low. Further, we would expect to see a rapid end to the tying of aid to

goods produced by the donor country and a greater provision to meet the local costs of projects. . . .

Economic Situation in Trinidad and Tobago

With your permission, Mr. Chairman, I shall end by speaking briefly on the current economic position in, and the outlook for, my country—Trinidad and Tobago.

In previous meetings of the Fund and the Bank, the need to diversify our petroleum economy has been stressed. I can now report that diversification programs are now well under way in domestic agriculture and livestock production, in manufacturing, and in tourism. However, no one ought to expect such programs to yield substantial results immediately. By its very nature such a process of diversification takes a fairly long time. At the moment, therefore, we are experiencing certain balance of payments pressures which are likely to persist into the early 1970's, when the diversification programs now being vigorously pursued will yield their full results both in earning and in saving of foreign exchange.

The stresses now being experienced on external account are also manifesting themselves in our budget. Since the end of the petroleum boom in the beginning of the 1960's, our budget surpluses have been shrinking in spite of increases in rates of taxation and our efforts to improve tax administration. This shrinkage has in part been caused by the development effort itself, for the capital investment has given rise to greater operating costs for the expanded services. This is particularly so in the case of education.

Our policy in this regard is, as far as is consistent with the development effort, to restrict the growth of recurrent expenditure. At the same time we are now taking steps to increase public savings in general and the budget surplus in particular by the institution of a medium-term fiscal program. The first aspect of this program is the improvement of the financial condition of our public utilities, to be effected partly by increasing rates and charges and partly by more effective management. The second aspect is greater attention to the possibilities of measures which, apart from raising revenue, will in many cases check the rate of increase of consumption expenditure, especially on imported goods. The third

is the improvement of the administration of our income tax which would result in greater tax yields even at present rates. As a result of this fiscal program, we hope shortly to be in a position where we can again finance a greater proportion of our public sector capital expenditure from public savings.

But given the present transition to a new economic structure, our best domestic efforts will be of no avail over the medium term unless we receive considerable amounts of external economic assistance to further our process of diversification. I feel certain that we shall during the next few critical years overcome our problems of structural transition provided that we continue to be fully supported by the International Monetary Fund and the World Bank.

Statement by the Governor of the Fund and Bank for Ceylon

U. B. Wanninayake

May I add my voice to the others raised here in expressing to the Government of Brazil my warm appreciation of their generous hospitality. I am truly glad to have had this opportunity of visiting this exciting and beautiful city.

May I also convey my thanks and congratulations to Mr. Woods and Mr. Schweitzer and to the staff of the Fund and of the Bank and its affiliates for yet another year of valuable service. The Annual Reports of these institutions are excellent and helpful documents which contribute so much to an understanding of the problems before us. For us, in Ceylon, our ties with the Bank and the Fund have grown even stronger in the past 12 months. We have used the Fund's facilities for compensatory financing and have benefited from its guidance in the field of monetary and fiscal policy. . . .

I must say, however, that despite the assistance we have received from various sources, we in Ceylon have suffered severely from the adverse developments in the world economic scene. Two years

ago, we initiated a program of economic recovery and adopted several measures on the domestic front—some of them politically difficult. Yet, our hopes have been frustrated by a sharp downturn in commodity prices. Last year, our export earnings declined by as much as 15 per cent, while our terms of trade worsened by 13 per cent. This was the biggest drop in export earnings we have experienced in the whole postwar period, with the exception of 1952 following the collapse of the Korean boom. Depressed prices for tea and, more recently, for rubber played a major part in this shortfall. It is true that we have made some notable gains in the domestic sector, particularly in the field of agriculture, but these did not, and could not, suffice to offset the impact of adverse external forces.

Our problems were undoubtedly—in large part at least—a reflection of the slowing down in the tempo of over-all activity in the industrial world. In particular, the restrictive measures adopted by the industrialized countries in the monetary field have affected adversely the level of commodity stocks in consumer countries. I hope that the recovery of activity in industrial countries now predicted will reverse these trends and lead to an upturn in commodity prices. But I am frankly doubtful as to whether this alone will suffice. It is my view that direct measures to deal with this problem are also needed as a supplement to any general recovery in the industrialized countries. I feel that such measures are needed, for example, for tea as well as for rubber. The crisis in the field of development assistance lends a new importance and urgency to the problem of primary commodities. In this connection, I must welcome the Resolution before us calling for a special study of the commodity problem by the Bank and the Fund. A solution to this problem is intimately related to the effectiveness of the work of these institutions, and it is fitting that they should contribute, together with other bodies, toward the search for such a solution. . . .

Many of our discussions at this meeting naturally center on the subject of international liquidity. Like virtually everyone else, we in Ceylon recognize the proposal to augment international liquidity as a progressive step forward. I congratulate Mr. Schweitzer

and his staff and the Executive Directors of the Fund and the Deputies of the Group of Ten on their achievement. I do not suppose that anyone would claim that the proposed scheme is totally satisfactory. Speaking for myself, I warmly welcome the move toward the creation of a new reserve asset under the auspices of an international organization such as the Fund. I cannot say, in all honesty, that I feel that the formula proposed for the distribution of the new asset is an ideal one. I would have wished to see a greater part of the increment to the world's liquidity channeled to the developing countries. I think that the case for this has been somewhat misunderstood in the past and incorrectly interpreted as a means of bridging the entire aid gap. But, despite the limitations, I welcome the scheme and support its adoption in the hope that it will pave the way for the evolution of a sound international monetary system and that it will induce the adoption of more liberal policies by the industrial countries.

Finally, I wish to say a word or two about other changes in the Fund. For the developing countries these could be of greater direct significance than the liquidity scheme. I have in mind, for example, changes in the following directions: (1) the possibility of selectively increasing the quotas of the developing countries on the basis of the growth in their international transactions and the breadth of the fluctuations in their balance of payments; (2) the provision of greater automaticity in the use of Fund resources; (3) the liberalization of the terms of repurchase of Fund drawings —by extending the three to five year period to, say, seven years; (4) the modification of the compensatory finance facility by linking repayment to recovery of exports per se; and (5) the recognition, as I have urged on previous occasions, of declines in the terms of trade as a yardstick of eligibility for drawings under this facility. These changes, together with a greater voice for developing countries in the decision-making processes of the Fund and in the Bank, should complement the reforms envisaged in the world's monetary system.

DISCUSSION OF FUND POLICY BY GOVERNORS AT BANK, IFC, AND IDA SESSION[1]

STATEMENT BY THE GOVERNOR OF THE BANK FOR THE UNITED ARAB REPUBLIC

Hassan Abbas Zaki

It gives me great pleasure to begin this statement by welcoming Guyana, The Gambia, Botswana, and Lesotho into the family of our institutions. The return of Indonesia to membership is also an occasion for rejoicing.

At this stage, too, I would like to express our Delegation's joy at being in this great and beautiful city and to offer our thanks to the host Government for all its most generous and effective efforts to make the occasion of our meetings this year most memorable.

Coming now to the business before this Annual Meeting, I must start by complimenting the President of the Bank Group and the Managing Director of the IMF on their thoughtful statements, in the three reports in front of us, leading in a most masterly way to a grasp of the complex and multiple problems of world economy.

Their compelling presentation of the problems of developing countries and the deep sympathetic understanding with which these problems are expounded are both gratifying and inspiring. I find myself encouraged to include in this brief statement a warning as to the gravity of some of the tendencies pervading the international economic relations of today.

Most alarming among those tendencies is the fact that the growth in exports of the developing countries has been considerably slower than the expansion of trade among the industrial countries and of over-all world trade.

[1] September 27, 1967.

This development aggravates the already deteriorating balance of payments situation between the developed and the developing countries. Furthermore, this deterioration comes at a time when, as is stated in the Bank's Report, "For the sixth successive year there has been little improvement in the over-all level of development assistance provided by the high-income countries." It comes also at a time when "competing demands for capital have made it more difficult and more costly to obtain finance for development by borrowing in the world's capital market."

An additional serious development of an urgent nature is the increasing burden of debt and debt service as related to current export proceeds of developing countries.

To state it briefly and without dramatization, the developing countries—toward the end of the UN Development Decade—seem to be in the following predicament:

Their terms of trade vis-à-vis the industrial countries are again deteriorating; their share of international trade is shrinking, debt service is absorbing a continually bigger share of their export proceeds, and the cost of acquiring development capital is increasing.

It has been said repeatedly that economic development is an international responsibility. But while each day bears new evidence of the importance of this statement, little has been done to carry through its profound implications.

On the other hand, one is bound to wonder as to what would have been the situation in the absence of the Bank and the IMF and the steps taken by them to improve the environment for development. Development cannot continue in a world where trade is hampered and international payments are not in equilibrium. This is why, Mr. Chairman, I hope you will allow me to include in my statement one or two remarks which relate mainly to the business of the IMF.

In this connection, the amendments introduced to the procedure of compensatory financing constitute a step forward in the right direction. However, it is our belief that further steps are necessary to cope with some aspects of the deteriorating situation of the exporters of primary products among the developing countries. We feel that automaticity should be extended to include the whole

area of compensatory financing once it has been established that a member is entitled to it.

A complementary step which is necessary in order to strengthen the basic policy of compensatory financing is the concretization of the proposals concerning supplementary financing. It is hoped that the studies relating to this subject will bear fruit in the near future.

The cooperation of the IMF under the guidance of its Managing Director, Mr. Schweitzer, with the representatives of the Ten has resulted in the Resolution presented to this Board of Governors in its present session. As a developing country, the UAR feels that any improvement in international liquidity could be beneficial to world trade in general. Therefore, we support in principle the results reached in this connection.

However, we feel that the measures proposed can be improved to become generally more adequate. Specifically they scarcely take into account, in a direct manner, the interests of the developing countries. We hope that efforts to remedy this will be continued and that the views of the developing countries expressed by their representatives on various occasions, which, on the whole, found support in the Report of the Group of Experts on International Monetary Issues and the Developing Countries will not be ignored in the future evaluations of the effectiveness of the scheme for the creation of a system of special drawing rights.

The efforts of the Bank and the Fund in guiding the work of coordination groups both for development financing and rescheduling of debts are worthy of praise. This role is developing into a major function and a service of great importance to the less fortunate developing countries. The multilateralization of aid is, in our estimation, the soundest approach in tackling development financing as an international responsibility. . . .

I have kept my brief statement within the strictly economic field in which we all agreed to set the limits of our business in this gathering. I am sure that the distinguished delegate of the United Kingdom, in raising the question of the closing of the Suez Canal, did not mean to introduce a political element into our deliberations.

Therefore, rather than ignore the observations of the honorable delegate, I would like to endorse what he said relating to the eco-

nomic loss to the world resulting from the closing of that vital waterway; in fact, my country must be relatively the biggest loser. But going further into the discussion of reasons why the Suez Canal is closed to world traffic would draw us into a discussion which as we all know belongs to another international forum.

Statement by the Governor of the Fund for the Central African Republic

Alexandre Banza

It is with legitimate pride that I speak today, in my capacity as present Chairman of the Committee of Management of the Central African Customs and Economic Union (UDEAC) and on behalf of the five countries of which that Union consists, to this distinguished gathering. I am also, however, fully conscious of the formidable responsibility that is mine in setting forth our problems, which are giving ever greater cause for concern from year to year.

I am indeed proud to give expression here to the hopes and aspirations of the 12 million people who live, or rather exist, in a territory the geographical extent of which approaches that of Western Europe, and who are distributed over five sovereign States, namely, the Federal Republic of Cameroon, the Central African Republic, the Republic of the Congo, the Republic of Gabon, and the Republic of Chad.

Following the achievement of our independence, which occurred so recently, there was a great temptation for each of us to live apart, within our own frontiers, and some countries have, quite legitimately, chosen this path, both in Africa and elsewhere. We ourselves decided otherwise, for we considered that the best means of consolidating our political independence, developing our economies in harmony with each other, and meeting the difficulties of the modern world was to continue, on the economic plane, the fraternal and fruitful relationships that had been established among us in the course of more than half a century. This is how the UDEAC came into existence, having been set up by a treaty signed in Brazzaville between the five States I have just mentioned. Bene-

fiting by the fact that active and close monetary cooperation already existed within one and the same area of issue, our organization is the culmination of painstaking study and patient and carefully considered effort pursued jointly since 1961, for the purpose of forming a strong and well-designed community, affording access to a real common market; our institution is also distinguished by the solidarity of its member States. As its name indicates, the UDEAC forms the institutional framework of a customs organization providing, inter alia, for a common external tariff and for economic cooperation for the purpose of achieving harmony in the systems of taxation and investment, as also in the matter of the projects undertaken in the interests of the industrial development of the five States.

"Each time we join forces in action we shall achieve success," declared the President of the Republic of Chad on the occasion of the signature of the treaty, and, in fact, ever since it was set up, our Union has given proof of astonishing vitality, thus giving a valuable example of understanding between nations which, in a spirit of mutual respect for national sovereignty, are combining their efforts in an attempt to obtain, in an extended geographical grouping, the means of achieving coordinated development and a more rapid rise in the standard of living of their populations. The initiative thus shown deserves to be encouraged by an appropriate measure of aid, for it represents an important and specific contribution to the attainment of African unity, as was emphasized by the President of the Federal Republic of Cameroon, on the occasion of the opening of the Port Gentil oil refinery, which is shared by all our five States, when he said: "Here we have an example of sound and helpful cooperation . . . African unity will be attained through sub-regional organization. . . ."

To summarize what I have already said, let me quote the senior member of our Heads of State, the President of the Republic of Gabon, when he said: "We are five, but in fact we are only one, the UDEAC." Let me also sincerely thank the authorities of the Fund and the Bank for having been good enough to invite our organization, represented here by its Secretary General, to attend the proceedings of this Annual Meeting in the capacity of an observer.

Quite independently of the conclusions, with which we fully associate ourselves, that were set forth in the resolution adopted at Dakar by 15 Ministers of Finance, and in the memorandum of the African Group, it remains for me to deal with UDEAC's relations with the Bank and its affiliates, on the one hand, and with the Fund on the other. The concluding part of my speech will be devoted to an examination of our immediate problems, which I make no claim of revealing to you for the first time; my aim is more modest, and is an essentially practical one, being that of convincing you of the need for urgent action to solve these problems.

The orders of magnitude to which I have already referred—the area of Western Europe on the one hand and 12 million inhabitants on the other—reflect the extent of the needs to be met in the matter of infrastructure, transport, economic achievement, and social development, in comparison with the weakness of our economies; these economies are weak because they remain, in large measure, dominated by the primary agricultural sector. We nevertheless entered the fight for development with the assistance, both bilateral and multilateral, of our traditional friends; this assistance, which sometimes lacked cohesion in the matter of its distribution, very soon proved to be insufficient. This is why we placed great hopes on the international financial institutions of which we became members five years ago. . . .

With regard to the International Monetary Fund, even though our present monetary organization protects us, for the time being, from the difficulties encountered by other countries in the balance of payments field, we have nevertheless paid close attention to the discussions that have taken place, since our last meeting, between the representatives of the Group of Ten and the Fund authorities on the proposed reform of the international monetary system. We should like to record our satisfaction at the conclusion of the agreement reached in London, which respects the principle of universality as regards the creation of fresh liquidity and recognizes the central function that the International Monetary Fund will have to discharge in the carrying out of the reform advocated.

However, "capital does not grow out of nothing," and we should be deluding ourselves if we imagined that the creation of additional reserves could provide a lasting solution to our basic prob-

lem, which consists of achieving a stabilization of the prices of our agricultural export products at a level that would guarantee an adequate return to the grower.

"God helps those who help themselves" is an old saying that holds good in all latitudes, and we have made it our motto whenever possible. Thus, the member countries of the Common Organization of African and Malagasy States (OCAM), who are producers and consumers of sugar, have reached agreement on the terms and conditions governing the marketing of that product, since it had become apparent to us that, on the world plane, nothing was to be expected for a long time to come.

In the case of the other leading products, such as coffee, cocoa, cotton, bananas, and oilseeds, almost all of which are intended for export to the industrialized countries, it is unfortunately impossible to lay the foundations for a similar agreement. In point of fact, although our products are essential to our respective economies, their quantity is not sufficient, on the world market, to enable our points of view to be heard, either by the large producer countries or by the leading consumer countries. So far as the products I have mentioned are concerned, we are literally paralyzed. If I may be allowed a metaphor, we find ourselves, willy-nilly, in a galley that is at the mercy of the waves—as rowers, of course—without knowing how long our painful voyage will last. Thus our producers and communities are severely exposed to the fluctuations of world trade, especially when these changes—as has been the case during the past few years—have been, more often than not, in a downward direction. At the same time—and this is a secret to no one—the prices of manufactured products are constantly increasing.

A few figures will suffice to fix our ideas in this matter. In 1957, the Chad or Central African producer received CFAF 2,600 for 100 kilograms of cotton, sufficient for the purchase of four blankets and eight meters of cotton fabric; in 1967, the 100 kilograms of cotton still command the same price, but this no longer suffices for the purchase of more than one blanket and three meters of fabric. The same argument applies to cocoa, coffee, and other products, the prices for which have remained practically unchanged for ten

years. I shall pass over in silence the consequences of the falls in price that have occurred in the interim.

Such has been the reward for the praiseworthy work done by our planters, who, during the same period, have not spared their efforts. With or without the assistance of the public authorities, they have achieved a notable increase in the tonnage produced, modernized their operating methods, improved the quality of their products, adapted these latter to the tastes of distant consumers by undertaking painful reconversion of their plantations, and diversified their crops in an attempt to improve their conditions of life.

In the technical jargon of economics, this situation is modestly called "a deterioration in the terms of exchange." So far as we are concerned, we prefer to use the more realistic expression of one of our Chiefs of State, the President of the Central African Republic, who has called the present state of affairs "a veritable scandal."

In this sphere, we regret to have to draw up this year, once more, a certificate of nullity. The meetings organized by the chief bodies concerned in this matter, FAO, UNCTAD, and GATT, in which the IMF has generally participated, have not, during the past financial year, contributed the slightest hope of a solution.

Faced with such a painful set of circumstances, the most disastrous course would be for us to give way to discouragement, and for the developed countries to confine themselves to giving routine, token aid, thus sparing themselves a bad conscience.

So far as we are concerned, we have multiplied our contacts, with a view to reinforcing the cohesion of the developing countries in the fight to ensure their survival and in order to achieve the "balanced prosperity" that the President of the Republic of the Congo wished to see. We are also expecting a great deal from the forthcoming World Conference at New Delhi, for which we shall be making careful preparations next month in Algiers, as part of the "Group of 77," in order to consolidate and, if possible, expand the results recently achieved in Geneva on the occasion of the last meeting of the Conference on Trade.

Among the solutions that we have adopted, those relating to the prefinancing of buffer stocks of raw materials presuppose that a

substantial contribution will be forthcoming from international financing institutions and from the industrialized countries of the world, who are at present in control of the situation.

Thanks to the imagination of its experts and under enlightened stimulus from its Managing Director, the Fund has managed to define and apply, and then to liberalize, the formula for compensatory financing. This extension of the Fund's activities inspires us with a certain optimism; its action in the sphere that causes us anxiety, and to which I have just referred, may, in our opinion, be a decisive one, and we do not doubt that the Fund will manage, on this occasion as on others, to assume its full measure of responsibility and go beyond the present framework of its Articles of Agreement. This is in any case the wish that I now express, for the sake of the future of our peoples. Further, I trust that we shall soon be able to refer, in the field to which I have just alluded, to the "Rio Agreements."

I must apologize for having stated my case at such length. By comparison with the heights of eloquence that have been reached in this assembly, and with the noble titles that have been attached to certain subjects of reflection, my remarks may have produced a shock, because they were too robust, too incisive, and doubtless also too "terre à terre"; it was, however, my duty to express my views in this form, for they correspond to our immediate anxieties and to our deep-felt aspirations.

I cannot conclude my statement without associating myself with the welcome that has been extended to the new members of the Fund and Bank, and, on behalf of the five countries of the UDEAC, to express our warm thanks to our Brazilian hosts for their cordiality in receiving us.

Statement by the Governor of the Bank for Israel

David Horowitz

I would like first of all to associate myself with the expressions of gratitude to the Brazilian Government and its people for the very kind and warm hospitality which they were so kind to extend to us

and also to extend my greetings to the new members of our associations of the Bank and of the International Monetary Fund.

It is with great diffidence that one tries to draw a balance sheet of performance in development by economic aid as viewed against the magnitude of the task.

It is a sad and sorry tale of decline of aid, with the trends in the 1950's of a more abundant flow of capital to the underdeveloped nations reversed in the 1960's. The sum of capital transferred from the developed to the underdeveloped two thirds of humanity is being eroded by the deterioration in terms of trade, and—if calculated, as it should be, per head of population—by the population explosion. Relatively, the decline is even more pronounced, for the net flow of capital is hardly more than ½ of 1 per cent of the gross national product of $1,500 billion from a rapidly growing volume of production in the developed nations.

Moreover, the more than tenfold gap in investment per head of population between the two parts of the world—the privileged and the underprivileged—foreshadows an even more gloomy and deplorable future.

At the present rate of the flow of capital, as a dwindling share of the swiftly rising gross national product in the developed nations, any approach to a more acceptable economic relationship between the two divisions of mankind would take centuries. Mr. Schweitzer defined this situation in his speech as follows: "It is a matter for deep concern that the flow of long-term financial resources to the less developed countries in recent years has lagged behind the growth of output in the industrial world."

Nor is the qualitative composition of that flow any more comforting: less grants and more loans, and on stiffer conditions.

The Report of the Bank to this meeting says: "The share of grants in official bilateral aid has declined from 76 per cent in 1961 to 65 per cent in 1965 and to 63 per cent in 1966."

Nearly four fifths of the investment in underdeveloped nations is financed from local resources that are squeezed out of populations living on or below subsistence levels, and even this apparently positive development is not an unmixed blessing. It implies a reduction in consumption of local products, as capital goods are

as a rule imported. Paradoxical as it may seem, in the underdeveloped world it is not less important to finance the primary consumption than it is to finance development there. The driving force for any stepping-up of production is first and foremost a larger market. In the first stage of development, higher consumption stimulates demand and allows for the establishment of many enterprises whose possibility is predicated on economies of scale. The experience of countries which are presented as "success stories" in development shows that the development was based, above all else, on effective demand, which served as a basis for the economies of scale in numerous industries.

Not by narrow infiltration, but by a break-through, have some countries achieved spectacular development and progress.

What happened in my own country, which is particularly unendowed with natural resources, was a break-through by way of increase of population and import of capital: these created effective demand and a domestic market conducive to growth. Thanks to this, the gross national product could go up by an average of 10 per cent per annum for 16 years, and the national product could be quadrupled, the population more than trebled, exports multiply 20 times, and the standard of life per head of population rise by 250 per cent within 18 years.

Similar if less spectacular statistics can be quoted for other countries which are considered as "success stories" in development.

Of course, capital alone is not sufficient, but it is indispensable. Without a flow of capital, other means will be of no avail.

As the situation now is, the Report of the IMF mentions that the growth in the flow of capital to developing nations in the years 1960-65 was smaller than in the 5 previous years and that "the growth of per capita output was distinctly lower than in the second half of the 1950's."

Thus, the two gaps, the one in standards and consumption between the developed and underdeveloped worlds and the second —even more perilous and ominous—in investment, linked with the steady mounting of debt payments, for which the zero hour of equilibrium between capital flow and redemption should strike at some time in the 1970's, may bring us to the brink of despair and

to an imminence of failure if the scope and conditions of aid alike should be perpetuated in their present dimensions. . . .

Our contention is that economic growth is primarily the function of investment. However, a new kind of escapism is now the fashion. The thesis is that growth is overwhelmingly the function of skill, knowledge, and technological level, and that there is no point in pouring capital into countries which do not possess these prerequisites. The facts are that technical assistance is more readily available than capital. UN technical assistance, the OECD, and bilateral technical aid are at disposal, and even more of these can be purchased in the free market. There is a tremendous margin of possibilities. My own country can claim to have done not a little in this field. Our technical assistance to developing nations, if calculated per head of population, is twice that which is extended by the OECD, the club of the wealthiest nations in the world, and additional facilities in this sphere are forthcoming from a variety of sources.

The second road of escapism is the emphatic contention that the developing nations do not make any effort on their own behalf. No one will argue that the endeavors of the developing nations are always adequate. But the very fact that four fifths of investment there comes from internal sources contradicts this other form of shirking the real issue.

It is also a fact that, wherever capital was available, the results were gratifying. To quote a report on research carried out for the Office of Program Coordination of AID:

> "The possibilities of securing rapid and sustained development by effective use of foreign assistance have been strikingly demonstrated in the past decade by such countries as Greece, Israel, Taiwan and the Philippines. In each case, a substantial increase in investment financed largely by foreign loans and grants has led to rapid growth of GNP followed by a steady decline in the dependence on external financing. Not only was growth accelerated by foreign assistance, but the ability of each economy to sustain further development from its own resources was very substantially increased."

But the flow of capital today is taking a direction opposite to global needs, and the most specious plea advanced to justify this contrary trend is that money markets are tight. Money markets will always be tight as long as there is no stagnation in economic activity and demand, and the market can be tightened by raising internal demand and investment effectively in highly developed countries. Over $30 billion of bonds are floated every year on the financial markets of the developed countries, and only a negligible proportion of that flotation enters the developing ones. This is a problem of priorities: the tightness of the market is, to a very great extent, the function of policy, and it can be escalated.

The Economic and Social Council of the United Nations comments thus on the problem:

> "The developing countries have relatively little access to the world's capital markets. This is in part a problem of regulations and procedures but at root it reflects the inadequacy of their credit standing when judged by market criteria. In recent years, moreover, conditions have been particularly tight in most markets, and interest rates appreciably higher than those at which the developing countries have in fact borrowed from governments and from international institutions. If, in order to avoid the budgetary constraint and to take advantage of favorable balance of payments positions in particular countries, more use is to be made of the capital market, it will thus have to be done through a mechanism which has both an appropriate credit ranking and the ability to re-lend at less than market rates."

. . . Here is the crux: access of developing countries to the free capital market. . . .

Statement by the Governor of the Fund and Bank for Canada

Mitchell Sharp

I would like first to thank our Brazilian hosts for inviting us to hold this very important Annual Meeting in this beautiful city. I would like also to congratulate them on the excellent facilities

which they have provided for us and for the kindness of their hospitality. Canadian businesses have long had close links with this country, and as a private businessman I have had the pleasure of being closely associated with some aspects of the development of Brazil. Canada's economic and political ties with Latin America are developing rapidly. Individual Canadians are coming more and more to appreciate the importance of this area for the future of our own country. Our contacts are becoming more frequent. Earlier this year, the Central Bank Governors of the American Continent did us the honor of accepting the invitation of the Bank of Canada to hold their fourth reunion in Canada. Let me now turn to the agenda.

The most important item on our agenda relating to the International Monetary Fund is the Resolution dealing with the establishment in the Fund of a new facility, based on special drawing rights, to meet the need, as and when it arises, for a supplement to existing reserve assets. Through close consultation with the Executive Director representing Canada on the Board of the Fund, and through our membership in the Group of Ten, Canada has helped to develop the plan proposed in the Resolution. Although the plan is not completely in accord with Canadian views, we are strongly in favor of it, and I should like to explain briefly why.

The total volume of reserve assets in the hands of national monetary authorities has so far been basically dependent on the supply of gold for reserve purposes and the balance of payments positions and reserve policies of a handful of major countries. There has been growing recognition of the inadequacy of this system in the modern world. A number of ad hoc arrangements have been devised in recent years which have succeeded in shoring up the system when it was threatened by sudden shocks. But a more fundamental change was necessary to ensure that aggregate first-line reserves of the world's payments system would be brought under the deliberate management of the nations of the world acting together to meet their combined needs. As the Managing Director has said, the international community should be able to control reserves, instead of reserves controlling the community.

The regulation of the total supply of international liquidity will be achieved by creating in controlled amounts a supplement to

existing reserve assets. The amounts actually to be created will be decided later for a five-year period on the basis of the anticipated over-all needs of member countries and the actual and prospective supply of gold and reserve currencies.

For this system to work it is essential that the supplement to existing reserve assets be acceptable and attractive to the national monetary authorities who will be expected to hold it and to exchange it with each other, and convincing to the world at large. To this end special drawing rights are to be created in a separate account in the International Monetary Fund, which member countries in balance of payments need may use without challenge or commitments concerning their internal policies to exchange with the Fund or with each other for convertible currencies. These special drawing rights are to be endowed with certain characteristics—a moderate rate of interest and a gold value guarantee—which will make them attractive to hold. Their transferability will be ensured by undertakings by member countries to use these new drawing rights in balanced relationship with their other reserves and to accept them up to quite generous limits.

Another feature of the plan also designed to ensure acceptance and transferability is the requirement that countries using the supplement to the maximum amount of their allocation should restore or "reconstitute" some part of their original holdings. We would have preferred the plan without this particular provision, as in our view the system will work best if the new facility is regarded by monetary authorities as being as freely usable as their other foreign exchange assets. Naturally, all reserves must sooner or later be reconstituted by the ordinary processes of adjustment if countries are to be in a position to cope with recurrent imbalances in their payments positions. However, the plan is sufficiently flexible to enable it to be adapted in the light of experience.

The breadth of membership of the Fund ensures that the regulation of the supply of unconditional liquidity in the world will be responsive to the needs of the whole system. The arrangements under which the members must achieve a broad consensus of view on major decisions will ensure that we move forward at a deliberate pace in this bold undertaking. Similarly, the key role to

be played by the Managing Director of the Fund in securing the essential consensus and in dovetailing the new facility with the supply of conditional liquidity is of great advantage. The Fund has had more than twenty years of experience in pioneering the frontiers of international financial cooperation, and the staff has learned to combine imagination and caution in approaching the problems of its diverse constituency. In the process the Fund has evolved to meet the changing requirements of the world. The patient and wise leadership which the present Managing Director of the Fund has given convinces me that he is the person to entrust with the job of launching this new endeavor. These are the main reasons why Canada gives strong and enthusiastic support to the creation of a reserve facility in the Fund.

The Resolution provides for a report concerning amendments to the Articles of Agreement and By-Laws which the Executive Board may recommend apart from those necessitated by agreement to establish a new facility. These two sets of amendments are quite properly to be presented in two separate reports, and with the same target date, though the Resolution does not provide that the acceptance of the special drawing right proposal is conditional on the acceptance of other amendments to the Fund Agreement. I do wish to stress the importance of speed in preparing the two reports. In our view it is of the greatest importance that the establishment of the new facility proposed to us at this meeting should actually take place as quickly as possible.

The setting up of the new facility will be a major step forward in strengthening the international monetary system. It will not, however, be a universal panacea. If countries persistently mismanage their own economies, even the most perfect management of the supply of international liquidity will not shield them or their trading partners from the consequences. Balance of payments disequilibria will continue to be one of the clearest and most disturbing manifestations of such mismanagement. The improved management of international liquidity will contribute toward an environment favorable to an appropriate adjustment of national policies. The smooth functioning of the international system will still depend essentially upon the national policies of each of our countries.

Canada has had its share of difficulties in finding the right combination of policies to achieve our various goals. For several years members of the staff of the Fund have in our annual consultations pondered with us in a very frank and thoroughgoing fashion on the problems of formulating fiscal and monetary policies appropriate to the needs of the Canadian economy. In the past year or 18 months we have been successful in moving the Canadian economy from an unsustainable rate of growth to one that is within our capacity, without completely interrupting the expansion. In the process our imports have continued to rise. But it is clear that we have been more successful in maintaining economic growth than we have been in achieving stability of costs and prices. It is our purpose, however, to combine continued growth with price stability—indeed I doubt whether in the long run the one can be achieved without the other—and we intend to make use of every means available to us to restore the balance. . . .

Statement by the Governor of the Bank for China

Ching-Yu Chen

Mr. Chairman, I wish to join other Governors in expressing our thanks to you and to the management and staff of the Bank and Fund for the efficient handling of these meetings. On behalf of my Delegation, I also wish to thank the host country, the Republic of Brazil, for its most generous hospitality and the excellent facilities placed at our disposal during the 1967 Annual Meetings. Brazil is indeed a great country, and Rio is one of the most beautiful cities in the world. My Delegation wishes to extend our compliments to Mr. Woods, Mr. Schweitzer, and their colleagues for the remarkable achievements of both the Bank and the Fund in the fiscal year 1966/67, and our best wishes for continued success in the years to come. . . .

I am happy to report to my fellow Governors that in my country the volume of trade in 1966 increased by 12 per cent over 1965, showing a total of approximately \$570 million for exports and \$603 million for imports. The increase in our exports is due primarily to diversification of our products and also shifting from agricultural products to industrial commodities. For the year

1966, industrial products accounted for 49 per cent of our total exports, while agricultural and processed agricultural products were reduced to 20 per cent and 26 per cent, respectively. Mr. Woods has done a great honor to my country by including the Republic of China in the list of member countries which have made "economic achievement with fastest rate of growth." However, my Government is not fully satisfied with whatever success we may have achieved, and we are certainly not complacent. We shall continue to exert our efforts to further increase our industrial production and broaden our export markets. In doing so, we still need continued external assistance and capital inflow, particularly for infrastructure projects which have comparatively slower return but which are very necessary for healthy economic growth. . . .

Mr. Chairman, I would like to make some brief comments on the operations of the International Monetary Fund. The continued increase in outstanding drawings indicates once again that the Fund is meeting the needs of member countries facing balance of payments problems. At present, primary producing countries are still confronted with price fluctuations, resulting in export shortfalls. In this connection, we note with satisfaction that the matter is receiving increasing attention at this meeting. It may also be noted that, at present, the compensatory financing facility and drawings or stand-by arrangements are being made available to an increasing number of primary producing countries.

My Delegation wishes to join previous speakers in expressing its appreciation to the Managing Director, the staff, and the Executive Directors for their accomplishments in the preparation of the Outline of a Facility Based on Special Drawing Rights in the Fund. While details have yet to be worked out, we are happy to see that, after two years of intensive study and discussions, the Outline provides adequate guidance for future deliberations. We consider it prudent and wise to confine the rules for reconstitution to the initial period and to review such rules for subsequent periods. The success of any system, no matter how well conceived, will of course depend on the members' spirit of cooperation, which has been most evident in the experience of the Fund.

As to the possible amendment of the Fund's existing Articles of Agreement other than those needed for establishing the new

facility, one must not forget that these Articles have served their purposes well, with adequate latitude to meet operational needs. For instance, we do not believe any change in the provision requiring a majority vote of 80 per cent on important policy decisions of the Fund is called for. The special drawing rights scheme, which calls for an 85 per cent majority on major issues, is distinctly a special case, and the special case should not be used as a justification for changing the voting system of the Fund in general.

Statement by the Governor of the Bank for Honduras

Manuel Acosta Bonilla

I consider it a great honor to my country and a singular honor to me personally that I have been appointed to speak in the name of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Uruguay, and Venezuela. . . .

If we analyze briefly the position of the developing countries, we find that these figures, taken together, indicate a rise in their gross domestic product in the order of 4.8 per cent in the period 1960-65. This shows that the productivity of these countries has continued to grow, but not at a satisfactory rate, since on a per capita basis, in the afore-said period, their rate of development was less, due to the rate of growth of their population, which was 2.4 per cent. Within this general picture, the area included within the Latin American countries showed a decrease in the growth of per capita income from 1.9 per cent in 1955-60 to 1.7 per cent in 1960-65, which reflects in part the deterioration of the terms of trade between the industrialized countries and those of Latin America.

The reduction in the rate of increase in the productivity of the industrialized countries, which can be observed from the middle of 1966, has had an unfavorable impact on the exports of the developing countries. With concern we note that, unless there is a rise in the rate of productivity in the industrial countries, the

export revenues of our countries during the rest of the present decade would increase at a rate less than that achieved in the 1955-60 period, and consequently this would impede even further the growth of our countries.

This dependence of the growth of the developing countries on the rate of increase of their exports accentuates the urgent need to introduce changes in the trade policies of the industrial countries in order to facilitate the movement in world markets of the primary and manufactured products exported by the developing countries. For this reason, the situation of their basic products in the international market causes deep concern to the countries of Latin America, especially as concerns the problems linked to overproduction, the absence of regulation of the market, and the discrimination practiced by some industrial countries in regard to imports coming from the developing countries. The solution of the problems indicated would give our countries a greater capacity to avoid greater imbalances in their balance of payments and, in the case of Latin America, would permit an increase in their imports more in keeping with their development needs.

It is for this reason that we welcome with great interest the reference made by President Woods in his brilliant opening address to the fact that, if instead of declining as a proportion of world trade the exports of the less developed countries last year had been able to maintain the same modest position that they had occupied during the previous five years, in that case, the share of the less developed countries in world exports would have been 1 per cent larger, which "would have earned them well over a billion dollars more of foreign exchange than their exports actually did earn in 1966. If a one per cent adjustment in shares of world export trade would bring about a billion-dollar improvement in the fortunes of the poor, then surely the matter is worth consideration and action." We believe that while the 1 per cent referred to would have little significance for the industrial countries, it would be of vital importance to the developing nations.

Concerned by the gravity of these problems, the Latin American countries have already taken the first steps toward regional integration, certain that this will hasten the growth of their economic progress. The Presidents of the Latin American countries recently

agreed, at Punta del Este, to fix goals for the formation of a regional common market which would embrace an area with 200 million inhabitants. In this huge task, the aid of the industrial countries and of the international institutions, especially those concerned with financial matters, would be of the greatest importance. . . .

We believe that the fact that the World Bank has financed the acquisition of goods and services with the currency of the borrowing countries constitutes an important step in the financial techniques in aid of development, a step which fosters international cooperation undertaken to promote the growth of our countries. As a consequence, we believe it indispensable that this policy should be continued and strengthened.

There are several important grounds upon which we base our support for the expansion of this policy. The use of credit to finance local costs will stimulate efficiency in domestic industries, so that they will be able to obtain international bids solely on the basis of the advantage to themselves. Likewise, the stabilization programs adopted by many of our countries will be strengthened by World Bank financing of local costs, avoiding the inflationary pressures resulting from the need to provide local resources in order to use foreign credits. In the case of agricultural and educational projects—in which the participation of the Bank has been welcomed with general approval—a reduction in the financing of local costs would as a practical matter make their execution very difficult. Finally, we believe that treating as local costs the purchases made by a member country within the integrated economic area of which it is a part would give larger scope to this policy. . . .

In the Annual Meetings of previous years, the Latin American countries have put forth the idea, which we wish to re-emphasize on this occasion, that the Bank should take part in and cooperate with the stabilization policies of its member countries. I speak of the advisability of coordinating the carrying out of stabilization programs with the development programs aided by long-term loans. Although the initiative and responsibility belongs to the national authorities, we believe that the IMF and the World Bank are in a position to provide more adequate international cooperation through effective coordination between themselves. . . .

Finally, the Governors of the Latin American countries and the Philippines are proud that Brazil has been chosen as the seat for this Twenty-Second Meeting of Governors of the World Bank and IMF, whose achievements, we are sure, will mark a new epoch in the strengthening of financial cooperation among the member states.

Statement by the Governor of the Bank for the Netherlands

H. J. Witteveen

First of all I want to join other Governors in thanking our Brazilian hosts for having invited us to this beautiful city so bursting with life and energy and for the gracious hospitality which abounds wherever we go. It is an inspiring and at the same time challenging thought that our institutions are meeting here in one of the largest developing countries where major achievements go hand in hand with hopes and expectations, within the scope of the objectives of both the Bank and Fund, which are still awaiting fulfillment. I wish the Brazilian Government and the Brazilian people the greatest success in their energetic striving for progress.

It gives my Delegation particular satisfaction that Indonesia has reassumed Fund and Bank membership. . . .

Statement by the Governor of the Bank for Tanzania

Paul Bomani

Let me, in the first place, join my colleagues in thanking His Excellency, the President of Brazil, for his kind address of welcome. His decision to offer his country and the beautiful city of Rio de Janeiro as host to this august assembly was a wise move. We, in the developing world, have plenty in common with this great country, in that we share the same experience in the problems of marketing our agricultural commodities, such as coffee, sisal, and

many primary products. In Tanzania we also have the problems of development of vast lands with sparse population. In our case, and of course in the case of Brazil, our population does not call for the use of the pill as seems to be the need in some other developing countries, as indicated by Mr. Woods. Given the development instruments, that is, capital and skill, our vast lands are capable of producing more food to feed millions of the hungry world.

Mr. Chairman, I would like to share with you and my colleagues, the sentiments expressed about the extraordinary beauty of this city and the generous hospitality that we have enjoyed since our arrival. If you permit me, I would like to add that it is particularly gratifying for an international congregation, such as this, to meet in this great country where its people of different origin and background live harmoniously and happily. Our presence here for this important Conference is not only an inspiration to many of us, but it also offers a great opportunity for us to learn from this country's experiences. . . .

Many developing countries registered in the past year significant achievements in the field of economic growth and cooperation. During 1966, my own country increased its real per capita income by almost 7 per cent, and, with our neighbors in Kenya and Uganda, we signed a treaty establishing the East African Community, designed to strengthen our regional cooperation in all fields of economic activity. . . .

I would like, in passing, to mention the importance of local cost financing in the light of our usual shortfalls in export earnings and heavy pressures on our budgetary allocation. At this point, I must congratulate the distinguished Governor for Malaysia on the way in which he presented the real problems confronting the developing world. When he clearly stated the destructive effects of the unfavorable terms of trade on our economies, he was indeed speaking for many of us who have constantly been hard hit by unfair contraction of prices for our primary commodities. Prices for Malaysian rubber have caused the same problems to Malaysia as the problems we have in Tanzania with prices for our sisal. These have fluctuated from £120 per ton in 1964 to £63 per

ton today, reducing our earnings from £20 million to barely £10 million sterling last year. This difference constitutes a larger amount than the World Bank Group or any other lending institution has ever lent to Tanzania in one year. . . .

Finally, Mr. Chairman, my Delegation would like to join you in welcoming the new members and to offer our warm and sincere congratulations to the Governors for Indonesia and The Gambia.

Statement by the Governor of the Bank for Nepal

Kirti Nidhi Bista

First of all I would like to associate myself with the previous speakers in expressing our sincere thanks to our hosts, the Government and the people of Brazil, for the warm welcome extended to us. We are also indebted to His Excellency, the President of Brazil, for the inaugural speech which has set the tone for our discussions. May I also take this opportunity to welcome, on behalf of my Delegation, the Governors for Indonesia and The Gambia and also the representatives of Botswana.

We have read with considerable interest the Annual Reports of the Fund and the Bank. These Reports, as usual, give us a very useful review of developments in the world economy and in international financial affairs and provide us with detailed records of the Fund's and the World Bank Group's activities of the past fiscal year. It is disheartening to note that per capita income in a large number of developing countries rose only slightly or declined in the first half of the present decade, and the situation further worsened during 1966 and 1967 because of the recent weakening in the export receipts of the less developed countries. From the record of economic progress the less developed countries have achieved in the past six years, it is almost definite that the target of economic growth set for the Development Decade is not going to be fulfilled. It has often been stressed that developing countries should make all efforts to mobilize domestic resources before they look for external assistance. This is no doubt true, but whatever

steps we may take, internal resources are likely to be very modest in relation to the investment requirements necessary to achieve even a reasonable rate of growth.

Furthermore, it is a matter of serious concern to the Fund and also to other international bodies interested in the growth of trade volume between the developed and the less developed countries to note that the total exports of countries dependent mainly on agricultural products increased only moderately from 1965 to 1966, while the prices of commodities that they generally import continued to rise, and, therefore, there was scarcely any increase in the import purchasing power of this large group of countries. This trend is not likely to be reversed as long as the developed countries do not liberalize their existing policies and practices regarding imports. In view of the technological revolution taking place in the developed countries, synthetic raw materials are gradually replacing many of the farm and forest products. Such countries have also been expanding their own raw material base so as to be less dependent on imports. Unless the developed countries show greater sympathy and extend more cooperation to the less developed world, not only in respect of aid but also with regard to trade and capital flow, the prospects of this region's coming up to economic maturity look bleak. I would, therefore, like to support the views expressed by the Managing Director in his statement that the industrial countries should improve the access to their markets of goods produced in the developing countries and that they accord high priority to the flow of development assistance. . . .

We consider the proposal before us regarding the creation of additional reserves a revolutionary step in the field of international monetary cooperation. Our views were adequately expressed by the Governor of Malaysia on behalf of the group, and we support the Resolution before us.

To conclude, the healthy trend started by the Bank and the Fund of giving special consideration to the needs of the developing countries is in keeping with their needs. There is no doubt that these two institutions are being looked at by all member countries, especially the developing ones, as their friend and guide in the fields of monetary, fiscal, and developmental problems.

Statement by the Governor of the Bank for Paraguay

César Romeo Acosta

. . . As to Paraguay, the annual rate of economic growth was about 5 per cent in the period 1960-66, as a result of increased investment in productive sectors and infrastructure projects and the improvement of exports. Investments were concentrated in the transportation, agricultural, and electric power sectors. The rate of investment since 1960 has been 16 per cent of gross domestic product. This investment indicates a capital-output ratio of three to one, which we consider satisfactory, considering the nature of the investments, which in general have been intended to meet the national economy's development needs. The investments were financed by means of an increase in private saving that led to increased economic activity and higher export earnings, and also by means of a larger flow of external capital to the public sector, supplementing its own internal savings.

Savings of the private sector held in the form of bank deposits increased in the five years ended July 1967 at a cumulative rate of 36 per cent per year. The increase recorded during the 12 months ended in July was 38 per cent. Private investment has increased considerably in recent years as a result of the favorable climate that has prevailed in the country for long-term investment. In this connection mention may be made, among other things, of the stimulus provided by long-term financial aid granted for industrial equipment and development of other basic sectors, including livestock, forestry, and agriculture. This assistance has been supplemented appropriately through short-term and medium-term operations. At the same time, the flow of foreign private capital has increased gradually, especially in the sector of industry.

In the four-year period 1963-66, investments of the Central Government represented about 20 per cent of each year's budget expenditures, of which one fourth was made with external resources and the remainder with public saving. These investments went mainly into infrastructure projects such as roads, electric energy, ports and airports, expansion of the merchant marine, telecommunications, and colonization, as well as to social needs—

housing, health, and education. However, in this period an increasing proportion of public saving also went to promote production directly on the basis of specific economic activation programs. These programs were implemented through the National Development Bank, an institution that receives a large part of its resources from fiscal sources in the form of capitalization. . . .

The Government is now engaged in introducing improvements into the system of collecting public revenues and rationalizing budget expenditures. In this way it expects to achieve new levels of saving in order to give continuity to the various public investment programs without unbalancing the budget.

Paraguay enjoys a reasonable monetary stability, which we consider adequate in view of the nature of domestic production and foreign trade. The policy of monetary stabilization also provides support for the effort being made by the Government to give momentum to economic progress.

The balance of payments has been favorable for several consecutive years, including 1966. This has led to continual increases in reserves, which reached their highest level at the end of last August relative to any previous period. Paraguay has no arrears in the fulfillment of its external financial obligations.

Domestic prices have recorded few changes in recent years. The cost of living increased only 2.9 per cent in 1966, and during the 8 months of the current year the increase recorded was 0.8 per cent.

We must point out that the success achieved by Paraguay in regard to economic and social development is due, among other factors, to the political and social stability the country has enjoyed for more than a decade. This has permitted the Government to design and carry out development plans with long-term projections, without any interruption in the implementation of the various programs drawn up to overcome the deterrents to economic development. An outstanding and historic aspect of this political process is the existence of a new National Constitution since last August 25. The new "Magna Carta" consecrates the objectives of economic development in an imperative to which the Government must give shape, and there are embodied in the Constitution prin-

ciples that the Government has been following in its work of progress, such as repatriation of citizens, fair distribution of land within the framework of respect for private property, freedom of the press exercised by all political sectors through their own journalistic organs, and, above all things, the right to live free and with dignity within the national territory. . . .

Finally, we express our thanks to the Government of Brazil for having given us such a magnificent welcome to this wonderful city of Rio de Janeiro, offering us at every turn the kindness and courtesy characteristic of the noble Brazilian people.

Statement by the Governor of the Bank for Somalia

Hagi Farah Ali Omar

It gives me great pleasure to express, on behalf of the Somali Delegation, our sincere thanks for the warm hospitality and courtesy shown to us since our arrival by the people and Government of Brazil.

I would further like to state how grateful we are to have had the President of the Republic of Brazil addressing us here, and I am certain that his wise words will contribute greatly to our deliberations.

We gratefully acknowledge the help that the Fund has extended to us in the form of valuable technical assistance and a series of stand-by arrangements which will help us carry on our economic, fiscal, and development programs within our traditional climate of monetary stability. Even though we have not utilized last year's stand-by, we would be obliged to seek further assistance this year.

This last year has been an eventful one, and political tensions in many areas of the world have become more significant hurdles to development efforts and, in the case of the Middle East crisis, have had severe bearing on the economies and trade of not only the participants but also many other parts of the world.

There were, however, some favorable events in the field of international cooperation, of which I need mention here the

agreement reached in the long drawn out GATT negotiations, better known as the "Kennedy Round," and the London understanding reached by the Group of Ten on the subject of world reserves and liquidity. We are glad of this agreement on reserve creation which, if not an ideal solution to the problem, brings us a step nearer to such goals.

We in Somalia support the contingency plan for unconditional and automatic drawing facilities which was approved by the Executive Directors of the Fund. We are especially glad that no new institution is contemplated for administering the scheme and that the International Monetary Fund would rightly be charged with the responsibility. This obviously entails amendments to the Fund's Articles of Agreement.

We commend the efforts of Mr. Schweitzer and the Executive Board and the Deputies of the Group of Ten in reaching this compromise, which we think is acceptable in all quarters. While we realize the vital responsibilities of the major industrialized countries in the club of Ten in any decision to create and activate any increase in world reserves, we expect them also to bear in mind the vital interests of the developing world in its share of those responsibilities. . . .

Finally, Mr. Chairman, allow me to congratulate you on your effective management of these meetings, and may I congratulate also Mr. Schweitzer and Mr. Woods, and their staffs at all levels, not only for yet another year of success for the Fund and the Bank but also for the excellence of the arrangements for the meetings and the documentation, interpretation, and translation services that enable us to conduct our deliberations under the best possible conditions.

DISCUSSION OF FUND POLICY BY GOVERNORS AT FUND SESSION [1]

STATEMENT BY THE GOVERNOR OF THE FUND FOR THE GAMBIA

S. S. Sisay

As the Fund's newest member, The Gambia has many reasons to feel grateful. First, for the opportunity to speak on this important occasion. Secondly, to join with other members in acknowledging the splendid hospitality which the Government of Brazil has shown us all. Thirdly, to thank all those speakers who have welcomed us. Fourthly, we thank you, Sir, and the Board of Governors of the Fund for receiving The Gambia into the club. We note particularly that our country is the first to be admitted with an agreed quota below the minimum level fixed in 1958. This new departure by the Fund is a precedent and a yardstick for those other small countries who are now seeking membership or will be seeking it before long.

Although small, The Gambia is relatively as much concerned as any other developing country in your deliberations and in the policies followed in the great financial and trading countries of the world. Abrupt changes in economic activity in those places due to fine adjustments of policy may release shock forces round the world large enough to affect gravely all those countries in Africa and elsewhere which depend on a sparse income from agriculture as the main source of their livelihood.

The Fund represents also for us the door through which we may enter both the Bank and IDA. I hope that our applications for membership of these institutions will be accepted in the next few days. We make no bones about our desire for the means to speed development. We have already received valuable help from abroad,

[1] September 28, 1967.

but an important gap remains. We are seeking to strengthen our economic base, to diversify our activities, and to achieve better agricultural output. Finally, we hope to develop those assets, notably connected with our great river, which hold out promise in the longer term.

We venture, therefore, to hope for support from the Bank and from IDA in two important directions. The first is in the launching of constructive projects within The Gambia itself. Some of these projects, notably in connection with the harbor at Bathurst, are already under active preparation. The second direction is in exploring and ultimately in bringing to fruition larger schemes which can only be carried out on an international scale and by international effort.

I must emphasize the word "international" here because we are always mindful that some of the long-term plans for development do not affect us alone but also our friends and neighbors in the Republic of Senegal.

Collaboration on an international scale has one special aspect. The Gambia may yet be an important testing ground for the growth of what we in Africa call the horizontal links, that is, the ties between different countries within the continent. It is a fact of history that most of us have risen to nationhood deeply influenced in economic structure and habits by what may be called the vertical links, that is, with other and larger economic systems overseas. This is not a matter for regret, since the vertical links have great and continuing value. But undoubtedly they tend to make difficult the extension of practical collaboration between African countries which historically belong to different systems. In this respect The Gambia occupies a position of strategic importance and one which, I hope, will command the sympathy and interest of you all.

The currency of The Gambia is free and convertible. It is our intention to maintain these characteristics. The currency is allied to the pound sterling and we have found the connection a satisfactory and valuable one, which we shall continue. Our trade system is straightforward and on classical lines. We seek to sell our produce in the best markets—though these admittedly produce poor returns at the present time—and we aim to buy in the cheapest

markets. In short, we conduct a liberal trade policy, and behind it we have a currency amply backed by external assets and at a par value which reflects its true purchasing power.

I make no apology for referring to our aims and our circumstances. This is, after all, a special occasion for us and one where it may be helpful to some of our friends that we comment on our own affairs rather than presume to comment as newcomers on your larger preoccupations. For the rest, we salute the efforts which the Fund is making to improve international liquidity and thereby to bring about an expansion of world trade free from the upsets that have characterized it in the past decade. We align ourselves fully with our African colleagues in expressing the hope that it will be possible to increase the volume of development aid and to make it available on terms which take great account of the immense difficulties which face all of us, not only in Africa, but also in many other developing countries.

Finally, while recognizing the vast problems involved, we support all efforts to achieve greater stability in the prices of primary products. It is for this reason that my country wishes to be associated with the Resolution on the subject which is before the meeting; and I congratulate the countries which submitted it on their timely initiative.

We are confident of your interest and proud to participate in your affairs.

STATEMENT BY THE GOVERNOR OF THE FUND AND BANK FOR TURKEY

Cihat Bilgehan

It is a pleasure and an honor for me to represent my country at the Annual Meeting of the International Monetary Fund.

I wish to express my appreciation for the Annual Report and for the statements made at the beginning of this meeting by you, Mr. Chairman, and by Mr. Schweitzer.

In the Annual Report of this year it is once again stated that ". . .slowdown in the tempo of economic activity in major indus-

trial countries during the latter part of 1966 continued in the first half of 1967. . . ." It is also stated that "weakening of demand conditions in the industrial world . . . has had adverse effects on commodity prices and exports in many of the primary producing countries." The monetary policies pursued by some of the industrial countries in order to restrict the domestic demand have had negative effects on the financial flows to the developing countries.

Time has come to tackle this acute issue of the international economic community with necessary courage and vigor and to solve it in such a way and by such measures that international liquidity will no longer be a bottleneck to economic activities of developed and developing countries.

The observations made in this connection are very interesting. Global world reserves increased at a 2.6 per cent average rate per annum during the 1951-65 period, whereas the expansion of world trade was 6 per cent per annum during the same period.

At present it is certain that the global world reserves are not adequate to finance the world trade. But a more important aspect of the problem is the distribution of the existing reserves. With one or two exceptions all of the developed countries enjoy a surplus, while all of the developing countries are short of means of financing their development activities. I am of the opinion that the present structure of international liquidity requires substantial improvement. This is a question to which, fortunately, experts throughout the world are trying to find a solution that ought to be satisfactory to the needs of the majority.

To state it more clearly, I believe the need for any correction in the structure of international liquidity cannot entirely be separated from the growing liquidity need of the developing countries.

Unless the subject matter is examined from this viewpoint, the volume of world trade is very likely to grow at a slower pace, coupled with a slower rate of economic development. I welcome, therefore, every suggestion made or to be made here to this end, here, in one of the most authoritative international forums. I also welcome every effort made or to be made to find a solution to the present difficulties of the developing countries' reserve needs, in this meeting.

In this connection, it is with pleasure that I refer to the speech made by Mr. Schweitzer last year on the desired qualifications of the additional liquidity to be created. I take the opportunity of expressing our view, though briefly, on the draft before us which was finalized at the recent London meeting.

In the draft before us, it is proposed that the additional reserves to be created be distributed among the members in proportion to their quotas in the Fund. It is not easy to argue that the present liquidity problems of developing countries, even to a certain extent, are incorporated in the proposed scheme. In my view, the facts that the international liquidity problem is of a short-term nature from the viewpoint of industrialized countries and that the problems of developing countries are of a rather long-term nature do not constitute a reason for not establishing any link between these two problems.

On the contrary, such a significant new step in international cooperation cannot be taken without considering the questions of developing countries. I believe, in order that world trade could be further promoted on a sound basis, a system ought to be worked out that will meet the needs of developing countries so far as the distribution of the additional liquidity to be created is concerned.

On the other hand, we observe that the additional liquidity might turn out to be, at least indirectly, a credit with terms which cannot be identified as desired ones. Moreover, we believe that exceptions should be adopted in favor of developing countries so far as interest payments and reconstitution are concerned.

In this connection, I should like to draw attention to the fact that bilateral or regional or international capital flow in the form of aid is not adequate to meet the reserve need of developing countries.

During the period following the Second World War up to the present time, the creation of the IMF and of the World Bank has been the most significant example of achievement of international cooperation in the direction of expansion of world trade and of overcoming the present difficulties of the developing countries. Another example of remarkable achievement in international cooperation is expected from us in the immediate future, namely, in finding a solution to the problem of international liquidity which

would be satisfactory to the majority. Unless this problem of international liquidity is solved soon, world trade as well as development efforts of developing countries are likely to be threatened ever increasingly.

Statement by the Governor of the Fund and Bank for South Africa

Nicolaas Diederichs

I gladly join with other Governors in thanking the Government and people of Brazil for their generous hospitality in this beautiful city.

I think we must all recognize the achievement of those who drafted the Outline of the special drawing rights facility which is now before us. It was no mean task to obtain agreement among the most important nations of the world on a scheme of this nature, even though many specific details remain to be worked out and important issues to be resolved. However, I—and probably many others here today—have reservations on the Outline scheme, and—since we were afforded only a very limited opportunity to make our views known when the proposals were being drafted—I think it is my duty to state my views frankly at this meeting.

Special drawing rights are, of course, not a net advantage to everybody. They imply that creditor countries may have to give even more real resources than in the past—and to receive in exchange a new and untried credit instrument. They may imply that creditor countries, which in the past have held their reserves mainly in the form of gold, may have to give up some of their gold in exchange for drawing rights. Many of us hope very sincerely that the scheme is not merely a device to enable chronic debtor countries to continue on their primrose path, and I agree with the emphasis placed by the Governors for France and Germany on the essentiality of adequate reconstitution provisions.

I am glad to note that special drawing rights have been authoritatively described as a supplement to, and not as a substitute for, gold. This is, I think, a realistic approach. Special drawing rights differ from gold in important respects. They are a form of credit

—a new and unfamiliar form. Their acceptability is, to say the least, limited—otherwise why should it be necessary to oblige participants to accept payment in the form of these rights? Special drawing rights lack the anonymity of gold and the consequent ease of transfer; they are essentially fair-weather assets, capable perhaps of playing a useful role in times of prosperity and peace, but untested in times of stress. Gold, on the other hand, still constitutes well over half the world's monetary reserves, and its special qualities as a source of liquidity and the confidence it universally inspires enable it still to play a vital role in international finance. The very fact that an additional credit structure may be erected to supplement existing international liquidity makes it the more important that gold should be enabled to fulfill its functions as the base of this liquidity.

One of the reasons given for the preparation of the Outline scheme is that the annual accrual of gold to monetary reserves is insufficient to supply the world's need of additional liquidity. This has often been incorrectly stated as being the result of the so-called vagaries of gold production. But this is not true. In fact, the level of gold production has been maintained; the problem has arisen because gold has not in recent years flowed into monetary reserves in adequate quantities. Why, then, in the search for additional liquidity, was no attention given to the *causes* of this failure of gold to flow into official reserves?

Among the causes is the increased demand for industrial and hoarding purposes. The latter is related partly to speculation but partly to rising living standards and increased saving in countries where financial institutions are relatively underdeveloped and savings are still traditionally channeled into gold. But in all cases *price* plays a part, and it is surely paradoxical that the major industrial countries should, through the operation of the gold pool, maintain the price of gold at a level low enough to make it attractive for nonofficial buyers to absorb the entire supply of gold coming onto the free world's markets, leaving nothing for official reserves. In other words, the question arises whether the operations of the gold pool, by keeping down the price on the principal markets, have not contributed to the inadequate flow of gold into monetary reserves. I do not wish to argue this question at length,

but would ask why it has not been examined at all in the course of the study of the liquidity problem which preceded the formulation of the present proposals.

Another question which, in my view, calls for examination is the future level of gold production and its implications for international finance.

In production, as in distribution, the gold price is a key factor. I think that gold producers might well be prepared, in return for a satisfactory price for their product, to channel a high proportion of their disposable annual output into official monetary reserves, and on this basis the world would be assured of a satisfactory growth of liquidity, in its best form, for many years to come. On the other hand, as the representative of the world's leading gold producing country, I consider it my duty to state clearly that, on the basis of the *present* gold price, South Africa may not in the future be able to make gold available on the same level as in the past.

In a spirit of cooperation, my country has accepted all the various devices for augmenting liquidity which have been introduced in recent years. We have all along believed that the solution provided in the Fund's own Articles, namely, a general revaluation of currencies in terms of Article IV, Section 7, would be more appropriate, but we have not opposed these other devices. Similarly, although we still have certain reservations regarding the special drawing rights scheme, we shall be prepared to consider on their merits the proposals as finally formulated by the Executive Board.

However, in the course of the intensive discussions which will have to take place in drafting the detailed scheme and especially the purposes of, and the specific considerations applicable to, the facility, I would stress that these important aspects of the production and distribution of gold be given the consideration which they obviously warrant. . . .

In conclusion, I am pleased that two newly independent neighboring African States, Botswana and Lesotho, are likely to join our institutions shortly. We shall welcome our neighbors most sincerely to our ranks.

Statement by the Governor of the Fund and Alternate Governor of the Bank for Belgium

Hubert Ansiaux

At the moment when we are called upon to take important decisions for the future of international monetary relations, we can only rejoice that the names of Brazil and this marvelous and hospitable city of Rio de Janeiro will be permanently associated with this stage of monetary history.

For several years it has been evident that it is necessary to adapt the structure of international monetary relations and arrangements for granting monetary credit and creating liquidity to the new needs of our time. The excellent Report of the Executive Directors of the Fund, which deserves our congratulations and thanks, describes clearly and objectively the state of this matter. The time has come to choose the solutions that best meet present needs.

In tackling together the problems of the creation of special drawing rights within the Fund for the purpose of supplementing existing reserves and of the improvements to be made in the present rules and practices of the Fund, the draft Resolution before us places these problems in their proper perspective. What is involved is an evolution, gradual and cautious, but indispensable, of the present system toward new arrangements.

We consider it particularly fortunate that this evolution is taking place within the framework of the Fund. We have always advocated solutions covering the entire international community, patterned on the Fund's operating technique and appropriately identified with this institution.

The Outline of a Facility Based on Special Drawing Rights in the International Monetary Fund meets these requirements, and we therefore approve it.

The Belgian Delegation considers that this system of special drawing rights has three advantages of great importance: unity of action on the international level, recourse to an already approved monetary technique, and the flexibility of a plan open to subsequent improvements.

First, it appears essential to us to maintain a sole responsibility

at the highest level of international monetary cooperation in the creation of liquidity intended to meet a general need and in the granting of individual credits by the international community.

A second advantage is that the system is based on the well-known technique of drawing rights. The exercise of rights and respect for obligations of the Fund and its members implicit in the use of special drawing rights must be effectively guaranteed by the Fund. The arrangements made to this effect are designed to strengthen confidence in the special drawing rights and promote their holding and utilization by national monetary authorities.

Finally, it is clear that the arrangement described in the Outline is not definitive in all respects. It opens the way for techniques that are flexible enough to be adapted as experience requires.

The decision to set up the new facility in the form of special drawing rights created by a collective decision is undoubtedly an improvement over a system in which fortuitous factors play the leading role. But it imposes the obligation to pursue with special determination a policy of balance of payments equilibrium. A justified and adequate creation of liquidity presupposes this fundamental equilibrium. In its absence, the special drawing rights would become too easy a means of financing persistent deficits and would accordingly no longer constitute a good reserve.

It is for the same reason that the Outline recommends the combined use of different forms of reserves, in order to maintain a just proportion in the holding of the different international means of payment.

I wish to emphasize here the special responsibility that will fall upon the Managing Director of the Fund in the procedure for creating special drawing rights. He must assess the global need for reserves and make sure that the conditions are met for creating new liquidity safely. It will be especially important for a satisfactory equilibrium in the balances of payments of the principal countries to prevent other forms of liquidity creation from interfering with the distribution of the special drawing rights.

It remains to define the position of Belgium on the other problem treated in the draft Resolution: the appropriate adaptations of the rules governing the Fund's traditional activity.

We attach as much importance to this as to the creation of new liquidity. We consider that there is a link between these two proposals and that the adoption of one cannot be dissociated from that of the other.

In fact, in the light of the experience of the last twenty years and the present needs of the world economy, taking into account the new mission entrusted to the Fund by the creation of special drawing rights, certain rules and practices of the Fund require revision.

A point on which we have insisted on several occasions in recent years is that of adequate status for the gold tranche, calling for full automaticity of drawings. This question is especially important in the perspective of the creation of special drawing rights. It will in fact be necessary to move toward the greatest homogeneity possible between these two forms of international liquidity, both of which can validly supplement traditional reserves.

The considerations that I have advanced concerning the creation of liquidity and the reform of the Fund constitute the essential elements of the Belgian position on these two questions. They justify the total support that Belgium is giving to the draft Resolution. I earnestly hope that the work of the Executive Directors of the Fund toward presenting jointly the two reports requested for the spring of 1968 may continue in the same spirit of constructive international cooperation that has characterized the negotiations of the last two years.

In these circumstances, we can face the future with confidence and expect that the decisions on the creation of special drawing rights and on adaptations of the rules and practices of the Fund will form a balanced combination of important reforms.

Statement by the Governor of the Fund for the Philippines

Andres V. Castillo

May I first convey the cordial greetings and warm appreciation of the Filipino people to the people of this metropolis of Rio de Janeiro and this great country, Brazil, for the generous and affectionate hospitality that has been accorded to us since our arrival.

I would also like to join my esteemed colleagues in congratulating Mr. Schweitzer for his very illuminating address.

The past year has seen the culmination of the years of hard work on the problem of international liquidity in an Outline of a contingency plan for establishing a facility in the form of special drawing rights to supplement existing reserve assets. The agreement on the contingency plan is eloquent testimony to the capability of men to reconcile conflicting national views in the interest of the entire community of nations. We, the representatives of the less developed countries, draw comfort from this achievement, and our confidence in the fruitfulness and efficacy of international cooperation has thus been bolstered. With the same dedication and cooperative spirit, we are hopeful that the remaining problems confronting us and those that may arise in the future shall be solved with greater and swifter ease and facility.

The significance of an expanding world trade to the primary producing countries, which the additional international liquidity seeks to foster, was shown rather forcefully by recent developments analyzed in the Annual Report. When the growth of imports of industrial countries slowed down from 13 per cent in April-September 1965 to 7 per cent in October 1966-March 1967, the increase in exports of the less developed countries decelerated more rapidly, from 9 per cent to *minus* 1 per cent. In contrast, the growth of exports of industrial countries remained stable, actually rising from 9 per cent to 10 per cent in the latter six-month period.

It is, therefore, quite timely for the Annual Report to devote much space to a problem of developing countries, their foreign exchange policies. In our experience, balancing of international payments is the most crucial problem among the host of difficulties encountered in the attempt to develop the Philippine economy. During the 21 years of our independent national existence, we have tried a variety of foreign exchange policies in trying to solve this problem, policies that ranged from severe trade and payments restrictions to completely unfettered foreign transactions. In the process, we devalued our currency by nearly 50 per cent. The problem of balancing international payments in the context of even a modest economic development program, however, remains

as perplexing as ever. One cannot escape the suspicion that the existing body of knowledge is not yet adequate to explain the evident conflict between the requirements of economic development and external monetary stability.

The chapter in the Annual Report that deals with the foreign exchange policies of the less developed countries may help explain this state of affairs. This chapter is made up of 42 paragraphs. Only 2 short paragraphs are devoted to the exogenous elements which act as constraints to the developing countries. At that, the discussion is confined to the unfavorable tariff and tax policies of industrial countries, giving the impression that this aspect of the problem was treated only as an afterthought.

It is submitted, however, that the exogenous elements operating against the less developed countries are not included among the premises used in constructing the theory of international economics. Consequently, the theory cannot provide an adequate explanation of the forces operating in the less developed countries. It follows that the policies pursued on the basis of this theory are deficient in many important respects.

I refer to the technological and institutional biases operating in the world market against the products of less developed countries. Technological developments in the industrial countries have been shown to exert a bias against natural primary products, reducing, if not altogether displacing, the input of natural raw materials in the manufacture of finished products. This combines with the institutional bias which translates increases in productivity into a decline in prices of primary products produced by the less developed countries and into an increase in factor incomes in the case of manufactured products of the industrial countries. Adjusting the level of domestic economic activities to attain external balance in the light of the scissors effect of these two adverse forces would virtually mean condemning the less developed countries to economic stagnation, and, possibly, economic retrogression.

If we survey the experiences of less developed member countries for the Fund, we can discern quite quickly the almost universal use of exchange and trade restrictions for balance of pay-

ments reasons. Countries as disparate as India and Mauritania operate within an exchange control system. Is this a case where a large number of countries are adopting policies diametrically opposed to those indicated by economic theory and explained in the Annual Report? Or, is this not a case where, borrowing Lady Jackson's apt description, conditions have changed, "leaving the Theory high and dry above the receding facts"?

The solution of this problem becomes daily more urgent. As the conflict between the requirements of economic development and external monetary stability remains to be resolved, the pressure of population growth continues to build up. This not only makes the problem even more difficult to remedy as time goes on but threatens to undermine the free institutions in these countries. The internal build-up of pressure, moreover, is now being reinforced by the recent trend toward a decrease in external assistance made available by the industrial countries. In the past, external assistance had helped to mitigate the inequity in the distribution of the gains from international trade.

It should have been possible, for example, to tailor the Outline of the contingency plan to provide some compensating element for the bias in the prevailing world market against developing countries. The Outline provides that the special drawing rights shall be allocated in proportion to the countries' quotas in the Fund at the time the decision is taken. The present structure of the Fund quotas is, however, weighted heavily in favor of a small number of industrial countries. The 13 industrial countries in the Fund accounted for 65 per cent of total quotas as of May 31, 1967; 4 of these countries alone accounted for nearly 47 per cent. The 82 less developed countries, which number more than six times as many as the industrial countries, share only 27 per cent of total quotas, which is equivalent to less than one half as much as that of the industrial countries.

Considering the inequitable distribution of the gains from world trade and the uneven structure of the Fund quotas, the principle for allocating the special drawing rights could have been defined in such a way as to act as a compensatory device to meet the more urgent requirements of the developing countries.

It is obvious that the Outline scheme to create special drawing rights will be of primary benefit to the high-income or developed countries. It does not, in our view, squarely meet the deteriorating situation of the developing countries. The most that these countries can hope for, in the light of our present knowledge, is that the stimulus to trade among the advanced countries which the scheme may bring about may spill over in the form of increased demand for the exports of developing countries.

However, we live in a world of reality and compromise, and we are prepared to accept the scheme as the most that can be achieved at present. We also live in a world of faith and hope, and we note with satisfaction that Mr. Schweitzer, in his opening address, has said that the scheme is "capable of further development," that "the Fund has shown a remarkable capacity to evolve," and that "its policies and practices are not static" and "can be further modified." Our acceptance of the scheme, therefore, must be read as an acceptance of an initial step in the improvement of the world's monetary system and as an act of faith in the further evolution of the international payments system so as to meet squarely the problems of the developing countries of Asia, Africa, and Latin America.

With the taking of the first step on international liquidity, I would like to propose that the research staff of the Fund address itself to the pressing balance of payments problem of the developing countries. With the construction of an appropriate theory, it would be possible to suggest the policies and, possibly, the adjustments in the institutional framework necessary to reconcile the requirements of economic development and external monetary stability.

Statement by the Governor of the Fund for Ethiopia

Menasse Lemma

Before I make a few remarks on the Annual Report of the Fund, and on the new proposal for the creation of special drawing rights, I would like to take this opportunity, firstly, to thank the Managing Director of the Fund for his interesting speech. Secondly, through

the Governor of the host country, I would like to thank the Government and the people of Brazil for the excellent preparations that have been made, and for the hospitality which has been extended to all of us, meeting in this beautiful city of Rio de Janeiro.

During the year under review, the world economy as a whole was confronted with a number of difficulties. The problems of the industrialized countries have not always been similar to the problems of the primary producing countries. Even among the primary producing countries, their fortunes have differed widely.

The major problem faced by the industrialized countries was that of continued internal adjustment in their domestic economies; the policies which have been followed by these countries internally have often had unfavorable repercussions particularly in the less developed group of the primary producing countries.

The industrialized countries, in their attempt to eliminate inflation and restore healthy economic growth internally, have often resorted to policies designed to reduce demand. The weakening of demand in the developed countries has led to a severe curtailment in imports, and has resulted in the further deterioration of prices and reduction of volume of the exportable commodities of the less developed primary producing countries.

Because of these and other factors, the less developed of the primary producing countries have experienced substantial economic difficulties. They have not been able to earn adequate amounts of foreign exchange reserves, to repay obligations of already contracted loans, and to meet minimum capital importing needs.

Even though problems connected with commodity agreements aimed at price stabilization and access to markets are difficult to solve, the ingenuity of the Fund in the future, with that of the Bank and other international organizations, should be directed more to the search for appropriate and flexible solutions. This should enable, in particular, the less developed of the primary producing countries to have a tolerable level of sustained economic growth.

I would like now to direct your attention briefly to the Outline of a Facility Based on Special Drawing Rights in the Fund.

The point which is interesting to note is that it is a contingency plan for the future—for a possible need which might arise. Since the conditions for activating the scheme and the purposes of the facility are still to be spelled out, it is very difficult to assess precisely at this stage, how we—individually or collectively—are going to be affected.

In any case, the broad indications as to which group of countries are likely to receive the lion's share, and thus reap substantial benefit from the scheme of deliberate reserve creation seems to be clear. Special drawing rights are not always free money. They are free only at the time of creation and initial distribution. After that they involve a real shift of economic resources. We can gain special drawing rights by running surpluses, or lose them with a deficit.

Therefore, if developing countries support the scheme as presented, it is not because of the likelihood that it will solve any of their immediate economic difficulties—such as long-term capital assistance or obtaining adequate compensation for their exports; it will be because the scheme even in its present form, with all its uncertainty, might in the long run bring about a better working of the international monetary system as a whole.

In all equity, however, even at this late stage, some connecting link should be found between deliberate reserve creation and development financing. In addition, the following points should be noted.

In the "Procedure for Decision" paragraph (a) speaks of "concurrence" by the Executive Directors. This must, we hope, mean decision reached at a formal meeting of the Executive Directors. Our Executive Directors are elected to examine and present their recommendations before a decision is reached by us at the level of the Board of Governors.

Again, under paragraph (b) on "Procedure for Decision," it is said that the Managing Director will conduct "consultations" to enable him to ascertain the broad support among participants for the allocation of special drawing rights at the rate and for the proposed basic period.

These provisions also are very vague and are likely to create misunderstanding in the future. We have been given to understand

by our Executive Director that in this text the words "concurrence" and "consultations" shall only be reached in formal meetings of the Board of Executive Directors. Should this interpretation not be correct, we believe it important to have it clarified and spelled out at this meeting to avoid future confusions.

On the voting amendment, the proposed 85 per cent majority is a step in the wrong direction. This is especially so if it is extended to the present Articles of Agreement. We therefore intend not to support this provision if so extended. We sincerely hope that this provision will be discussed again by our Directors when the final documents are prepared.

Another point which should be thought out very carefully once again is the connection between existing quotas and the distribution of special drawing rights. The determination of the quota system, as it exists, was based on certain criteria and formulas which at that moment had nothing to do with the problems of international liquidity. This is not satisfactory as a basis, since adequate importance has not been given to the nonmonetary sector of a developing economy and the need that might arise in cases of economic difficulty.

As we try to find a proper supplement to existing reserve currencies, we should keep the historical facts in mind. Was it really the kind of international agreement which we now propose for ourselves—with all its known and unknown restrictions—that made first the pound sterling, and then the U.S. dollar, a reserve currency? This is not the case. It was the free choice of peoples all over the world, and especially of central bankers, I presume, which made the pound and the dollar reserve currencies. I do not need to elaborate on the various reasons for the choice. I should, perhaps, only mention in passing the phrase "freedom of movement."

To what extent then will an internationally contracted arrangement for creating special drawing rights give to those SDR's the status of reserve currency acceptable to all? This is a question which cannot perhaps be answered adequately at this stage.

In conclusion, let me thank the Managing Director and the other members of the staff who have once again served our institution with dedication during the past year.

Statement by the Governor of the Fund for Niger

Courmo Barcourgné

Mr. Chairman, in response to your appeal for a more restricted debate, it is not on behalf of the Republic of Niger that I speak to you and to the assembly over which you preside with such authority and courtesy, but also on behalf of the Republics of Ivory Coast, Dahomey, Upper Volta, Mauritania, Senegal, and Togo, which constitute, with my own country, the West African Monetary Union. It is in my capacity as the Chairman of the Board of our Central Bank that I take the floor here.

I should like leave first to warmly pay tribute to Brazil and to extend our thanks for the magnificent reception. We are particularly happy to be received in this great country where so many West Africans among us here find once more, on the other side of the ocean and after centuries, the men, the tongues, the gods, and the rhythms of their countries.

Among the new members of our meeting, there is one, The Gambia, that we are particularly happy to find here at our side.

You have allowed us to anticipate the forthcoming membership of two other African countries, and we express our pleasure in advance at this.

The West African Monetary Union has always shown great eagerness to participate fully in the activity of international institutions. Thus, our signatures were among the first to be affixed to the Convention on the Settlement of Investment Disputes, and of the 36 States to ratify it, 7 are members of our Union.

Barely three months ago, our 7 Governments, by a joint decision, completely liberalized the external financial relations of our States, eliminating all exchange controls and leaving subject to authorization only a few investment operations in order to integrate them better into our development programs. On this occasion, the moderate exchange taxes previously established by 3 of our States were eliminated in conformity with the International Monetary Fund's wish.

Our currency, based on the combined external reserves of our 7 States, managed by a jointly administered Central Bank, and supported by a monetary cooperation agreement concluded with France, is now completely convertible.

No exchange restrictions deter the activities of foreign investors from any country. Encouraged also by liberal and nondiscriminatory investment codes, investors can find in our country the most favorable conditions for their activities.

In an Africa in agitation, in a radically changing world, it gives me pleasure to state here that, in spite of everything, our States have always fulfilled their obligations. They have thus provided the stability necessary for the expansion of investment.

We expect from our membership in the Fund and Bank and from strict observance of their principles not intellectual satisfactions but tangible assistance for the development of our economies.

Year after year, we have heard eloquent assertions at these meetings of the need for nations, all nations, to try to balance their external payments so as not to prejudice the operation of the international monetary system. We shall approve the creation of new facilities to benefit countries whose behavior has or will have rendered their international financial relations difficult. Our countries of the West African Monetary Union, in assuring the equilibrium of their external payments, will not be in a position to profit from these new arrangements. Once more, we shall have to content ourselves with being satisfied with the satisfaction of others.

Just before we came to this meeting, we balanced our accounts. We found that our 7 States have, in the five years of their participation in the international financial institutions, paid to them in convertible currencies an amount almost equal to that actually disbursed on our behalf by these institutions. It is true that the obligations recently contracted on behalf of our countries by the Bank and its affiliates will soon reverse this situation. We have been able to note, however, how right you were, Mr. Chairman, in emphasizing the slowness of the process, and we would add, procedures, of development.

Your remarkable opening address would have the most salutary effect if it finally led to recognition by this meeting of the need to

give priority to ways in which adequate aid could be provided for the development of our countries.

There is no other way of doing this than to allow the developing countries to draw the optimum profit from their present activities, according to their present possibilities. Such aid can be rendered to them at the least cost by appropriate commodity agreements covering the principal agricultural or mining products which now provide the essential part of the foreign exchange earnings of the countries all of us here wish to aid.

Our colleague, the Governor for Malaysia, has shown us so well the need for a commodity agreement for his country's principal export that it seems useless for me to repeat it here with reference to our countries.

Such agreements would impart to the flow of financial resources available to our countries the regularity necessary for their efficient use, as Mr. Woods requested at the start of our meeting.

Therefore, a study should be made of the stabilization of commodity prices at remunerative levels by establishing appropriate arrangements calling for balanced obligations on the part of both the producer and the consumer countries, and the necessary resources should be allocated to it.

This is the purpose of the resolution which the Governors for the 15 African, French, and Malagasy countries, assembled last week in Dakar under the chairmanship of the Minister of Finance of the Republic of Senegal, agreed to submit for approval at our present meeting.

We wish to be sure that in the new study requested of them the Executive Boards and staff of the Bank and Fund show the same diligence and efficiency that they demonstrated in the search for a solution to the problem of international liquidity. Mr. Schweitzer, the eminent Managing Director of the Fund, authorizes us to look forward to it with the following statement, made a short time ago, which he allows me to quote: "An outstanding lesson of both the Kennedy Round and the liquidity negotiations is that the most difficult problems of trade and finance can be resolved provided that the will exists."

Statement by the Governor of the Fund for the Netherlands

J. Zijlstra

No one can come here without being struck by the beauty of this country, the courtesy and the friendliness of her inhabitants and their energy in getting things done. We are truly grateful for the lavish hospitality here encountered.

It is likely that the year 1967 will go down in the history of international monetary relations as a very significant one. Extensive discussions over a period of four years have finally resulted in a scheme for the creation of automatic drawing rights, which has been embodied in a draft Resolution, submitted to our meeting for approval.

This Resolution—with which the Netherlands Delegation, I am glad to say, fully concurs—consists of two elements: (1) the establishment of a system of special drawing rights; and (2) improvements in the present rules and practices of the Fund. With respect to these rules and practices, I would like to point out that the Netherlands Delegation takes the view that the voting majority proposed for decisions to be taken for the allocation of the new special drawing rights should also apply to some important decisions concerning the normal activities of the Fund.

I would like to make a few comments on the proposed scheme for the creation of special automatic drawing rights. The Resolution specifies that the main intention of the arrangement is "to meet the need, as and when it arises, for a supplement to existing reserve assets." Generally speaking, the existing reserve assets consist of gold, reserve currency holdings, and gold tranche positions in the IMF. If the new asset is, in due course, to develop into a "true supplement to existing reserves"—and for a country holding its reserves mainly in the form of gold, like the Netherlands, this would mean a "true supplement to gold"—the following should be borne in mind:

(1) According to accepted economic principles, the value of an economic entity is determined by its relative scarcity.

When effectively creating special drawing rights we therefore should be careful not to endanger the function of "true supplement to existing reserves" by the creation of too substantial amounts. In this respect one should not forget the good old Gresham's law: "Bad money drives out good money."

(2) The quality of the new asset does not merely depend on the amounts to be created; the reimbursement, or "reconstitution," is also of great importance in this respect. As regards the proposed arrangement for reconstitution of the new facility, it may be true that member countries are permitted to make a continuous use of 70 per cent of the allocated drawing rights; however, the sense of the proposed rule surely is to promote a fluctuating use. A permanent and excessive use by a number of major countries could impair the quality of the new asset in the eyes of the others.

(3) In the proposed scheme the principle of harmonization in respect of the (more or less) proportionate use of the various components of the reserves of a country "in payments need" has retained no more than platonic significance. It is to be hoped that in the future this principle will become more operational; this would in our opinion be one of the means to ensure that the new facility will in due course develop into a true supplement to existing reserve assets. I was very glad to note that the Managing Director of the Fund in his inspiring address has also focused attention—and, in my opinion, in an original way—on the significance of the harmonization principle.

What, then, can reasonably be expected from the new system? The answer to this question can perhaps best be approached by first enumerating what in any event should not be expected from it.

(1) The objective of the new system is not to remove balance of payments difficulties of individual countries. In principle, every country should restore equilibrium of its own balance of payments through timely and efficient adjustment policies.

(2) The idea that the new system should be used to stimulate world economic activity should also be ruled out. I do by no means deny that one of the objectives of the scheme is to prevent the cumulative effects of the adjustment policies pursued in a number of countries from leading to deflationary tendencies in the world as a whole. However, this is something very different from the suggestion that the new facility could be used as an instrument of demand management.

In this connection I should like to stress what is said in the opening sentence of the first chapter of the—as usual—excellent Annual Report of the IMF: "The year 1966 was one of adjustment for the world economy—an adjustment that has yet to run its course." The decrease in the growth rate which we observe in present conditions is but the necessary correction which was due after the long period of inflation and overexpansion the world has gone through. The present danger is not that recessional tendencies will gain ground, but rather that the fuel for the next round of inflationary tendencies is again accumulating. Inflation, rather than deflation or recession, may not be just around the corner, but its possible revival in 1968 should not be ruled out.

More important are the positive effects we are justified in expecting from the new system. We hope and indeed feel sure that the special automatic drawing rights will evolve into a real supplement to existing reserves. A very important step has been made on the road to a more rational international monetary system, within the framework of which the volume of available reserve assets will, more so than in present conditions, be determined by rational considerations and decisions. It is very gratifying that after years of difficult study and negotiations, solutions could be arrived at, which without any doubt could be of far-reaching importance.

But we must not allow this achievement to become a reason to neglect the solution of the problems which we face at this moment. We must admit that the problem of the instability of the present monetary system has yet to be brought to a satisfactory solution.

This instability emanates from the position of the two reserve currencies. It is clear that this problem, which deserves our constant attention and alertness, demands in the first instance the removal of still existing disequilibria.

It follows that a good functioning of the adjustment process in individual countries remains of paramount importance. In this connection I would like to make the following observations:

(1) There should be consistency between current account and capital account of the balance of payments. A country aiming at a surplus on current account should in principle accept the consequence of a deficit on capital account to the same amount. Neither the balance of payments of the United States nor that of the continental European countries as a whole comply with this principle. Net capital exports of continental European countries do not compensate their current surpluses; the opposite applies to the United States. This imbalance has an impact on the relationship between the United States and the other industrial countries taken together, on the one hand, and the group of developing countries, on the other, insofar as the flow of resources to developing countries might be unfavorably affected, however unjustified this would be. If I am permitted to say so, the present difficulties concerning the replenishment of IDA seem to me an illustration of the point I have just made.

(2) A particular aspect of the above-mentioned problem concerns the question of what instruments are needed by means of which the consistency alluded to in the previous paragraph could be restored and maintained. To promote this consistency a better mix of fiscal and monetary policies would seem indispensable. The present relationship between the two policies is generally speaking not very satisfactory. Too much stress on monetary policy and too little on fiscal policy can easily lead to a situation in which balance of payments problems become insoluble.

In summing up, I would like to say that the new system of special drawing rights can contribute significantly to a healthy eco-

nomic and financial long-term development. But we must be on our guard against the misunderstanding that the new system could in the future be a substitute for a good functioning of the adjustment process in individual countries. I would like to repeat in this connection what I have said before: the justified expectation that the new scheme will lead to a better international monetary system must not be permitted to obscure the problems we face now.

Statement by the Governor of the Fund for Greece

Demetrius Galanis

It gives me great pleasure and honor to participate in the Annual Meeting of the International Monetary Fund. These meetings, which bring together hundreds of economic policymakers, prominent economists, and financial experts from all over the world, have become, in our field, a very significant event. This year our meeting has not only become more important because of the deliberations on the special drawing rights facility but also most enjoyable because of the courteous reception and warm hospitality extended to us by our Brazilian hosts in their magnificent city.

First of all, I should like to congratulate our Managing Director, Mr. Pierre-Paul Schweitzer, for his stimulating address, as well as the Executive Directors and the staff for their excellent work in preparing the Annual Report.

It is hardly possible to overemphasize the importance of the agreement recently reached by the major trading countries regarding a solution to the problem of international liquidity. There can be no doubt that, at this stage, what is of great significance is the unanimity with which the countries of the Group of Ten reached an agreement on such a crucial issue. This constitutes a major achievement of international monetary cooperation, in the light of which we should feel certain that any remaining minor differences will be promptly and satisfactorily settled. The consensus among the major trading countries to establish the special drawing account offers conclusive proof as to their willingness and ability to carry

successfully their greater responsibilities in promoting international monetary order, trade, and economic growth.

Of course, it is not my intention to analyze, on the basis of its approved Outline, the new facility, even less to involve myself in details, however important they may be. But two points deserve, I think, special attention. The one is the active role which is assigned to the Fund. Over the last 21 years the Fund has, as we all know, gained precious skill and experience in the domain of world liquidity and related problems. It was, therefore, a very wise decision to establish the special drawing account within the framework of our organization. Thus, its skill and experience will duly be used to meet the delicate and complex problems which will inevitably arise in connection with the special drawing account. It is my belief that this constitutes a guarantee as to the efficient, sound, and equitable utilization of this additional facility to supplement international reserve assets.

The second point is the universality of the special drawing rights. This is most gratifying to the smaller member countries of the Fund, most of which are in the process of development. Quite often, the efforts of these countries to develop their economies and raise the standard of living of their populations are frustrated by balance of payments difficulties and the inadequate inflow of development capital.

In fact, the problem of development financing, although quite distinct in itself, is also closely connected with international liquidity. The significance of the new facility for the developing countries does not, perhaps, lie so much in the marginal increase in their international reserves as in that the facility is expected to prevent world-wide liquidity shortages which would be bound to aggravate pressures on their balance of payments. In any case this is a very serious problem and deserves a fair measure of consideration in the over-all context of our deliberations. In view of the prevailing spirit of international cooperation, one can be optimistic in this respect as well.

Statement by the Governor of the Fund for Tanzania

A. H. Jamal

I join my fellow Governors in expressing my deep appreciation and gratification to the Government and the people of Brazil for the courtesy, hospitality, and comfort extended to us during what is bound to be a most memorable stay in this beautiful city of Rio de Janeiro.

I shall be brief. What has clearly emerged from all that has been said so far is that there are two worlds each circling in its orbit but perilously so because of the interaction of gravitation forces generated by economic and social interrelations.

The industrial societies of the world have the economic power and therefore the ability to bring to a focal point any issue that preoccupies them with sufficient and commonly shared intensity. The Outline Plan for special drawing rights to improve international liquidity is a consequence of such preoccupation. As a member of an international organization which seeks to establish and strengthen international monetary order, we in Tanzania believe we have a duty to support technical reforms, however limited their value may be to developing societies. At the same time we believe that a major reorientation is called for in respect of the procedures governing the IMF so as to fully reflect the aspirations of the developing societies. Full and careful examination of this need is essential. On this basis, as part of international discipline which we have accepted, we support the Outline Plan.

In doing so, I would like to urge Mr. Schweitzer and his most competent technical staff to keep an absolutely vigilant eye on the possible adverse consequences that could arise as far as primary producing countries are concerned. The industrialized societies, with their enormous momentum, will be able to use even a marginal increase in their liquidity, to their maximum mutual advantage, and if the products of their industrial machines register a broadly uniform increase in prices this will have only marginal effect on their mutual economies because for the most part they will cancel out one another. But the relative position of the developing countries will, by the same token, deteriorate, since the

marginal increase of liquidity in the developing areas, infinitesimal in absolute terms and constrained because of inertia, will have given no direct support to their struggle to improve their terms of trade. This can be a serious consequence, and posterity will judge the IMF by the positive influence it is able to exercise or fails to exercise at the critical time.

Let us admit that even in the best of circumstances, all that this may mean is asking the developing societies to stand still while the industrial societies want to run even faster than they are doing, as far in the front as they already are. Let us not wallow too much in the euphoria produced by such slogans as "from Bretton Woods to Rio" and "the coming of age" and so on.

I do not deny the gains made by humanity in its effort to organize itself in some sort of world order. But so much more remains to be done. I believe the industrial societies have the power and therefore the historical opportunity to take a new bold step forward. I believe that they cannot be so blind as not to see this, if for no better reason than that they must love their own children and grandchildren to whom they would not wish to bequeath a legacy of despair and international civil strife.

Against the clear evidence that international trade has been developing along ominous lines, that is, that trade within the industrialized world is increasing so much faster than that between it and the developing world, what does the international community propose to do? Can we afford to sit and wait with folded hands?

Wittingly or otherwise—the effects are the same—the industrialized societies have formed themselves into an international cartel, and the processed and semiprocessed goods of the developing world are being kept out of their markets to the maximum extent possible. If petroleum products are excluded, the situation is very grim. The industrialized societies have the power to determine shipping, freight, and other ancillary trade service charges, such as insurance, and so on. The GATT is manifestly a rich peoples' agreement. The Kennedy Round, by its very success, may have worsened, relatively speaking, the position of developing countries, as one imperative less will operate in their favor in their effort to seek markets in the developed world. International

action is absolutely necessary. We need a decisive change to meet the exigencies of our times.

Mr. Debré's plea for imaginative and deliberately measured self-restraint on the part of the industrialized societies needs to be heeded. The resources spared as a result of such self-restraint need to be channeled into an international effort to provide for equitable returns to primary producing countries struggling as they are so courageously in this world of instant communication. A measure of such struggle can be seen in the fact that in the past two years the disastrous fall in the price of sisal reduced Tanzania's income by nearly £20 million, an amount nearly three times the loan which the United Kingdom had intended to give but was not able to do so—an amount which is nearly 80 per cent of our total reserves today.

The resolution submitted by the 15 Governors asking for urgent study to be made for the establishment and maintenance of fair commodity prices has the full support of Tanzania. I would like to go further and say that a sane and just international order calls for the establishment of an international agricultural commodity fund which will have the ability to pursue support-price policies on an international scale, together with the interrelated international stock-carrying of various agricultural commodities. It will have the ability to enforce certain disciplines and the ability to ensure that economic growth in developed societies does not take place at the expense of the struggling developing societies. Equally important, it will be able to give the Food and Agriculture Organization a new and very urgently needed perspective in economic production and distribution on a world scale rather than diffuse its energies on too philosophical a plane.

The United States Governor very rightly emphasized the need for priority attention of the world on increasing food supplies. This objective can be reached with the maximum effect through the disciplines accepted internationally in an organized manner. I realize only too well the magnitude of complexity involved in this effort. But I repeat: international monetary order can only function in a sane and just manner if the industrialized societies take a new bold step forward *now* in the direction I have mentioned. They have an unprecedented opportunity. It is not a

sacrifice of what they already have that is needed. It is a sacrifice of *part* of what they seem inexorably bent upon having, with all the overwhelming logic of technology, that is needed to be made in the interest of humanity. I like to believe that industrialized societies consist of human beings. Will they not give us a cause to continue to believe in a single, indivisible humanity?

Statement by the Governor of the Fund and Bank for Ireland

Charles J. Haughey

I wish to join with other Governors in expressing our thanks to the Government of Brazil for the way in which they have made us welcome to this beautiful city and country. We shall all bear away many happy memories of Brazilian hospitality and friendliness.

The general economic survey in this year's Annual Report of the Fund makes disquieting reading. For various reasons, growth in a number of the major industrial countries in 1966 was well below normal. This trend has continued in 1967. As the Report points out, total output in the first half of 1967 rose little, if at all, in the United States, Germany, the United Kingdom, and Canada, and a crucial question is whether these countries will achieve a revival of economic expansion on a satisfactory scale during the second half of 1967.

When growth slackens in the industrialized economies, serious consequences follow for the less advanced countries, whose internal problems are greatly aggravated by depressed conditions in external markets and restrictions on the supply of external capital. It is very important that more normal rates of growth should be resumed as soon as possible. Otherwise, there is a danger that, with our growing dependence on each other, all our economies may grind to a virtual standstill, with everything that this implies in loss of production, in unemployment, and accentuation of the world's problems of hunger and want.

An important factor in economic growth is the psychological climate in which economic activity takes place. The increasing strains on the international monetary system in recent years and

growing preoccupation with the adequacy of reserves have had a cramping influence on development plans. It is, therefore, very satisfactory that this year's Annual Meeting should witness a substantial advance in the efforts to improve the international monetary mechanism. The Outline scheme of special drawing rights in the Fund placed before us for our approval constitutes, indeed, a milestone in the history of the Fund. At times over the past few years, one could well be forgiven for a feeling of despondency at what appeared to be irreconcilable attitudes over the problem of international liquidity. That, despite many differences of opinion, it has proved possible to prepare an agreed scheme is an outstanding and most encouraging instance of international cooperation.

The scheme in its present form does not go as far as some of us would have wished. Because of the need to resolve opposing viewpoints, the opportunity has been lost to take the bold step of creating a new and fully unconditional reserve asset. Another limitation is the rather small scope of the scheme envisaged, at least in the initial period. The improvement in the reserves of the less advanced countries, whose Fund quotas are small, will be meager. Despite these limitations, however, the draft scheme is welcome and opportune. I believe that as experience is gained of its operation it will be possible to make improvements in it and to widen its scope.

Early activation of the draft scheme seems necessary to avoid a serious shortage of international liquidity. In 1966 total world reserves rose by only 2 per cent, as compared with 3.2 per cent on the average in the six preceding years. This sharp deceleration in the rise of reserves must give cause for concern. Time is obviously running out for the present international monetary system, and it is to be hoped that there will be little delay between the establishment of the new facility in the Fund and its activation.

We congratulate the Managing Director of the Fund and the others concerned for the progress made since our last Annual Meeting in preparing a scheme to improve the international payments system. Let us hope that by next year's Annual Meeting we shall be very near the point where the new scheme can be put into operation and we can start on the road of deliberate, rather than haphazard, international reserve creation.

Statement by the Governor of the Fund for Sweden

Per V. Åsbrink

I shall try to be brief. However, I have a few points to stress on the question of international liquidity, a subject where my country, like many others, feels that its vital economic interests can be affected.

We are now about to agree on a contingency plan outlining a facility which is intended to supplement existing reserve assets. I much prefer that we could start cautiously with a facility that can develop into a first-class asset instead of having to go along with something that can be rather generously distributed because it is so fenced round with restrictive features. My country is ready to accept the compromise represented by the Outline before us, so naturally I do not intend to plead for a change in the near future of the essential characteristics of the plan embodied therein. The Outline, however, gives considerable leeway to those who will be entrusted with the task of setting down in detail and in legal language the general agreement that is now within reach. In my opinion they will have to bear in mind also the following points.

It is important that the great majority of central banks or other monetary authorities should feel able to show the new facility among other assets in their balance sheets. This is after all one essential meaning of our endeavors. It is equally indispensable that we aim at a facility that, when activated, is distributed evenly and periodically in order to supply a modest but reliable source of new liquidity. As regards the rules for the use of the new facility, I should like to express at least one wish. It has been maintained during the discussions among the experts that the question of direct or indirect transfer is rather irrelevant; that the main thing is to have transfers effected within a framework of rules and regulations by the Fund. This may be so from a purely economic point of view, but I doubt whether it also holds good psychologically. I willingly recognize the importance of the close collaboration of our very able and loyal Fund staff, but, nonetheless, I remain convinced that some leeway for direct contacts in the traditional way between central banks is bound to enhance the value of the new facility.

The great importance that we attach in my country to the question of international liquidity leads me finally to bring up a point that has proved to be somewhat delicate. We need great flexibility in the administration of the new facility. Its basic features are fairly clearly defined and cannot easily be modified, but it would be unwise to adopt a rigid form in all important respects. For one thing, if our enterprise proves to be a success—and eventually the new facility should form a considerable part of over-all reserves—this by itself would necessitate an adaptation even of some basic rules. I need here only point to the question of holding limits. Besides, we must be prepared to learn from gradually accumulated experience. In my country we are therefore in favor of an arrangement that gives essential powers to Governors and Executive Directors. Our experience tends to confirm that it is normally of little importance whether the formal decision lies with the Governors or rests with the Executive Body. Even when important problems are referred to the Governors, they have been so well thought out and defined that the ultimate decision by Governors is not much more than a formality. It would therefore be appropriate and practical that in most cases final decisions rest with Executive Directors.

The five member countries with the largest quotas are each represented by an Executive Director who casts the votes of the respective country. Another six or seven countries with fairly large quotas are usually or permanently represented by Executive Directors seconded from them. It seems therefore safe to assume that in important questions more than half of the Executive Directors vote as instructed by their home countries. The system of bloc voting as instituted by Article XII, Section 3(i), which I quote: "All the votes which a director is entitled to cast shall be cast as a unit," in reality applies only to member countries with quotas of small or modest size. There may be reasons of administration or expediency that favor such an arrangement. Nonetheless, it is decidedly discriminatory. Countries represented on an equal footing by the same Executive Director have to agree in order to give voting instructions to "their" Director. Otherwise, either he cannot vote at all, or else has to vote against the interests of one or more of the countries he represents.

My country has accepted this system of voting for the present activities of the Fund, and we do not intend to propose a change as regards these activities. However, we do not find it reasonable to be asked to give up voting rights in the new scheme on questions that we find of considerable or even of major interest. Therefore, we sincerely hope that in the legal text of the new arrangement it will be foreseen that votes exercised by an Executive Director need not be cast as a unit. I have no doubt that after sufficient time for study a considerable number of countries will support us. Many small countries can be expected to take a lively interest in matters of international liquidity, and it certainly is not only large countries who wish and are fully able to decide for themselves their positions on such major questions. Furthermore, for all countries it would seem useful to know that on important subjects the votes cast by an Executive Director were not only formally those of the countries he represents but also, in effect, reflect the considered views of those countries which wish to have assured use of their votes. I have consulted my Nordic fellow Governors, and without committing themselves as to the final positions of their Governments they share the view that this issue should be given thorough and unbiased consideration when the legal provisions are to be negotiated.

Statement by the Governor of the Fund for Israel

Pinhas Sapir

First of all, I would like to express my deep appreciation for the hospitality extended to us by the Government of Brazil. I believe that the very fact that we are here adds the accent and atmosphere of the developing world to our deliberations, and I would express the hope that this will induce us to seek solutions which will take into consideration the particular needs of the developing countries. Indeed, I intend to devote the main part of my remarks to this subject.

In recent years we have occupied ourselves in defining the roots of and trying to find solutions to the problem of international liquidity. In this connection, I take great pleasure in expressing

my appreciation for the excellent work done by the Fund's staff, which enables us to understand better the issues involved and to see more clearly the magnitude of the problem and the possibilities of a solution.

Lack of international liquidity presents a special problem for the developing economies for two main reasons:

(1) Our desire to narrow the differences between standards of living in the various countries of the world. This means that the developing economies will have to attain a higher rate of growth than the developed countries and, in consequence, will feel an increased need for international liquidity.

(2) The dependence of most developing countries on exports of primary products, a dependence which makes them much more vulnerable than industrial countries to sharp seasonal and annual fluctuations in their foreign exchange receipts due to uncertainty regarding crop yields and price levels.

These two reasons make the developing countries very sensitive to the problems of reserves in foreign currency. We think that their position warrants a special consideration which should be taken into account in formulating a new and better scheme for world reserves and liquidity.

I am well aware of the necessity not to confuse the need for liquidity with the need for financing capital imports. A stronger liquidity position cannot and should never replace capital imports for development. But the need for, and the reliance upon, capital imports, coupled with the instability of foreign exchange receipts (and consequently of foreign exchange reserves), puts special emphasis on the urgent need to find a satisfactory solution to the liquidity problems of the developing countries. Insufficient liquidity originating in current trade setbacks may impair the already delicate balance between the capital funds available and the desired rate of growth. The price which a developing country must pay as a result of such an imbalance—namely, the slowing down of its development processes—is a very high one indeed.

I should like to use the development in my country in the last years as an example of the difficulties a developing country can encounter when the wish to grow rapidly clashes with its policy to

maintain a strong foreign currency position. According to a long-standing tradition in the meetings of the Fund, I will limit myself to the economic events in my country in speaking about the developments of the last year.

In order to prevent the possibility of serious liquidity problems in the future, we felt the necessity of instituting policies which would diminish the increasing deficit in our current foreign exchange account. As a result, we succeeded in substantially improving our balance of payments position, and together with it we achieved relative stability in domestic price levels. But we had to pay a price for this: gross national product, which had increased at an average rate of 10 per cent during the previous ten years, rose last year by less than 1 per cent. Added to that, we were faced with increased unemployment which had been almost nonexistent in the last few years.

The necessity to effect a structural change in an economy, namely, to change the investment pattern and to achieve a redeployment of the labor force, is painful not only for the economy as a whole but especially for those sectors where the changes have to be made. Thus, for the sake of stability, we found ourselves slowing down the pace of development and hampering economic growth. This cannot be an ideal solution either for us or for any other developing country.

As a result of this situation, we have noted with particular satisfaction that significant progress was made last year by the IMF and the Group of Ten toward a solution of the international liquidity problem. We hope that the suggested formula will prove itself to be a practical solution, and we would like to stress the importance we attribute to the fact that a solution is being found now, while the world's economy is strong. If we should wait for a crisis to break out, it might well become impossible to implement any solution that may have been formulated in the meantime.

As I mentioned before, we believe that there are weighty reasons to give special consideration to the needs of developing countries in fixing the allocation of newly created reserves.

I feel the necessity to stress here that we are in full agreement with all those who have stated that the decision to create new

reserves may be influenced only by the general situation of world trade and its relation to world reserves.

We are well aware how dangerous it could be for the world if other arguments would enter the deliberations about an increase of world liquidity and would endanger the normal development of trade.

Only a strict adherence to the principles of sound international financing needs will prevent undesired increases in world reserves which would defeat the purpose for which these reserves are being created.

But after we have decided for the right reasons that it is necessary to create additional liquid assets for the world, a question arises where we doubt if the present recommendations are the right ones for the future.

Creating additional international liquid assets means creating additional international purchasing power before producing the goods which are normally the source of this power. It is, in our opinion, vital that the facilities of these assets be made available first and foremost to those developing countries which now suffer from considerable instability in their reserve position as a result of the uncertainties of their export possibilities.

We believe that, if we want to prevent a recurring demand of the developing countries for additional instruments to ease their special liquidity problems, we have to allocate the new "unearned" purchasing power, not in proportion to the established wealth of the different countries, but according to the needs of the world as a whole.

Much work will have to be done to find an objective key for allocation which will take into account the needs of today and tomorrow instead of the status quo.

The draft Resolution, which we also support, is, as a framework, a constructive step forward on the road of reasonable world monetary management. We believe that in its elaboration and implementation it will be able to solve not only the general problem of liquidity in the world but at the same time, and not contrary to it, the special liquidity problem of the developing world.

This is only possible if the "haves" of the world will agree. There is today a great chance for the world. May I express the hope that we will use it.

STATEMENT BY THE GOVERNOR OF THE FUND FOR NEW ZEALAND

R. D. Muldoon

Since the Governors of the Fund met last year in Washington, a considerable amount of effort has been expended and substantial progress has been made in the drafting of a plan for supplementary reserve creation. New Zealand has been following closely the discussions in the Group of Ten and in the Fund. New Zealand's economy can be, and in fact in recent months has been, affected greatly by fluctuations in the prices of our export commodities and by unreasonable quantitative restrictions imposed on our exports. It is therefore very important to us, as it is to all countries, that the world payments system should work efficiently and expansively.

Since the Fund was established it has shown itself capable of adapting its policies and procedures to meet changing circumstances. Among the adaptions which I might mention is the compensatory financing facility—first its initiation and later its liberalization. As one of the countries which have made use of this facility, New Zealand can sincerely say how valuable it has been to us in helping to meet a difficult situation. For the further progress that has now been made in planning a special drawing rights scheme we are grateful to those who have persevered for so long in grappling with the many complex problems involved. The scheme which they have put before us now could well be a dramatic turning point in the development of the international monetary system. Its authors must feel well satisfied that, at last, after a long period of frustration, a major forward step is about to take place.

My Government has always urged that there should be participation of *all* members of the Fund in whatever scheme was pro-

duced for expanding international liquidity, and that the Fund should have a central role in its operation. These objectives will be achieved by the adoption of the proposals before us.

It is important that, once the plan is completed and ratified, it should be quickly put into operation. Activation should not be delayed until further imbalances stemming from the growth in international trade and payments have actually emerged. If it were so delayed it might become available too late to avoid the introduction of additional restrictive measures which would adversely affect the volume of world trade and depress commodity prices further.

As the time approaches for decision making on the activation of the scheme and the amounts to be created and distributed, all countries, and particularly those larger countries which expect to be major creditors during the asset-creating period, should take a broad view of the future. We hope that those countries who were so cautious in their approach to the scheme will not adopt a similar attitude when the time comes to decide when to put it into operation.

While it has been necessary for the large nations to find a point of agreement before a scheme could be submitted to this meeting, it will always be important for the views of the small nations to be taken into account. These are the nations whose vulnerable economies tend to suffer most from depressed prices in single commodities, and no amount of aid can substitute for a vigorous and expanding pattern of trade. In this respect we have noted the references which have been made by other speakers to a need for a means of stabilizing commodity prices at fair and remunerative levels. We hope that increased and intensified efforts will be made to find, for important commodities entering into international trade, arrangements which are satisfactory to both producing and consuming countries.

The special drawing rights scheme which has emerged is perhaps not as satisfactory as many of us would have wished; but no scheme as important and as complex as this is likely to operate perfectly immediately. In our view, experience in operation should be gained as soon as possible and before the need for additional

liquidity is too urgent. We welcome the flexibility and review procedure which is proposed. This ensures that the process of evolution in international finance will continue, and that any deficiencies which appear can be rectified. In the process, perhaps countries which have been resistant to change will, with experience of the scheme in operation, take a more forward-looking attitude.

That this scheme is being launched at all is a fact of historic significance, and it is far more important at this stage to see it launched confidently than that we should spend undue time and energy disputing the details.

The New Zealand Government welcomes the scheme and will fully support the Resolution before us. We hope that with an early activation of the scheme another of the limiting factors to the development of world trade and payments will be removed.

In conclusion, I should like to associate myself and my Delegation with the references made by other Governors to the excellent facilities provided by our host country, Brazil, and also to express my delight at the beauty of the country and Brazilian hospitality.

Statement by the Governor of the Fund and Bank for Brazil

Antônio Delfim Netto

On the occasion of this historic meeting in the City of Rio de Janeiro, my colleagues from Latin America and the Philippines have entrusted me with the important duty of setting forth the viewpoints we hold in common with regard to the activities and policies of the International Monetary Fund. I speak in the name of Argentina, Bolivia, Brazil, Chile, Colombia, Costa Rica, the Dominican Republic, Ecuador, El Salvador, Guatemala, Haiti, Honduras, Mexico, Nicaragua, Panama, Paraguay, Peru, the Philippines, Uruguay, and Venezuela.

Two decades after Bretton Woods we find ourselves on the threshold of a new era in the management of international monetary matters. In the course of these years, we have been working continuously to perfect the international monetary system in

order to make it an efficient mechanism capable of promoting the expansion of world trade and the international flow of capital. The mutual trust which has during this period bound together the member countries of the Fund has made it possible for us to arrive at an agreement regarding the basic principles governing the deliberate creation of new reserve assets, thus opening broad avenues for continuing improvement in international monetary relationships.

The countries of Latin America and the Philippines take note of the affirmative aspects included in the final proposals that have been submitted to us by the Executive Directors of the International Monetary Fund. We especially note that the mechanism suggested embodies certain fundamental principles, such as the world-wide participation of all countries reflected in the central role which the International Monetary Fund will play in it—the absence of discrimination as regards the types and forms of liquidity to be created, the procedures for decision making, and the unconditional nature of the new reserve assets. These basic characteristics have consistently been supported by the nations of Latin America and by other developing countries since the Annual Meeting in Tokyo in 1964.

The proposed mechanism contains the so-called obligation to "reconstitute" as one of the necessary characteristics for the first basic period of operation of the new system. Thus understood, the rules for reconstitution appear to us to be acceptable. Experience with the functioning of the mechanism will indicate to what degree these rules should be reviewed at a later time, in order that, with such revisions, the more flexible use and transfer of the new reserve assets will be assured.

There is no question about the appropriateness and timeliness of the task we now undertake. It will avoid new speculative pressures on the gold market, and the normal functioning of the international monetary system as a whole will be assured. We trust that the more developed countries will be led to adopt less restrictive policies regarding trade, foreign investments, and financial aid for economic development in the remaining countries, by instilling greater confidence in the former as concerns the formulation of their balance of payments policies.

Once the basic decision is made, we hope that the community of countries that are members of the International Monetary Fund will not postpone unnecessarily the ratification of the new mechanism nor its timely activation. Although, fortunately, the present monetary system is not exposed to imminent danger, already signs of a possible insufficiency of international liquidity may be seen. Adequate and expeditious measures, therefore, to prevent critical situations should not be delayed.

We are aware that the new mechanism deliberately creating reserve assets cannot provide a complete and definitive solution for all the problems that beset the international monetary system. As we have already pointed out on other occasions—and as we reiterate here once more—the question of the improvement of the balance of payments adjustment process must be confronted without delay, in order to place the responsibility for the application of corrective policies on both the deficit countries and the surplus countries. The lack of balance now existing, which requires the deficit countries to bear the whole responsibility, should not be prolonged, because the maintenance of high levels of trade and investment is a joint task of the community of nations. We are pleased to note that in his brilliant address Mr. Schweitzer referred with emphasis to the need to improve the balance of payments adjustment process. We hope that the Fund will give due attention to these problems, so that effective progress in this important area of international financial relationships may be made.

We trust that the same world-wide spirit of understanding and cooperation, which has allowed us to arrive at a contingency plan for the deliberate creation of new reserves, will continue to prevail when consideration is given to other aspects of international economic policy, of vital importance for the great majority of nations. The improvement, referred to above, of the external adjustment process belongs in this class of problems. Other areas exist, nevertheless, such as the just and efficient settlement of trade in primary products and the elimination of restrictive and discriminatory practices in international trade which affect the less developed nations, the multilateral policy of financing development and the elimination of restrictions in the capital markets, which figure so

prominently in the list of crucial problems affecting the immediate future of the developing countries.

It is obvious that, in order to set up the mechanism for special drawing rights, it will be necessary to amend certain provisions of the Fund's Articles of Agreement. It is possible that advantage will be taken of the opportunity to introduce other amendments in the existing provisions. We think, however, that this will only be justified insofar as such proposals will contribute to the improvement, in an appreciable way, of the operation of the international monetary system. For example, it seems timely for the Fund to consider its possible contribution in support of the movement toward regional economic integration.

We are agreed in requesting the Executive Directors to give due consideration to any proposals for amendment that may have merit, and we shall as the occasion offers propose amendments which in our opinion may contribute to strengthening and expanding the Fund's operations. Nevertheless, we wish to point out right now that we shall oppose proposals for amendments that would imply a reduction in the flexibility of the operation of the present system and, in particular, as concerns policies relating to the use of the conditional resources of the Fund.

Likewise, we do not favor any change in the character of the Fund as a forum for international monetary cooperation, whose decisions are based on the consensus of the member countries and not on formal voting. We recommend, therefore, caution in considering proposals for the amendment of the Bretton Woods Articles, which, being based on simple and generic principles, have permitted the Fund to evolve uninterruptedly and to adapt to the changing circumstances of the world economy.

While we recognize the transcendental importance of the new mechanism for international liquidity and the possible changes in the Fund, the countries of Latin America and the Philippines continue to take a lively interest in the present policies and activities of our institution. In particular, we note with interest that, during the course of the past year, the use of the compensatory financing mechanism has been intensified, which reflects a marked basic deterioration in world trade in primary products. In this regard

we note that the amendment approved in September 1966, which modified the original decision made in February 1963, was timely. This modification gave greater security to the member countries in seeking the financial assistance of the Fund. We trust that the Fund's experience in the practical application of the mechanism will result in greater flexibility in its compensatory financing policy.

I hope that the joint work of this meeting will represent a great step toward the consolidation of the international system of payments which will provide an adequate volume of liquidity to meet the needs of world trade in such a manner that the financial and exchange problems of both the developed and the developing nations may be successfully met, thus in the end establishing a propitious climate for the International Monetary Fund and for the nations which are members of it.

In conclusion, may I repeat, in the name of the Brazilian Government and in my own behalf, that it is an exceptional honor and pleasure for us to receive in our own country such illustrious members of the international financial community.

Statement by the Governor of the Fund for Italy

Emilio Colombo

Our meeting this year concludes a series in which we have been striving for agreement on the future of the international monetary system: the atmosphere in which it opens is that of a constituent assembly. The joint committee of the Executive Directors of the Fund and the Deputies of the Group of Ten, which was given the task of examining the proposals for a reform of the international monetary system, has reached a consensus which is expressed in the Outline annexed to the Resolution that has been submitted for our approval.

The Outline represents a compromise between divergent and, at times, completely contrasting attitudes, whose supporters have somehow managed to find common ground for agreement in the face of practical realities. We are all aware that the fundamental problem of adjustment is not solved. That depends basically on

the will of the individual member countries to preserve internal and external balance, even if this entails unpopular measures. Once this condition has been fulfilled, the compromise reached may become a milestone in the evolution of the international monetary system, provided those using the new instruments do so in an appropriate and responsible manner.

In this connection I should like to point out that the nature of the new special drawing rights is not nearly as important as the manner in which they will be used. Such instruments originate, of course, as I already stressed last year, in the reciprocal granting of credit and are characterized by their origin. However, quite apart from the fact that at the very beginning they will be included wholly or partially in reserves, they inherently possess four features which are essential to make them, in time, valid reserve instruments: they are unconditional, i.e., their utilization is not tied to external conditions relating to the conduct of economic policy; they are transferable from one account to another in the Fund's books like any other currency balance; they may be used to acquire intervention currencies—generally U.S. dollars; and, finally, they may normally be reconstituted by means of a reversal of the balance of payments.

Admittedly, transfers of special drawing rights from one account to another are to take place under the guidance of the Fund, which will have to adhere to certain principles in its management of them, among which will be the maintenance of a certain proportion between earned rights and total reserves. However, we consider that, far from preventing the special drawing rights from developing into a true and proper reserve instrument, Fund guidance will have a regulatory and balancing effect in the operation of the scheme, as is already the case regarding current reserve positions in the Fund.

Within the limits of this supervision by the Fund, there is quite a sufficient margin of discretion, nonetheless, allowed in the use of the new instruments. But it is the manner of utilization of this margin of discretion that will confirm or deny the validity of the scheme. In fact, it is stated in the Outline that member countries must use their allocations to meet balance of payments needs and not solely to change the composition of their reserves. Moreover,

member countries would have to maintain a balanced relationship between their holdings of drawing rights and their other reserves; in other words, they should not be overeager to draw on the new instruments. The first rule is an effective one, because the Fund does not lack the power to see that it is respected; the second is a less binding one, and there should be a reinforced multilateral surveillance to ensure its observation. If these two obligations are disregarded, the consequence will be that the new instrument would not be considered to be on a par with traditional reserves, and its future status would be irreparably compromised.

If, however, these evolutionary potentialities are safeguarded—and we hope that they will be—we will then have paved the way for a new international monetary order. This order would exclude an increase in the price of gold as a means of increasing international liquidity, both because it would particularly benefit countries with large gold reserves and because it contains inflationary dangers. This new order, based on the most modern conceptions, would result in the creation of international liquidity governed according to responsible, collective decisions rather than by fluctuations in the supply of monetary gold or the unilateral decisions of the reserve centers. Groups of countries which hitherto have not exercised an influence commensurate with their increased economic importance will have a determining voice in these collective decisions. With this new order in prospect, we also feel it would be well at the same time to continue studying ways and means of making the improvements in the present structure of the Fund that seem called for in the light of experience and of the new requirements.

The final agreement will specify in the preamble the conditions for its activation. These will include improvements in balance of payments equilibria or other conditions, such as the sound financing of deficits, to prevent the creation of the new reserves from leading to a relaxation of balance of payments discipline. But once these basic conditions are fulfilled, it would be unlikely under the new monetary order that governments would remain passive in the face of a general shortage of reserves.

It should be pointed out in this connection that the world's reserve requirements would be reduced if, on the demand side,

member countries were to resist the tendency to adhere strictly to a specific level of reserves and were to adopt a more flexible attitude regarding their absolute and relative volume, and if, on the supply side, the potentialities of the Euro-dollar market and of other sources of reserves were fully explored.

The principle according to which decisions for the activation of the agreement will have to be taken by an 85 per cent majority vote, by giving more voting strength to some countries, particularly EEC members, associates more directly and more adequately with the responsibilities for the functioning of the system countries which have a determining influence in economic life; we believe that this principle, far from engendering differences, will promote instead a community of interests apt to reinforce the system itself.

The developing countries will benefit appreciably from the conclusion of an agreement on the creation of new reserves. As I have already mentioned on a previous occasion, these benefits are not necessarily to be measured by the amount allocated to those countries. However, the problems of development will not be solved by this agreement alone. Their solution requires efforts in many directions and in various contexts.

Both in the world economy as a whole and in the so-called dual economies it is still proving a hard task not only to narrow down existing disparities in income levels but even to prevent those disparities from widening further. Nevertheless, it should be recognized that it is essential to stimulate the development of backward areas without at the same time restraining the autonomous expansionary force of the developed areas, if we are to achieve a state of affairs in the world inspired by modern political and economic concepts regarding the advancement of peoples. Such advancement, which today constitutes not only a moral obligation as affirmed in the encyclical, "Populorum Progressio," to which President Woods referred in his opening address, but also a political necessity, should be sought through the judicious management of productive resources. Nothing is more vexing than to observe the uneconomic way in which resources are being depleted without regard to essential needs, such as food, housing, health, and education. . . .

My country has always tried to help solve the problems of international liquidity and development assistance that I have just outlined through material contributions and actions in keeping with its responsibilities. It may be pointed out, for example, that at the present time, thanks to its strong reserve position and the absence of conflict between internal and external objectives—a state of affairs to which the Fund has duly called attention in its excellent Annual Report—Italy is making a significant contribution to the expansion of income and trade in the world. This has been achieved through balance of payments and reserve policies which entail the assumption of calculated risks.

Thus, I think it may be useful for me to dwell briefly on the most recent economic developments in my country. In general, an optimistic view may be taken of the current economic situation in Italy, although, as is always the case in a phase of upsurge, constant care must be exercised by the authorities in order to control its course.

Industrial production, continuing a trend that has been going on for some time, is at present expanding at an annual rate of 10 per cent, which is certainly one of the highest in the Western world; what is particularly encouraging is that the most dynamic sector is the capital goods industry. The growth rate I have just given is, of course, an average; in some sectors advances are more rapid than in others. But even building activity, which had slowed down for various reasons, has recently accelerated.

Economic recovery, which has been continuing now for more than two years after a standstill in 1964, is taking place against the background of a satisfactory degree of monetary stability. Wholesale prices have for some time remained substantially unchanged, while the cost of living has shown increases, which—however moderate in comparison with those taking place in other countries—raises some apprehensions.

These developments in the price field, on the whole gratifying, have been accompanied by a reasonable stability of both short-term and long-term interest rates, which have settled down at levels that are considered likely, in view of the particular circumstances prevailing in Italy, to encourage a balanced growth of productive activity.

For the current year it may reasonably be expected that the rate of increase in national income will be not less than 5.5 per cent in real terms and 8 per cent in money terms. Similar gains are expected to be shown next year.

Naturally, the high level of productive activity has had repercussions on the balance of payments, repercussions that are becoming all the more noticeable as Italy's dependence on trade with foreign countries increases. Consequently, the large balance of payments surplus of the last few years has been gradually diminishing and may turn into a deficit, albeit a small one, for 1967 as a whole.

On the current account side, a trade deficit is the result of an increase in the rate of growth of imports, especially raw materials and semimanufactures, and at the same time of a reduction in the growth of exports, due not only to the recovery of domestic demand but also to the less favorable economic conditions prevailing in some of the countries with which Italy has particularly strong commercial ties. The latter factor may also be held responsible for the slowing down in certain receipts from services (tourism and emigrants' remittances).

Coupled with the deterioration in the current balance, a comparable deficit has taken place on capital account. The imbalance here is partly due to the liberalization policy that enables holders of liquid funds to invest them in the most profitable way, either in Italy or abroad; in this connection it is interesting to note that the deficit recorded in respect to capital movements is the net result of larger flows in both directions. This deficit represents, in fact, a shift of foreign exchange assets—i.e., of credits to foreign countries—from the public sector, that is to say, the monetary authorities, to the private sector, and from short term to long term. Among other things, this has made it easier to cope with the problem of administering the official reserves.

The Italian banking system is also playing an active—and increasingly important—role in financial transactions on foreign markets.

If the present favorable economic situation is to continue, it is necessary, inter alia, to prevent tensions from emerging as a result

of factors already present or arising in the Italian economy. On the domestic front there is already a potential element of tension in the growing requirements announced by the public sector; an additional stimulant could be supplied by the foreign sector when economic activity will revive in certain countries. Hence, the need exists for liquidity to be carefully controlled to ensure an adequate flow of funds to the various sectors of the economy and at the same time guarantee conditions of financial equilibrium.

Application of the methods of economic planning recently introduced in Italy, which lay down the guidelines to be followed by each sector of the economy in order to achieve orderly economic growth at a rate compatible with the country's current potential, may work effectively to that end.

Statement by the Governor of the Fund for Democratic Republic of Congo

Albert Ndele

May I join all those who preceded me at this forum to express my thanks to the Brazilian Government and the Brazilian people for the tremendous welcome we received in this beautiful country. I should also like to take this opportunity to pay tribute to the new membership of The Gambia and Indonesia.

The monetary reform effected in the Congo last June with the aid of the Fund, and the Resolution on the reform of the international monetary system, are the two subjects on which I would like to address this meeting.

The monetary reform, which came into effect on June 24 of this year, marks the end of a long period of economic and financial disorder characterized by a continuous rise in prices and a gradual deterioration in the standard of living.

The gravity of the situation existing at the time the Government of General Mobutu came into power led the Congolese authorities to apply a radical reform program acting on the main causes of the disequilibrium through three measures: the adoption of a realistic exchange rate capable of encouraging exports and control-

ling demand for imports; the elimination of credit to the Treasury through a far-reaching reform of taxation; and the establishment of a liberalized import system intended to restore standards of competition.

This program, the application of which coincided with the introduction of a new monetary unit, was formulated with the aid of Fund experts who have assisted the Congo monetary authorities continuously since independence; it has been supported by a stand-by arrangement, the first assistance of this kind that the Congo has obtained from our institution; it is directly patterned on the Fund's principles in regard to reform programs, which principles are expressed with particular clarity in last year's Annual Report and in Chapter 4 of the Annual Report for this year.

In addition to improvement in the balance of payments, a target fixed in any reform program in conformity with Fund principles, the program drawn up by the Congo introduces an extensive reform of the tax system which is providing the State with the means for building up the savings indispensable for development. It is accompanied, moreover, by a set of measures providing for a redistribution of income in favor of the most productive economic factors and a reallocation of resources to production sectors in which the Congo has a comparative advantage.

It would be presumptuous to venture to formulate an over-all judgment of the success of the reform after only three months. I am, however, already able to report with satisfaction that the commitments undertaken in the letter of intent have been fully honored. The new tax system has provided the Treasury with additional revenues that have made it possible to halt recourse to central bank advances and to constitute a reserve for the financing of the investment expenditures equal to 10 per cent of current fiscal revenues. The rise of wages and the expansion of credits to the private sector have been held within the limits agreed upon with the Fund. Moreover, the adjustment of retail prices since the adoption of the new exchange rate justifies the expectation that at the end of the adjustment period the level of these prices will be below the projections made by mutual agreement with the staff of the Fund. Finally, present net external reserves are the highest in seven years.

With regard to the reform of the monetary system, I have to express the satisfaction of the authorities of my country concerning the Resolution submitted to us and the content of the Outline annexed to that Resolution.

The adjustments in the international payments system that will result from our decisions may rightly be regarded as the greatest progress made in this field since the Bretton Woods Conference. These adjustments appear to me to provide a simple and concrete solution to the major problems treated in studies carried out in recent years: first, the creation of an adequate volume of reserves no longer dependent exclusively on the production of gold and on the deficit of the reserve currency countries; second, the retention through this reform of the valid elements of the present international payments system; and third, placing at the disposal of the central banks new forms of reserves with characteristics equivalent to those of gold and of the convertible currencies.

The creation, in a rational manner, of an adequate volume of reserves appears to me to be guaranteed, under the terms of the proposals, by the participation of all the members in the decision process, by the distribution among all the members of the new reserves on the basis of quotas corresponding to their relative importance within the international payments system, and by the flexibility of the proposed procedures for determination of the base period, the distribution of the special drawing rights, and the aggregate volume of those rights.

It seems to me that the maintenance of the valid features of the present international payments system is guaranteed by the role that gold and the reserve currencies will continue to play, in conjunction with the special drawing rights, and by a more intensive utilization of the various mechanisms of the International Monetary Fund that have proved their worth.

The provision to the central banks of facilities embodying the characteristics of a true international reserve will be guaranteed by the high degree of automaticity permitted for the utilization of the special drawing rights, by the reconstitution obligation in the case of the user countries, and by the limit on the obligation to supply currency, in the case of the countries in balance of pay-

ments surplus; these two latter provisions can prevent the persistence of extreme credit or debit positions that might impair the quality of the new reserve. In this connection, the provision permitting the International Monetary Fund to direct the drawings toward countries making too intensive or too prolonged use of the new facilities appears to me to constitute an important step forward in international monetary cooperation.

The confidence of the Congolese authorities in the reserves to be created under the Resolution is clearly shown in a ruling of the new statutes of the National Bank of Congo, which provides that, from now on, all drawing rights in the International Monetary Fund shall be included in the foreign exchange holdings.

In conclusion, I wish to express my agreement with the Resolution before us and to recommend that the Executive Directors continue their work along the lines of the Outline annexed to the Resolution. I trust that the point of view of the developing countries will be fully taken into consideration during these discussions, so that the solutions adopted for implementation shall reconcile the mutual interests of all our members.

Statement by the Governor of the Fund for Denmark

Erik Hoffmeyer

First of all I want to associate myself with my fellow Governors in expressing my profound thankfulness to the Brazilian Government and people for the arrangement of this meeting.

I am pleased to state that Denmark casts its vote in favor of the Resolution before us regarding the establishment in the Fund of a new facility based on special drawing rights and improvements in the present rules and practices of the Fund. I want to add a few words explaining our attitude and shall confine my remarks to the part of the Resolution dealing with the establishment of reserve drawing rights in accordance with the Outline attached to the Resolution.

In evaluating the result of the detailed deliberations and prolonged negotiations during the last four to five years, a clear distinc-

tion must be drawn between the long-term perspective and the short-run problems which have to a large extent impeded the attainment of an agreement within a reasonable negotiation period.

As regards the long run, we can express satisfaction with the results achieved for the following reasons: (1) a contingency plan has been agreed upon; (2) the basic idea is that the development of the international monetary system shall be managed in such a way that long-run policy aims can be fulfilled, i.e., monetary stability and expansion of trade; (3) this management shall be carried out within the framework of the IMF and therefore be open to all members; and (4) the proposed system is so flexible that with ingenuity and imagination adjustments can be made after the experience of the first period.

In brief, the proposal aims at gradually changing the relative weights of the three elements in international reserves: gold, holdings of reserve currencies, and holdings of internationalized assets.

Many of us want gold to be relegated to a more modest role in monetary affairs. We want it to recede in an orderly way, however.

We furthermore agree that the reserve currency system has been used to a point where certain weaknesses appear. It is therefore natural to welcome a shift to internationalized assets in the longer run, which must mean that we shall regard and publish such assets as part of our exchange reserves.

Turning now to the more immediate future, we have to realize that the frequent occurrence of short-term disturbances mean that the three types of assets will not always possess the same relative attractiveness. This applies in various degrees to both the market and the central banks. We have, however, witnessed ingenious and successful efforts to cushion the short-run instability of the system by unprecedented central bank cooperation, particularly through the swap system and the gold pool. We consider it essential that this cooperation is not weakened, since this could bring about the risk of major disturbances, particularly during the period until the new supplement to the system achieves real significance.

We could retain our equanimity if the possibilities were confined to gradual and orderly adjustments of the relative values of international assets, but certainly not if large and sudden changes are to be feared.

The new scheme does not relieve any major or small nation from the responsibility to maintain equilibrium on the balance of payments over reasonable periods of time. This is still a main precondition for the stability of the international payments system. If this principle is adhered to, we should be able to overcome the current tensions and in future years avail ourselves of the new scheme in a constructive manner.

Statement by the Governor of the Fund for Indonesia

Radius Prawiro

Appearing before this Annual Meeting again, after a fortunately relatively brief period of absence, allow me, first of all, to express on behalf of my Government our most sincere thanks for all that the Fund has done and continues doing for my country. We are grateful to Mr. Schweitzer and his staff for their splendid cooperation with us, exercised in a truly international spirit of the highest order. I would only cite as an example the fact that the Fund was willing to assist us even before our renewed membership.

On behalf of my Government may I also commend the Fund for its excellent Annual Report and Mr. Schweitzer for his clear and precise address. Finally, I am grateful for the warm words of welcome extended to us by the Managing Director and fellow Governors and for the hospitality of the Government and the people of Brazil.

It is with some reluctance that I would like to make some comments on the matter of international liquidity which is now before us. The matter is highly complicated and technical; it is perhaps hardly suitable to be discussed in public. But we are called on to make our opinion known, and we have no choice but to respond to that call.

International liquidity, as the name says, is a problem which affects all of us; its impact is felt all over the world. The search for its solution, however, has been organized regionally rather than internationally. It was a task which the highly developed countries felt obliged to take charge of. From a purely technical point of

view I believe that the Group of Ten has done remarkable work. The recently reached agreement on a contingency plan, the core of which is the creation of special drawing rights, or SDR's, within the Fund, is an outstanding achievement.

Monetary purists or idealists might be inclined to measure the special drawing rights with the yardstick suggested by Keynes during the Bretton Woods Conference, when his ever-imaginative and creative mind unfolded the dream of an international banker's bank, which would have the power to create liquidity as well as to contract it. Keynes' dream is still a dream. And yet the special drawing rights as conceived and proposed do represent new liquidity, thus perhaps changing the Fund from a secondary into a primary bank, if we may borrow those terms from ordinary monetary and banking theory.

It is not my intention to dwell further on this or other interesting theoretical problems. The thinking of the Group of Ten has definitely enriched monetary thinking, although I am afraid that the last word has still to be said. I would rather confine myself to one or two observations of a more practical nature—practical and important to countries in the process of economic development like my own.

First of all, if the plan was intended to have world-wide application, could not we, the economically lesser developed countries, have been consulted more or even given the opportunity to participate in the discussions by the Group of Ten? We, too, would have been affected by a scarcity of international liquidity both for reasons of development and in view of our balance of payments position. It is now decided that the scheme would be mainly used for balance of payments purposes. While we might have had other suggestions, had we have been taken into the confidence of the architects of the special drawing rights, we have at present no other choice but to accept, at least for the time being, the objectives as set out.

I do not want to be misunderstood; I fully realize the problems of the developed countries in view of the burden to be shouldered by them in regard to any plan. My observations are meant to be constructive. If special drawing rights are intended to alleviate

balance of payments difficulties, they, of course, do fit into our needs. As such, we welcome their creation. But, our balance of payments needs are different from those of the developed countries. While they are less in absolute terms, they are relatively more serious than those of developed countries which, moreover, have the benefit of other additional means for meeting their problems, such as bilateral and multilateral stand-by arrangements and the like. If such is the case, the difference should be reflected in the system of their distribution. As it now stands, the allocation of special drawing rights is intended to take place on the basis of our contribution to the Fund. I am wondering if it is fair to apply the same principle to the developed and developing countries alike, if we take into consideration the distinct difference of their balance of payments problems. Could not developing countries be given a more adequate share, for instance, by way of an extra quota in addition to their contribution or by some other device? By doing so, the difference in position would be more adequately reflected. I do not intend to press my point further at present; my only objective is to raise it for possible further consideration at the appropriate time. I hope that such an opportunity could still be given.

Mr. Chairman, may I conclude by conveying to you my Government's decision to support the Resolution pertaining to the "contingency plan."

Statement by the Governor of the Fund for Spain

Faustino García Moncó

I wish first of all to express my pleasure at being in this wonderful country which has given such a cordial welcome to the participants in this Annual Meeting.

The Fund's activities are continuously expanding while at the same time being adapted flexibly to the changing circumstances of the moment. The outstanding Report of the Executive Directors shows this clearly. My congratulations, therefore, to the Executive Directors and the Managing Director for the job well done. I would like also to congratulate the Managing Director for his very interesting opening address.

I wish to express my full agreement with the excellent summary he makes of the lessons taught by experience in world economic developments in the last two years. In fact, I believe that the difficulties of making economic diagnoses and forecasts, the impossibility of pursuing an authentic incomes policy in a situation of excess demand, the need to utilize fiscal policy to achieve internal and external objectives, and the necessity of coordinating financial policies—at least those of the major countries—are matters that must always be borne in mind if it is desired to combat successfully the existing imbalance, both in national and international economies.

But it cannot be doubted that the main topic this year—even more than in previous years—is international monetary liquidity, now that the studies carried out over a long period of time by the Executive Directors and staff of the Fund have crystallized into something concrete.

This has been an important task which in my opinion must justly be emphasized and which now enables us to have a draft Resolution that I am ready to support.

I do not believe it is an ideal and complete solution, valid for the very long run. However, it undoubtedly presupposes an agreement, reached at a timely moment, which is in line with that capacity I referred to before, of adapting Fund policy flexibly to changing circumstances so that it may always be a useful instrument for achieving the purposes set forth in the Articles of Agreement.

If we recall how, only a year ago, we were still discussing whether it might be desirable for the new liquidity to be created by a small group of industrialized countries and even whether it might be distributed among them, we can see the ground covered in arriving at a clear assertion that all members of the Fund may participate in the new arrangement in proportion to their quotas.

The new liquidity will be unconditional because of the fact that countries do not consider conditional facilities absolutely equivalent to an increase in their resources.

Thus, in the future, these new means will be available provided there is an adequate level of international monetary cooperation.

I believe that this is the assumption that should be taken as the starting point, not only because of the degree of cooperation that has now been reached within the Fund, and even in other arrangements outside the Fund, but because its absence would presuppose the failure of any international monetary scheme in our present-day world, no matter how great its technical perfection.

It seems clear that the possibility of creating additional liquidity in the future will be beneficial to all countries in enabling them to enjoy higher levels of economic activity and requiring less drastic restrictive measures to correct similar disequilibria. This can and should have a very beneficial effect on developing countries, especially if at the same time progress is made in opening the markets of the industrial countries to products of the developing countries. In this line of thought, I welcome the proposal made by the Ministers of several member countries that met in Dakar.

The road ahead until the new Outline could be put into operation will still present many difficulties. There are also a number of problems—particularly the adjustment process—which remain to be solved and where further work must be done. But at the present time the decision that in the future the growth of international reserves will be ordered rationally as need requires on the basis of a collective judgment constitutes a fundamental step in the history of international monetary cooperation.

Statement by the Governor of the Fund for Paraguay

César Barrientos

The Paraguayan Delegation is taking part in this most important international event, firstly, in order to render a report on the efforts put forth by our country, and, secondly, to gain further acquaintance with the persevering work done by the IMF.

It is gratifying to us to note how fruitful have been the labors of the IMF in the interests of the developing countries and, on studying the Report submitted, we see that those countries have made greater use of the Fund's resources, in proportion to the amount of their quotas. Similarly, the attention devoted by the IMF to the study of international liquidity, as also the carrying out of the

study entitled "Compensatory Financing of Export Fluctuations," are matters of outstanding importance.

Our institution has exercised very good judgment in sharing in the debate on the problem of international liquidity, and we believe that the studies made with the Group of Ten will make it possible to find a solution, without jeopardizing the operation of a possible agreement on the creation of supplementary international reserves.

So far as compensatory financing is concerned, the work done in this sphere also proved advantageous in dealing with the problem of the extension of facilities to member countries that face difficulties in their balances of payments. Here the Fund showed greater liberality in the use of its resources by countries that depend on exports of primary products to provide them with foreign exchange.

One of the most outstanding occurrences, from the point of view of some Latin American countries was, in our view, the visit paid to them by the Managing Director, an event which made it possible to achieve still closer collaboration between monetary and economic authorities, on the one hand, and the institution, on the other.

When Mr. Schweitzer visits Paraguay, following the conclusion of this meeting, he will be able to gain firsthand knowledge of our present economic and social conditions and will also be able to see for himself the fruitful work that the Government of Paraguay is doing to enable it to continue in the path of progress, thus affording an ever greater guarantee of the country's peace and advancement.

Trading Balance—Balance of Payments

Balances that have been, in turn, favorable and unfavorable have been a feature of the trading position shown by our balance of payments during the past few years.

Generally speaking, the value of our exports has been sufficient to cover the total value of imports. The trading deficit recorded in the first half of this year will be offset, in the second half of the year, by greater activity in the production of meat, cotton, and certain fresh items.

As regards the financing of the balance of payments, the movement of capital has made a contribution toward meeting the deficit

in the goods and services account and has also made it possible to strengthen the country's position in the matter of international monetary reserves.

As in previous years, we have refrained from availing ourselves of the possibility of making use of the stand-by credit of $7.5 million, an arrangement that was entered into with the International Monetary Fund in 1966.

There is reason to believe that, in future, the balance of payments will show an improvement, when greater selectivity is employed in applying the incentives held out by the Government to the productive sectors of the economy, and the difficulties caused by the fall in international prices for Paraguay's basic exports have been overcome.

My country's position continues to be satisfactory, owing to the fact that, during the past four years, we have been able to obtain financing from abroad on favorable terms that will not bear too heavily on the structure of our external debt.

The efforts that the Government of Paraguay is making, by the adoption of appropriate and coordinated measures, designed to ensure that provisions in the taxation and monetary fields reflect a policy of adjustment, afford a guarantee of growth under conditions of price stability and maximum employment.

Issue of Currency

The monetary obligations of the Central Bank rose by 5.8 per cent during the first half of the year, an increase that was produced by the growth of bank and official deposits. These deposits resulted in a contraction to the extent of 8 per cent in the currency issue proper.

A scarcely noticeable reduction of 0.8 per cent occurred in the money supply, in accordance with the trend in the internal and external purchasing power of the currency.

Financial Stability

The success achieved by the policy of financial stability, together with the encouraging picture presented by the balance of payments

during the past few years, has made it possible to follow a lending policy designed to facilitate the granting of credit, and to expand the volume of such credit, to those branches of activity which are best adapted to serve as a means of fostering the participation of the private sector in the introduction and expansion of new lines of production.

Stand-By Agreement

The information given in the Annual Report shows how large are the funds available, under stand-by arrangements, to assist any member countries that may require them, and this, in its turn, provides a reliable indication of the trend toward a return to normal conditions as regards the flow of trade, as also in the matter of international financial stability.

For six years now Paraguay has not made use of the stand-by credit for currency stabilization purposes in respect of which it entered into an arrangement with the Fund. To provide, however, against seasonal pressures on its balance of payments, the country has applied for renewal of the stand-by agreement to a value of $7.5 million.

The foregoing entitles us to assert that neither our exports nor our external trading balance is burdened by the operation of factors prejudicial to them. In addition to this, there is no chronic deficit spending on the part of our Government, and we have a comparatively low level of internal and external debt.

Revenue and Finance

In the field of tax administration, we are carrying out a gradual overhaul of the system of taxation, as also of the administrative structure.

As compared with 1965, the tax receipts of the Central Government have risen by 11 per cent and, on the basis of the data recorded at the end of July of the present year, there was an increase in revenue of 6 per cent, with respect to the level anticipated for the same period.

The public debt of the National Government showed an increase of 8 per cent at the end of the first half of this year, as compared

with the position obtaining a year ago. The annual payments due under this heading represent 5 per cent of the total amount of the credits appropriated in the country's general budget, as a charge against tax receipts.

At the present time, with a view to supplementing financial aid from abroad, study is being given to some means of obtaining counterpart funds, from noninflationary sources, for the carrying out of programs of economic and social development that have already been approved by the international financial organizations.

The revival that the economy has undergone is the result of the efforts made by the National Government in carrying out its considerable investments in projects of an infrastructure nature, especially in the transport and highway sector, the aim here being to form the country into a single viable unit, from the economic, political, and social points of view.

The Government is devoting its main attention to the electric power, agricultural, and stock-raising sectors, as also to the task of expanding the production of portland cement and carrying out feasibility studies for the purpose of turning its mineral resources to account.

With the putting into service, halfway through next year, of the Río Acaray hydroelectric power station, the building of which is proceeding rapidly and which will cost $33 million, one goal of the country's program of industrial development will have been attained, and this will also make it possible to embark upon a program of electrification in the interior of the country and, at the same time, meet the requirements of the border areas of neighboring countries.

In presenting the foregoing account of our activities I should like, on behalf of the Government of my country, to offer my thanks to the people and Government of the Republic of Brazil for having given us the opportunity, with their customary courtesy and hospitality, of holding this meeting of the IMF in their beautiful city of Rio de Janeiro. We likewise congratulate the Managing Director, as also all his assistants, on the useful work they have done during the financial year that has elapsed, a period which, as they have shown us, has been one of the most active in the life of

the IMF. We should also like, on behalf of the people and Government of Paraguay, to offer our sincere wishes for the happiness and prosperity of all the sister nations here represented.

Statement by the Governor of the Bank for the Syrian Arab Republic

Mouaffaq Shourbaji

I would like to begin by thanking the managements of the Bank and Fund for their valuable 1967 Annual Reports.

There is no doubt that the important international monetary event this year was that an agreement was reached on an Outline to create special drawing rights in the Fund. There is no need to elaborate here on the content of the Outline and on the differences between the SDR's and the other facilities provided by the Fund, since this is well known to the distinguished gathering here. May I, however, make the following comments:

1. We feel that one of the positive aspects of the Outline is that, according to it, international reserves are created as a result of the deliberate will of the member countries, and not only as a result of the changes in gold production or the deficit in the balance of payments of reserve countries. Thus, the international community as represented in the Fund would be able to create reserves deliberately in a manner that would satisfy the growing requirements of world trade.

Another positive aspect of the scheme is that it is open to all members in the IMF. Consequently they would be able to benefit directly from reserve creation. Thus certain schemes (such as the Collective Reserve Units Scheme) which aimed at limiting the direct benefit of reserve creation to a certain group of countries were discarded. We feel that this is a salutary step. Developing countries that are members of the IMF would benefit directly from the scheme in proportion to their quotas. However, owing to the fact that quotas of developing countries are generally very small, their benefit would be very limited and hardly adequate to meet their need. On the other hand, they are expected to benefit indi-

rectly (as indeed would be the case in any scheme to increase international liquidity) as a result of the expected increase in demand in industrial countries and their enhanced ability to give assistance.

2. That the developing countries would benefit from the activation of the plan should not make us overlook the fact that this benefit will be reduced and possibly eliminated if their terms of trade decline. Indeed, these countries have suffered from such a decline between 1958 and 1966.

Consequently, we believe that it is of utmost urgency that the countries present here, and those who are members in the United Nations Conference on Trade and Development, should exert maximum effort in order to increase the number of commodity agreements which partly help to stabilize prices and improve the terms of trade of developing countries. Maximum efforts should also be exerted to bring about a gradual reduction in trade barriers in developed countries so as to help the developing ones to achieve a higher rate of growth in their exports.

3. It is to be noted that the Outline to create SDR's does not envisage, nor indeed allow for, a link between reserve creation and the granting of assistance. This is the most important aspect in which it differs from the IMF units scheme proposed by the UNCTAD Group of Experts. We still believe that it is important to agree on a scheme which would establish a link between reserve creation and the granting of adequate financing to developing nations. We believe also that developed countries should increase their financial aid to international financial organizations. This is necessary in order to reduce the widening gap in the average per capita incomes between these two groups of countries. It is saddening to note that while between 1960 and 1966 the capacity of developing countries to absorb efficiently more financial assistance was enhanced, and their need for more assistance increased, the flow of net financial assistance nevertheless remained rather stagnant and, indeed, declined as a percentage of the incomes of the donor countries. In addition to the necessity of exerting maximum efforts in the afore-mentioned direction, we would like to see the condition that drawing on the compensatory facility in the Fund cannot exceed 25 per cent of quota *in any one year* be dropped and

therefore member countries are allowed, if justified, to draw in any one year the maximum limit, that is to say, 50 per cent of quota. Therefore, we regret that we do not agree that an 85 per cent majority of the voting power of participants should be required instead of the usual 80 per cent, because a new veto power is created and our target should be to mitigate any veto power already existing to enhance international monetary cooperation.

4. According to the draft Resolution now before the Board of Governors, the Executive Directors are requested to proceed with their work relating to "improvements in the present rules and practices of the Fund based on developments in world economic conditions and the experience of the Fund since the adoption of the Articles of Agreement of the Fund." We hope that when the Executive Directors proceed with their work concerning this matter, they would study seriously the possibility of increasing quotas and the voting power of the developing countries in the Fund. We believe that their voting power and quotas are not commensurate with their legitimate economic interests and concerns.

5. The last comment I would like to make is this: we hope that when a decision is being contemplated in order to activate the plan and distribute SDR's sufficient weight is given to the balance of payments of developing countries, the level of their reserves, and their need for additional reserves.

DISCUSSION OF FUND POLICY AT CLOSING JOINT SESSION [1]

STATEMENT BY THE GOVERNOR OF THE BANK FOR NIGERIA

A. A. Atta

I would like to join my fellow Governors in the glowing tributes paid to the President and the people of Brazil for their hospitality, to you, Mr. Chairman, for your address and wise counsel and the able manner in which you have handled this large assembly, and lastly, to the President of the Bank and the Managing Director of the Fund for their untiring efforts to achieve the aims and objectives of the Bank and the Fund, as illustrated both in their addresses and Annual Reports.

Coming back to this country, Nigeria's historical connection with Brazil is well known, and dates back to nearly a century ago when a group of Brazilians of Nigerian origin returned to take part in the early development of our commerce and industry. Today, the legacy of these pioneers is seen everywhere in the capital city of Lagos, which has its "Brazilian Quarters," with characteristic Brazilian architecture, monuments, and way of life.

I will now comment briefly on the Nigerian political situation. Strife and political disorder have put Nigeria in the news since January 1966. Many delegates, I have no doubt, would be wondering why such a potentially rich country, with a great future and opportunity to raise the living standard of its people, should find itself in strife and civil war. The fact of the matter is that most Nigerians passionately desire peace, which they regard as a precondition for economic development and progress. *But war has to be fought in order to establish peace.* The war was brought about by a few ambitious men belonging to one of the major ethnic groups who, in the early hours of January 1966, murdered a num-

[1] September 29, 1967.

ber of political and military leaders other than those of their group and imposed, shortly thereafter, a system of government which every Nigerian leader, throughout the long struggle for independence, has rejected as unworkable. The collapse of the first Military Government in July 1966, was a direct reaction to the extreme centralization imposed on the country by a group of men who had no public support. Since then, the country has returned to a federal system based on equality of opportunity for all the ethnic groups who desire, and are able economically, to have a state of their own within a Nigerian Federation. The armed conflict actually started when certain members of a tribal group, out of about 240, refused to accept the federal system of government. This tribal group has, within a period of five months, from January 1966, shifted from a position of extreme centralization to extreme decentralization which would mean the breaking up of Nigeria into four countries, each quite autonomous in every respect and having no authority whatsoever at the center. The Federal Military Government regards the rebels' proposal as unworkable in the modern world and as a negation of the spectacular progress made hitherto, and the growing bond of oneness which has been evolved since 1914. In short, the war has come about because most Nigerians believe that the rebels' case would offer neither political stability nor meaningful economic future for our people.

Despite the upheaval and the uncertainties created by the crisis, it is gratifying to state that there has been continuing economic progress in Nigeria. The rate of economic growth in 1966 was even a little faster than the year before, and the public sector continues to achieve a healthy current revenue surplus for the financing of development. A trade surplus of the magnitude of £27 million was recorded in 1966. The production of primary export commodities and minerals was higher than the year before. The crisis had, however, affected the inflow of foreign capital, but in the main the setbacks currently experienced in our economy are not of structural nature and will be removed as soon as normalcy is restored by the Federal Military Government. This will not be far from now. . . .

The burden of the debt servicing in the developing countries has, in recent years, become a serious problem. The net effect of the

rising debt servicing burden is that, today, most developing countries devote substantial parts of their budgets to interest payments and loan amortization. To alleviate this burden, it is absolutely essential that aid-giving countries and organizations, including the World Bank, must take a decisive step toward much longer repayment moratoria and more liberal repayment terms than hitherto. Unless this is done, economic assistance will become a fruitless exercise which will fail to achieve the noble objectives of accelerated growth.

As I mentioned earlier, service on past official debts, including both interest and amortization, has adversely affected the finances of developing countries and has substantially reduced, and in some cases exhausted, the domestic resources available for development. This, coupled with the almost universal inclination of donor countries to finance only foreign exchange components of projects, or projects with higher foreign exchange content, has greatly inhibited the determined development efforts for many developing countries, particularly in Africa. . . .

I will now turn briefly to matters relating to the activities of the International Monetary Fund. For the less developed countries, the continuing shortage of the means of financing economic development has been associated with the unhealthy state of international trade in primary commodities. For the developed countries—although there has been a vast expansion of world trade since the close of the Second World War—the means of financing that growth has not kept pace. The effects of these factors have been a succession of policies of monetary and commercial restraint in industrialized countries which have, in turn, robbed the less developed countries of the benefits obtainable from expanded primary exports.

As the Managing Director has rightly observed, for 1966 and 1967 "the impact" of policies which seek to protect or improve the international payment positions of the industrialized countries has always "been felt most forcibly by the less developed group of primary producing countries." Since the unfavorable state of world trade has been attributed to the shortage of the means of international payment, the less developed countries have been foremost in giving support to proposals aimed at improving the

position of international liquidity. We in Nigeria had hoped that whatever mechanism is evolved for augmenting international reserves would be linked directly to the most acute problem of this century—the economic development of the less developed countries.

From the Outline scheme for the creation of special drawing rights submitted to the Board of Governors at this meeting, it is clear that the problem of developmental credit has not been directly associated with the plan for additional reserve creation. The desire of the overwhelming majority of the less developed members of the Fund has, therefore, been ignored. However, it must be admitted that, judging from the position of many developed countries in the past Annual Meetings, and at other levels of discussions, the agreement embodied in the Outline scheme for a contingency plan represents a significant step forward in the evolution of a more flexible mechanism for increasing international liquidity in line with the growth of international transactions.

Agreement on the principle of creation of special drawing rights within the Fund and that of universality in matters related to the distribution of the new reserve represents a reasonable compromise for the majority of Fund members. The Managing Director is to be congratulated for his role in convincing all members of the Group of Ten to accept the fact that the developed and the developing countries have equal stake in the matter of international liquidity. Nigeria, therefore, gives its support to the Outline scheme.

In pledging our support for the scheme, I recognize that details of the plan are yet to be worked out before an amendment to the Articles of Agreement is submitted to national governments. It is hoped that the Managing Director will approach this task with equal dynamism so that the amendment may go to member governments before the end of the year. I also recognize that the Outline remains a mere proposal for a contingency plan. The argument on the timing of activation, and/or the conditions for activation, remain unsettled. We urge that agreement be reached on the activation of the contingency plan as early as possible in order to relieve the present shortage of the means of international payment.

In this regard, Nigeria would have been happier if the decision for the activation of the contingency plan were by a simple majority vote of the Fund members. The present proposal which raises the vote to 85 per cent creates a serious misgiving in the minds of many countries, and it is to be hoped that member countries will merely regard the higher number of votes as a means of ensuring the general acceptability of the special drawing rights as a means of international payment and not as an instrument for retarding the operation of the plan. In this connection it has been stressed that the less developed countries will derive indirect benefits, in the form of developmental credits, in the wake of the special drawing rights. If international politics will continue to dictate the direction and magnitude of the flow of foreign aid, after the activation of special drawing rights, then this stress would appear to be misplaced. It is our hope that this will not be so.

The enlargement of drawings, under the Fund's scheme, for compensatory financing of fluctuations in primary export earnings has been a welcome improvement. We still feel, however, that some additional adjustment of policy in this direction is necessary if the scheme is to provide the maximum relief. First, we urge a reduction in the interest charges on drawings under this scheme. Such reduction will provide a measure of relief at a time when, as the Managing Director himself has well recognized, external debt servicing has become unduly burdensome to the less developed countries. Secondly, the scheme should be modified to provide drawing facilities to finance the loss of earnings resulting from the decline in world prices of particular primary products which bulk large in total export of primary exporting countries. Unless this modification is made, countries whose export prices are offsetting, as in the case of Nigeria, succeed only in either standing still or in making marginal progress. For example, Nigeria, like other cocoa producers, suffered serious declines in cocoa export earnings in the period 1964/65. Since the losses incurred in export earnings from this commodity were offset by earnings from other primary exports, Nigeria could not avail itself of the compensatory facility. The problem created by this type of development warrants examination by the Fund.

Another development which has taken place within the last two years, and on which I desire to comment, is the spread of currency

devaluation in the primary exporting countries. The Fund in its current Annual Report has appeared in favor of currency devaluation, or "exchange rate adjustment," as a short cut in correcting balance of payments disequilibria. The treatment of the problem in the Annual Report in Chapter 4 leaves much to be desired. It would have been more enlightening if the Report had discussed more specifically the experiences of some of the less developed member countries who have undertaken currency devaluation on the advice and approval of the Fund. In this way, specific benefits which have accrued and/or reasons for failure of devaluation to achieve the desired adjustment and export advantages would have been stated. Since the Fund plays such an important advisory, and often, decisive role in the decision of a less developed member country to undertake devaluation, it is incumbent on the Fund to state, in no uncertain terms, the advantages which accrued to members who have already undertaken currency devaluation as a policy of economic adjustment. The treatment given to this important issue in the Report does not serve to bolster the conviction that devaluation is beneficial to primary exporting countries.

Mr. Chairman, I am grateful for the time allowed me to comment on those vital issues which affect our common good, and it is my hope that the world community will approach the problems of economic development and trade with enlightenment.

Statement by the Governor of the Fund and Bank for Liberia

J. Milton Weeks

Mr. Chairman, permit me, on behalf of my Delegation, to join you, the President of the Bank Group, and the Managing Director of the Fund in expressing our sincere appreciation to the President, Government, and people of Brazil for the privilege of holding our Annual Meetings in this great and historic city.

We are now approaching the end of our deliberations. The words addressed to us by His Excellency, the President of Brazil, at the beginning of our meeting have remained a constant source of inspiration and wisdom. I join those who have preceded me on this

rostrum to thank the President not only for his timely encouragement to us but also for the splendid arrangements made by the Brazilian Government to facilitate our meetings and ensure our comfort.

For me, coming from Liberia, which looks directly across the ocean to Brazil, I have been tremendously impressed with the level of development in this country.

This city and its people have received us with open arms and a warm heart. No effort has been spared to make our stay here enjoyable and memorable. We shall leave Rio full of praise of the warm hospitality of its people and eager to return to continue to discover more of its charm and beauty.

It is also a pleasure for me to extend a warm word of welcome to The Gambia which is meeting with us for the first time, and we look forward to an early admission date when Lesotho and Botswana will have completed their membership in the Fund and Bank Group. We are also glad that Indonesia has resumed its seat among us.

The more universal our institutions become the more strengthened they will be in achieving their objectives.

It is also my privilege to extend congratulations to the President of the Bank Group and the Managing Director of the Fund and their respective staffs for the comprehensive Reports which they have submitted for the consideration of the Boards of Governors. We are certainly encouraged by the deep awareness on part of the Fund and Bank Group of the basic problems of the world economy.

Speaking as the representative of a developing country, I am particularly gratified by the increasing emphasis in the Reports of our institutions on the interrelationship, indeed the very close interrelationship, between the developed and the less developed countries. It cannot be emphasized too strongly that the only hope for success of the universal development effort will be through the exercise of a full and satisfactory partnership in fact as well as in name based on mutual appreciation of the problems of all parties.

In both the Fund and the Bank Reports, one notes the cyclical trend in economic activity in the industrialized countries in the period 1965 to 1967, and the policies which have been adopted by

most of these countries to offset inflationary and deflationary forces and correct the resulting imbalance in their external payments. The unmistakable lesson gathered from these experiences is that there has been a greater reliance by the industrialized countries on monetary policy rather than fiscal policy to solve their internal economic problems. A direct consequence of this policy bias has been a regime of high interest rates which prevailed, more or less, throughout 1966 and into 1967.

The Bank Report records that "by mid-1966 interest rates in major financial markets had reached their highest levels since the 1920's despite continued high levels of savings in the industrial countries. . . . As economic activity slackened in the second half of 1966, monetary policy became less restrictive. Interest rates declined by the end of the year in most capital markets, but by mid-1967 they had risen again to well above the level prevailing since the twenties. The higher interest rates considerably increased the cost of capital for international development institutions and for the few developing countries which borrowed in external capital markets." I might add that this phenomenon increased the cost of capital also to the developing countries, which did not borrow directly in external capital markets. It can readily be seen that the high cost of borrowing imposes a tremendous strain on developing countries, such as mine, which are already saddled with heavy debt service burdens. In our case, debt service presently represents more than 20 per cent of total revenues.

The Fund and Bank Reports reveal, moreover, that the oscillations between acceleration and deceleration in the momentum of economic activity in the industrialized countries have had serious effects on the flow of public and private capital from the developed to the developing countries, in addition to the hardening of the terms of development loans in recent years. Actually, the flow of private capital to developing countries declined considerably from 1965 to 1966.

Probably the most significant effects of economic fluctuations in the industrialized countries on the developing countries have been the drastic fall in primary commodity prices. The Bank Report observes that "the deceleration of growth of the world economy since the middle of 1966 has adversely affected demand for most primary commodities." In Liberia we have been seriously hurt as

a result of the fall in prices of our two major export commodities —iron ore and rubber—resulting in a disturbing aggravation of our budgetary and balance of payments problems.

These are among the reasons why we welcome the initiative of the Fund in the discussions on international liquidity which have taken place over the past four years; and I take this opportunity to congratulate the Managing Director, Mr. Schweitzer, the Executive Directors, and the staff of the Fund for the constructive role which they have played in these discussions.

For the past few years, the search for a solution to the complex problems of international liquidity has dominated Fund-Bank Annual Meetings. While we of the underdeveloped world have chafed at the pace of these discussions, at the same time we recognize that we had to exercise patience in the hope that we would gain some benefits from a scheme that is designed essentially to meet the requirements and problems of the industrialized countries. After all, we do have a vested interest in the health of the developed economies.

To have expected more from the international liquidity exercise than a modest, evolutionary solution would have been unrealistic. Within the framework of their profession and of the political exigencies imposed upon them, the standard-bearers of international finance have done their job, and I hope they have done it well. I am, however, of the opinion that the result of the exercise is too narrow, and I am convinced, furthermore, that the developed world will come increasingly to believe in the correctness of this view. This view is already shared by many important leaders of the international financial community. . . .

While we do not agree that the proposed solution is the best possible one, yet we are prepared to go along with it because we consider that it represents a measure of progress which will provide us with some small, but badly needed, increment in our reserves. In addition, by alleviating the pressures on the balance of payments of the developed countries, it is hoped that this new facility will induce them to arrest the drift that has become apparent over the past few years in their attitude to foreign assistance and probably weaken the tendency to violent swings in commodity prices. We would, therefore, support the Resolution accepting the Outline

facility and the consequential amendments to the Fund's Articles of Agreement. It is our hope, however, that the enabling amendments will not be conditional upon other substantive changes in the present Articles or accompanied by restrictions which might in any way reduce the broad administrative powers of the Fund management in establishing criteria for member countries' use of "conditional liquidity" as is now provided by the Fund. . . .

Returning to the problem of international liquidity, it is only human to take the attitude that charity begins at home. However, if such an attitude prevails in the developed world, the problems of the developing world will not only become more intransigent but may well compound the problems of the developed world. In the absence of adequate foreign financial assistance and in the face of deteriorating terms of trade and heavy debt service burdens, we cannot solve our problems alone. We consider that the developed world must also have a vested interest in the health of the developing world.

The situation that confronts my country is probably similar to that of most other developing countries. In the absence of more acceptable forms of development financing, we were obliged to accept large debt obligations on very onerous terms. We have, however, learned a painful lesson. As the upward investment spurt petered out and world market prices for our main export commodities turned sharply downward, we were faced with great difficulties and were forced to seek some alleviation of our debt obligations. At the same time we drastically trimmed our development efforts and imposed harsh tax measures on our people. We undertook, furthermore, to foreswear less desirable forms of financing. We do not complain at having done these things, even though it has entailed greater hardship than would be tolerated, or even dreamed of, in industrialized countries, e.g., a lower level of domestic activity and higher consumer prices combined with a virtual freeze on wages and salaries in the public sector. If one is realistic, one should ask oneself for how long can one convince one's people of the merits of financial orthodoxy when one's only prospect, in the absence of increased primary commodity prices or increased foreign assistance, is a further drastic tightening of the belt.

The developed countries advocate the pursuit of financial orthodoxy for developing countries. We have a measure of faith in the virtues of financial orthodoxy, but faith alone without good works will not suffice. If the developed world is to demonstrate to the millions of impoverished people all the world over the correctness of its basic approach to the solution of the problems of underdevelopment, then the developed world will have to ensure that the flow of finance to the developing world regains its momentum. . . .

In closing, Mr. Chairman, I want to say that we have been satisfied with the manner in which our meetings have been conducted, and on behalf of myself and my Delegation, I wish to congratulate you on your able leadership.

Statement by the Governor of the Bank for Pakistan

N. M. Uquaili

By now, so much has been said on the various issues confronting the world economy that there is perhaps little new that one can add to it, but the problems of the developing countries are such that they would bear repetition.

To begin with, may I express the appreciation of my Delegation to the managements of the World Bank Group of institutions and the International Monetary Fund on their well-presented Annual Reports. These Reports are known for their comprehensiveness, clarity, and objectivity and bring into sharp focus the basic problems confronting the developing countries, which we have been discussing in this forum year after year for almost two decades now. These Reports bring out clearly that for the sixth successive year there has been little improvement in the over-all level of development assistance provided by the high-income countries; that the terms on which such assistance has been given have become harder and harder; and that the rising debt burden is proving extremely difficult for a number of developing countries to shoulder.

The world-wide deteriorating climate of foreign assistance is a matter of utmost concern for the developing world. While the

developing countries stand at a crucial stage of their economic development, when they need a much higher flow of external resources than ever for a decisive push toward the much-cherished goal of self-sustaining growth, they are faced with reduced availability of aid funds the world over. The high-income countries seem to be getting impatient with, or tired of, the aid requirements of the developing world. The need for economic assistance is no longer looked upon with the sympathy and understanding that characterized the start of the Development Decade. . . . We realize that some of the highly developed countries may have balance of payments or budgetary difficulties of their own. These difficulties are, however, largely transitory and should not be allowed to distract from the ideal of ensuring a reasonable standard of life to the great mass of humanity inhabiting the developing world.

A matter of equally serious concern to the developing countries is the hardening terms of external assistance in a period of declining levels of such assistance. The debt burden of the developing countries has increased over the last decade from $10 billion in 1956 to over $41 billion by 1966. The annual service charges on this debt have risen during the same period from $800 million to nearly $4,000 million. The rate of increase in debt service charges, amounting to about 10 per cent per annum, is far above the rate of growth in the export earnings of the developing countries. Currently, of the total gross capital outflow of about $10 billion to the developing countries, as much as 40 per cent goes back to the developed world in the form of debt repayments. Taken together with the rise in prices of capital equipment and other aid imports, the net inflow of foreign assistance in real terms is even lower than that indicated by these figures.

This is a dangerous trend, and we should take serious note of it if the decade of the 1970's is not to become a period of large-scale defaults. It is imperative that foreign aid and loans should be made available on much softer terms than those prevailing at present. The international community owes this obligation to itself and to the developing world. We were glad to note last year that the Development Assistance Committee of the OECD had called upon its members to improve the terms of their assistance and suggested a minimum period of 25 years for repayment and a maximum

3 per cent interest rate. Except for one or two countries, these recommendations have yet to be implemented. . . .

While the aid climate has been deteriorating, there has been no noticeable improvement in the prospects of normal trade of the developing countries. The developed countries continue to maintain many tariff and nontariff barriers in respect of goods originating from developing countries, though they have agreed to reduce tariffs on goods traded among themselves. The outcome of the Kennedy Round has come as a great disappointment. It is indeed disheartening that the less developed countries are not likely to derive any material benefit from the biggest round of tariff cuts since the Second World War. We had hoped that UNCTAD would herald an era of progressive economic collaboration between the developed world and the developing countries and that there would be a material increase in the benefits which the developing countries would derive from growing international trade. In fact, the Annual Reports before us point out that trends exactly the contrary continue to prevail. In terms of volume, exports of primary products from developing countries have increased by 5.5 per cent per annum during 1960-65, as against an expansion of 9.5 per cent in the export volume of manufactured goods. At the same time, in relation to the prices of manufactured goods, the average price level of primary commodities has declined, implying a further deterioration in the terms of trade of primary producers. Not much progress has been made so far on international commodity agreements to stabilize the prices of primary exports. As such, the second UNCTAD Conference, due to meet early next year, can only start on a note of pessimism, unless the developed world changes its basic attitudes toward trade with the developing countries.

In what, from the point of view of the developing countries, is a bleak picture, the agreement on the basic issues for the creation of additional international liquidity by the Group of Ten offers a ray of hope. As pointed out by Mr. Schweitzer, this is a historic development in the field of international monetary cooperation, for which the IMF, particularly Mr. Schweitzer and his hard-worked staff, should be complimented. We have been all along of the view that a suitable and satisfactory international monetary system is just as important for the developing countries as for the developed

world. Being a compromise formula, the proposed scheme does not meet all the desired objectives, but it is a welcome feature of the scheme that the principle of universality and automatic access to the special drawing right has been accepted. Since the flow of more aid on softer terms is, in our view, likely to be facilitated by the scheme coming into operation, we would urge its early acceptance and activation. At the same time, we would express the hope that, as experience is gained in its operation in the coming years, necessary improvements would be made in it in the mutual interest of both the developed and the developing countries. What I have particularly in mind is the contribution which the scheme can, in due course, make to easing the trade and foreign exchange problems of the developing countries.

Progressive ideas are all the more valuable in a period of retrograde developments. Instead of being depressed or overwhelmed by the current international developments, we should try, to the best of our capacity, to influence the course of these trends for the benefit of economic development in the less developed parts of the world. This is the kind of leadership that we seek from the World Bank Group and the IMF. I am confident that the Bank and the Fund will continue to provide this leadership in future as they have done in the past. . . .

Before I conclude I would also like to express the sincere thanks of my Delegation to our gracious hosts, the Government and the people of this great country, for the warm reception they have accorded us and the generous hospitality they have lavished on all of us.

Statement by the Governor of the Bank for the Sudan

Abdalla Siddig Ghandour

I would like to join all those fellow Governors who expressed their appreciation and sincere thanks to the Government and people of Brazil for the warm welcome and excellent arrangements they have made for us here in this magnificent city.

We have decided to make a joint statement on the activities of the Fund and of the Bank Group, not only for reasons of expediency but more so to underline the unity of purpose of these august institutions. The promotion of economic growth under conditions of stability remains as never before to be the challenging objective of both.

At the outset of my joint remarks I should like to express our great appreciation for the outstanding work done during the preceding year by the Executive Directors and staff of the Fund and the Bank Group. The 1967 Annual Reports are lucid and most informative and ably survey the problems of the world economic development and the international payments mechanism. The addresses of Mr. Schweitzer and Mr. Woods, which introduced the respective Annual Reports, were as usual full of penetrating comments and stimulating ideas. . . .

We note with dismay that toward the end of the United Nations Development Decade the question of aid to the developing countries still remains the most vital aspect of and the most serious factor hampering their development efforts. We believe in the principle of self-help, that each developing country should provide from its own resources the major portion of the financing of its economic development, but it is still an accepted fact that for some time to come an appreciable injection of capital from abroad is necessary to maintain an accelerated rate of economic and social progress. And yet in spite of all the efforts that have been made and pleas and aspirations expressed by and through international forums, the total capital flow to the developing nations had remained stagnant over the first half of the 1960's, declined in the preceding two years, and in real terms the value of both was less.

This leveling off and decline in the net amount of the flow of supplementary external financial resources is coming at a time when most of the developing countries:

(1) Have increased and are continuously increasing their capacity wisely, constructively, and productively to absorb a far greater inflow of foreign capital and assistance. Their potential in this respect can easily double if sustained efforts and assistance are

devoted to the preparation of the numerous identifiable projects that are beginning to emerge.

(2) Are experiencing a reduction in their foreign exchange earnings and reserves due to the difficulties of marketing their exports, the downward trend in the prices of such exports and the upward trend in the prices of their basic imports.

(3) Are beginning to face the burden of debt servicing. Though debt servicing now already absorbs over 60 per cent of the inflow of external assistance, what is really alarming is that this proportion will continue to rise.

Perhaps these phenomena which I have outlined, however serious they are, can be explained in terms of specific factors and combinations of circumstances. What is far more alarming, however, is the outlook for the future. A crisis in the international aid to the developing countries seems to be gathering momentum. There are signs that the original impulse which led to a progressively increasing outflow of aid in the 1950's is now running out of steam. For though the gross inflow of foreign capital to developing countries is still at a high level, yet the amounts which industrialized countries have been voting in their annual budgets are falling away. This may sooner become a trend if not urgently and consciously checked. Again we join others who plead that all statesmen will seriously ponder over this matter and do their best to check this grim prospect. What is needed is not only a substantial increase in the amount of aid but a very considerable easing of its terms; since the capacity of the developing countries as a group to service additional external debts is rapidly diminishing, their resort to short-term suppliers' credit has been inevitable though ill-advised. . . .

My country has in recent years experienced both an internal financial imbalance and an external payments disequilibrium. These difficulties are associated with our efforts to accelerate our economic development and with the vagaries of primary commodities' marketing and pricing. The annual exchange of views with the Fund has always been beneficial, and in our resolve to attain internal and external equilibrium for the sake of a more

sustained and healthier growth we had the benefit of the Fund's advice, technical assistance, and stand-by arrangements. The new policies which had been adopted to reduce the inflationary pressures on the economy and their vigorous continuation in this fiscal year and the next one will, with the help of the Fund, eliminate the balance of payments deficit, restore internal equilibrium, and provide a sound basis for a larger rate of growth.

We also join all those who commended the Executive Directors, the Managing Director, and the staff for the efforts they have exerted in the difficult negotiations on the question of international liquidity. This question and the need to reform the international payments mechanism had occupied much of the attention of our past three meetings. This is rightly so, as it is one of the fundamental problems facing the world today—a problem which calls for a basic solution providing for a reasonable growth in monetary reserves. The "forces of those who are concerned about the inflationary potential of too radical innovations and the forces of those who fear the potential deflationary and restrictionist consequences of no reform at all" had, together with some rather extraneous factors, resulted in the new facility, special drawing rights, which is the subject of one of the main Resolutions submitted to us. We are, of course, glad that the innumerable series of meetings have produced some concrete results. We believe that the new arrangement represents a positive step forward and could lay the foundations for a more solid basis for global monetary cooperation. We hope, however, that the new drawing rights will help the richer countries to overcome their balance of payments difficulties and thereby remove the constraints on increased amounts of aid to the developing countries. We therefore regard the new arrangement as a reasonable and helpful interim solution which should pave the way for more fundamental changes providing a direct link between the deliberate creation of the new additional reserves to development financing to developing countries.

Last but not least, I would like to extend our welcome to the new and prospective members; their experience and views will no doubt enrich our discussions.

Statement by the Governor of the Fund and Bank for Jamaica

Edward Seaga

. . . Special machinery is also needed to increase the activity of the private sector in trade. A special Resolution has been introduced on the agenda of this Conference to discuss the deterioration of terms of trade as it affects developing countries and to maintain price stabilization for primary products. That this matter, which has been discussed internationally for several years, is to be specifically presented at this level is very welcome news. The point has been made repeatedly that better terms of trade mean less aid, and that aid and trade are twin problems, which comprise two faces of the same coin.

Jamaica supports the Resolution for special consideration of this problem. But realizing that success or failure may well depend on the machinery for study, we suggest that, concurrent with the investigations of a study group, a number of interested member nations should meet to outline their interests and tackle at that level problems raised by the study group. This would provide machinery to resolve problems as they appear and thereby shorten the time for conclusions to be reached.

This, indeed, is the same type of machinery used in the investigations concerning international liquidity which generated the proposals which are now before us.

Jamaica supports the new proposals for special drawing rights to increase international liquidity as a means of strengthening the major currencies, and as a possible means of increasing trade by bringing some immobilized resources into play. We in the developing world have taken note of the political interplay in evidence at this Conference on this important point and sincerely hope that we will not be caught in the middle by lack of action on the implementation of the Resolution. As long as a deadlock continues, the same excuses for not increasing aid will be offered to us.

It must definitely be noted that within the past couple of years the major problems which have been placed on the agenda of

international discussions for study and decision have been the trade and financial difficulties of the industrialized countries. The agreements flowing from the Kennedy Round have little effect on the real problems of the developing world; nor is it likely that the proposals for increasing liquidity will have any real *direct* impact on the major problems of most primary producing countries.

The point must be made, therefore, that the time has come to bring the full focus of world attention on matters of major importance to the developing world.

No problems better commend themselves for this intensive treatment than the proposals for price stabilization and examination of the means of increasing aid. . . .

In summary, let us:

(1) Take note that development activity is beginning to settle into a pattern with some results and firm expectations for the future;

(2) Accept the need for increased investment and aid to accelerate the momentum of economic growth toward self-sufficiency;

(3) Explore the realm of the private sector for the "new dimension of aid and investment" needed to supplement the limitations placed on budgeted aid from the public purse;

(4) Study the possibilities for organizing international support schemes for guarantees (a) against deflation of currency values, and (b) stabilization of world prices for specific primary commodities, both of which can open doors of private investment and trade to overcome the stagnation of aid;

(5) Make available a portion of IDA funds to all developing countries for schemes which essentially require soft money so as to avoid a build-up of debt repayment pressures which imperil development; and

(6) Focus international attention *now* on selected major problems of the developing world, this being the effective machinery to produce real results which are urgently needed.

I feel it is my duty not to close my comments without paying a very special and warm tribute to our host country, Brazil, for

providing what must be one of the most beautiful settings in the world for this particular Conference and for measuring up to what we in the developing world would expect of them in doing a man-sized job in providing all the facilities and comforts necessary for this Conference, which always pleases us when the developing world can measure up to its own responsibility.

Statement by the Governor of the Fund and Bank for Uganda

L. Kalule-Settala

On behalf of the Uganda Delegation to this year's Annual Meetings of the Bank and the Fund, I would like to express our appreciation to His Excellency, the President of Brazil, for his excellent address to us when opening this year's proceedings.

I would also like to extend our grateful thanks to the Government of Brazil and the citizens of Rio de Janeiro for the warm and kind reception accorded since our arrival.

Sir, I join fully Governors who have spoken before me in expressing my appreciation for your clear and commendable statement on the economic and monetary problems of the member countries in the Bank Group and the Fund.

I also wish to thank Mr. Woods and Mr. Schweitzer for their excellent statements on the activities and achievements of the Bank Group and the Fund during the past year, as well as on some of the problems that are still to be resolved.

Uganda Economy

If I may be permitted, I would like to speak about the performance of the Uganda economy.

The Uganda economy has been growing at a reasonably fast rate during recent years. Over the past five years, per capita income in the monetary sector has grown at an annual average rate of nearly 2½ per cent. Fixed investment, on which will depend future output, particularly in the industrial sector, rose from £18 million sterling to £32 million sterling per annum over

the past three years. Domestic savings were running at a high level but were offset by "private capital flight." It is estimated that between the years 1961 and 1965, the economy probably lost almost £50 million sterling of foreign exchange by way of net long-term private capital transfers.

With greater public demand for services and the need to develop the economy so as to improve the standards of living of our people there have inevitably been generated heavy pressures on our budgetary resources, despite their sufficiently rapid annual increase. In the past two budgets, the Government has taken firm fiscal and monetary remedial measures to restore a proper financial balance both externally and internally. The Government has also taken vigorous steps to diversify the agricultural sector, the main source of Uganda's export earnings. At this juncture, I would like to express the appreciation of my Government for the external assistance received from bilateral sources and from the International Development Association which has supplemented our efforts in raising resources for development of key sectors, such as education, health, communications, livestock, and agriculture.

East African Economic Community

In my address to fellow Governors last year, I referred to certain developments in the economic and monetary fields involving my country and its East African neighbors, Kenya and Tanzania. Since then I am glad to state that the three East African Governments have reached agreement on a new form of association and have signed a treaty for an East African Economic Community. The treaty, which will come into force on the 1st December this year, establishes an East African common market and provides for its proper function and regulation.

We have united with our neighbors in a common market to expand our agriculture, commerce, and industry as a means of furthering the development of our respective countries. We have agreed to continue to administer certain basic services in common so as to reap economies of scale to our mutual benefit.

There will naturally be need for the three Governments to coordinate their economic and monetary policies so as to ensure

the proper functioning of the Community. In this respect we have continued and will continue the practice of full coordination of our fiscal policies through close consultations between the three finance ministers. Similarly, the central banks are fully consulting each other on all matters of mutual interest so as to ensure that our governments harmonize their monetary policies. In fact, there have already been held five useful meetings between our central banks.

We have agreed to set up a regional development bank to be known as the East African Development Bank, which will be an integral part of the Community, with the purpose of correcting imbalances and promoting a more balanced industrial development between the three economies and to make it possible for the three economies to become more complementary in the industrial field. The Bank is also intended to supplement the activities of national development agencies. It is our hope and desire that this new institution, in collaboration with the African Development Bank and other international financial agencies, should prove an effective instrument for organizing and employing new resources for our development.

Fund

I would now like to make a few comments on the question of international liquidity. In his Annual Report last year, Mr. Schweitzer reasoned at length that reserve creation was the concern of all member countries of the Fund, that all should participate both in the distribution of new reserves and in the decisions which lead to the creation of such new reserves, and that such creation should take place in the Fund. It is gratifying therefore to know that all these basic principles are embodied in the Outline Plan before us.

The new liquidity facility, if adopted, will make the international monetary system more elastic and ready for the eventuality of international liquidity shortage. This is indeed a welcome landmark in the development of our international payments system. It is to be stressed, however, that the creation of the new facility will still leave each country with the responsibility of bringing about a greater degree of equilibrium in its balance of payments.

I would also like to say that the conditions under which the special drawing rights will be issued will impose a certain degree of discipline on those nations using them.

May I congratulate the Managing Director, the Executive Directors of the Fund, and the Deputies of the Group of Ten upon their ingenuity, patience, and diligence in producing the Outline Plan. I accept the scheme in a compromising spirit. I say compromising spirit because the scheme does not meet all the desired objectives of member countries in the Fund. It is to be regretted, for example, that the balance of payments adjustment process and the resulting need for liquidity in respect of less developed member countries of the Fund (which will number 109 when Lesotho and Botswana join us in due course) are not directly catered to under the scheme. It is something that is left to be looked after partly indirectly through a hope that developed and richer member countries of the Fund will liberalize trade and international finance transfers and partly by the whole subject being remanded for discussion in another forum. I do, however, trust that, assuming the scheme is "capable of further development," the Directors of the Fund will render the amendments to the Articles and the Rules capable of adaptation and that an early and urgent step will be taken by the international financial community toward improving directly the balance of payments adjustment process needs of the less developed countries. . . .

Development Resources

Once again I feel obliged to refer to the fact that the over-all flow of financial resources from the more developed to the less developed countries has not kept pace with the growth in wealth in the richer countries. The situation has been aggravated in the past years by the excessive deflationary policies followed in certain developed countries, with the purpose of correcting imbalance in their balance of payments positions. These policies have tended to weaken further the demand for primary products from the less developed countries. They have also led to an over-all reduction in the long-term capital flow to the developing countries. To correct these adverse effects, there is clearly an urgent need for those industrialized countries that are enjoying surpluses in their basic

balances to seek an appropriately greater rate of economic expansion at home. . . .

Finally, I also wish to join other fellow Governors in welcoming Indonesia and The Gambia to membership in the Bank Group and the Fund.

Statement by the Governor of the Bank for Indonesia

Frans Seda

It is with singular pleasure that I avail myself of the opportunity to address this distinguished meeting, for this is the first Annual Meeting since Indonesia again became a full member of the International Bank for Reconstruction and Development and of the International Monetary Fund. We are also hopeful of becoming shortly reassociated with the Bank's affiliated institutions, the International Finance Corporation and the International Development Association. The warm words of welcome extended by you, Mr. Chairman, and by others, are greatly appreciated by us.

On this first occasion since our re-entry, permit me to thank you and, through you, the Boards and the managements of both the Bank and the Fund for their understanding and cooperation during our negotiations regarding the renewal of our membership.

Before commencing the few observations which I have to offer, I would like to congratulate you, Mr. Woods, and Mr. Schweitzer for the excellent, illuminating statements made on the first day of our meeting, parts of which I will reflect upon in the course of my intervention.

Our relations with the international financial and economic community will be based on the new situation in Indonesia and her new economic policy. My country has re-established its state ideology and its 1945 Constitution, the spirit of both of which was violated by a previous regime. We are now using the relevant provisions of our Constitution as guidelines for our new economic policy which is geared toward achieving economic growth and social justice. Taking into consideration our ideal to promote growth simultaneously with a fair distribution of the acquired

wealth among our people, we have restored the functioning of the market system which we now consider a more adequate medium for the smooth operation of our economy than controls and regulations. Whereas no modern state can forgo guidance, planning, and supervision, our position is that such should be of a general, supplementary, and corrective nature.

Since October 3, 1966, we have started implementing our economic policy. Our first objective is to put order in a disordered house. That effort implies the achievement of monetary stability simultaneously with the rehabilitation of our existing industries, both as a prerequisite for and a first start toward economic development.

Our exchange system was reformed, giving room to the interplay of supply and demand instead of, as in the past, resorting to allocations and licenses. We also unfroze our price system by reintroducing the market system and abandoning subsidies which, together with price ceilings, distorted the real picture of our economy. While we are reaping some harvest from our efforts, to the extent that we managed to reduce the rate of inflation considerably, we have not completely achieved our objectives. Money supply and prices still tend to rise, albeit at a slower rate. We are determined to pursue our course; we are gratified that, so far, we have been given both understanding and support from friendly countries.

In this connection I would like to commend the IMF and its staff members for their tireless, patient, very able, and dedicated work in assisting us. I believe that the Fund's attitude greatly contributed to the confidence shown by many nations in both bilateral and multilateral talks and meetings such as held in Tokyo, Paris, and the Netherlands.

If to govern is to foresee, my Government, while still engaged in overcoming one of the worst postwar inflations, is already thinking of and making other preparations for a start, at some future date, of economic development proper. We intend to draft a plan of which the tentative operational date would be the year 1969. Anticipating the future, more massive and systematic action in the

field of development proper, my country adopted, at the beginning of this year, a foreign investment law, among others, for replacing a former ill-advised policy that economic development should be financed mainly by attracting suppliers' credits. Years ago the IBRD gave a warning against such one-sided method of financing. I believe that the Bank has been proven right. First of all we realize that economic development has to rely on our own resources. We further realize that additional means ought to be balanced and varied, coming from different sources—international, national, and private—so that the burden of repayment and reimbursement could be more adequately spread and adjusted to needs. We are now exploring the possibility of attracting foreign investment, a source of financing hardly touched upon by us. We are gratified that foreign entrepreneurs are showing interest in the possibility of operating in Indonesia to their and our benefit. Their confidence in our economic future enhances our own conviction.

I do not need to explain to this gathering of the world's highest qualified persons that private capital alone cannot adequately meet the financial requirements of developing countries. Loan capital will still be needed both bilaterally and multilaterally. In this connection, I express the hope that the highly developed countries would meet the call of the United Nations to apportion the expected 1 per cent of their GNP for development purposes. . . .

Balance of payments problems encountered by some highly developed countries are expected to be alleviated by the newly conceived device of special drawing rights. They should therefore not weigh too heavily in considerations for continuing support to IDA in its original, untied form. . . .

Now allow me to dwell for a few more moments on the problem of the need of development capital.

As both the excellent Annual Reports of the Bank and the Fund show, economic growth in some large industrialized countries slackened in the past year and with it their need for raw materials, of which my country is one of the suppliers; hence, we are deeply interested in a reversal of that hopefully temporary trend. If, in a way, the development of the business cycle in the major developed

countries has a momentum of its own, such is far less the case with certain steps and measures undertaken by some of them. Economic development and the state of our economy in general are mainly, but not entirely, our own responsibility, and in this respect we would wish that developed countries could and would be more conscious of the repercussions of events generated by or through them on the weaker economies of others. We are grateful for the understanding shown vis-à-vis the need of additional capital and know-how of developing countries. However, international economic cooperation is not confined to providing capital and know-how.

I have already cited the effect of the decline of the business cycle on our economy. The control of this business cycle is a matter that concerns the relevant countries, but it is also a matter of international concern. I would also like to mention steps recently taken by the Common Market, namely, among others, the imposition of an import duty of 9 per cent on palm oil, one of our important export products. If no alleviation could be provided, for instance, by way of a quota based on our traditional export to our client countries in the Common Market, we are afraid of losing many millions of dollars of exports which we can hardly afford to forgo under our circumstances.

I do not want to be misinterpreted. The Common Market is a great endeavor, which is one of the shining examples of successful regional cooperation, but we cannot remain indifferent to some of its negative aspects for such developing countries as mine, and I believe for a few others also. It is not my intention to take stock of all steps undertaken by some highly developed countries with harmful effects for weaker economies. The release of stockpiles, the decline of exports due both to the business cycle and to certain arrangements at a time that my country is desperately trying to expand its earnings, the short-run fluctuation of the prices of commodities which has been discussed so many times in the United Nations and UNCTAD but, so far, without tangible results, the matter of the worsening terms of trade of developing countries, and so forth are affecting the development of the economy of my country and of others in similar conditions. All of them tend to nullify or reduce the domestic efforts as well as those interna-

tionally or bilaterally undertaken. I am of the opinion that efforts to provide assistance to developing countries, however welcome and needed, should be matched by as vigorous or even more vigorous efforts to enable their exports to grow, because exports are their main source of development capital.

Permit me now, Mr. Chairman, to end my intervention by expressing our satisfaction and gratitude that our reparticipation in the work of the Bank and the Fund happens to take place in this beautiful city of Rio de Janeiro. Brazil and Indonesia are on opposite sides of the world, but we have at least three things in common: the great wealth of our natural resources, the less developed state of our economy, and the desire and determination to grow and to let our peoples benefit from the wealth of our lands. May I most warmly thank the Government of Brazil, through you, Mr. Chairman, for the opportunity given to us to be here and for the very cordial hospitality extended to and enjoyed by us.

Statement by the Governor of the Fund and Bank for Kenya

J. S. Gichuru

I must first compliment and express my thanks to the Government of Brazil for the excellent arrangements that have been made for the 1967 Joint Annual Meetings of the Bank and Fund in this wonderful city of Rio de Janeiro. The striking evidence of spectacular economic development in a country, not so long ago regarded as backward and undeveloped, provides perhaps the best backdrop to these Annual Meetings. It also underlines the remark of the President of the Bank, Mr. George Woods, in his inspiring statement on Monday when he said that he would like to hear more about the success stories of development. The evidence here before our eyes in Rio is inspiration to all of the poor countries in the world.

Like other Governors before me, I must congratulate the Bank and the Fund on achieving once again such a high standard of excellence in their Annual Reports. These two Reports are now

regarded as among the most authoritative commentaries each year on the state of the world economy. The depth of their analysis and the lucidity of their exposition attain a standard of which the two institutions can be justly proud. I wish, however, that it were possible for us to be as proud of all events disclosed in these Reports. It is clear from Tables 1 and 2 of the Annual Report of the Fund that we have seen a serious disturbance in the progress of the world economy. The Fund's Report and Mr. Schweitzer's statement on Monday underline the fact that, in large measure, this disturbance was caused by national policies out of step with world economic needs.

A downturn in the economies of nearly all of the major industrial countries has not only interrupted their own prosperity but seriously affected the economic progress of the developing world. I shall, however, later in this statement return to the ridiculous contradiction of industrial countries giving aid when their trade policies defeat the objects for which the aid is given. At this point, I merely want to add my plea to that of Mr. Schweitzer and repeat what I said in my statement in Washington last year, that countries maintaining persistent balance of payments surpluses have a responsibility to the economic community just as great as those countries in persistent deficit, and as I said then: "this responsibility should be discharged to the rest of the world, either by those countries following an expansionary policy in their economies or by their giving much greater financial support to the international agencies and/or direct development aid to the poorer countries."

My own country enjoyed a very prosperous year in 1966. Gross national product increased by over 10 per cent, capital formation by 40 per cent, agricultural output by 15 per cent, exports by 11 per cent, and imports by 14 per cent. In addition, we achieved a small balance of payments surplus. Since the country achieved independence at the end of 1963, gross domestic product in the monetary economy has moved ahead at an average rate of 7½ per cent. I am confident that, if a buoyant world economy can be maintained, we shall be able to advance the economy *in real terms* at an average rate of more than 6 per cent in spite of the inevitable bad harvests that are bound to occur. Once we have been able to

provide the Kenya economy with a more substantial infrastructure, we shall be able to consider accelerating this rate further. Our success is, however, heavily dependent on the maintenance of an expanding level of world trade, and all our efforts and also the efforts of countries providing us with valuable development assistance will be nullified if, to use your own expression, Mr. Chairman, countries start to "export recession." On a more optimistic note we have in the last year signed an East African Treaty for mutual economic cooperation with our neighbors Tanzania and Uganda.

In the current year, we have seen a serious downturn in the prices of a number of our more important export commodities, reflecting a lower level of demand. Earlier in the year we forecast the growth of our economy in 1967 at a little more than 6 per cent; we have recently had to reduce that forecast to 4 per cent or 5 per cent, in large measure due to the downturn of the world economy in the first half of the year.

At the Annual Meetings in Washington last year, one of our distinguished colleagues spoke of unlicensed amateur physicians crowding at the bedside of the international monetary system. It was not completely clear, though perhaps implied, whether the developing countries were the unlicensed amateurs referred to in that context. Whether this was or was not so, I would prefer to liken the developing countries not to amateur doctors but to anxious relatives having a place by right at the bedside of the world economy when it is clearly ailing, and when the more skilled physicians stand aside and argue, firstly, whether or not the patient is ill, and, secondly, if he is ill, whether his symptoms relate to one particular disease or something quite different. As relatives we have a right to be concerned, particularly if the symptoms of the disease might become evident in ourselves and if there is danger of an epidemic spreading throughout the world. For this reason I welcome the emphasis given in the Fund's Report to the interrelationships between the industrial countries and the underdeveloped primary producers. I accept fully, as stated on page 39 of the Fund's Report, that "the foreign exchange problems that have confronted less developed countries are, to some extent, of external origin. Continued weakness or instability in foreign demand and the existence

of tariff and nontariff barriers to trade maintained by developed countries have been obstacles to a sustained expansion of export earnings of less developed countries," and also on page 47 when it says that "for certain tropical products exclusively produced in the less developed areas, the widening of markets abroad is hindered by high internal taxes in a number of importing countries." Yet it is frequently those same importing countries which are providing aid to develop the producing countries.

The developing world has for the last four years attempted to argue—without much success—that there is a close relationship between liquidity and aid. We have been told consistently that we ought not to confuse liquidity with aid. Perhaps strangely, now that there is a broad measure of agreement on the Outline for an increase of world liquidity, there is a rather greater readiness to appreciate that there is such an interrelationship as far as the developing countries are concerned between trade, aid, and liquidity. We have never attempted to argue that liquidity as such is aid, but we do hold to the view that aid is liquidity. There is, I think, fairly general agreement that the Outline scheme for special drawing rights attached to the draft Fund Resolution fails to meet all hopes and expectations looked for from a scheme for the expansion of world liquidity. However, I think there is general agreement that, in the circumstances, the proposed Outline represents a step forward, and the fact that a Resolution is to be put forward to this meeting this week can be regarded as a major achievement.

The draft Resolution on this subject to be put before us this week charges the Executive Directors to continue their work and to provide us with proposals for detailed revision of the Articles of the Fund. I support fully this Resolution but I would urge in the strongest terms that the Executive Directors must make every effort to complete the work by next April as required by the Resolution, but if it is not possible to complete a full revision of the existing Articles of the Fund, this should not be allowed to delay the finalization of the Articles relating to special drawing rights. Secondly, I would urge that there should be no undue delay in the activation of the scheme of special drawing rights. I spoke earlier about the skilled physicians arguing over symptoms. There is no doubt in my mind that the Reports of the Fund and the Bank demonstrate

in clear terms that the need for a higher level of international liquidity exists now. We would be failing in our duty if the patient, which all diagnostic techniques available to us show to be ailing, is not given the new medicine the Outline scheme provides. . . .

It is clear from the analysis presented to us by both the Bank and the Fund that, given the activation of the new scheme of international liquidity and rather greater expansionist policies on the part of those countries in a fortunate position of persistent balance of payments surpluses, the prospect for the world economy and world trade should be brighter. It is, however, important to realize that by itself such prosperity will still, in large measure, be enjoyed by the richer industrial countries, and, although the developing countries themselves look for a higher level of trade from prosperity in the industrial countries, unless there is a reversal of the trends we have seen in recent years we can expect that the principal benefits will still accrue disproportionately to the rich. The developing world has suppressed its doubts about the new liquidity arrangements because it feels that the important thing is first to have a prosperous world economy. We do, however, also feel that the time has come for much greater imagination, and indeed sacrifice, to be applied to the problems of the developing countries. . . .

I have spoken at length because these are issues of greatest importance to the developing world. The industrial countries have already shown great understanding of our problems, and if they would bear with us for just a few more years I am sure that we can look forward to the day when development will have reached the stage in which an increasing number of countries now classed as underdeveloped will be able to stand on their own feet and exist as viable economic communities with rates of growth sustainable and comparable with those in the more advanced countries of the world. The problem can, however, not be put off for very much longer. The imaginative initiative in the financial field with regard to liquidity must now be directed toward new policies for aid and trade. It is to these problems in the next 12 months that both the Bank and Fund must give particular attention.

Statement by the Governor of the Bank for Sierra Leone

B. I. Kai-Samba

I wish to join previous speakers in thanking the Government and people of Brazil on behalf of my Government and the people of Sierra Leone for the warm hospitality extended to us.

I would like also to register my appreciation for the commendable way in which our affairs have been managed by the staff of both the World Bank Group and the Fund. . . .

Turning to the Fund, my Government is grateful for the Fund's support of our efforts to solve our balance of payments difficulties; in particular, for the timely stand-by credit of $7.5 million extended to us in November 1966 and for technical assistance by Fund officials, working so imaginatively with our officials in our economic and financial management.

We have adopted various additional fiscal and monetary measures consistent with the guidelines suggested in the stand-by arrangement. My Government has reinforced with new vigor our program for recovery and stabilization and has, in the process, reaffirmed our intention to attack our external payments problems in ways which would not compromise unduly our traditional liberal foreign exchange policies. Indications are that in the near future we would be able to produce a reasonable surplus in our current budget, reduce—we hope, substantially—the deficit in the capital account, and stem the drain on our external reserves.

While we recognize that the major initiatives for our economic consolidation, recovery, and expansion must be taken by ourselves, we, like many other developing countries, are concerned about tendencies in world trade and capital movements, particularly during the last three years, which even with the most optimistic interpretations signify that, on balance, the share of the developing nations in world trade has been declining and capital movements have been falling. This reduced flow of funds into the developing nations coincided with a contraction of grace periods and maturities as well as higher interest rates.

The escalation in debt servicing obligations of low-income nations would have to be sharply and urgently constrained. We recognize our potential contribution to this end but venture to suggest that some kind of a breakthrough in the initiatives of lending nations and multilateral institutions is presently needed.

On the other hand, we acknowledge with gratitude the several ways in which the Fund has been helping developing countries in the past and express our trust that the Fund would continue to work actively for the reconciliation and harmonization of interests which we all so fervently desire.

Statement by the Governor of the Bank for Haiti

Clovis Desinor

Permit me, on behalf of the Haitian Delegation, to join with all the previous speakers at this meeting by expressing to His Excellency the President of the Republic of Brazil, and to its noble people, our sincere and hearty thanks for the warm and enthusiastic welcome extended to us. I should like to convey to them fraternal greetings and to assure them of the firm friendship of the Government and people of Haiti.

I should also like to thank more especially Brazil and Honduras who are a part of the Latin American bloc to whom we are fully linked. And the reason I say this is they have expressed our difficulties and our aspirations.

I should also like to thank the Chairman and Delegates in advance for their kind attention to the statement that I have to make today.

In the present stage of world history when so many vital problems have to be faced—involving the demise or survival of concepts, interests, and hegemonies, as well as the bringing into existence of new scales of values for the building of a better world and the satisfaction, at least to the extent of the vital minimum, of the immense and manifold needs of its peoples—may the small black republic in the Caribbean add its voice to that of the other nations, not in order to join in the Aeschylean chorus chanting the plaints of the countries of Latin America, of the Third World, of all the developing coun-

tries and evoking all the heart-rending images of hunger and death —these images of the "Mocambos crabs" described by Don Helder Camara, Archbishop of Recife—or to swell the volume of the cries directed by the poor countries to the wealthy ones—these cries that rise from every conference hall, even to the most recent meetings at Punta del Este and Viña del Mar in our own America—permit the voice of our little free and sovereign black republic—faced with the same situation that it has been confronting for years past—to make itself heard in this assembly, as a member of the institutions now met together for the purpose of reporting to all of us on the results of their activities and the measures they have taken throughout the world, merely to proclaim the need for change both in the structure and in the attitude of these institutions, and of all the international institutions, in order to permit the bringing about of a transformation in the life of the developing countries and their peoples, who represent a little over half the human race. Like President de Gaulle, President Duvalier has never ceased to declare that this has been and continues to be *essential.* Haiti wishes to say so here, even if it is not telling you anything new.

As a member of the IMF, Haiti signed the institution's Articles of Agreement nearly 15 years ago. We are attached to our institution, which has proved its worth. Nevertheless, we appeal for a revision of its basic design, in line with the changes that have taken place in the world during the past 20 years. We have in no way departed from the spirit of Bretton Woods, and shall never depart from it, for Haiti, in the international sphere, stands for intellectual and moral integrity, as an inviolable principle in its relations. Haiti remains fundamentally attached to the aims of the Fund, namely, to assure the smooth working of the international monetary system and the achievement of stability of exchange rates; to facilitate the expansion and growth of international trade; to shorten periods of disequilibrium and reduce the extent to which they affect balances of payments, and so on. During these 15 years we have worked hard to honor these obligations contracted with the Fund. At the same time, we have waged a hard and painful fight to reconcile the needs of our country's economic development with the need, in accordance with Fund policy, to maintain the convertibility of our currency and the rate of exchange. We should like, however, while

sparing you any detailed analysis, to suggest that we are entitled to wonder, to ask ourselves, whether our reasonable and well-founded hopes permit us to believe in the success of sound monetary management when associated with a destructive and crucial underdevelopment. The system has enabled the industrialized countries to increase their exchange reserves. Most of the European countries, and also Japan, have witnessed a tremendous growth in their reserves since 1948. In practice, the IMF has yielded good results, in the way it has operated, for the large industrialized countries. With the last commitments made, it remains possible to defend the dollar and the pound sterling, for the greater benefit of the institution.

But the developing countries, the countries of the Third World, on which Haiti calls for witness, will continue for a long time to come to experience the greatest difficulties within the IMF framework, as at present designed, unless a specific change is made in the direction of the adoption of a special policy for the developing countries. Twenty years! Some change must surely be needed. Twenty years after the Fund was set up, no developing country connected with it has succeeded in regularizing its monetary situation. The basic conditions of the IMF charter have not even been complied with. All the industrialized countries have fixed the parity of their currencies in terms of gold and have organized freedom of transfers resulting from current transactions. For the underdeveloped countries the currency position is completely different, in spite of the fact that these countries agreed to fix the parity of their currencies in gold weight. Theirs is the drama of convertibility secured by means of currency restrictions, wage freezes, dismaying cuts in the operational expenditures of hospitals, sanatoria, canteens, etc.—all in order to safeguard the value of the currency; and the parity established is merely an illusion.

As to the foreign exchange reserves of our developing countries, compared with those of the industrialized countries they are falling continuously. The monetary remedies that may be prescribed by the Fund within the present framework of the system and its rules are incapable of correcting this position, for its cause is underdevelopment characterized by: (a) explosive population growth; (b) illiteracy; (c) falling prices for raw materials and for agricultural

products such as coffee, cocoa, and sisal, sometimes by more than 50 per cent, in cases where the world market for a commodity has not been totally eliminated by man-made products (rubber, sisal); (d) the need for investment expenditure for the establishment of a social and economic infrastructure; (e) disequilibrium brought about when industrialization is embarked upon with domestic capital; (f) lack of savings; and (g) the flight of capital to the richer countries. These are some examples, though specific examples, of the characteristics of underdevelopment that the purely monetary remedies—within the framework of the obligations of the Fund and the existing system—are not designed to cure or even to take into account.

Haiti would like to propose that some change is called for and that that change is essential. We wish our position to be understood. It is the fact that we have confidence in the moral value of the institution that leads us to seek, through its agency, some line of force capable of serving as a support for the measures taken by the developing countries, which the Fund cannot, on its own and solely by the use of the monetary measures to which it is restricted by its rules, raise from their state of underdevelopment. Let there be no mistake about this! We should like to see the Fund benefit by an extension of its role and its responsibilities vis-à-vis the developing countries. In this connection perhaps we may be allowed to put forward a few suggestions.

The foreign exchange problem of the Third World, to which our country belongs, is not due to a monetary accident but to a structural disequilibrium in the balance of payments. Purely monetary remedies are inadequate and incomplete. So far as we are concerned, alongside the great reforms advocated by the giants of commerce and industry—our customers—other reforms, equally illuminated by just aspirations, might also be proposed with respect to the structure and operation of the Fund.

As regards structure, it is important that the revised Articles of Agreement of the Fund recognize the need for a different attitude to be adopted, in dealing with the world's monetary problems, depending upon whether the developed industrialized countries or developing countries are being considered. The monetary disequilibria of industrialized countries will most frequently be related to

prevailing economic activity levels, while in the case of my country and of other Third-World countries the monetary disequilibrium will be a *structural* disequilibrium. Consequently, the means of action and the stabilization programs will be entirely different, depending on whether we are dealing with industrialized or developing countries. That is one suggestion.

In the developing countries, where the rate of savings is somewhat low, monetary stability and convertibility can only be secured by increasing production. Because these countries are compelled to restrict investment credits and reduce operating expenditure, they are condemned to vegetate in a constant and hopeless state of equilibrium of misery. This is to sacrifice economic and social progress to the lure of monetary stability.

We would recommend a revision whereby the IMF would become an active element of a coherent and organized whole with the IBRD and that the general policy of the international financing institutions and mechanisms be established in relation to the efforts of the IMF. We believe that this would result in more effective study of monetary problems. Because the solution of numerous monetary difficulties of the underdeveloped countries is subordinate to economic progress, it would be necessary in such cases for the other international financing institutions and the governmental agencies of the free world to come to the aid of these countries in distress in order to arrive at a durable and certain solution to their monetary problems. As Albert Chalandon has written: "the underdeveloped countries do not have to undergo the shocks of the vast capital movements that take place between the industrial countries. For them, the problem is not located on the monetary plane. They need permanent, long-term aid, an aid that belongs to the domain of financial assistance and economic cooperation. These are," he continues, "measures of an economic nature, such as the organization of markets and the stabilization of the prices of the raw materials that they produce at a level capable of improving the terms of trade to their benefit, or the development of investment operations or of grants and low-interest loans."

Having regard to the difficult conditions of development of Haiti and the other Third-World countries that have to contend with a dual exchange need—liquidity and investment funds—the IMF is

requested to apply a very comprehensive policy toward Haiti and these other Third-World countries with respect to the utilization of the Fund's resources. Section 2 of Article I of the Articles of Agreement of the Fund is almost an anachronism for the underdeveloped countries, since world trade benefits the industrialized countries in particular. Haiti requests that a special system be adopted within the IMF for the underdeveloped countries; for example, that the drawings made for exchange difficulties and for export falls should be amortized only in the event of a satisfactory recovery. We believe that to act otherwise is to condemn these countries to resorting to certain exchange restrictions. Any monetary compartmentalization is prejudicial to "the harmonious expansion and growth of world trade." Moreover, it is clear upon reflection that in helping the poor developing countries of the Third World, the industrialized countries are doing no more than defending their own interests better, while at the same time ensuring the survival of an unreduced free world.

In a new concept of the development of the Fund we would continue to find it better armed effectively to aid the underdeveloped countries to surmount the difficulties that affect the lives of their peoples.

This is how we see the future shape of meaningful aid on the part of the Fund, of the World Bank, and of the inter-American and international agencies to the peoples of the free world. This brief examination of the structure and the policy of the Fund must not and could not in any way impair the quality of the services rendered to the free world by the IMF, not overlooking Haiti, where the presence of the Fund and its financial and technical assistance, in conjunction with the domestic policy of the Haitian Government, have enabled us *per fas et nefas* to maintain the convertibility of a national currency that has remained stable since 1919. But this effort has been made at the expense of the country's economic and social development. In spite of 9 years of effort and of struggle, carried on side by side with the IMF, it has not been possible to improve our exchange reserves. The fact is, that Haiti, exemplifying the Third-World countries, needs external resources for the financing of the necessary investment expenditures for the acceleration of its economic and social development. President Duvalier

put it this way on May 22, 1963: "However jealous the nations of this hemisphere may be of their independence and their sovereignty, they have all discovered and realized that the pursuit of growth within a framework of order and peace is impossible without the cooperation and assistance of the nations that are better off and better organized and that possess effective means of action to contribute to that growth. . . ." "The wealthy nations," he wrote in 1966, "must understand that they cannot and must not, if they are to avoid crises and folly, remain deaf to these cries of the poor nations and continue to adhere to outdated positions incompatible either with historic and geographic realities or with the universal expectations of humanity."

. . . Haiti has undergone and continues to undergo a series of trials from which it emerges better tempered for all the battles necessary to secure the generalized well-being of its generous people. It cherishes no illusions.

We believe that international monetary cooperation will not bear fruit for the underdeveloped countries and that the objectives defined by the IMF in Article I of its Articles of Agreement will remain no more than a dream, unless the Fund, through the exertion of its high moral authority and its credit, succeeds in securing the commitment of the rich members of the Fund to collaborate with the underdeveloped countries, as a clearly defined and accepted statutory obligation.

Haiti, located at the crossroads of confronting civilizations, seeking in all circumstances to afford an example of reason and moderation, unreservedly approves the decision taken by the IMF working group, under the able and intelligent direction of Mr. Pierre-Paul Schweitzer, and the Group of Ten, following the examination of the obligations that they have mutually accepted with a view to effective contribution to the conservation of the international monetary system of payments, and its stability, and at the same time to secure the establishment of special drawing rights instead and in place of the creation of new international liquidities, a decision decreed by collective wisdom and supported, in spite of its lack of realism and precision, by France, the nation of reason, moderation, and logic.

We have no hesitation in stating the need or indeed necessity for change in the structure of the Fund to the benefit of the underdeveloped countries.

STATEMENT BY THE GOVERNOR OF THE FUND FOR ALGERIA

Seghir Mostefai

In joining with the Governors who have already spoken at this meeting to express my pleasure at the opportunity we have been given to meet in this country, I do not feel that I am merely fulfilling the obligations of courtesy and gratitude toward our hosts, the Government and the people of Brazil.

The fact is that, speaking today as a member of this meeting, true, but even more as a representative of a developing country, I feel that Brazil, because of its importance and its tremendous possibilities, forms an impressive backdrop that gives special interest to the opinions and preoccupations we are so eager to express.

While reconfirming here our support of the memorandum on the activities of the Bank and Fund prepared by the African Group, to which we belong, I am able to add a few brief comments which reflect my country's sentiments on the key problem of the present meeting.

At previous Annual Meetings, when international liquidity was being considered in terms of principles, my Delegation always endeavored to demonstrate the need, in connection with problems affecting essentially the rich countries, to move toward a real international monetary reform capable of providing a solution for the problems of the less rich countries as well. We have maintained, more precisely in regard to additional liquidity, that it was both necessary and possible to establish a direct link between the arrangement for its creation and the financing of development in the countries of the Third World.

If we felt that we could uphold such a view it is because we have for a long time repeatedly heard at these meetings and elsewhere that the danger that mankind would face if the gap between the

industrialized countries and the nonindustrialized countries widened had been generally and unanimously recognized.

Today we find before us, at the end of the studies conducted on this problem, an Outline on which we must decide. Like previous speakers, we note the innovation that it makes through the principle of universality that it established, especially when we recall that heretofore arrangements actually directed at the same purposes have been set up and have operated outside the IMF, that is, without us.

However, it is clear that for the developing countries, participation in collective decisions is not intended to satisfy self-esteem. It has meaning only insofar as these decisions give sufficient consideration to their preoccupations and objectives.

I am obliged to note that, directly, the arrangements provided for in the Outline do not contemplate the creation of additional means intended for financing development.

There are those who imagine that, indirectly, the additional means provided by an increase in the over-all volume of reserves of the industrialized countries could increase this financing. For our part, and considering the lessons of the past, we do not find that these possibilities have been established. They could be only at the cost of a change of approach not offered in the Outline.

Being unaware of neither the complexity of the problem nor the divergent view to which it has led, we understand that the Outline may appear finally as the expression of a truce. But the truce, which marks a pause in the research effort and a delay in the implementation of definitive solutions, presupposes, in order to obtain the unreserved acceptance of all, that each of the beneficiaries can find in it a remedy, however incomplete or provisional, for its difficulties.

At a time when needs are becoming more pressing each day, the efforts undertaken by the different institutions concerned with development and international economic relations have not been able to overcome either the uncertainties of aid to the Third-World countries or the resistance to a constructive examination of their problems: bilateral aid is decreasing; the resources of the Bank Group are dwindling or are increasingly difficult to obtain; the

Kennedy Round has not given the least consideration to our preoccupations; the Outline evades them.

In the face of these vicissitudes, the World Conference on Trade and Development at New Delhi, for which my country has the honor to receive a preparatory meeting bringing together representatives of the Third World, now represents the final authority before which all those who should, can, and are prepared to make their contribution to the progress of the developing countries will have the opportunity there to accept finally the necessary sacrifices required by world solidarity and equilibrium.

Statement by the Governor of the Bank for Burundi

Eric Manirakiza

First of all, we should like to thank Brazil for its welcome. The beauty of Rio is famous throughout the world, and this deserved renown is matched by so much graciousness and kindness on the part of all the people that to be here surprises and delights the visitor afresh every single day. We would like the Government and people of Brazil to know that we shall have lasting memories of our stay here. . . .

The maintenance of monetary stability, the development of the economy, the raising of the standard of living—these are problems common to all countries; however, the means for solving them are often very different, and some countries have but minimum means to meet immense needs. Burundi is a typical example. As a developing country that has only recently won political independence, with a currency unattached to any area, the sole guarantee of which is the labor of its population—98 per cent rural—its subsistence needs are covered almost entirely by exports of coffee and cotton, two products whose prices have constantly deteriorated. . . .

The second hope concerns the difficult but urgent problem of the stabilization of prices for raw materials. Each year, in spite of renewed efforts, the purchasing power of our population is lower because export of increased amounts of cotton and coffee is hardly sufficient to cover a constant volume of imports. The deteri-

oration of the terms of trade is for us no mere theory but a menace that grows more serious and burdensome yearly. It is absolutely necessary that international arrangements put an end to this imbalance which brings all our peoples' efforts to naught and which amounts to a virtual plundering of all the primary producing countries.

The final point in our statement has to do with the prospective creation of a new reserve asset to supplement gold, the dollar and sterling balances, and the gold tranche of the members' quotas in the International Monetary Fund.

We are happy to note that the discussions that have been going on for several years are to result in the creation of new facilities to the advantage of all members of the Fund, and on a nondiscriminatory basis. For this we pay very special homage to Mr. Pierre-Paul Schweitzer, Chairman of the Executive Board and Managing Director of the International Monetary Fund, and also to all the developed countries which followed his lead.

It would be desirable, in addition, to combine the creation of new international liquidity with the granting of development credits to countries in the Third World. These countries would not keep the foreign exchange received, but would use it for purchases in industrialized countries.

These, Mr. Chairman and Governors, are the few considerations that we wished to submit to you during the closing session of this august assembly. I am confident that they reflect the thinking of many countries represented here. I hope they will be followed by results, for they seem to me to be the basis on which a harmonious development of the world economy can be established.

Statement by the Governor of the Fund and Bank for Burma

U Kyaw Nyein

I shall be very brief. In the first place, we heartily support the Resolution before this Board seeking authority to work out procedures for the setting up of a scheme of special drawing rights

for all member countries as a supplement for gold and international reserve currencies, as being both desirable and essential at the present stage of evolution of the international monetary system. Indeed, it is regrettable that these proposals should have materialized after so long a period of hedging and hesitation, and in which, to be true to our own conscience, motives of speculation and self-interest have played their due part.

I agree with Mr. Schweitzer that, with the advent of the new international asset, we seem to have placed our feet squarely on the threshold of a new era in which a new sense of collective responsibility will be born in the field of trade and payments. The main trouble with gold as an asset was that its relative scarcity caused panic conversions into it in times of crisis. We have to fear the opposite danger in the case of the new asset. But experience with domestic credit has long since proved that a judicious and well-proportioned creation of credit has proved its usefulness and has come to stay; and there is hardly any reason to suppose this analogy would be inapplicable in the case of credit internationally created. The Fund as the coordinator in this process would be a better agency than any national or collection of national monetary agencies, simply because of its paramount international character. The implication that the less developed countries with their physical majority in the Fund would be likely to dominate the whole show is to impute to them a sense of adolescence and irresponsibility which is less than charitable. We only ask that they may be given the opportunity to show how they can develop moderation, once responsibility is put into their hands. . . .

I have heard it observed on this rostrum that to help developing countries it is the demand of the developed countries for primary products for which an increase should be sought; I am afraid this is only one side of the picture; the demand of primary producers for capital and consumer goods needs also to be fulfilled; thus, the process should operate complementarily in both directions. For that, development finance will continue to be needed by developing countries, and this on softer terms. Until such time as an international central monetary institution endowed with sufficient international confidence to enable it to create its own assets for both short and long terms is evolved, I am afraid Mr. Woods will have

to continue his rounds from door to door in search of long-term finance.

It now remains for me to render our sincerest thanks to the President, the Government, and the people of Brazil for their deep and warmhearted hospitality shown to us during our stay in this charming city. My thanks also go to the Chair for its suavity and impartiality in the conduct of these deliberations.

Statement by the Governor of the Fund and Bank for Malawi

J. Z. U. Tembo

I wish to join my friends in expressing our gratitude to the President, the Government, and the people of the Republic of Brazil for the warm welcome which they have accorded us. For the first time, we are meeting in the Southern Hemisphere and in a country which, like my own, falls under the category of underdeveloped. For this reason, this particular session assumes greater significance. It helps us to focus our attention, even more vividly, on the many serious economic problems now facing the world at large.

I have also noted with great satisfaction the Annual Reports presented by Mr. Woods, President of the World Bank, and Mr. Schweitzer, the Managing Director of the Fund. I welcome these Reports. We are indeed fortunate in having the services of these two dedicated men and their staffs, whose efficiency and diligence has impressed most of us.

I would also wish to welcome the representatives of Indonesia, who have rejoined the Bank and the representative of The Gambia, who have recently joined us. I also welcome the indications of Botswana and Lesotho to join this world body.

Many speakers have touched on all the important monetary and economic problems confronting this meeting. Without wasting much of your time, I would like to dwell on a few of these, if only to underline and endorse those views which affect my country more.

In this context, I am happy to see that some progress has been made toward the easing of the problems of international liquidity by the prosposal to set up special drawing rights recently agreed by the Deputies of the Group of Ten and the Fund. Malawi gives qualified support to this agreement. The proposals fall short of the expectations of most of us, but we recognize the fact that a step has been taken in the right direction. Malawi recognizes the fact that the mere creation of additional drawing rights will not immediately solve the problems of developing countries. We hope, however, that the creation of such additional rights will in turn enable the developed countries to increase the volume of aid to the developing countries and to consider favorably the suggestions and pleas to ease the terms of such aid and to reduce the volume of tied aid. . . .

In conclusion, I would like to say one or two words regarding the operations of the Bank and the Fund. My country has benefited greatly from the advice given by missions sent to it under the auspices of these two organizations from time to time. These visits have proved useful. However, I would like to suggest that, in future, an attempt should be made by both the Bank and the Fund to coordinate general economic missions by sending joint teams and joint questionnaires. It would also be of great help if questionnaires could be sent well in advance and could follow a standard form, the answers to which could be updated from year to year. In this way, there could be a very considerable saving in time of our own officials.

Statement by the Alternate Governor of the Bank for Austria

Hugo Rottky

At the outset of my statement I want to convey to you the best regards of the Austrian Governor, Minister Dr. Schmitz, who was prevented from attending this meeting by budget negotiations. I would also like to express my personal appreciation to the Government of Brazil for its very warm welcome and hospitality. . . .

The present trend of both economic development and development finance can only be considered as disquieting indeed. Many factors causing this grave concern are interlocking, and one cannot refer to them without repeating well-known facts which have been stated several times in recent years.

Among the various problems, however, are some which have a particular bearing upon the situation with respect to raising capital in the markets, and it is of highest importance that they be given full attention in this institution.

To assist the less developed countries in their efforts to accelerate progress toward self-sustained economic development, the more advanced countries are expected not only to provide real resources but also to bridge the foreign exchange gap by advancing financial resources. In this connection I do not want to touch upon the monetary issues related to this problem. I would rather focus on the most pressing problem which concerns the Bank as well as the donor countries, namely, the discrepancy between requirements and availability of long-term funds necessary for economic growth. We are well aware that the burden of accumulated foreign debt service will severely reduce the net flow of assistance still necessary for some time ahead. Difficulties in servicing foreign debt have already caused serious problems for both lender and borrower countries. In this regard the Bank deserves our fullest appreciation for making every effort to overcome these problems.

The slowing down of foreign assistance vis-à-vis the increasing absorptive capacity of the developing countries is causing disappointment. There is also some doubt about the willingness of the contributing countries to expand aid, on the one side, and about the efforts and performance of the developing countries on the other side. But we should realize that financial aid to a certain extent involves some sacrifices. It means setting aside funds which could be profitably used by the donor countries, no matter how advanced, for their own economic and social growth. We would be mistaken, however, to attribute the slowing down of foreign assistance to a deliberate policy. There are several limiting factors adversely affecting the flow of financial resources

which, in my opinion, can hardly be tackled successfully within the next few years.

In evaluating the assistance efforts of any country we should also bear in mind that there is not only a disparity among borrower countries as to the different stages of development but also a striking heterogeneity among the industrial countries as to their relative abilities to provide assistance.

A landlocked country like Austria, with, for historical reasons, less established ties to the developing countries and a less competitive industry, has first of all to increase its industrial capacity and efficiency by an appropriate investment policy. Strong pressure from competition and increasing pressure from wages, even anticipating higher productivity, compel important and incisive structural adjustments such as economic integration itself, formation of larger industrial enterprises, and improvement of capital equipment per labor unit, etc. In the long run, the developing countries would benefit from such measures, as they would provide the basis for an increase of imports from these countries as well as for a stimulation of the flow of assistance in the future.

As long as a labor surplus kept wages low in Europe, even the small domestic markets allowed for profits providing adequate self-financing while additionally required long-term capital could easily be raised in overseas markets. In recent years, however, investment financing had increasingly to resort to domestic capital markets and the Euro-dollar market. Most of the small domestic markets, however, have yet to adjust to the changed situation.

It should be mentioned in this connection that serious efforts have been made in Europe to improve the functioning of capital markets and that two studies have been completed by the OECD and the EEC. The OECD study has been prepared in cooperation with the IMF. It is to be expected that the results of these studies will have favorable effects on the functioning of the capital markets and will stimulate saving in all forms, especially contractual saving so badly needed for accumulation of long-term capital. With only a few exceptions, the mechanism of the capital markets has to be adjusted to changed conditions to bring about a more efficient and less expensive mobilization, collection, and distribution of capital.

On the way to a closer economic integration of Europe, one has to consider the deep-rooted historical, cultural, and institutional diversities of the individual countries. This integration, however, seems to me a *sine qua non* to achieve a better balanced economic development to the advantage of the industrial countries and of the whole world. Only such progress can alleviate the pressure on these economies and their capital markets and bring about a better absorptive capacity for exports from less developed countries, as well as larger means for development finance so badly needed in the Third World.

In my country every effort is made to adjust the economy to the changing conditions of the world, to adapt the structure of industry, to facilitate the mobility of labor, and to use fiscal and monetary policies to maintain an appropriate growth of the economy. It is inevitable that such an adjustment process puts a heavy strain on the economy, especially of a small country like Austria. Nevertheless our efforts in the fields of foreign aid have been considerable. Austria has done its best by cooperating with the IMF, the World Bank and its affiliates, the Asian Development Bank, and the OECD, and in joining some consortia. . . .

CONCLUDING REMARKS [1]

Statement by the Chairman of the Executive Board and Managing Director of the International Monetary Fund

Pierre-Paul Schweitzer

Mr. Chairman, I want at the outset to express my admiration for the efficiency displayed by our hosts in the organization of these meetings. We are very conscious and appreciative of the hard work which this must have entailed on the part of everyone concerned. We have enjoyed splendid facilities and have met with unfailing courtesy. In our less preoccupied moments, we have been offered a range of entertainment which was most imaginatively planned. I am sure that all participants will leave with vivid impressions of this memorable city. To echo the words of the President of Brazil, who graciously honored us by inaugurating these meetings, we have indeed been received with open arms.

This past year has been a busy one for the Fund, and I have very little doubt—nor the slightest complaint—that the coming year will be equally busy for the Executive Directors and the staff.

This meeting has seen the fruition of the liquidity planning to which so much effort had been devoted in the past few years. It had been our preoccupation to steer this difficult and complicated exercise toward a result that would be technically adequate, would embody the necessary safeguards, and would be acceptable on the broadest possible basis. It is gratifying, therefore, that Governors have expressed their support for the Outline of the new facility, although some stated that they would have preferred a scheme somewhat different in certain aspects.

[1] Delivered at the Closing Joint Session, September 29, 1967.

A major task now lies before the Executive Directors: to draft, on the basis of the Outline, the necessary amendments to the Articles and By-Laws for approval by the Board of Governors and subsequent ratification by member governments. I look forward to the active discussion of these questions in the Executive Board, which at the same time, in line with the Resolution, will devote its attention to such proposals as have already been made, or may still be made, on possible improvements in the Fund. In connection with both of these tasks, close consideration will be given to the many constructive comments made by Governors during the present meeting.

Another Resolution adopted by the Board of Governors asks the Fund staff to study the problem of stabilization of prices for primary products. No one can doubt the direct importance of this matter for the well-being of the overwhelming majority of Fund members. Certain aspects of this problem have been a preoccupation of the Fund for many years. Our compensatory financing facility, to which a number of Governors referred with approbation, can be regarded as one approach toward meeting at least some of the consequences of price instability and of other causes of short-run fluctuations in export proceeds. I welcome the invitation to study the stabilization of commodity prices in its broader aspects. In our study we shall, as requested in the Resolution, consult with the Bank. We also expect to benefit from the fact that a great deal of important work in this area has been done, and is currently going on, in other international bodies, such as UNCTAD and FAO.

In approaching the subject of price stabilization for primary products, one cannot be unaware of the discrepancy between the attention paid to this problem over the last 20 years and the paucity of workable solutions that have emerged. In recalling this fact, I do not want to create the impression that I am underrating the value of new and intensified study in this field by the staffs of the Bank and the Fund; but I do think that Governors should be reminded that there is no easy road toward fully satisfactory solutions of the problems related to the instability of commodity prices.

Mr. Chairman, I have noted that much of the discussion this week has dealt with issues to which I referred in assessing the world economic situation during my opening address. Governors have underscored the paramount importance of promoting the development process in the context of an expanding world economy. This is bound to strengthen the markets for primary commodities and to provide conditions encouraging the flow of capital to the developing countries and the diversification of their economies. I detect a strong community of view that, in the pursuit of global economic growth, both deficit and surplus countries have a responsibility to discharge in relation to international payments adjustment. In this connection, Governors from a number of industrial countries have made clear their preoccupation with the need to achieve an appropriate combination of policies for fostering satisfactory economic growth within a framework of domestic and external stability.

I should like to thank Governors for the many stimulating comments and suggestions which they have made during the past week. These will be the subject of careful attention in the Fund. It has been an absorbing meeting, and we all owe a debt of gratitude to the two Chairmen for the exemplary way in which it has been conducted. I should like to close these remarks by joining previous speakers in extending my congratulations to the Governor of Ceylon on his designation as Chairman of the Board of Governors in the year ahead.

Closing Remarks by the Chairman of the Board of Governors of the Fund, the Governor of the Fund for Norway [2]

Erik Brofoss

The time has come to close the Twenty-Second Annual Meetings of the Boards of Governors of the Bank and of the Fund.

I am sure that we had all of us been looking forward with great expectations to convening in the fascinating setting of this scenic,

[2] See footnote on page 5.

alluring, and pulsating metropolis. We shall be leaving with vivid and lasting memories of engaging and enchanting days. The soccer game added excitement to the joy of our stay.

The Governors have already adopted the Resolution expressing our appreciation to the Government and people of Brazil and the City of Rio de Janeiro. My Co-Chairman and I shall express our personal feelings of gratitude for the warm welcome and delightful hospitality which has been extended to us with such charming courtesy. The two Chairmen want to pay tribute to the Brazilian authorities for having discharged the duties of the host country in such a commendable and graceful way. We wish the Government of Brazil every success in realizing its aspirations to build a prosperous future for its great people.

We recognize and treasure the indispensable services and the untiring labors of the staff of the Bank and of the Fund, we compliment them on their model performance, we beg forgiveness for the exacting strains we impose upon them, and we wish them well-deserved days of restful relaxation.

I shall not attempt, in my capacity as your Chairman today, to make a formal summing up of the achievements of this Conference But with your permission, fellow Governors, I might offer a few personal reflections.

We have successfully brought to fruition the protracted deliberations on the much-heralded reform of the international monetary system. I am confident that, by adopting the Outline for the establishment of a new facility in the Fund, we have made a significant contribution to the organic development of this institution.

The formulas on which the Outline is based might differ greatly from the bold and sweeping ideas that served as the point of departure when the exercise first started. The more gratifying it is to record the approval which Governors have given to a new facility *sui generis.*

Reconfirming as we have the fundamental principles of universality and of nondiscrimination, we have dispelled the apprehension that once was widely shared that compartmentalization would turn the Fund into a divided house. In any future evolution it will be imperative that the unity of the Fund and its char-

acter of a world-wide organization be faithfully upheld. The democratic right of all members—large or small—to voice an opinion on cardinal issues and to be able to do so at all stages of preparation and at all levels is the very prerogative of membership in the Fund.

By placing this novel instrument of the SDR's in the experienced and skillful hands of the Executive Board, the Managing Director, and the staff of the Fund, we shall have the benefit of proven administrative and technical competence. Over the two decades of pragmatic adaptation of our institution to the needs of a changing world, they have demonstrated their resourcefulness and their dedication to truly international service.

However, upon member countries will rest the ultimate responsibility for decisions on policies and will fall the praise of success or the onus of failure. The legal structure of the agreement and the managerial talents of the operators will be of little avail unless the enterprise is animated by a dynamic and genuine spirit of partnership in a joint venture. Indeed, only through our firm determination to exploit to the full the potentialities of this new facility as a means of solving the problem of any future shortage of international liquidity will the Twenty-Second Annual Meetings stand out as a landmark in the annals of our organization.

As of this moment all we can claim is that we have completed an initial stage of a continual search for improvements in the international payments system. Other projects should not distract our attention and energies from the overriding issue of the adequacy of world reserves.

The task now before us calls for such flexibility in the legal provisions so as to allow the Fund a margin of discretion in the implementation of the scheme.

I have no doubt that the Executive Board will be able to observe the time limit of the Resolution for the submission of the proposals for the necessary amendments to the Articles of Agreement. I trust that with utmost dispatch Governors will take action on the Board's recommendations and governments likewise will seek to obtain ratification by parliaments. Time might be running short in preparing the ground for activation.

We would also recognize an equally urgent need for a reassessment of general economic policies. An ominous circle of man-made stagnation has in recent months had serious repercussions, in particular on developing countries but also on the smaller industrialized nations.

This unsatisfactory state of affairs accentuates one crucial aspect of the adjustment process and gives emphasis to the special responsibilities that rest upon the major industrial countries for the orderly functioning of an economic system based on an international division of labor which carries with it a strong element of mutual interdependence. In discharging national responsibilities for designing domestic economic policies, the impact of action and no less of inaction upon other countries has to be heeded.

We have welcomed the statements of the Governors of the leading industrialized countries where they visualized an early resumption of a more satisfactory rate of growth than was experienced in 1966 and early 1967.

I sincerely hope that this prospect will materialize. It would be most fitting and appropriate at this signal juncture in the life of our institution to reaffirm by deeds our faith in the fundamental principles as laid down in Article I of the constitution of the Fund, where its purposes and the objectives of policies are established. Economic policy must continuously be conducive to economic progress in a world which is one and indivisible.

A steadily expanding production in the industrialized countries will strengthen their capability to offer assistance to developing countries which, on their part, will more easily find outlets for their exports and at more remunerative prices. This is the best way of rendering help, since in the long-term perspective trade more than aid must be the sound basis of development.

In his report on the activities of the Bank and its affiliates, Mr. Woods gave us an assurance that projects already authorized will serve to solidify the economic foundations of many developing countries. The industrialized countries have, I am sure, taken note of his plea for additional support, not only in the form of more funds for IDA and the Bank but also by opening freer

access to markets and by alleviating the strains imposed by a growing burden of foreign debt. A positive response will make possible a major breakthrough in the battle against destitution and despondency.

I now wish all of you a safe passage back to your respective home countries. The Twenty-Second Annual Meetings of the Boards of Governors of the Bank and affiliates and of the Fund stand adjourned.

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DOCUMENTS

and

RESOLUTIONS OF THE BOARD OF GOVERNORS

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SCHEDULE OF MEETINGS

Monday September 25	10:00 a.m.—JOINT BOARDS Opening Ceremonies Address from the Chair Annual Address of President, IBRD, IFC, and IDA Annual Address of Managing Director, IMF
	12:20 p.m.—Joint Procedures Committee
Tuesday September 26	9:30 a.m.—JOINT BOARDS Joint Procedures Committee Report Annual Discussion
Wednesday September 27	9:30 a.m.—IBRD, IFC, AND IDA BOARDS Annual Discussion
Thursday September 28	9:30 a.m.—IMF BOARD Annual Discussion
	12:50 p.m.—Joint Procedures Committee
Friday September 29	9:30 a.m.—JOINT BOARDS Conclusion of Annual Discussions Joint Procedures Committee Reports Comments by Heads of Organizations Closing Remarks of the Chairman Adjournment

PROVISIONS RELATING TO THE CONDUCT OF THE MEETINGS

Admission

1. Sessions of the Boards of Governors of the Bank, IFC, IDA and the Fund, including joint sessions, shall be open to accredited observers, the press, guests and staff.
2. Meetings of the Joint Procedures Committee shall be open only to Governors who are members of the Committee and their advisers and to such staff as may be necessary.

Procedure and Records

3. The Chairmen of the Boards of Governors will establish the order of speaking at each session. Governors signifying a desire to speak will generally be recognized in the order in which they asked to speak.
4. With the consent of the Chairman, a Governor may extend his statement in the record following advance submission of the text to the Secretaries.
5. The Secretaries will have verbatim transcripts prepared of the proceedings of the Boards of Governors and the Joint Procedures Committee. The transcripts of proceedings of the Joint Procedures Committee will be confidential and available only to the Chairmen, the President of the Bank and its Affiliates, the Managing Director of the Fund and the Secretaries.
6. Reports of the Joint Procedures Committee shall be signed by the Committee Chairmen and the Reporting Members.

Public Information

7. The Chairmen of the Boards of Governors, the President of the Bank and its Affiliates and the Managing Director of the Fund will communicate to the press such information concerning the proceedings of the Annual Meetings as they may deem suitable.

REPORTS OF THE JOINT PROCEDURES COMMITTEE

Chairmen	Norway
Vice Chairmen	Malaysia Sierra Leone
Reporting Members	Honduras

Other Members: Algeria, Austria, Brazil, Cameroon, Canada, Chile, China, France, Germany, India, Kenya, Lebanon, Luxembourg, United Kingdom, United States

Report I[1]

September 25, 1967

At its meeting held on September 25, 1967, the Committee considered a request submitted by Governors of the Bank and the Fund for Cameroon, Central African Republic, Congo (Brazzaville), Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo to add to the Agendas for this Annual Meeting of the Boards of Governors of the Bank and of the Fund an item on Stabilization of Prices of Primary Products (Attachment).

The Committee recommends that an item on Stabilization of Prices of Primary Products be added to the Agendas of the Boards of Governors of the Bank and the Fund for this Annual Meeting.

Approved:

/s/ KÅRE WILLOCH
Chairman—Norway
(Bank, IFC, and IDA)

/s/ M. ACOSTA B.
Reporting Member—Honduras
(Bank, IFC, and IDA)

/s/ ERIK BROFOSS
Chairman—Norway
(Fund)

/s/ ROBERTO RAMÍREZ
Reporting Member—Honduras
(Fund)

[1] Report I and the recommendations therein were adopted by the Boards of Governors of the Fund and of the Bank, IFC, and IDA, in Joint Session, on September 26, 1967.

Attachment to Report I

Original: French
Translation

Dakar, September 22, 1967

DRAFT RESOLUTION

For inclusion in the Agenda of the Annual Meeting of Governors of the IMF and the IBRD in Rio de Janeiro, Brazil

CONSIDERING the decisive importance of the stabilization of prices for primary products at a remunerative level for the economic advancement of the developing countries and the improvement of the standard of living of their populations, the Governors meeting in Dakar request that in Rio study be made of the conditions in which IMF, IBRD and IDA could participate in the elaboration of suitable mechanisms involving balanced commitments on the part both of the producing and of the consuming countries, and devote the necessary resources thereto.

Signed:

Nko'o Etoungou, Cameroon
Alexandre Banza and Bernard Ayandho, Central African Republic
Edouard Ebouka-Babackas, Congo (Brazzaville)
Konan Bedie, Ivory Coast
Bertin Borna and Stanislas Kpognon, Dahomey
Michel Debre, France
Pierre Mebaley and Pierre Fanguinoveny, Gabon
Tiemoko Garango and Pierre Claver Damiba, Upper Volta
Victor Miadana and Rakotovao Ralison, Madagascar
Louis Negre, Mali
M. S. M'Khaitirat and B. M. Wane, Mauritania
Courmo Barcourgne and Alidou Barkire, Niger
Jean Collin and Habib Thiam, Senegal
Abakar Sanga Traore and Georges Diguimbaye, Chad
Boukari Djobo and Paulin Eklou, Togo

Report III [1]

September 28, 1967

At the meeting of the Joint Procedures Committee held on September 28, 1967, the items of business on the agenda [Annex I] of the Board of Governors of the International Monetary Fund were considered.

The Committee submits the following report and recommendations.

1. *1967 Annual Report*

The Committee noted that provision had been made for the annual discussion of the business of the Fund.

2. *Financial Statements, Report on Audit, and Administrative Budget*

The Committee considered the Report on Audit for the Fiscal Year ended April 30, 1967 and the Financial Statements contained therein (Fund Document No. 4 and Appendix VI of the 1967 Annual Report), and the Administrative Budget for the Fiscal Year ending April 30, 1968 (Fund Document No. 6 and Appendix IV of the 1967 Annual Report).

The Committee recommends to the Board of Governors the adoption of the draft Resolution set forth in Fund Document No. 5.[2]

3. *General Reserve*

The Committee considered the recommendation of the Executive Directors and the considerations relating thereto set forth in the letter of transmittal of September 11, 1967 from the Managing Director and Chairman of the Executive Board to the Chairman of the Board of Governors with respect to the allocation to the General Reserve of the Fund's net income for the Fiscal Year ended April 30, 1967 [Annex II].

[1] Report II dealt with the business of the Boards of Governors of Bank, IFC, and IDA. Report III and the Resolutions recommended therein were adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC, and IDA, on September 29, 1967.

[2] Resolution No. 22–5; see page 268.

The Committee recommends that the Board of Governors adopt the draft Resolution contained in Fund Document No. 7.[3]

4. *Membership—Botswana*

The Committee considered the recommendation of the Executive Directors regarding the admission of Botswana to membership in the Fund [Annex III].

The Committee recommends that the Board of Governors adopt the draft Resolution set forth in Fund Document No. 8.[4]

5. *Establishment of Facility Based on Special Drawing Rights in the Fund and Modifications in the Rules and Practices of the Fund*

The Committee considered the draft Resolution concerning the Establishment of a Facility Based on Special Drawing Rights in the Fund and Modifications in the Rules and Practices of the Fund (Fund Document No. 9) [Annex IV].

The Committee recommends that the Board of Governors adopt the draft Resolution set forth in Fund Document No. 9.[5]

6. *Stabilization of Prices of Primary Products*

The Committee considered the request [6] of Governors of Cameroon, Central African Republic, Congo, Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo relating to Stabilization of Prices of Primary Products (Fund Document No. 10) and prepared the text of a draft resolution on that subject.

The Committee recommends that the Board of Governors adopt the attached Resolution entitled Stabilization of Prices of Primary Products.[7]

Approved:

/s/ ERIK BROFOSS	/s/ ROBERTO RAMÍREZ
Chairman—Norway	*Reporting Member—Honduras*

[3] Resolution No. 22–6; see page 268.
[4] Resolution No. 22–7; see page 269.
[5] Resolution No. 22–8; see page 271.
[6] Attachment to Joint Procedures Committee Report I; see page 254.
[7] Resolution No. 22–9; see page 280.

Annex I to Report III

Agenda

1. 1967 Annual Report
2. Financial Statements and Audit Report
   (Appendix VI of 1967 Annual Report and Fund Documents Nos. 4 and 5)
3. Administrative Budget for Fiscal Year ending April 30, 1968
   (Appendix IV of 1967 Annual Report and Fund Documents Nos. 5 and 6)
4. General Reserve
   (Fund Document No. 7)
5. Membership—Botswana
   (Fund Document No. 8)
6. Establishment of Facility Based on Special Drawing Rights in the Fund and Modifications in Rules and Practices of the Fund
   (Fund Document No. 9)
7. Place and Date of 1969 Annual Meeting
8. Election of Officers and Joint Procedures Committee for 1967-68
9. Stabilization of Prices of Primary Products [8]

Annex II to Report III

September 11, 1967

Dear Mr. Chairman:

For the fiscal year ended April 30, 1967, the Fund had net income of $50,426,541.55. In accordance with Article XII of the Articles of Agreement, the Governors must determine annually

[8] Item 9 was added to the Agenda on September 26, 1967; see page 253.

what part of the Fund's income shall be placed to reserve and what part, if any, shall be distributed.

At the Twenty-First Annual Meeting, the Board of Governors approved the allocation to the General Reserve of the net income for the fiscal year ended April 30, 1966 (Resolution No. 21-10).

Pursuant to the decision taken by the Executive Board on April 14, 1958, the net income of the Fund subsequent to April 30, 1966 has been transferred provisionally at the end of each month to the General Reserve. The total amount thus transferred for the fiscal year ended April 30, 1967 is $50,426,541.55.

The Executive Directors recommend that the Board of Governors adopt the attached draft Resolution [9] approving this allocation to the General Reserve. However, the Executive Directors believe that the Fund's reserves have reached a level which would justify the future distribution of some part of net income if no unforeseen developments occur in the financial position of the Fund. They would expect to take these considerations into account in making their recommendation for the fiscal year ending April 30, 1968. The recommendation would also take into account current discussions, which are likely to continue during the coming months, on the establishment in the Fund of a facility based on special drawing rights and on modifications in the rules and practices of the Fund. Discussions on the latter include the possibility of modifying the provisions of Article XII, Section 6(b) with respect to the distribution of net income.

Very truly yours,
/s/
PIERRE-PAUL SCHWEITZER
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
1967 Annual Meeting
International Monetary Fund

[9] Resolution No. 22–6; see page 268.

Annex III to Report III

September 25, 1967

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Board a proposed Resolution,[10] which is recommended for adoption by the Board of Governors, on the admission of Botswana to membership in the Fund.

Very truly yours,
/s/
PIERRE-PAUL SCHWEITZER
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
1967 Annual Meeting
International Monetary Fund

Annex IV to Report III

September 25, 1967

Dear Mr. Chairman:

I am transmitting herewith on behalf of the Executive Board a proposed Resolution,[11] which is recommended for adoption by the Board of Governors, on the establishment of a facility based on

[10] Resolution No. 22–7; see page 269.
[11] Resolution No. 22–8; see page 271.

special drawing rights in the Fund and on modifications in the Rules and Practices of the Fund.

Very truly yours,
/s/
PIERRE-PAUL SCHWEITZER
Managing Director
and
Chairman of the Executive Board

Chairman of the Board of Governors
1967 Annual Meeting
International Monetary Fund

Report IV [1]

September 28, 1967

The Joint Procedures Committee met on September 28, 1967, and submits the following report:

1. *1969 Annual Meetings*

The Committee recommends that the 1969 Annual Meetings of the Boards of Governors be convened in Washington, D.C.

2. *Officers and Joint Procedures Committee*

The Committee recommends that the Governor for Ceylon be elected Chairman, and that the Governors for Dahomey and Turkey be elected Vice Chairmen, of the Boards of Governors of the Fund and of the Bank and its Affiliates to hold office until the close of the next Annual Meetings.

It is further recommended that a Joint Procedures Committee be established to be available after the termination of these Meetings, and until the close of the next Annual Meetings, for consultation at the discretion of the Chairman normally by correspondence and, if occasion requires, by convening; and that this

[1] Report IV and the recommendations therein were adopted by the Boards of Governors of the Fund and of the Bank, IFC, and IDA, in Joint Session, on September 29, 1967.

Committee shall consist of the Governors for the following members: Afghanistan, Australia, Ceylon, Democratic Republic of the Congo, Dahomey, Ecuador, Finland, France, Germany, India, Jordan, Laos, Nicaragua, Spain, Sudan, Tanzania, Turkey, United Kingdom, United States and Venezuela.

It is recommended that the Chairman of the Joint Procedures Committee shall be the Governor for Ceylon and the Vice Chairmen shall be the Governors for Dahomey and Turkey and that the Governor for Australia shall serve as Reporting Member.

Approved:

/s/ KÅRE WILLOCH
Chairman—Norway
(Bank, IFC, and IDA)

/s/ M. ACOSTA B.
Reporting Member—Honduras
(Bank, IFC, and IDA)

/s/ ERIK BROFOSS
Chairman—Norway
(Fund)

/s/ ROBERTO RAMÍREZ
Reporting Member—Honduras
(Fund)

RESOLUTIONS

Resolution No. 22-1

Increase in the Quota of Peru

Under date of February 27, 1967, the Government of Peru requested that its quota be increased from $47 million to $85 million. The Executive Board resolved on April 14, 1967 that action on the request should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on April 18, 1967 for a vote without meeting:

RESOLVED:

That the quota of Peru shall be changed to $85 million, provided that Peru consents to the change on or before November 22, 1967, and provided further that, if extraordinary circumstances are deemed by the Executive Directors to warrant an extension of the period in which consent is required pursuant to this Resolution, the Executive Directors may extend such period until such later date or dates as they may determine. Not less than 25 per cent of the increase shall be paid in gold and the balance in the currency of Peru. The change shall become effective on the date the Fund receives notice in writing that Peru consents to the change but not sooner than the date of this Resolution. Such written consent shall be signed by a competent official whose authority and signature are duly authenticated.

The Board of Governors adopted the foregoing Resolution, effective May 22, 1967. The written notice that Peru consented to the increase was received by the Fund on June 22, 1967, on which date the new quota became effective.

Resolution No. 22-2

Increase in the Quota of Korea

Under date of February 28, 1967, the Government of Korea requested that its quota in the Fund be increased from $24 million to $50 million. The Executive Board resolved on May 5, 1967 that action on the request should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on June 2, 1967 for a vote without meeting:

RESOLVED:

That the quota of Korea shall be changed to $50 million, provided that Korea consents to the change on or before January 3, 1968, and provided further that, if extraordinary circumstances are deemed by the Executive Directors to warrant an extension of the period in which consent is required pursuant to this Resolution, the Executive Directors may extend such period until such later date or dates as they may determine. Not less than 25 per cent of the increase shall be paid in gold and the balance in the currency of Korea. The change shall become effective on the date the Fund receives notice in writing that Korea consents to the change but not sooner than the date of this Resolution. Such written consent shall be signed by a competent official whose authority and signature are duly authenticated.

The Board of Governors adopted the foregoing Resolution, effective July 3, 1967.

Resolution No. 22-3

Increase in the Quota of Viet-Nam

Under date of January 19, 1967, the Government of Viet-Nam requested that its quota in the Fund be increased from $29 million to $39 million. The Executive Board resolved on May 26, 1967 that action on the request should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on June 2, 1967 for a vote without meeting:

RESOLVED:

That the quota of Viet-Nam shall be changed to $39 million, provided that Viet-Nam consents to the change on or before January 3, 1968, and provided further that, if extraordinary circumstances are deemed by the Executive Directors to warrant an extension of the period in which consent is required pursuant to this Resolution, the Executive Directors may extend such period until such later date or dates as they may determine. Not less than 25 per cent of the increase shall be paid in gold and the balance in the currency of Viet-Nam. The change shall become effective on the date the Fund receives notice in writing that Viet-Nam consents to the change but not sooner than the date of this Resolution. Such written consent shall be signed by a competent official whose authority and signature are duly authenticated.

The Board of Governors adopted the foregoing Resolution, effective July 3, 1967. The written notice that Viet-Nam consented to the increase was received by the Fund on July 31, 1967, on which date the new quota became effective.

Resolution No. 22-4

Membership for The Gambia

On June 14, 1966, the Government of The Gambia applied for membership in the Fund. The Executive Board resolved on June 2, 1967 that action on the application should not be postponed until the next regular meeting of the Board of Governors.

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on June 15, 1967 for a vote without meeting:

WHEREAS, the Government of The Gambia on June 14, 1966 applied for membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund; and

WHEREAS, pursuant to Section 21 of the By-Laws of the Fund, the Executive Directors have consulted with the representative of that Government and have agreed upon the terms and conditions which, in the opinion of the Executive Directors, the Board of Governors may wish to prescribe for admitting The Gambia to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Directors, hereby resolves that the terms and conditions upon which The Gambia shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:
   - (a) The term "Fund" means the International Monetary Fund.
   - (b) The term "Articles" means the Articles of Agreement of the International Monetary Fund.
   - (c) The term "dollars" or "$" means United States dollars of the weight and fineness in effect on July 1, 1944.
2. *Quota:* The quota of The Gambia shall be $5 million.
3. *Subscription:* The subscription of The Gambia shall be equal to its quota. The Gambia shall pay in gold, as a

minimum, the lesser of (1) 25 per cent of its quota, or (2) 10 per cent of its net official holdings of gold and convertible currencies as of the date that The Gambia makes the representation to the Fund that it has taken all action necessary to adhere to the Articles of Agreement. The balance of the subscription shall be paid in the currency of The Gambia.

4. *Payment of Subscription:* The portion of the subscription to be paid in gold shall be paid not later than the day the Articles are signed on behalf of The Gambia. In case The Gambia does not acquire membership in the Fund the gold so paid shall be returned to it by the Fund. The remaining part of the subscription which has not been paid in gold shall be paid before the thirtieth day after the initial par value of the currency of The Gambia has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, The Gambia shall communicate to the Fund a proposed par value for its currency, and within 60 days following the Fund's receipt of the proposed par value, The Gambia and the Fund shall agree on an initial par value for the currency; provided that the Fund may extend the period of 60 days and that The Gambia shall be deemed to have withdrawn from the Fund if agreement on a par value has not been reached when the extended period expires. In the period between accepting membership and the establishment of an initial par value pursuant to this paragraph, The Gambia shall not change its exchange rates prevailing at the time of accepting membership without agreement with the Fund after prior consultation.

6. *Exchange Transactions with the Fund:* The Gambia may not engage in exchange transactions with the Fund until both (a) the par value of its currency has been agreed in accordance with paragraph 5 above and put into operation and (b) its subscription has been paid in full; provided, however, that at any time before the requirements under (a) and (b) have been met, the Executive Directors are

authorized to permit exchange transactions with The Gambia under such conditions and in such amounts as may be prescribed by the Executive Directors.

7. *Representation and Information:* Before accepting membership in the Fund, The Gambia shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles, as contemplated by paragraph 8(a) and (b) of this Resolution, and The Gambia shall furnish to the Fund such information in respect of such action as the Fund may request.

8. *Acceptance of Membership:* After the Fund shall have informed the Government of the United States of America that The Gambia has complied with the conditions set forth in paragraph 7 of this Resolution, The Gambia shall become a member of the Fund as of the date when The Gambia shall have complied with the following requirements:

   (a) The Gambia shall deposit with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and

   (b) The Gambia shall sign the original copy of the Articles held in the Archives of the Government of the United States of America.

9. *Limitation on Period of Acceptance of Membership:* The Gambia may accept membership in the Fund pursuant to this Resolution within six months of the effective date of this Resolution, which date shall be the date of its adoption by the Board of Governors; provided, however, that, if extraordinary circumstances are deemed by the Executive Directors to warrant an extension of the period during which the applicant may accept membership pursuant to this Resolution, the Executive Directors may extend such period until such later date as they may determine.

The Board of Governors adopted the foregoing Resolution, effective July 17, 1967. The Articles of Agreement were signed by Mr. E. W. Maude, Executive Director of the Fund for the United Kingdom, on behalf of the Government of The Gambia, on September 21, 1967.

Resolution No. 22-5 [1]

Financial Statements, Report on Audit, and Administrative Budget

RESOLVED:

That the Board of Governors of the Fund considers the Report on Audit for the Fiscal Year ended April 30, 1967, the Financial Statements contained therein, and the Administrative Budget for the Fiscal Year ending April 30, 1968 as fulfilling the requirements of Article XII, Section 7 of the Articles of Agreement and Section 20 of the By-Laws.

Resolution No. 22-6 [1]

General Reserve

RESOLVED:

The Board of Governors, having noted the recommendation of the Executive Directors and the considerations relating thereto set forth in the letter of transmittal [2] of September 11, 1967 from the Managing Director and Chairman of the Executive Board to the Chairman of the Board of Governors, approves the allocation to the General Reserve of $50,426,541.55, the net income for the fiscal year ended April 30, 1967.

[1] Adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC, and IDA, on September 29, 1967.

[2] See page 257.

Resolution No. 22-7 [1]

Membership for Botswana

WHEREAS, the Government of Botswana on July 11, 1967, applied for admission to membership in the International Monetary Fund in accordance with Section 2 of Article II of the Articles of Agreement of the Fund; and

WHEREAS, pursuant to Section 21 of the By-Laws of the Fund, the Executive Directors have consulted with the representatives of that Government and have agreed upon the terms and conditions which, in the opinion of the Executive Directors, the Board of Governors may wish to prescribe for admitting Botswana to membership in the Fund;

NOW, THEREFORE, the Board of Governors, having considered the recommendations of the Executive Directors, hereby resolves that the terms and conditions upon which Botswana shall be admitted to membership in the Fund shall be as follows:

1. *Definitions:* As used in this Resolution:
   (a) The term "Fund" means the International Monetary Fund.
   (b) The term "Articles" means the Articles of Agreement of the International Monetary Fund.
   (c) The term "dollars" or "$" means United States dollars of the weight and fineness in effect on July 1, 1944.
2. *Quota:* The quota of Botswana shall be $3 million.
3. *Subscription:* The subscription of Botswana shall be equal to its quota. Botswana shall pay in gold not less than 3 per cent of its subscription and the balance of the subscription shall be paid in the currency of Botswana.
4. *Payment of Subscription:* The portion of the subscription to be paid in gold shall be paid not later than the day the Articles are signed on behalf of Botswana. In case Botswana does not acquire membership in the Fund the gold so

[1] Adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC, and IDA, on September 29, 1967.

paid shall be returned to it by the Fund. The remaining part of the subscription which has not been paid in gold shall be paid before the thirtieth day after the initial par value of the currency of Botswana has been agreed in accordance with paragraph 5 below.

5. *Determination of Par Value:* Within 30 days after the Fund so requests, Botswana shall communicate to the Fund a proposed par value for its currency, and within 60 days following the Fund's receipt of the proposed par value, Botswana and the Fund shall agree on an initial par value for the currency; provided that the Fund may extend the period of 60 days and that Botswana shall be deemed to have withdrawn from the Fund if agreement on a par value has not been reached when the extended period expires. In the period between accepting membership and the establishment of an initial par value pursuant to this paragraph, Botswana shall not change its exchange rates prevailing at the time of accepting membership without agreement with the Fund after prior consultation.

6. *Exchange Transactions with the Fund:* Botswana may not engage in exchange transactions with the Fund until both (a) the par value of its currency has been agreed in accordance with paragraph 5 above and put into operation and (b) its subscription has been paid in full; provided, however, that at any time before the requirements under (a) and (b) have been met, the Executive Directors are authorized to permit exchange transactions with Botswana under such conditions and in such amounts as may be prescribed by the Executive Directors.

7. *Representation and Information:* Before accepting membership in the Fund, Botswana shall represent to the Fund that it has taken all action necessary to sign and deposit the Instrument of Acceptance and sign the Articles, as contemplated by paragraph 8(a) and (b) of this Resolution, and Botswana shall furnish to the Fund such information in respect of such action as the Fund may request.

8. *Acceptance of Membership:* After the Fund shall have informed the Government of the United States of America

that Botswana has complied with the conditions set forth in paragraph 7 of this Resolution, Botswana shall become a member of the Fund as of the date when Botswana shall have complied with the following requirements:

(a) Botswana shall deposit with the Government of the United States of America an instrument stating that it has accepted in accordance with its law the Articles and all the terms and conditions prescribed in this Resolution, and that it has taken all steps necessary to enable it to carry out all its obligations under the Articles and this Resolution; and

(b) Botswana shall sign the original copy of the Articles held in the Archives of the Government of the United States of America.

9. *Period for Acceptance of Membership:* Botswana may accept membership in the Fund pursuant to this Resolution within six months of the effective date of this Resolution, which date shall be the date of its adoption by the Board of Governors; provided, however, that, if extraordinary circumstances are deemed by the Executive Directors to warrant an extension of the period during which the applicant may accept membership pursuant to this Resolution, the Executive Directors may extend such period until such later date as they may determine.

Resolution No. 22-8 [1]

Establishment of a Facility Based on Special Drawing Rights in the Fund and Modifications in the Rules and Practices of the Fund

WHEREAS the functioning of the international monetary system and its improvement, including arrangements to meet the need, as and when it arises, for a supplement to existing reserve assets, have been the subject of extensive study and international discussion resulting in the Outline of a Facility Based on Special

[1] Adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC, and IDA, on September 29, 1967.

Drawing Rights in the International Monetary Fund, which Outline is attached to this Resolution; and

WHEREAS studies are currently under way on possible improvements in the present rules and practices of the Fund;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

That the Executive Directors are requested to

1. Proceed with their work relating to both
   (a) the establishment in the Fund of a new facility on the basis of the Outline in order to meet the need, as and when it arises, for a supplement to existing reserve assets, and

   (b) improvements in the present rules and practices of the Fund based on developments in world economic conditions and the experience of the Fund since the adoption of the Articles of Agreement of the Fund; and

2. Submit to the Board of Governors as soon as possible but not later than March 31, 1968

   (a) a report proposing amendments to the Articles of Agreement and the By-Laws for the purpose of establishing a new facility on the basis of the Outline, and

   (b) a report proposing such amendments to the Articles of Agreement and the By-Laws as would be required to give effect to those modifications in the present rules and practices of the Fund that the Executive Directors will recommend.

Attachment to Resolution No. 22–8

OUTLINE OF A FACILITY BASED ON SPECIAL DRAWING RIGHTS IN THE FUND

Introduction

The facility described in this Outline is intended to meet the need, as and when it arises, for a supplement to existing reserve

assets. It is to be established within the framework of the Fund and, therefore, by an Amendment of the Fund's Articles. Provisions relating to some of the topics in this Outline could be included in By-Laws adopted by the Board of Governors or Rules and Regulations adopted by the Executive Directors rather than in the Amendment.

I. Establishment of a Special Drawing Account in the Fund

(a) An Amendment to the Articles will establish a Special Drawing Account through which all the operations relating to special drawing rights will be carried out. The purposes of the facility will be set forth in the introductory section of the Amendment.

(b) The operations of and resources available under the Special Drawing Account will be separate from the operations of the present Fund which will be referred to as the General Account.

(c) Separate provisions will be included in the Amendment for withdrawal from or liquidation of the Special Drawing Account; Article XVI, Section 2 and Schedules D and E on withdrawal and liquidation will continue to apply as they do at present to the General Account of the Fund.

II. Participants and Other Holders

1. *Participants.* Participation in the Special Drawing Account will be open to any member of the Fund that undertakes the obligations of the Amendment. A member's quota in the Fund will be the same for the purposes of both the General and the Special Drawing Accounts of the Fund.

2. *Holding by General Account.* The General Account will be authorized to hold and use special drawing rights.

III. Allocation of Special Drawing Rights

1. *Principles for decisions.* The Special Drawing Account will allocate special drawing rights in accordance with the provisions of the Amendment. Special considerations applicable to the first

decision to allocate special drawing rights, as well as the principles on which all decisions to allocate special drawing rights will be based, will be included in the introductory section of the Amendment and, to the extent necessary, in a Report explaining the Amendment.

2. *Basic period and rate of allocation.* The following provisions will apply to any decision to allocate special drawing rights:

(i) The decision will prescribe a basic period during which special drawing rights will be allocated at specified intervals. The period will normally be five years in length, but the Fund may decide that any basic period will be of different duration. The first basic period will begin on the effective date of the first decision to allocate special drawing rights.

(ii) The decision will also prescribe the rate or rates at which special drawing rights will be allocated during the basic period. Rates will be expressed as a percentage, uniform for all participants, of quotas on the date specified in the decision.

3. *Procedure for decisions.*

(a) Any decision on the basic period for, timing of, or rate of allocation of special drawing rights will be taken by the Board of Governors on the basis of a proposal by the Managing Director concurred in by the Executive Directors.

(b) Before formulating any proposal, the Managing Director after having satisfied himself that the considerations referred to in III.1 have been met, will conduct such consultations as will enable him to ascertain that there is broad support among participants for the allocation of special drawing rights at the proposed rate and for the proposed basic period.

(c) The Managing Director will make proposals with respect to the allocation of special drawing rights: (i) within sufficient time before the end of a basic period; (ii) in the circumstances of III.4; (iii) within six months after the Board of Governors or the Executive Directors request that he make a proposal. The Managing Director will make a proposal for the first basic period when he is of the opinion that there is broad support among the participants to start the allocation of special drawing rights.

(d) The Executive Directors will review both the operations of the Special Drawing Account and the adequacy of global reserves as part of their annual report to the Board of Governors.

4. *Change in rate of allocation or basic period.* If there are unexpected major developments which make it desirable to change the rate at which further special drawing rights are to be allocated for a basic period, (i) the rate may be increased or decreased, or (ii) the basic period may be terminated and a different rate of allocation adopted for a new basic period. Paragraph III.3 will apply to such changes.

5. *Voting majority.*

(a) For decisions on the basic period for, timing of, amount and rate of allocation of special drawing rights, an 85 per cent majority of the voting power of participants shall be required.

(b) Notwithstanding (a) above, the decisions to decrease the rate of allocation of special drawing rights for the remainder of the basic period will be taken by a simple majority of the voting power of participants.

6. *Opting out.*

The Amendment will include provisions that will prescribe to what extent a participant will be required initially to receive special drawing rights, but will stipulate that beyond any such amount a participant that does not vote in favor of a decision to allocate special drawing rights may elect not to receive them under that decision.

IV. Cancellation of Special Drawing Rights

The principles set forth in III relating to the procedure and voting for the allocation of special drawing rights will be applicable, with appropriate modifications, to the cancellation of such rights.

V. Use of Special Drawing Rights

1. *Right to use special drawing rights.*

(a) A participant will be entitled, in accordance with the provisions of V, to use special drawing rights to acquire an equivalent

amount of a currency convertible in fact. A participant which thus provides currency will receive an equivalent amount of special drawing rights.

(b) Within the framework of such rules and regulations as the Fund may adopt, a participant may obtain the currencies referred to in (a) either directly from another participant or through the Special Drawing Account.

(c) Except as indicated in V.3(c), a participant will be expected to use its special drawing rights only for balance of payments needs or in the light of developments in its total reserves and not for the sole purpose of changing the composition of its reserves.

(d) The use of special drawing rights will not be subject to prior challenge on the basis of this expectation, but the Fund may make representations to any participant which, in the Fund's judgment, has failed to observe the expectation, and may direct drawings to such participant to the extent of such failure.

2. *Provision of currency.*

A participant's obligation to provide currency will not extend beyond a point at which its holdings of special drawing rights in excess of the net cumulative amount of such rights allocated to it are equal to twice that amount. However, a participant may provide currency, or agree with the Fund to provide currency, in excess of this limit.

3. *Selection of participants to be drawn upon.*

The Fund's rules and instructions relating to the participants from which currencies should be acquired by users of special drawing rights will be based on the following main general principles, supplemented by such principles as the Fund may find desirable from time to time:

(a) Normally, currencies will be acquired from participants that have a sufficiently strong balance of payments and reserve position, but this will not preclude the possibility that currency will be acquired from participants with strong reserve positions even though they have moderate balance of payments deficits.

(b) The Fund's primary criterion will be to seek to approach over time equality, among the participants indicated from time to time by the criteria in (a) above, in the ratios of their holdings of special drawing rights, or such holdings in excess of net cumulative allocations thereof, to total reserves.

(c) In addition, the Fund will, in its rules and instructions, provide for such use of special drawing rights, either directly between participants or through the intermediary of the Special Drawing Account, as will promote voluntary reconstitution and reconstitution under V.4.

(d) Subject to the provisions of V.1(c), a participant may use its special drawing rights to purchase balances of its currency held by another participant, with the agreement of the latter.

4. *Reconstitution.*

(a) Members that use their special drawing rights will incur an obligation to reconstitute their position in accordance with principles which will take account of the amount and the duration of the use. These principles will be laid down in rules and regulations of the Fund.

(b) The rules for reconstitution of drawings made during the first basic period will be based on the following principles:

(i) The average net use, taking into account both use below and holdings above its net cumulative allocation, made by a participant of its special drawing rights calculated on the basis of the preceding five years, shall not exceed 70 per cent of its average net cumulative allocation during this period. Reconstitution under this subparagraph (i) will be brought about through the mechanism of transfers, by the Fund directing drawings correspondingly.

(ii) Participants will pay due regard to the desirability of pursuing over time a balanced relationship between their holdings of special drawing rights and other reserves.

(c) Reconstitution rules will be reviewed before the end of the first and of each subsequent period and new rules will be adopted, if necessary. If new rules are not adopted for a basic period, the

rules for the preceding period shall apply unless it is decided to abrogate reconstitution rules. The same majority as is required for decisions on the basic period, timing of, or rate of allocation of special drawing rights will be required for decisions to adopt, amend, or abrogate reconstitution rules. Any amendment in the rules will govern the reconstitution of drawings made after the effective date of the amendment, unless otherwise decided.

VI. Interest and Maintenance of Gold Value

(a) *Interest.* A moderate rate of interest will be paid in special drawing rights on holdings of special drawing rights. The cost of this interest will be assessed against all participants in proportion to net cumulative allocations of special drawing rights to them.

(b) *Maintenance of gold value.* The unit of value for expressing special drawing rights will be equal to 0.888 671 grams of fine gold. The rights and obligations of participants and of the Special Drawing Account will be subject to an absolute maintenance of gold value or to provisions similar to Article IV, Section 8 of the Fund's Articles.

VII. Functions of Fund Organs and Voting

1. *Exercise of powers.* The decisions taken with respect to the Special Drawing Account, and the supervision of its operations, will be carried out by the Board of Governors, the Executive Directors, the Managing Director, and the staff of the Fund. Certain powers, and in particular those relating to the adoption of decisions concerning the allocation, cancellation, and certain aspects of the use of special drawing rights, will be reserved to the Board of Governors. All other powers, except those specifically granted to other organs, will be vested in the Board of Governors which will be able to delegate them to the Executive Directors.

2. *Voting.* Except as otherwise provided in the Amendment, all decisions pertaining to the Special Drawing Account will be taken by a majority of votes cast. The precise formula for the voting power of participants, which will include basic and weighted votes,

and possibly the adjustment of voting power in relation to the use of special drawing rights, will be the subject of later consideration.

VIII. General Provisions

1. *Collaboration.* Participants will undertake to collaborate with the Fund in order to facilitate the proper functioning and effective use of special drawing rights within the international monetary system.

2. *Nonfulfillment of obligations.*

(a) If the Fund finds that a participant has failed to fulfill its obligations to provide currency in accordance with the Amendment, the Fund may suspend the right of the participant to use its special drawing rights.

(b) If the Fund finds that a participant has failed to fulfill any other obligation under the Amendment, the Fund may suspend the participant's right to use any special drawing rights allocated to, or acquired by, it after the suspension.

(c) Suspension under (a) or (b) above will not affect a participant's obligation to provide currency in accordance with the Amendment.

(d) The Fund may at any time terminate a suspension under (a) or (b) above.

3. *Accounts.* All changes in holdings of special drawing rights will take effect when recorded in the accounts of the Special Drawing Account.

IX. Entry into Force

The Amendment would enter into force in accordance with the terms of Article XVII of the Fund's Articles.

Resolution No. 22-9 [1]

Stabilization of Prices of Primary Products

WHEREAS Governors of the Fund and the Bank for Cameroon, Central African Republic, Congo (Brazzaville), Ivory Coast, Dahomey, France, Gabon, Upper Volta, Madagascar, Mali, Mauritania, Niger, Senegal, Chad and Togo have transmitted to the Managing Director of the International Monetary Fund the following request:

> CONSIDERING the decisive importance of the stabilization of prices of primary products at a remunerative level for the economic advancement of the developing countries and the improvement of the standard of living of their populations, the Governors meeting in Dakar request that in Rio study be made of the conditions in which IMF, IBRD and IDA could participate in the elaboration of suitable mechanisms involving balanced commitments on the part both of the producing and of the consuming countries, and devote the necessary resources thereto.

AND WHEREAS the Board of Governors recognizes the importance of this subject in relation to the purposes of the Fund;

NOW THEREFORE the Board of Governors resolves that the Managing Director is hereby invited to have the staff, in consultation with the Bank staff, prepare a study of the problem, its possible solutions, and their economic feasibility, in the light of the foregoing, to be submitted to the Executive Directors who are requested to transmit it with such comments or recommendations as they may have to the Board of Governors for consideration and appropriate decision by the Board, if possible at its next Annual Meeting.

[1] Adopted by the Board of Governors of the Fund, in Joint Session with the Boards of Governors of the Bank, IFC, and IDA, on September 29, 1967.

Resolution No. 22-10 [1]

Appreciation

RESOLVED:

That the Governors of the International Bank for Reconstruction and Development and its Affiliates and the International Monetary Fund express their deep appreciation to the Government and people of Brazil and of the City of Rio de Janeiro for their warm and gracious hospitality; and

That they express their particular appreciation to the Governor and Alternate Governors for Brazil and their associates for their outstanding contributions to the success of this 1967 Annual Meeting.

[1] Adopted by the Boards of Governors of the Fund and of the Bank, IFC, and IDA, in Joint Session, on September 29, 1967.

ATTENDANCE

Members of Fund Delegations

Afghanistan

Governor
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Alternate Governor
G. Faruq Achikzad

Algeria

Governor
Seghir Mostefai

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Ary Burger
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U Tin Tun

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Albert Madiabola

Ceylon

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Alternate Governor
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Temporary Alternate Governor
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Alternate Governor
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Wolfgang Rieke
Fritz Stedtfeld
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Ernst vom Hofe
Victor von der Lippe
G. A. von Trotha
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N'Faly Sangaré

Guyana

Governor
Horst Bockelmann

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Honduras

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Jónas H. Haralz

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Pétur Thorsteinsson

India

Governor
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B. K. Madan
I. G. Patel

Advisers
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Kantilal Desai
S. Guhan
C. S. Swaminathan
V. Y. Tonpe

Indonesia

Governor
Radius Prawiro

Alternate Governor
Salamun Alfian Tjakradiwirja

Advisers
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Soegantyo Koesoemodigdo

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Ali Hezareh

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E. F. Chadan

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Governor
Saleh Kubba

Alternate Governor
Subhi Frankool

Ireland

Governor
Charles J. Haughey

Temporary Alternate Governor
B. Menton

Israel

Governor
Pinhas Sapir

Alternate Governor
Colonel Joseph Milo

Advisers
Shmuel Divon
Gabriel Doron
Moshe Bernhard Gitter
Arnon Shmorak

Italy

Governor
Emilio Colombo

Alternate Governor
Guido Carli

Advisers
Domenico Brancatisano
Roberto Capitani
Giovanni De Paolis
Guido Forte
Giorgio Rota
Sergio Siglienti
Francesco Soro
Gaetano Stammati

Ivory Coast

Governor
Konan Bédié

Temporary Alternate Governor
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Jamaica

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Shijuro Ogata
Toshio Oshima
Eiji Ozaki
Masaki Shiratori
Hideo Suzuki
Keijiro Tanaka
Tetsuo Tanaka
Yoshiaki Toda
Tetsuo Yamanaka

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Kenya

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Se Ryun Kim

Temporary Alternate Governor
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