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

Guido Carli

It is a great pleasure to welcome you to these 1963 Annual Meetings of our international financial organizations: the International Monetary Fund, the International Bank for Reconstruction and Development, and its associated agencies—the International Finance Corporation and the International Development Association. I know I can express our unanimous appreciation for the friendly hospitality of the United States, our host on this occasion, as on so many others since the historic conference at Bretton Woods. I would also like to greet the Governors representing the twenty countries admitted to membership since the last Annual Meetings. There were only twenty-nine members when the Bank and Fund were legally established in December 1945. Today we are more than one hundred countries strong—strong in the economic progress we have achieved through cooperative efforts, and in our confidence that still more can be achieved in the future.

The Bank and the Fund have been particularly fortunate in their leadership. This is again the case today with respect to their new chief executives. Early this year, Mr. George D. Woods brought to the presidency of the Bank his rich experience in banking and finance, and wide reputation for practical judgment and administrative skill. Mr. Pierre-Paul Schweitzer, who has just assumed the duties of Managing Director and Chairman of the

[1] Delivered at the Opening Joint Session, September 30, 1963. Mr. Emilio Colombo, Governor of the Fund for Italy and Chairman of the Board of Governors of the Fund, presided at the Joint Sessions as well as the Fund Sessions. He called upon Mr. Carli to deliver the Opening Address on behalf of the Chairmen.

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Executive Board of the Fund, has been well known to us for his experience and competence in national and international financial matters, demonstrated at high levels of official responsibility. We can congratulate ourselves that, like their predecessors, Mr. Woods and Mr. Schweitzer are high-principled, idealistic men who may be counted upon to devote themselves, through the Fund and the Bank, to the promotion of human welfare in all member countries.

To speak of such qualities, however, is to recall the keen sense of loss and sadness we all felt upon learning, last May 5, of the passing of Per Jacobsson, the late Managing Director and Chairman of the Fund. We had looked forward to honoring him at this Assembly with tributes to his enormous contributions to the work of the Fund—and to the international monetary system. We also awaited with keen interest what was to have been his farewell address to us this week, prior to his planned retirement early next year. Per Jacobsson gave a rare display of intellectual capacity and statesmanship as he steered the Fund to its present respected and influential position in world affairs. In doing so, he succeeded as few men have done in expressing himself clearly, forcefully, and fearlessly on current economic issues. He has left behind a multitude of friends and admirers in many walks of life, and a legacy of ideas, principles and practical accomplishments from which all mankind will benefit. Surely, Per Jacobsson was one of the great men of our time.

It was in December 1956 that Per Jacobsson first came to the Fund, and I think the intervening period will long be remembered as the "Jacobsson Years" in the life of that institution. In this period thirty-three countries were added to the Fund's membership. Its holdings of gold and national currencies were increased from $9 billion to more than $15 billion. There was a general enlargement of quotas by at least 50 per cent, and more in some cases. Total drawings on the Fund were increased from a little less than $2 billion by thirty-one countries, to $7 billion by forty-eight members. The total of repayments increased from $892 million to more than $5 billion. The Fund's income met all previous deficits between operating expenditure and income and a substantial reserve was accumulated. Fund stand-by arrangements came into

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active use, sometimes supplementing members' reserves by nearly \$2 billion in drawing rights on the Fund. A \$6 billion borrowing arrangement was negotiated with ten industrial countries. Currency convertibility, one of the Fund's prime objectives, was achieved in Europe, and a variety of fiscal, monetary and foreign exchange reforms were instituted in country after country that sought to orient their policies to those of the Fund. The Fund brought massive assistance to the aid of the United Kingdom and Europe, and to a great many developing countries throughout the world. Most recently, it produced a new facility for compensatory financing of commodity export fluctuations. When countries have obtained assistance from the Fund, other sources of credit have been more willing to help them, because of confidence in the Fund's judgment. The effectiveness with which the Fund responded to developments in these critical years must be attributed in large part to Per Jacobsson.

At this point, the Chairman moved the Resolution given on page 259; it was carried unanimously.

The Annual Reports of our organizations offer a full and detailed account of the work each one has accomplished. Furthermore, the address of the President of the Bank and that of the Managing Director of the Fund will provide, as usual, opportunities to develop some of the most significant matters contained in these Reports and to bring some figures up to date. I shall, therefore, confine myself to brief introductory remarks on the joint action of our organizations.

Perhaps the outstanding development of the year for the Bank and its two related organizations is in its newer affiliate, the International Development Association. I am referring, of course, to the discussions concerning the replenishment of the Association's resources. They have now resulted in the recommendation by the Association's Executive Directors to the Governors that there be a new round of contributions to IDA, payable in three equal annual installments commencing in 1965.

The figure recommended for the period is \$750 million of convertible funds. This amount, taken together with the balance

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of usable funds still available to IDA from its initial resources, will enable the Association to maintain the momentum it has gathered since it extended its first development credit some two and a half years ago.

The need for IDA is no less urgent today than it was then. The burden of debt service continues to weigh heavily on many of the developing countries, and a continuing flow of development capital on favorable terms is absolutely essential to those countries whose ability to make effective use of capital is outrunning their capacity to bear conventional debt.

Not all of the debt now pressing heavily on the underdeveloped countries, I am sorry to say, has been undertaken on sensible terms or for purposes of high priority in economic development. Little progress towards multilateralism and untied assistance has been made; moreover, the acceptance of medium-term credit for long-term purposes, or for projects of no particular urgency, unfortunately continues to account for more international debt than the underdeveloped countries can afford. On such a basis, they should not rely on IDA credits at easy terms. As its President once said, the Association is softhearted but not softheaded, and it is no less capable than the Bank of declining to assist countries whose economic and financial policies are not properly oriented to the objective of economic development.

A second outstanding development for the Bank's group of institutions was the full exercise by the International Finance Corporation of its new powers to invest in capital shares. It was only two years ago that the Governors approved an amendment to the Charter of the Corporation that made this kind of investment possible, and the Corporation has already given a wide-ranging demonstration of what can be done with this new instrument. In the first place, the Corporation has been able to simplify the methods of its investments considerably, and to offer its support to industrial projects in the form of straight equity or in a combination of loan and equity. It can suit its assistance to whatever is appropriate in each particular case, and need no longer complicate matters by offering finance of a kind unfamiliar in many countries and often difficult for entrepreneurs and coinvestors to accept.

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One of the most far-reaching results of the new authority promises to be the role it will enable the Corporation to play in the development of capital markets. Of course, IFC's resources are quite modest, but their effect can be magnified considerably if they can be used in a way that will mobilize other capital. In fact, IFC has already completed its first underwriting of shares, and it has further encouraged investors by taking a stand-by position with respect to issues both of shares and of debentures which may be converted into shares. We applaud these efforts and look forward to seeing them repeated in many countries and on many occasions to come.

Another consequence of the Corporation's ability to subscribe capital is to enlarge the role the Bank family as a whole can play in regard to those useful institutions which help to finance and otherwise assist the growth of private industry. As we all know, the Bank has long been interested in these industrial finance companies, sometimes called development banks. It has helped to organize privately owned companies of this sort in many countries and has been a source of loan capital for them. Now the task of encouraging the formation and strengthening of these companies has been entrusted to the International Finance Corporation, and the Corporation is able to provide share capital too. This enables the Bank and the Corporation to act together, providing both loans and equity, as they have notably done in the recent cases of the National Bank for Economic Development in Morocco and the Private Development Corporation in the Philippines.

The Bank, for its part, lent less this year than for some time past. Yet this year's total is a very respectable one, and we would have been highly pleased with it only a few years ago. Moreover, it is quite clear that the year's figure in no way foreshadows a trend. In fact, the number of loans held up quite well; the unusual feature was that, by Bank standards, all the loans were of medium size or less. The amount of lending that has been granted since the end of the year in itself bears out the assurance given in the Bank's Annual Report that the number of loans being prepared in the Bank is rising, not falling.

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In any case, what is still notable in the Bank's performance is not merely the volume of finance provided, but the growing attention paid to the development of skills and institutions on which economic progress so much depends. In almost every field of technical assistance it has entered, we find the Bank broadening and strengthening its assistance. The Economic Development Institute is giving more courses to more officials in more languages than ever before; the Development Advisory Service is deploying its experts in a rising number of countries; the help given to prepare important development projects was nearly doubled during the year; and we all regard with interest the work the Executive Directors are doing to bring forward a specific proposal for a conciliation and arbitration service, linked with the Bank, to help settle disputes between foreign investors and governments. Indeed, if we were to sum up the effect of the year's work, we could rightly say it shows that the Bank itself is a developing institution, and one to whose future we can look with confidence.

The Fund's financial and consultative activity has played a vital part in the progress we have made in recent years towards a freer, expanded, world trade, with all the fruits this has brought in the form of greater employment opportunities and higher standards of real income. The use of its resources has provided an indispensable lubricant for the operation of the international payments system, and has done more than most people realize to facilitate the development efforts of nonindustrialized countries.

It is sometimes said that the Fund's policies are not conducive to rapid economic growth and development, and in some way contravene what are called "political realities." I think this attitude springs from a rather short-sighted view of the political results to be expected from any long-continuing inflation. The short-term difficulties which may attend efforts to control inflationary trends may be faced, because they will be of short duration if the measures are effective, and there will be an early prospect of widespread improvement in the standard of living. But the inflation that proceeds unchecked retards the flow of foreign investment, prompts an outflow of savings, and in other ways undermines the

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national economy. Eventually it will require measures of reform, and the longer these are put off, the more difficult the adjustment process will be.

The Fund has seldom failed to provide assistance to members. It will probably continue to face decisions that, when made, will be regarded as too liberal by some observers and too conservative by others. But I do believe the Fund must endeavor to keep its financial assistance in the short- to medium-term range prescribed by its Articles of Agreement, whether it is dealing with industrial or with developing countries.

As we begin this Meeting, it is clear that more attention focuses on questions of international liquidity, the world monetary system, and the role of the Fund in that system, than at any previous Annual Meeting. Changes in the international balance of payments, especially in relation to the United States, economic advance in Europe, currency convertibility which opens the way to large-scale movements of funds across international borders—all these have raised new questions regarding the adequacy of the present monetary system to meet future liquidity needs. In other words, whereas the system undoubtedly contains solid and efficient defenses against any major foreign exchange crisis in the years immediately ahead, the time has now come to consider the longer-term aspects of the liquidity problem as distinct from the pressing need to remove existing imbalances.

I am sure that what is said on this subject will command close attention in many quarters outside this room, and there will probably be some difference of views among us.

Undoubtedly, today there exists a difference of opinion between those who urge the adoption of plans to strengthen international liquidity and those who consider that the time is not ripe to carry them out. The fact that some of the very people who now advocate caution showed boldness at other times—for instance, at the time of the return to external convertibility—should prove how arbitrary it is to try to establish sweeping distinctions between "enlightened" and "obscurantist" opinions. We should not be perturbed if those of us who are central bankers are often placed in the second category.

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In point of fact, the real difference is between taking the risk of decisions that are not based on adequate study and making a truly clear and constructive analysis of the problem of international liquidity—I mean an analysis which is documented, without resort to statistical determinism; which is receptive to innovation, without losing sight of existing institutional ties; which can be pursued seriously, safe from unwarranted alarmism or indiscreet pressure.

I trust that our discussions at this Assembly will contribute to clear up these matters and lead us to fruitful decisions.

But on one count, however, I think we shall find agreement—that we are fortunate in having in the Fund an organization well suited as an instrument for action in these matters. It has shown itself to be soundly established, successfully managed, with a world-wide perspective, and an accumulated practical experience in, and theoretical understanding of, all aspects of international payment problems. In our continuing cooperative efforts to deal with such problems, we shall want to make the most of the facilities now provided by the International Monetary Fund.

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